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Value management

Value management

Value Management

Management par la valeur

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Value management

Management par la valeur

Value Management

This European Standard was approved by CEN on 7 October 1999.

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EUROPEAN COMMITTEE FOR STANDARDIZATION
COMITÉ EUROPÉEN DE NORMALISATION
EUROPÄISCHES KOMITEE FÜR NORMUNG

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Foreword

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

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of an identical text or by endorsement, at the latest by October 2000, and conflicting national standards shall be withdrawn at the latest by October 2000.

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

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

Historical background

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

The standard is primarily addressed to three groups of customers :

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

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

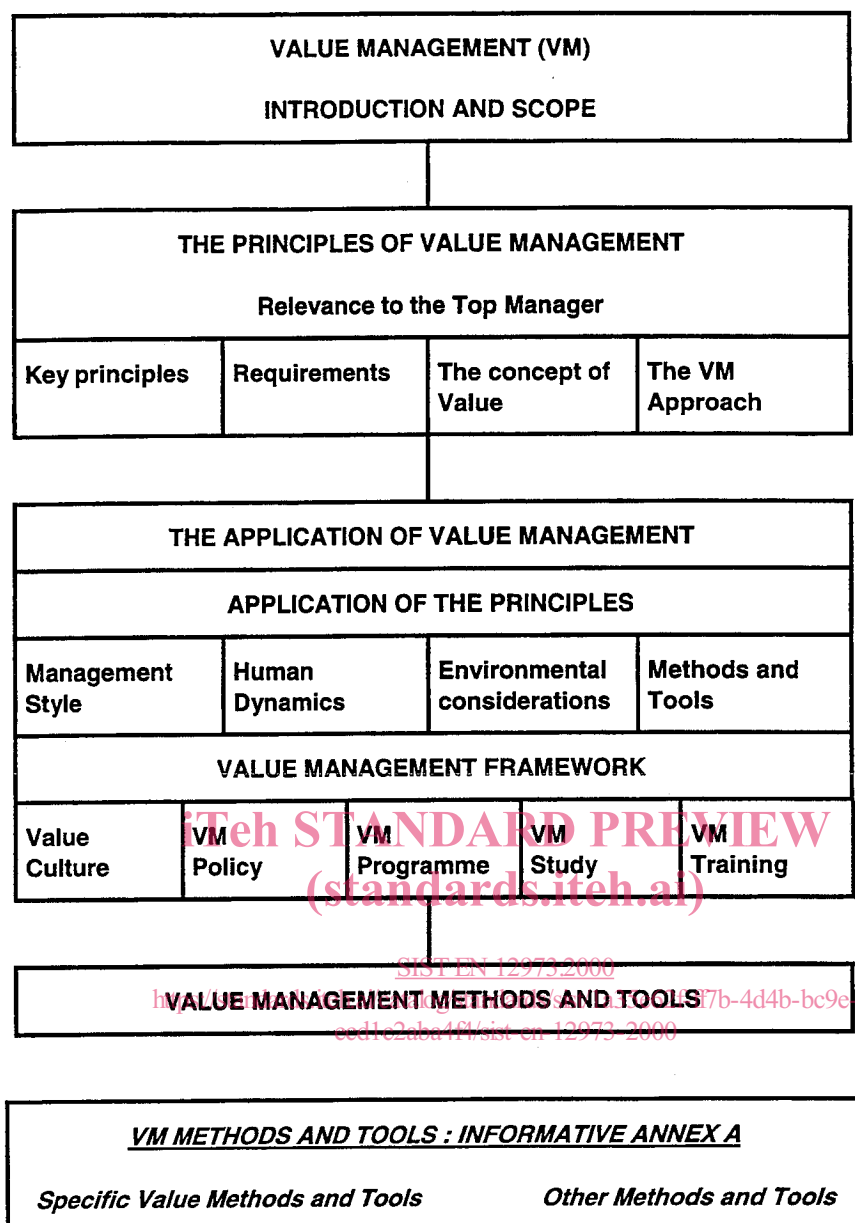


Figure 1 — Structure of this document

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

This Standard represents a development from previous Value Analysis standards.

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

Introduction

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

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

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

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

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

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

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

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

The Value Management approach involves three root principles :

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

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

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

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

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

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

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1 Scope

The purposes of this standard are :

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

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

2 Normative references

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

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

3 Terms and definitions

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

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

3.1 value Management (VM)
value Management is a style of management, particularly dedicated to motivate people, develop skills and promote synergies and innovation, with the aim of maximizing the overall performance of an organisation

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

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

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

3.3**value Management Programme**

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

3.4**value Management Study**

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

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

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

3.5**value Manager**

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

4 The principles of Value Management**Relevance to the Top Manager**

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

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

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

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

The resulting atmosphere encourages innovation, draws on the synergy of people working together and results in better utilisation of resources to fulfil the organisations aims.

4.1 Key principles

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

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

Management Style

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

Human Dynamics :

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

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Environmental Considerations :

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

Effective use of methods and tools :

- means of achieving outcomes.

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

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

4.2 Value objectives in Value Management dynamics

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

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

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

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

4.3 Requirements

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

4.3.1 Framework

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

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

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

4.3.2 Attitudes of mind and knowledge

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

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

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

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

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

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

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

4.4 The Concept of Value

4.4.1 Value

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

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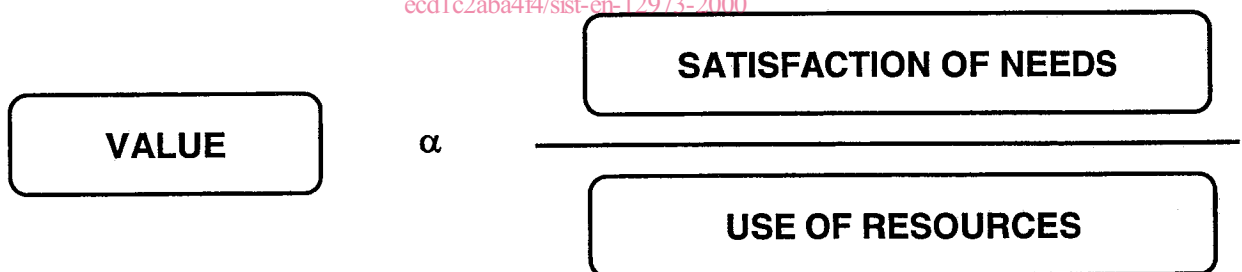


Figure 2 — The concept of value

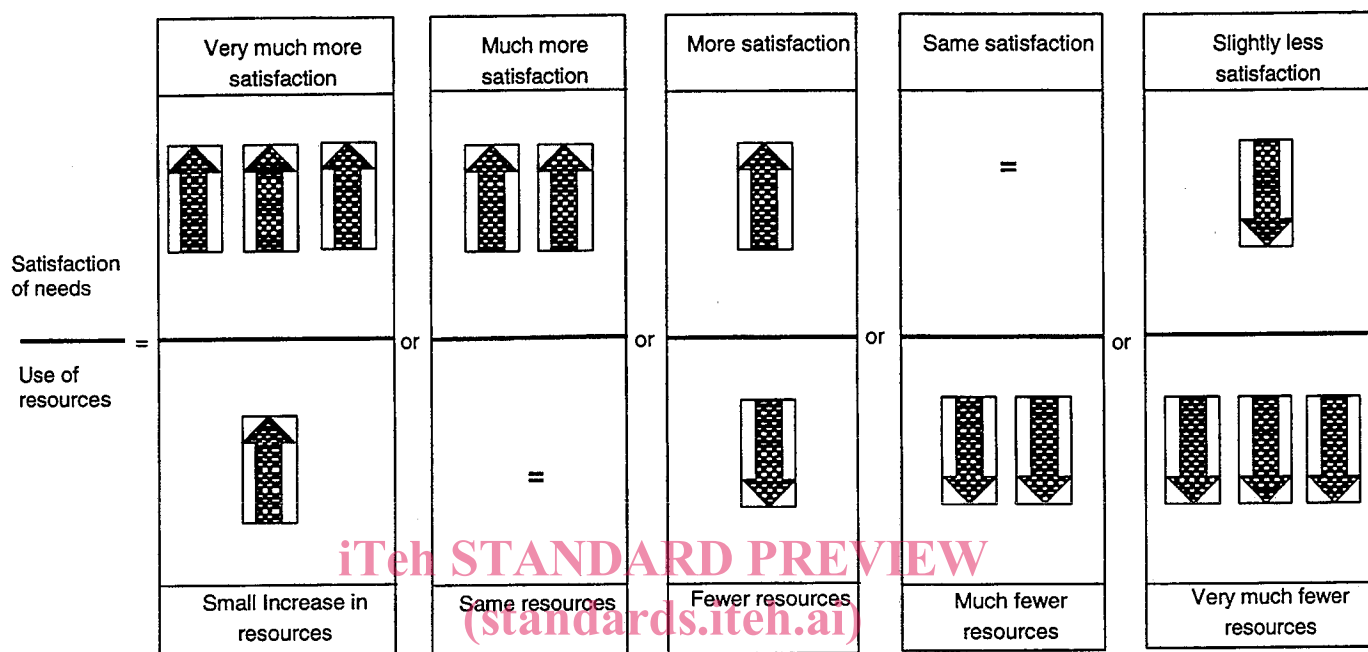
NOTE The symbol α signifies that the relationship between the satisfaction of need and the resources is only a representation. They are traded off one against the other in order to obtain the most beneficial balance.

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

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

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

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



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Figure 3 — Different ways of achieving equal value increases

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

4.4.2 Need

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

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

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

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

The degree to which some of these needs are satisfied is easily measurable but others are less so. For instance, the units of measure of marketed goods and services is generally straightforward. However, for items which are not