

Research on Value-based Financial Management Model Based on VBM Framework

Li Qin

Northwestern Polytechnical University Mingde College, Xi'an, Shaanxi, 710124, China

Keywords: VBM, value-based financial management, mode

Abstract: As an important part of enterprise management, the efficiency and quality of financial management have an important impact on the capital turnover and survival and development of enterprises. Among them, VBM (value-based management) is a new financial management mode, which not only adopts innovative management technology, but also further promotes the reform of management system. This paper explores how to build a value-based financial management model under the framework of VBM, in order to provide a reliable reference for future enterprise financial management.

VBM is the product of the integration of modern western enterprise system and market price economy. With the development of the times, it has gradually formed a theoretical system and practical methods. This theory is one of the most popular management theories in the 21st century. This theory attaches great importance to the application of value concept and devotes itself to the promotion of enterprise's overall value. Moreover, the key point of the theory is to help people clearly grasp the motivation of value and provide scientific basis for enterprise decision-making.

1. Current Financial Management Model of Chinese Enterprises

As a new financial management mode, value-based financial management under the framework of VBM has not been widely used in China for a long time. Most enterprises still follow the previous management mode, but there are some shortcomings^[1]. As shown in Table 1.

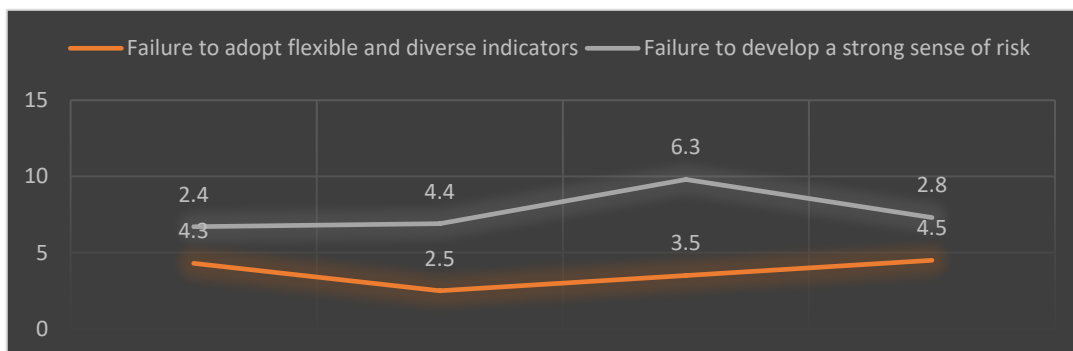


Table 1. Current Financial Management Model of Chinese Enterprises

1.1 Failure to adopt flexible and diverse indicators

At present, the financial management of most enterprises in our country is still reflected by transforming a single profit into the final enterprise value. Its value model is based on the price-earnings ratio. When analyzing the capital structure, we still use too single methods such as return on investment, return on net assets and earnings per share. In this kind of management mode, the main source of enterprise value is profit, which only pays attention to the reflection of quarterly results, not only does not deeply analyze the possible value in the future, but also fails to fully grasp and apply more valuable means, which greatly reduces the enthusiasm and flexibility of enterprises to adopt work^[2].

1.2 Failure to develop a strong sense of risk

Most financial managers of enterprises mainly rely on their own experience to carry out various tasks, and then roughly formulate the financial management strategy of enterprises. However, due to the lack of financial risk prediction and management mechanism, or the lack of scientific and feasibility of the formulation mechanism, and the lack of in-depth investigation of the factors affecting the development of enterprises, it is easy to formulate imperfect financial management strategies, resulting in unnecessary economic losses^[3].

2. Effective Strategies for Building Value-based Financial Management Model under VBM Framework

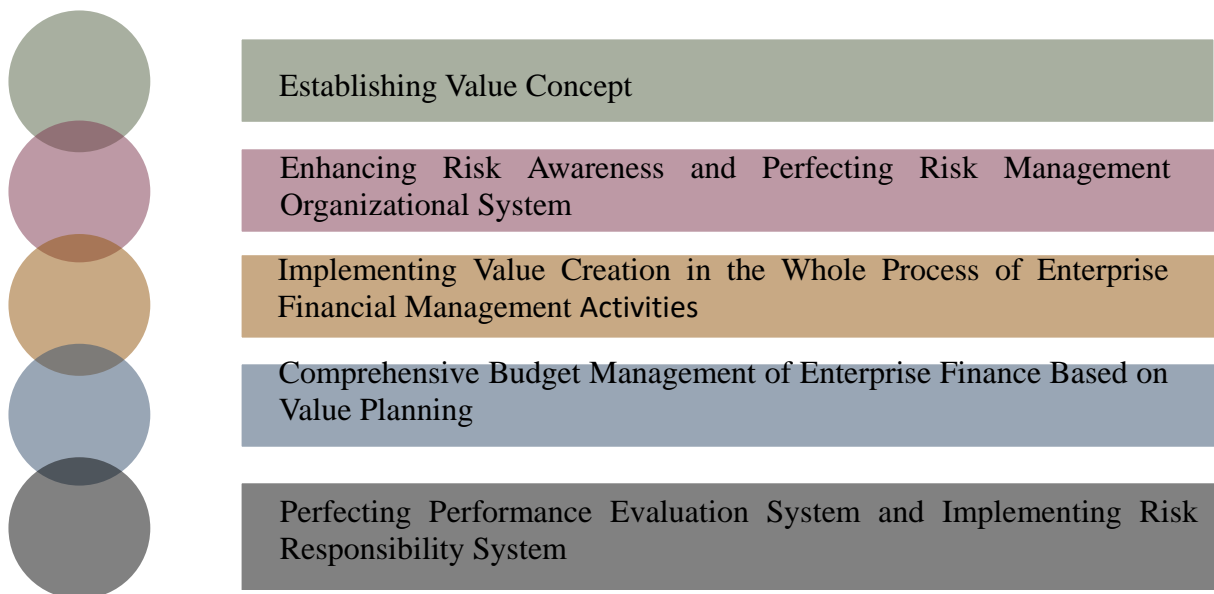


Fig.2. Effective Strategies for Building Value-based Financial Management Model under VBM Framework

As shown in fig.2, a detailed analysis is presented above.

2.1 Establishing value concept

In order to speed up the construction of a new financial management model, first of all, we should establish a value concept. Both managers and employees should fully recognize the importance of VBM theory, so that the model can be accepted by enterprises. Therefore, in training,

enterprises should focus on the transfer of employees' values, internalize them into employees' thoughts, promote the formation of their asset value maximization concept, and put it into daily work^[4].

2.2 Enhancing risk awareness and perfecting risk management organizational system

Enterprises are required to enhance risk awareness, strengthen risk management, establish and improve enterprise risk management organizational system, establish enterprise risk early warning system, improve risk reporting system and reporting process, assess and report enterprise risk status in time, carry out enterprise risk management according to the case, target-oriented, and strengthen risk control.

2.3 Implementing value creation in the whole process of enterprise financial management activities

The financial management activities of enterprises include investment, financing and business activities, among which investment activities and business activities are the source of value creation. Investment activities must follow the rule of net present value. Only projects whose net present value of future cash flow is greater than zero can be invested. The investment activities of enterprises must create value for investors, that is, considering the cost of capital of investors. Capital cost and capital structure must be considered in financing activities. The lowest capital cost should be chosen to maximize the value of enterprises. Business activities should take into account the competitive strategy and value chain management of enterprises, and link the value drivers/key performance standards with competitive strategy to continuously optimize the value chain, so as to create greater value for investors^[5].

2.4 Comprehensive budget management of enterprise finance based on value planning

Through the organic combination of VBM management framework and corporate governance structure, a new and efficient management system emerges. Comprehensive budget management is an important guarantee system for enterprises to achieve corporate strategy. It is also a key management mechanism to integrate capital flow, human resource flow and information flow of enterprises. From the point of view of VBM value, comprehensive budget management of enterprise finance from the point of view of value planning refers to comprehensive analysis of various factors affecting enterprise value, and optimization of resource allocation management, so as to carry out comprehensive and effective financial budget management. When formulating financial management system, enterprises should pay attention to the framework and concept of comprehensive budget management as the basis, so as to ensure all-round and whole-process financial management.

2.5 Perfecting performance evaluation system and implementing risk responsibility system

Perfecting the performance evaluation system and implementing the risk responsibility system are also the key factors for the implementation. This includes the following aspects. Firstly, we should realize the organic connection of enterprise strategy, risk control and performance evaluation. Secondly, we should use the financial index system of performance evaluation synthetically, combine financial evaluation index with non-financial evaluation index to evaluate performance. Thirdly, we should implement the system of risk value contribution and risk loss responsibility, and realize the close relationship between salary system and performance evaluation system.

3. Conclusion

In summary, in order to create an effective value-based financial management model under the framework of VBM, it needs the unity and cooperation among various departments of the enterprise, and it takes quite a long time to explore. As a new and efficient enterprise financial management mode, this management mode can optimize the allocation of enterprise financial capital flow, and have a full grasp of its development direction, so as to promote the acquisition of maximum value of enterprises.

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