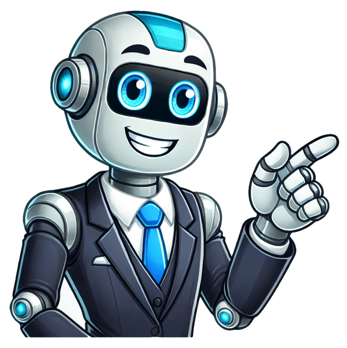

In today's competitive business landscape, Value Management plays a crucial role in achieving success. To effectively manage value, it is essential to follow a structured approach that incorporates key principles. This blog will explore the seven Principles of Value Management, providing valuable insights to help businesses optimise their resources and enhance overall performance. Table of Contents 1) What are the 7 Principles of Value Management?   a) Clearly define value   b) Identify stakeholders   c) Prioritise objectives   d) Optimise resources   e) Monitor and control   f) Continuously improve   g) Communicate effectively 2) Conclusion What are the 7 Principles of Value Management This section of the blog will elaborate on the seven Principles of Value Management. Clearly define value Clearly defining value is a key principle in Value Management. It involves understanding what value means to different Stakeholders and aligning it with your business goals. To define it, you must identify the benefits and outcomes your products or services offer. Consider tangible factors like cost savings and quality improvements, as well as intangible aspects like customer experience and brand reputation. You must guarantee that your value proposition aligns with your organisational objectives. Clearly communicate how your offerings contribute to achieving those goals. Gather insights through market research, customer feedback, and stakeholder engagement to understand their expectations and desired outcomes. Differentiate your proposition from competitors by highlighting your unique strengths. By following this principle, you can create a clear and compelling proposition that resonates with your target audience, demonstrating the Importance of Value Management. Unlock your potential in managing successful projects with our MoV Course - Sign up now! Identify stakeholders Stakeholders can be best defined as individuals or groups with an interest or influence in your business. They can include customers, employees, suppliers, and regulatory bodies. By identifying stakeholders, you can understand their needs and perspectives. This helps tailor your strategies to meet their specific requirements and build strong relationships. Conduct stakeholder analysis to prioritise key stakeholders based on their influence and impact. Engage with them through surveys, interviews, and regular Effective Communication to gain insights. Involving stakeholders fosters collaboration, addresses concerns, and builds trust. Involving stakeholders fosters collaboration, addresses concerns, and builds trust. Remember to identify new stakeholders as your business evolves continuously. Prioritise objectives Prioritising objectives is crucial in Value Management. There are steps which help in guiding you through the process of prioritising objectives effectively, and the steps are as follop ws: a) The Specific, Measurable, Achievable, Relevant, Time-bound (SMART) framework can be used to ensure clear and realistic goals. b) Align objectives with your business strategy and identify areas for value creation. c) Evaluate the impact and feasibility of each objective. d) Involve stakeholders to gain insights and ensure objectives address their needs. e) Regularly review and adapt objectives to changing conditions. By prioritising objectives, you allocate resources efficiently and focus on valuable activities. This drives meaningful progress and maximises value. Optimise resources Optimising resources is crucial as it involves analysing available resources and identifying areas for improvement. You can use techniques like cost-benefit analysis and resource levelling to allocate resources efficiently. You can also leverage technology and automation to streamline processes and increase efficiency. Encourage collaboration and cross-functional teamwork to maximise resource utilisation. Monitor Key Performance Indicators (KPIs) to evaluate resource allocation effectiveness and make necessary adjustments. By optimising resources, businesses achieve cost savings, improve productivity, and enhance value delivery. Take your project management skills to the next level with our combined MoV Foundation & Practitioner course - Sign up now and become a certified expert! Monitor and control Monitoring and controlling involves making sure to track progress using KPIs and making data-driven decisions. Regularly collect and analyse data to assess performance and identify areas for improvement. Take corrective actions when deviations occur to maintain alignment with business objectives. Businesses ensure effective implementation and ongoing value delivery by monitoring and controlling value management initiatives. Continuously improve Continuous improvement includes fostering open communication, seeking feedback, and encouraging innovation. Embrace a culture of learning and experimentation to drive ongoing enhancements. Regularly evaluate processes, products, and services to identify opportunities for improvement. By continuously improving, businesses can adapt to changing needs and deliver increasing value over time. Communicate effectively Effective communication is crucial and it involves establishing a clear communication plan, using clear language, and choosing appropriate channels. Encourage two-way communication, actively listen to stakeholders, and provide timely responses. Update stakeholders regularly, celebrate successes, and be mindful of cultural and language differences. By communicating effectively, businesses foster collaboration, ensure stakeholder engagement, and create a shared understanding of the goals in managing value. Conclusion All in all, mastering the Principles of Value Management is essential for businesses to maximise their success. Effectively managing value allows businesses to align offerings with stakeholder expectations, allocate resources efficiently, and drive continuous improvement. This increases customer satisfaction, improves operational efficiency, and sustains success. Additionally, understanding How to add your MoV® Certification to your CV and LinkedIn Profile can help professionals showcase their expertise and enhance career opportunities. Accelerate your career in project management? Register for our comprehensive MoV Training courses today and gain the skills to excel! I pulled an old valuation text book off the shelf the other day titled The Valuation of Business Interests by Ian Campbell and Howard Johnson. I hadn't opened it in years, but I remember it as the 'valuation bible' when I was studying for my professional valuation designation. I quickly thumbed through it and landed on the only highlighted chapter of the book: Principles of Business Value. Although the concepts were intuitive to me, I had forgotten how eloquently they were summarized. So let's revisit these key principles. They're something any business owner who's interested in creating value and wealth in a business should know. Principle No.1 — Value Is Point-in-Time Specific The value of a privately held business changes every day. A business' working capital, cash position and earnings is always in a state of flux, not to mention that market conditions are always changing. As a comparison, look at the share price of a publicly traded company, which fluctuates virtually every second. What This Means for Business OwnersThe valuation you might have prepared for your business a year ago doesn't reflect the value of the business today. The value of your business needs to be monitored on a regular and consistent basis. Principle No.2 — Value Is Principally a Function of Future Cash Flow A company's valuation is based principally on its ability to generate future cash flows. The first concept that should be emphasized in this principle is future. Historical earnings only serve as a predictor of what should happen in the future. The second concept that needs to be highlighted is cash flow. So many business owners are fixated on metrics like EBITDA or net earnings, but the true determinant of value is cash flow, which takes taxes, changes in working capital and capital expenditures into account. What This Means for Business OwnersBuild a detailed forecast of future cash flows for your company. This is a subjective task to say the least, but it's necessary to validate the value of a business. Good historical information will serve as support for the assumptions used in these forecasts. Principle No.3 — The Market Dictates the Appropriate Rate of Return for Buyers Market forces tend to drive the rate of return required by prospective buyers in the marketplace. These market forces include: What This Means for Business OwnersKeep vigilant watch over these market factors to determine when the time is right to maximize value on exit. Principle No.4 — Value May be Influenced by Underlying Net Tangible Assets Say, for example, that two companies generate free cash flows of $5 million each. Company A has $15 million in net tangible assets, compared to only $5 million for Company B. A buyer may be willing to pay more for Company A for two reasons: Company A has more available security to finance the acquisition The risk of the investment in Company A is perceived to be lower because under the worst case scenario of bankruptcy, there are more assets that can be liquidated. What This Means for Business OwnersBuild your asset base if possible. If you are in an industry that is not capital intensive, find ways to support the valuation of your goodwill. Principle No.5 – Transferability of Future Cash Flows Will Impact Value The transferability of a business' cash flows to a potential purchaser will impact the company's value. It is well-documented that valuable and salable businesses should operate without the owner at the helm. The concept of transferability is closely tied to this advice. If the owner is a big part of maintaining relationships with customers, delivering quality service, driving revenue growth, etc., then goodwill is tied to the owner and not the business. This personal goodwill is not transferable, and has little or no commercial value. In this instance, the maximum value of the business to a buyer may be limited to the value of the tangible assets if the owner is unwilling to stay. What This Means for Business OwnersAssess the strength of your management team. Are you able to leave the business for extended periods of time and feel comfortable that it will run as efficiently or even better than if you were there? If not, start building a deeper management team through training, improved corporate alignment and, if necessary, hiring. Principle No.6 — Value Is Influenced by Liquidity This is basic economics 101 and operates on the concept of supply and demand. If there are several acquirers in the marketplace but not a lot of quality acquisition targets, valuation multiples tend to rise and vice versa. What This Means for Business OwnersFor a business owner to maximize price, it is important to get the best buyers to the negotiating table. This is most effectively done through a controlled auction process. Principle No.7 — Premiums Are Paid for the Ability to Control The ability to control is something that any buyer will pay a premium for. Minority shareholders are usually unable to dictate the future strategic direction of the company, the election of directors, the nature, quantum and timing of their return on investment, or even the sale of their shares, among other things. What This Means for Business OwnersAre there provisions in your unanimous shareholder agreement that address the concept of control premiums or minority discounts? Should there be? These principles are all about technical valuation concepts, but for business owners, grasping the basics will go a long way toward increasing the valuation of the business. Share This Article In his influential book, The 7 Habits of Highly Effective People, Stephen R. Covey outlined the difference between principles and values. In Covey's view, principles are rules or laws that are permanent, unchanging, and universal in nature. Values are internal and subjective, and they may change over time.My Values and Principles — Mind Map by Nancy MarguliesWhat are principles?For Covey, principles are self-evident and — as part of most traditions and philosophies over the ages — they've been woven into the fabric of societies throughout human history. They often concern human behavior and govern interactions between people.Principles represent an objective reality that transcends cultures and individuals. For example, Covey cites various principles, including fairness, integrity, and honesty. He declared, "A principle is a natural law like gravity. If you drop something, gravity controls. If I don't tell you the truth, you won't trust me; that's a natural law."There are certain principles that transcend cultural differences and do not change over time. They determine the ultimate outcomes or consequences of behavior and actions, as much as gravity determines that something will fall when dropped.What are values?In contrast, values are beliefs and opinions that people hold regarding specific issues or ideas, and are ultimately internal, subjective, and malleable. They may change as demands or needs change. If a given belief or opinion is something that might be altered if the conditions are right, then it's a value.Values are important in expressing our individual beliefs and opinions, and they can be used tactically to accomplish certain objectives based on our current circumstances, demands, and needs. Values can ultimately reflect or determine the current but potentially alterable goals that we have in our professional, family, and personal life.Using principlesIf you're looking to create a timeless sense of purpose and to shape the overall mission of your life, then you should use principles. Establishing a set of principles creates a compass to which you can refer whenever something is in doubt or you need to take a stand or evaluate any particular opportunity, behavior, or situation.Moreover, principles can ultimately drive your values and goals. Principles can help you determine your goals and values and help you choose between them when confronted with conflicting issues or circumstances.You can build a personal value system based on principles, which will help you avoid running afoul of their natural consequences. And principles can be a convenient and comforting reference point so you never feel uncertain or find yourself searching for an answer.Using principles in setting goalsWhen conducting personal planning and setting goals, keep in mind this distinction between principles and values, and consider how both of them can be useful. Consider identifying and outlining the universal principles that you want to embrace and that you want to shape your overall mission.Then, as you identify the things you value most and the goals you want to pursue in your personal, professional, and family life, you can use these principles as a reference point. You can build your values and goals according to these principles, or you can use them to help you realize where your current values, goals, and behavior may be inconsistent with universal realities about human behavior and interactions.Thus, even if you find that you've not always been living up to the principles that you want to embrace, you can make meaningful changes and ultimately incorporate those changes into your values and goals.Covey pointed to this using the example of honesty and truthfulness. "If I tell you the truth consistently and try to live it, and apologize when I don't, and try to get back on track, then I'm living a natural-law repentance, making improvements, showing change."Ask yourself…What are the universal, unchanging principles that you can clearly identify? What are the values that you now hold? Do your current habits reflect those values and, ultimately, do your habits and values reflect the principles that transcend current circumstances and can provide a purpose and mission for your life?With a proper understanding of the differences between values and principles, you can address all of these questions and use the answers to guide you in all of your planning and actions.About Keith NorrisKeith is an advocate of process improvement, goal planning and a leader of the 'culture of productivity' tribe. An author, lifelong entrepreneur, proud husband and father, tandem road cyclist, and ice hockey player, Keith's day job is CEO of Complete XRM, inc. (PlanPlusOnline). Connect with Keith on LinkedIn. Anecdotal stories on what the business up the road sold for should be taken with a grain of salt, a salt-lick size grain! Vendors tend to exaggerate what they received and anecdotes, while interesting, tend to fail to accurately define the unique characteristics of each business.   So, with that in mind, let's look at the 5 basic principles of professional business valuation. 1. Future Profitability Future profitability is the only thing that determines the current value. The price should be based on what a buyer can expect in future earnings, not how the business performed in the past. Past revenue tells us about business momentum but we are more focused on what's left over after all the expenses of running the business have been paid. 2. Cash Flow Insurance or financial service businesses don't have many tangible assets, so the real value is in the cash flow generated through clients (specifically the cash flow over and above the cost of running the business). 3. Potential Risk Simply put, less risk is rewarded with a higher price. The more risk a buyer must assume, the less they're willing to pay. The greater the certainty that a percentage of cash flow comes from recurring cash flow and the sustainability of recurring cash flow will decrease the risk and increase the valuation price. 4. Objectivity vs Subjectivity There is a mix of art and science that goes into valuing a book of business. There's an objective review of revenue, expenses but then there's the subjective view on understanding what might make one book more valuable than another (even if they generate the same revenue). The subjective side might include looking at the deal itself; terms of payment, guarantees, claw-back clauses and the seller's involvement in the transition. 5. Motivation and Determination At the end of the day, it doesn't matter how accurate or realistic the valuation put on a business. The final price will be determined by the two parties involved and how motivated and determined they are to complete the deal. The best outcome is when both the seller and buyer feel that they've met a fair price. To learn more about the objective calculations that go into a valuation, check out our 7 Steps to Determine Your Price. Core values shape our attitudes, actions, and decisions, greatly impacting our personal growth. Living in alignment with one's values, referred to as value-congruence, is linked to psychological well-being. Core values are not fixed but dynamic, evolving through experiences, relationships, and reflective practices. Source: wavebreakmedia/Shutterstock Core values serve as guiding principles that shape our attitudes, actions, and decisions. According to psychological research, values are fundamental beliefs that guide our choices and behaviors. They are the foundational principles we hold dear, affecting how we perceive and interact with the world. They are deeply ingrained, often subconscious, and integral to our identity. They are the yardstick by which we judge ourselves and others, influencing our emotions, attitudes, and actions. By exploring these values, we can understand their importance in fostering personal growth, healthy relationships, and a flourishing society. Values are not fixed traits—they are dynamic and can be shaped and reshaped over time through our experiences, relationships, and reflections. Research suggests that intentional practices cultivate values, including self-reflection, education, and engagement with diverse perspectives. Moreover, research has found a strong correlation between living in accordance with one's values and psychological well-being. This alignment, often called value congruence, is associated with greater life satisfaction, self-esteem, and positive affect. It reduces internal conflicts and promotes authenticity, leading to a more meaningful and fulfilling life. These ten core values can serve as a compass, guiding us in a direction that improves our well-being and contributes positively to the world around us: Integrity: Integrity, the adherence to moral and ethical principles, lies at the foundation of human behavior. Cultivating integrity begins with self-awareness. Reflect on personal beliefs and values, and strive to align actions with them. Consciously choose honesty, even when it's uncomfortable or inconvenient. Practice consistency between words and actions, and hold oneself accountable personally and professionally. Empathy: Empathy, the ability to understand and share the feelings of others, plays a crucial role in building meaningful connections and fostering compassion. To cultivate empathy, practice active listening, give full attention to the person speaking, and try to understand their perspective without judgment. Engage in activities that expose you to different viewpoints and experiences, such as reading diverse literature or volunteering in community services. Resilience: Resilience refers to the ability to adapt and bounce back from adversity. Psychological research underscores the importance of resilience in promoting mental health, success, and overall well-being. Building resilience often involves reframing challenges as opportunities for growth. Cultivating a positive mindset, practicing self-care, and building a support network is essential. Mindfulness and stress management techniques can also contribute to resilience. Authenticity: Authenticity involves being true to oneself and expressing genuine thoughts, feelings, and values. Authenticity requires a deep understanding of oneself. Engage in self-reflection to understand personal strengths, weaknesses, beliefs, and motivations. Express feelings honestly and assertively, and make decisions that align with personal values, even unpopular ones. Gratitude: Gratitude, the practice of acknowledging and appreciating the positive aspects of life, has been widely studied in psychology. Cultivate gratitude by maintaining a gratitude journal, noting daily positive experiences or things you enjoy. Expressing gratitude to others, practicing mindfulness, and focusing on positive aspects of life can also foster a grateful mindset. Open-mindedness: Open-mindedness involves considering diverse perspectives, ideas, and experiences. Encourage open-mindedness by exposing yourself to diverse cultures, ideologies, and experiences. Practice listening without judgment and be willing to question personal beliefs. Seek out different viewpoints and engage in respectful dialogues that challenge your perspectives. Responsibility: Responsibility refers to the sense of accountability for one's actions and their consequences. Responsibility can be cultivated by acknowledging personal efforts and their impacts. Set realistic goals, follow through on commitments, and make amends when mistakes are made. Consider the long-term consequences of actions and make decisions that contribute positively to oneself and society. Compassion: Compassion, showing kindness and care towards others, profoundly benefits individuals and society. Compassion can be nurtured through empathy and active caring. Volunteering, helping others in need, and practicing kindness can help cultivate compassion. Mindfulness meditation may also foster a compassionate attitude. Fairness: Fairness involves treating others equitably, justly, and without bias. Psychological research emphasizes the importance of fairness in promoting trust, cooperation, and social harmony. Promote justice by actively acknowledging and challenging personal biases. Strive to make just and equitable decisions and stand against discrimination and injustice. Encourage diverse viewpoints and treat all individuals with respect and equality. Lifelong Learning: Lifelong learning refers to the commitment to continuous personal growth, intellectual curiosity, and acquiring knowledge and skills throughout life. Embrace challenges as opportunities to learn, seek feedback for improvement, and engage in diverse learning opportunities—formal or informal. Read broadly, ask questions, and maintain an attitude of intellectual humility. Becoming a Person of Value In the timeless words of Albert Einstein, "Try not to become a person of success, but rather try to become a person of value." These ten core values—integrity, empathy, resilience, authenticity, gratitude, open-mindedness, responsibility, compassion, fairness, and lifelong learning—are integral to becoming individuals of value. They provide a roadmap to a meaningful life, guiding our behaviors, attitudes, and decisions toward personal growth, meaningful relationships, and a harmonious society. These values are not cultivated overnight, but with conscious effort, consistent practice, and commitment, they become part of our character, influencing our actions and decisions and creating a ripple effect of positivity in our lives and those around us. As we navigate the complexities of our rapidly evolving world, let these core values be the compass that guides us, helping us to remain true to ourselves and our principles and allowing us to contribute positively to the world around us. Find a Positive Psychology Therapist Get the help you need from a therapist near you–a FREE service from Psychology Today. Atlanta, GA Austin, TX Baltimore, MD Boston, MA Brooklyn, NY Charlotte, NC Chicago, IL Columbus, OH Dallas, TX Denver, CO Detroit, MI Houston, TX Indianapolis, IN Jacksonville, FL Las Vegas, NV Los Angeles, CA Louisville, KY Memphis, TN Miami, FL Milwaukee, WI Minneapolis, MN Nashville, TN New York, NY Oakland, CA Omaha, NE Philadelphia, PA Phoenix, AZ Pittsburgh, PA Portland, OR Raleigh, NC Sacramento, CA Saint Louis, MO San Antonio, TX San Diego, CA San Francisco, CA San Jose, CA Seattle, WA Tucson, AZ Washington, DC More from Jessica Koehler Ph.D. More from Psychology Today The determination of the fair economic value of a company or business for various reasons Business valuation involves the determination of the fair economic value of a company or business for various reasons such as sale value, divorce litigation, and the establishment of partner ownership. Image: CFI's Business Valuation Modeling Course. Key Principles of Business Valuation The following are the key principles of business valuation that business owners who want to create value in their business must know. 1. The value of a business is defined only at a specific point in time. The value of a privately-held business usually experiences changes every single day. The earnings, cash position, working capital, and market conditions of a business are always changing. The valuation prepared by business owners a few months or years ago may not reflect the true current value of the business. The value of a business requires consistent and regular monitoring. This valuation principle helps business owners to understand the significance of the date of valuation in the process of business valuation. 2. Value primarily varies in accordance with the capacity of a business to generate future cash flow A company's valuation is essentially a function of its future cash flow except in rare situations where net asset liquidation leads to a higher value. The first key takeaway in the second principle is "future." It implies that historical results of the company's earnings before the date of valuation are useful in predicting the future results of the business under certain conditions. The second key in this principle is "cash flow." It is because cash flow, which takes into account capital expenditures, working capital changes, and taxes, is the true determinant of business value. Business owners should aim at building a comprehensive estimate of future cash flows for their companies. Even though making estimates is a subjective undertaking, it is vital that the value of the business is validated. Reliable historical information will help in supporting the assumptions that the forecasts will use. 3. The market commands what the proper rate of return for acquirers is Market forces are usually in a state of flux, and they guide the rate of return that is needed by potential buyers in a particular marketplace. Some of the market forces include the type of industry, financial costs, and the general economic conditions. Market rates of return offer significant benchmark indicators at a specific point in time. They influence the rates of return wanted by individual company buyers over the long term. Business owners need to be wary of the market forces in order to know the right time to exit that will maximize value. 4. The value of a business may be impacted by underlying net tangible assets This principle of business valuation measures of the relationship between the operational value of a company and its net tangible value. Theoretically, a company with a higher underlying net tangible asset value has higher going concern value. It is due to the availability of more security to finance the acquisition and lower risk of investment since there are more assets to be liquidated in case of bankruptcy. Business owners need to build an asset base. For industries that are not capital intensive, the owners need to find means to support the valuation of their goodwill. 5. Value is influenced by transferability of future cash flows How transferable the cash flows of the business are to a potential acquirer will impact the value of the company. Valuable businesses usually operate without the control of the owner. If the business owner exerts a huge control over the delivery of service, revenue growth, maintenance of customer relationships, etc., then the owner will secure the goodwill and not the business. Such a kind of personal goodwill provides very little or no commercial value and is not transferable. In such a case, the total value of the business to an acquirer may be limited to the value of the company's tangible assets in case the business owner does not want to stay. Business owners need to build a strong management team so that the business is capable of running efficiently even if they left the company for a long period of time. They can build a stronger and better management team through enhanced corporate alignment, training, and even through hiring. 6. Value is impacted by liquidity This principle functions based on the theory of demand and supply. If the marketplace has many potential buyers, but there are a few quality acquisition targets, there will be a rise in valuation multiples and vice versa. In both open market and notional valuation contexts, more business interest liquidity translates into more business interest value. Business owners need to get the best potential purchasers to the negotiating table to maximize price. It can be achieved through a controlled auction process. Key Takeaways The above are fundamental business valuation principles that determine the value of a business. The value of any business is usually determined at a specific point in time and is impacted by the company's capacity to generate future cash flow, market forces, underlying net tangible assets, transferability of future cash flows, and liquidity. Although they are technical valuation concepts, the basics of the valuation principles need to understood by business owners to help them increase the valuation of their businesses. Related Readings CFI is the official provider of the Financial Modeling and Valuation Analyst (FMVA)™ certification program, designed to transform anyone into a world-class financial analyst. To keep learning and developing your knowledge of financial analysis, we highly recommend the additional resources below: