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## Multifaceted Beneficial Impact of Management by Values Implementation on the Company's Activity, also in the Financial Aspect

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### ABSTRACT

The statement that respect for human values at work increases the level of human satisfaction does not raise any doubts among managers today. However, numerous voices of doubt can be heard when it is stated that respect for human values at work is conducive to the company's development. The following article aims to address the importance of management by value and in particular the multiple benefits of this management approach for the whole enterprise, including financial benefits.

**Keywords:** Business values, Management by values, Human resources management, Benefits of management by value, Profitability of the company

### 1. EXTERNAL CONDITIONS DETERMINING THE NEED TO CHANGE THE APPROACH TO MANAGEMENT

Variable and even turbulent environment, intensified competition, not only on a local or national but also international scale, emerging new business models combined with a conscious, well-informed, demanding and whimsical consumer make simple, previously proven business models no longer effective.

Managers who have made decisions based on market and financial information and achieved their goals by focusing on marketing are beginning to see new challenges and the need to change their approach to management.

Social changes on the part of clients and employers are accompanied by parallel transformations on the part of those who provide employment. We are dealing with a knowledge society. Open access to the Internet contributes to general exchange of information and opinions on the employer between current, former and potential employees. The requirements of potential employees are now much higher and, in addition, global studies confirm that they are being redefined.

One of the world's studies shows that among the nearly thirty-stage list of factors most motivating to work, remuneration was only in the eighth position, the fourth position was mentioned as good relations with superiors, the third one as the possibility of finding a balance between life and work. The second most important motivating factor for work was good relations with co-workers, and the most important was the feeling of being appreciated in our job. The results of these studies show that changes in the labor market are beginning to have a more personal dimension and that employees are increasingly looking for recognition in their jobs.

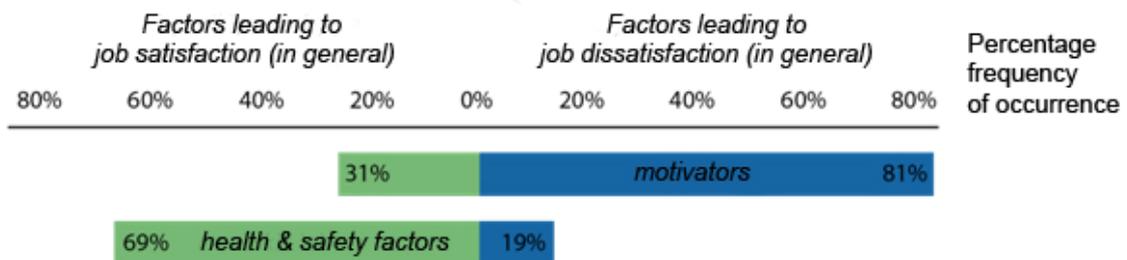
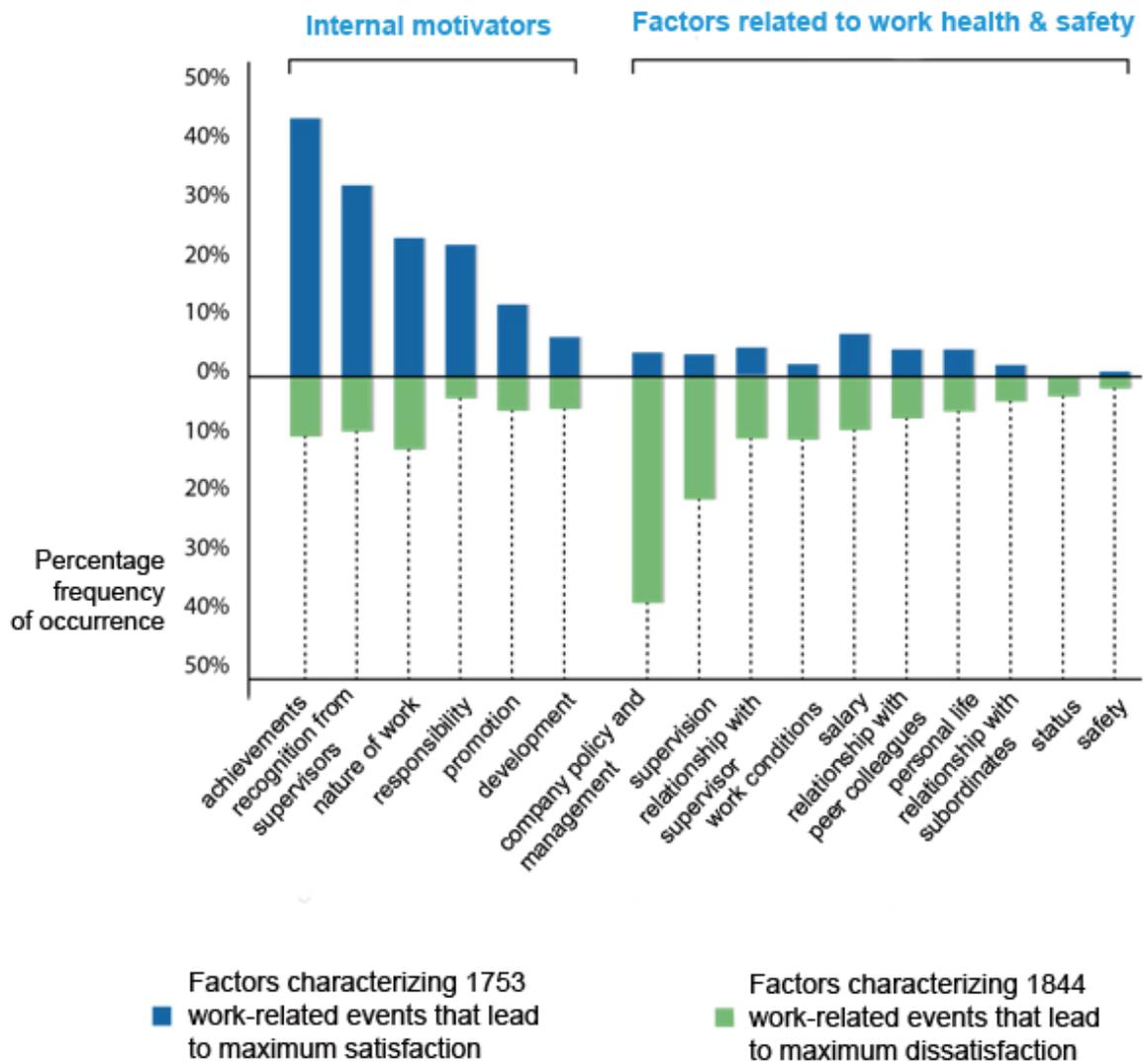
Other studies conducted and published by Harvard Business Review Poland in a special report describing several thousand work-related events and their impact on employee satisfaction confirm the earlier conclusions. Again on motivating employees HBR special report "Motivating success". The results of this study are presented in Diagram 1.

All these phenomena have made managers in the business arena realize that a significant step forward in the evolution of their management approach is necessary. The first approach to MBI (Management by Instructions) was used in the 1920s, when industry dominated over services and work in them was relatively simple and required only good performance of repetitive activities.

Along with the organization's development, the development of services and increase of their importance in the economy, i.e. in the 1960s, the development of MBO concept (Management by Objectives) took place. In this approach, superiors define only objectives, and each employee managed in this way takes the path to their implementation, which binds managers to the organization's objectives, provides a lot of satisfaction and a sense of responsibility among the team. It was also then that there was a change in the approach to expectations towards the employee and employer's promises in exchange for their fulfilment. In return, the company expected them to be obedient and hard-working, and over time, a new agreement emerged in which the employee was ready to show initiative in action in exchange for opportunities for development.

However, at the beginning of the 21st century it turned out that management in a fast and globalized world caused that managers were not achieving their objectives, and in addition, despite their efforts, they were not even able to clearly define what they did well and failed, because there were a number of changes between the beginning and end of activities that they were not able to predict.

This in turn led to frustration and attempts to search for theories to better understand behavior. Under this approach, people work most effectively and are able to make a huge commitment and mobilize their creative resources when the work they do allows them to realize their valued values and meet important higher-level needs.



**Diagram 1.** Factors influencing the attitude of employees to work (determined on the basis of 12 studies)

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However, at the beginning of the 21st century it turned out that management in a fast and globalized world caused that managers were not achieving their objectives, and in addition, despite their efforts, they were not even able to clearly define what they did well and failed, because there were a number of changes between the beginning and end of activities that they were not able to predict. This in turn led to frustration and attempts to search for theories to better understand behavior.

The answer to these searches is MBV (Management by Values). Under this approach, people work most effectively and are able to make a huge commitment and mobilize their creative resources when the work they do allows them to realize their valued values and meet important higher-level needs.

## **2. BARRIERS FOR MANAGEMENT BY VALUE IMPLEMENTATION**

Although nowadays there is an increasing number of literature sources, publications and conferences referring to the need to change the approach to management, the observation of business practice seems to contradict it. Only a few companies have taken the path of management by values, a significant part is in management by objectives, some take steps to implement management by objectives (there is still a lot of interest in training and conferences in this field, which for many modern managers is an unrecognized issue) and unfortunately, on the Polish market, there are numerous cases of companies where management stopped at the stage of management by instructions.

This state of affairs is also confirmed by the reflections of others interested in the issue of management by values. Who was an expert in a panel discussion on the role of CFOs in turbulent environment, summed up that any attempts to refer to these issues met with a misunderstanding of adversaries, who were financial directors from Polish companies. He concluded this experience stating that the Polish business had not yet developed into a discussion about values, that the objective (understood as "quick profit") is more important to him than the path – contrary to what results from management by values.

CEO of Personal Brand Institute, is of a similar opinion. She sees a number of positive features and behaviors of Polish managers: effectiveness and objectives orientation, determination and attitude to success, willingness to develop, creativity and openness to change

as well as flexibility in difficult and changing conditions. However, it also recognizes that effectiveness alone is no longer enough. She believes that Polish managers do not have the concept of how to build their authority on something else than just formal authority and a place in the company's structure, they lack appropriate leadership competences, they are not open to receiving feedback or criticism, and they constantly compare themselves with others. This makes them unable to effectively attract talent, motivate, emphasize strengths and attitudes.

The above considerations lead the author to conclude that the biggest problem of Polish leaders is the lack of ability to manage by values in everyday business practice.

The analysis of historical examples of the evolutionary changes in the approach to management shows two regularities. Firstly, that the change in approach to management is a very difficult phenomenon and entails a great deal of resistance, and secondly that the effects of many decisions in this area have to be expected for even years, which requires consistency and patience. Probably these features are the reason why many companies still do not think about changes in the area of management in the direction of value when planning their development. In addition, the reasons for the low level of interest in concepts of management by values can be found in the difficulty of understanding this concept and in its humanistic approach.

The difficulty in understanding this concept was mainly due to the fact that it is no longer based on known and proven solutions, on motivating with a carrot and stick approach, on accounting for tasks, etc. The second reason is the difficulty in its quantification, the humanistic approach (which in many managers is not recognized as unmeasurable and unspecific) and the fact that the complexity of human behavior is sometimes difficult to predict and plan, and thus management ceases to be dummy variable and only has to accept indirect solutions.

### **3. EXAMPLES OF THE EFFECTIVENESS OF CHANGE IN MANAGEMENT APPROACHES**

Understanding the organization's values and the people who make it is an attempt to answer the seemingly simple question "why?". Why do I do what I do? Why am I here where I am? Do I really only work to make money? And is our company really only to generate profit? Market observations show that the sooner companies understand that profit is the result of their work (a very important, because it ensures survival and development, but only a result) and the sooner they answer the question why they exist, the easier it is to create a code of ethics, or a value system (in practice it exists under different names), which will be inspiring for their employees, and over time will become a source of lasting competitive advantage.

However, even overcoming all of these barriers will not convince many managers to change until they understand and experience the benefits of change for them and their organizations. Managers do not believe in quantifiable benefits that could be said to be "just" change at this level can bring the organization. "Just" as it does not attract big investments, construction, purchase of equipment, etc. but "just" and "only" as it requires a change in the way of thinking, leadership and approach to managing the organization, and this, as shown by the reality of business, is often the most difficult change.

A great example of how a change in approach to management can become revolutionary for the company, and even for the whole economy, is implementation of Total Quality Management (TQM) in Japanese enterprises. A precursor and author of this new thinking,

William Deming, in which one of the basic recommendations for companies was “Avoid management by objectives. Eliminate management by numbers. Replace management by leadership objectives.” W. Deming did not find audience in his country (in the United States), but unlike the Americans, Japanese managers listened and actively implemented the rules he proposed. It led to the fact that the Japanese economy, poorly managed and almost completely destroyed after the Second World War, during the period of imitation in the 1950s – 1960s, at the beginning of the 1990s, became a country which in many areas of its functioning did not give way, or even surpassed the United States, in particular: automotive, electronics and electrical engineering.

For example, between 1982 and 1988, 96,500 international patents were registered worldwide, of which 18,500 in the United States and 15,100 in Japan. In 1985, Japan became the largest car manufacturer in the world (in 1993 Japan manufactured 11.4 million cars and the U.S. 9.5 million, and in 1992 Japan exported 5.7 million cars and the U.S. only 0.9 million). Japanese automotive companies: Toyota, Mazda, Suzuki, Nissan or Honda competed so effectively with American companies such as General Motors, Chrysler or Ford that they were on the verge of bankruptcy. It came to the conclusion that if Americans bought American cars, they preferred models with parts made in Japan. After this experience, when between 1979 and 1982 Ford recorded losses exceeding three billion dollars, W. Deming was invited to cooperate.

The change in management approach after just four years led to Ford becoming the most profitable car company in the United States in 1986 (although at that time General Motors invested 80 billion dollars in modern factories and equipment), in 1992 Ford Taurus became the best-selling car in the United States and Ford Motor Company moved to the second place in the world in terms of the number of cars sold. Jack Welch, an outstanding management practice, put it this way: “There is too much to lose if the mission is not precisely defined and the values are not developed. I don’t mean that your company will fail with a bang like Arthur Andersen or Enron – these are extreme examples of the separation between mission and values. I just want to say that the company has never reached its full potential if it only uses empty phrases on the corridor walls.” And here we reach the essence of deliberations, despite the fact that approach to the issue of management method, such “intangible”, “soft” and “non-business” are the benefits that the organization brings may be not only soft, but also very tangible, hard and “business”. This article aims to demonstrate the wide range of benefits resulting from the management of an organization in which values are at its core.

#### **4. BENEFICIARIES AND BENEFITS FOR THE COMPANY FROM MANAGEMENT BY VALUES IMPLEMENTATION**

In the face of turbulent times, valued values in a team can, like a lighthouse, help to define the mission, vision and objectives of the organization, facilitate creation and cultivation of a unique organizational culture, provide guidance in the face of change and thus facilitate difficult decisions and crisis management. The instability of many teams, the enormous costs associated with the need to replace one employee with another, which are estimated at up to 12-18 months of salaries (costs associated with leaving, recruitment and adoption costs, reduction in knowledge and productivity, time spent on managing rotation, problems with division of labor or costs associated with the employment of temporary employees, problems with the quality and dissatisfaction of customers, the crumbling resources of qualified employees and the

spectre of a crisis in the workforce make the competition for talent a new level of competition for companies. Management by values can provide an excellent platform for creating and communicating the employer branding and for building its image as an “employer of choice”.

In this area, companies are competing more and more courageously, which is also confirmed by competitions, for example, for the best workplaces, in the Great Place to Work Institute’s 2013 ranking of “25 Best International Workplaces in the World” among 6,200 companies from 45 countries, the top is opened by Google, followed by SAS Institute, Netapp and Microsoft.

The undisputed beneficiaries of the management by values implementation are employees who, in the face of insecure employment, blurring of boundaries between personal and professional life, can work in a company that gives them opportunity of self-fulfillment, which confirms their identity and builds affiliation (a cleaning lady in NASA, when asked what she did there, answered that she was sending rockets into space), allows for development in line with aspirations and facilitates functioning in the face of a need to make decisions and maintain continuity in the face of changes.

Implementation of management by values is also a source of undeniable benefits for customers and business partners, who have the opportunity to cooperate with partners or use products or services of trustworthy companies, which is the basis for building lasting business relations, and this in turn provides both parties with a sense of security and stability. In addition, the company managed in this way will be prepared to surprise customers over time, anticipating their expectations and creating their real needs, which can be a source of competitive advantage especially in the context of a modern, demanding and capricious client.

Apart from the fact that an organization with good moral foundations allows attracting and retaining talents in the organization, it additionally increases morale, motivates and integrates teams. It contributes to the awakening of aspirations and inspires to strive for success. This atmosphere stimulates teamwork, strengthens the sense of belonging, and thus promotes taking responsibility. The stimulated increase in employee involvement, which may be reflected in the identification of employees with the developed values, leads to a breakthrough in the perception of individual human role in the organization. Employees declare the need to improve communication in a team and to learn how to work with a group. The leader starts to manage the employees who initiate the solutions. Performing tasks in a recreative manner, in accordance with the specified scope of duties resulting from the form of employment and the position occupied, gives way to creative and independent problem solving. Changes at this level benefit the owner and managers, but not less the employees, who feel a higher level of job satisfaction, have the possibility of self-fulfillment, continuous learning and, according to their own aspirations, developing their own careers. Moreover, management by values can become a carrier of the company’s immortality. This fact may be important for managers or owners of an organization, but at the same time it may constitute a basis for developing a unique and distinctive concept of corporate social responsibility on a daily basis.

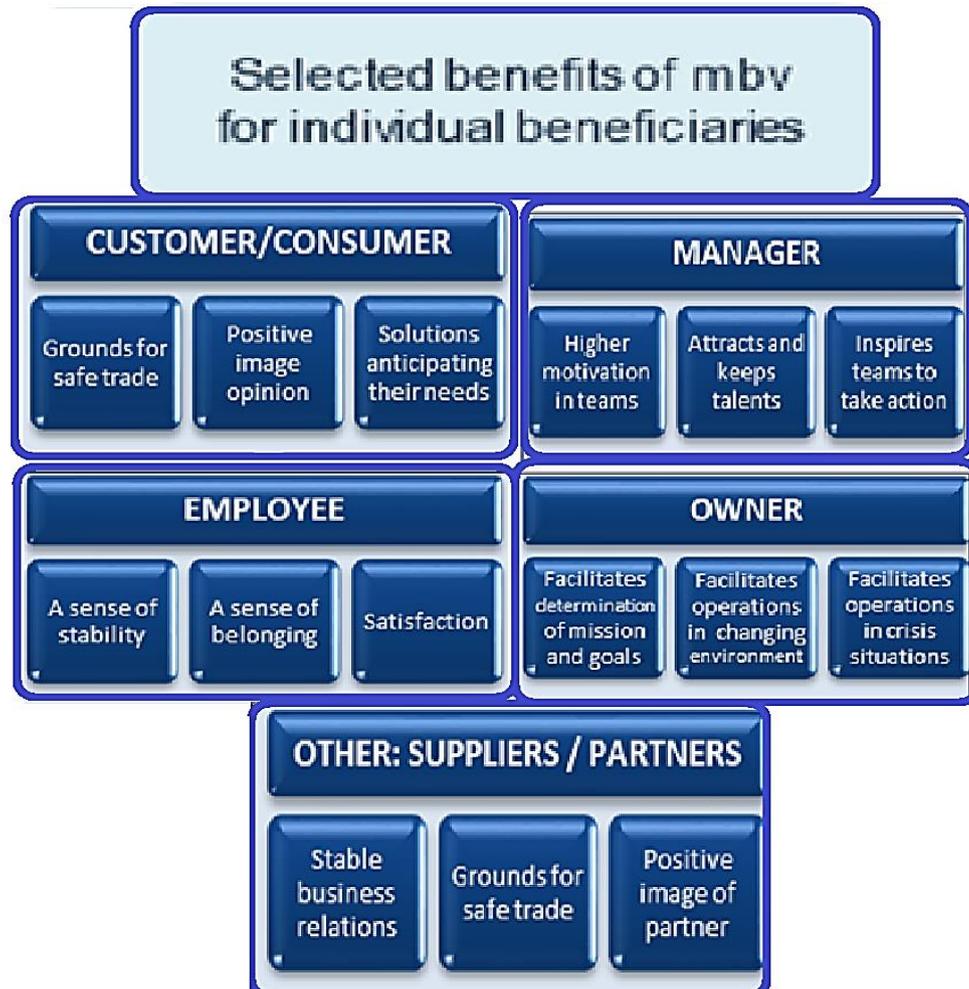
## **5. IMPACT OF THE MANAGEMENT BY VALUES IMPLEMENTATION ON THE COMPANY’S PROFITABILITY**

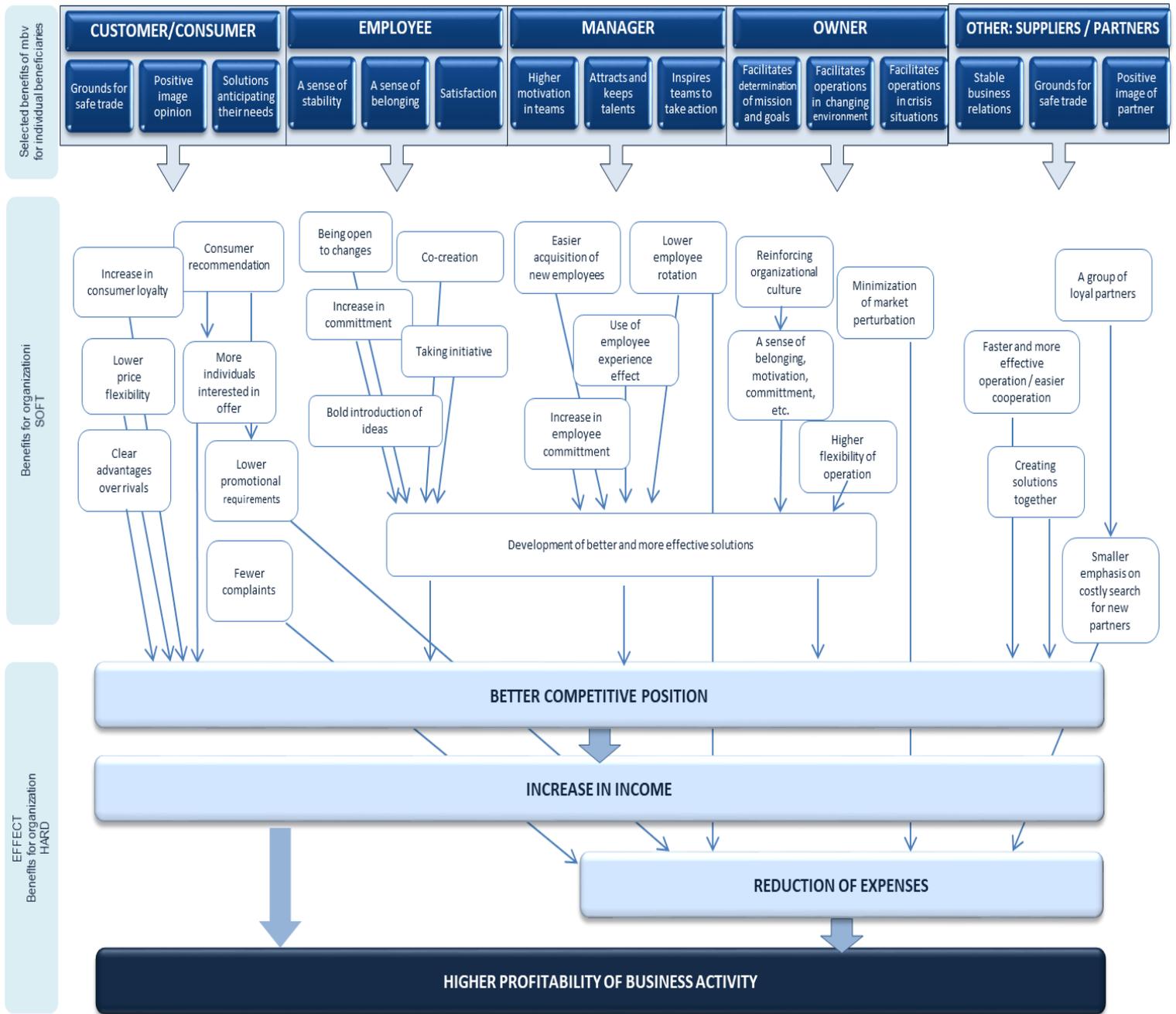
Although the above list presents a comprehensive image of benefits for the company, and its multifaceted impact on improving the quality of its activities is almost undisputed, there are

often voices raised in everyday business life, such as “but what will it give me?” In many organizations there is an invisible line between soft and hard issues. When asked: “What makes a company more profitable?” the answer is that an increase in revenue or a reduction in costs is at most further associated with a better competitive position. At this point, this invisible border appears and there is no comprehensive image.

With a narrow consideration, managers in their daily struggles look for ways to be better than the competition to sell more, or how to do it cheaper to be more effective. This view is limited almost exclusively to the observation of the effects of complex company activity, and both the increase in revenue and the decrease in costs may be the result of dozens of activities that may be the result of implementing management by values. The broader the perspective of those who look at these issues, the more clearly they will see the benefits of management by values. As a crowning argument in this dilemma concerning the influence of management by values on the effectiveness of an organization, the following diagram should be used

This diagram presents a selective example of the importance of changes introduced by the implementation of a new value-based management style for the organization’s profitability (Diagram 2).





Source: Own elaboration

**Diagram 2.** Selected benefits of management by value and their impact on the company’s profitability.

A better competitive position largely depends on the extent to which the company is ready to develop better and more effective solutions, and this is certainly supported by the organization’s activity as the so-called “two-handed”, on the one hand, with a clearly defined

direction of action, and on the other hand, open, flexible to unexpected changes in the environment, both closer and further.

The above scheme in its complexity and at the same time simple structure does not require a precise discussion. As an example of conclusions from the data contained in it, the benefits for employees, managers and customers and their impact on the company's profitability are presented below. Employees who have a sense of security, belonging and stability at work, feel satisfaction and fulfillment, are open to change, more willingly and on their own initiative show commitment. Moreover, they boldly propose new ideas and willingly co-create, so that the developed solutions can be a surprise to themselves, to leaders, and most importantly, they often exceed the expectations and needs of customers, which is an image of marketing business management.

Such an approach results in the development of better, unique solutions, which translates into a better competitive position and results in higher revenues. Manager, whose management by values enables, among others, better motivation of teams, facilitates attracting and retaining talents and inspires teams to act, feels that thanks to the stability of teams, they can use the effect of employees' experience. Even in situations when it is necessary to change an employee or expand the team, it is very easy to find a new, competent candidate. It feels an increase in the involvement of employees, which obviously favors the development of better market solutions. Lower employee turnover also means lower costs of acquisition and maintenance, which, contrary to the original feelings, may have a significant impact on the organization's profitability.

Apart from internal beneficiaries of management by values, this approach is used by customers who perceive solutions anticipating their needs, have a positive image of the organization, see and accentuate its competitive advantages, feel secure in purchases, become more loyal and often less flexible in price changes. Additionally, a satisfied customer often becomes a source of the best, because reliable, market recommendations of a given company or brand, which broadens the group of those interested in the offer. All these phenomena translate into the improvement of the company's competitive position and form the basis for generating higher revenues, but at the same time some of them, in particular the phenomenon of positive opinions on the company or brand, enable to reduce the promotion costs, which goes into the phase of social recommendations.

All of the above considerations lead to a common denominator that both the increase in revenue and in many areas cost reduction will influence the better profitability of the organization, but in order to understand the true source of profits it is worth to look at the organization more broadly and understand that a good foundation of the organization, based on developed and consistently respected values, will enable to benefit from all areas of its functioning, including financial ones.

Undertaking the challenge of developing and managing own organization by values, it is necessary to be aware of several important facts that are inseparably related to it. Management by values requires the organization to be guided by a process of change, requires full involvement of both the key people in the company and all its employees, and the beginning of this process must be very well thought through, because not completing it can bring more losses than benefits to the organization. In addition, its measurable effects, in the form of a change in the culture of the entire organization, sometimes have to be expected even for a few years, hence the decision to implement it must be strategic in nature, and implementation requires great consistency.

## 6. CONCLUSIONS

Management by values provides measurable benefits for employees, consumers, owners, managers and other business partners. These are not just benefits described as “soft”, but can also unambiguously become a source of efficiency improvement. The only question that arises is how many entrepreneurs and managers will be ready to break through the barriers mentioned above and take the trouble to carry out their organization and its employees through a long process of change. However, it is undoubtedly the fact that those who will undertake this effort in the long run will create a unique organization, will gain a source of lasting market advantage, and as a result will also increase the profitability of their activities.

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