

## THE CREATION OF ENTERPRISE VALUE AS A RESEARCH SUBJECT - CURRENT STATE AND COGNITIVE PERSPECTIVE

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### Abstract

*The rapid pace of changes therein generates the need to direct science to create a theoretical background to allow accurate identification of value creating factors, while reducing its scientific verification based on the traditional enterprise model. The creation of company value as a scientific problem should notice to a larger extent a long-term dimension of broadly defined economic activity of entities. Currently, science increasingly perceives the effectiveness of the company not only in terms of profit for shareholders, but also financial performance in the context of relations with the environment and cross-organizational links. The aim of the study is to present the essence of the scientific value of the company, especially its creation. The paper presents current achievements of science in this field and tries to identify future challenges. In the opinion of the authors the undertaken research problem should be not the value of the company itself, but its creation in the conditions of a modern economy, which forces the development of enterprises in the long term, based on broadly defined relationship with the environment.*

**Key words:** value, value creation, theory of the value, scientific concepts of value

### 1. INTRODUCTION

The aim of the study is to present the essence of the scientific value of the company, especially its creation. The paper presents current achievements of science in this field and tries to identify future challenges. In the opinion of the authors the undertaken research problem should be not the value of the company itself, but its creation in the conditions of a modern economy, which forces the development of enterprises in the long term, based on broadly defined relationship with the environment. The rapid pace of changes therein generates the need to direct science to create a theoretical background to allow accurate identification of value creating factors, while reducing its scientific verification based on the traditional enterprise model. The creation of company value as a scientific problem should notice to a larger extent a long-term dimension of broadly defined economic activity of entities. Currently, science increasingly perceives the effectiveness of the company not only in terms of profit for shareholders, but also financial performance in the context of relations with the environment and cross-organizational links. The science has clearly evolved, however, so far it has not developed models which take into consideration the distinct dynamism of a concept of the development of a modern enterprise, often going beyond the traditional model of the economy. Thus, although the value itself and its creation are commonly used terms in the economic science, it is apparent there are some gaps in the development of the theory in this field, especially when it comes to adapting the concept of science and its tools appropriate to the pace of changes occurring in the economy.

## **2. SCIENTIFIC CONCEPTS CONCERNING VALUE OF THE COMPANY AND ITS CREATION**

Conducting an analysis of existing scientific concepts relating to the value of the company and its creation, the evaluation of the concept should be emphasized, from the traditional concepts based on financial generators to modern concepts, taking into account the importance of intangible factors to create value (also in connection with the development of the concept of the knowledge-based economy). Traditional and contemporary theories of value creation of companies diversify the approach to the value creating sphere.

Focusing on the traditional concepts of value creation, their background is based on the prominence of the tangible internal factors of the company (also called micro-factors). According to the theory, they may be simultaneously a subject to impact and creation of value based on them. Whereas external factors, reflecting the range of changes in the external environment (also called macro-factors) create for companies only certain conditions of their functioning, but they cannot be a clear subject which influence them. Taking into consideration the assumptions of this theory, the role of enterprises is limited to taking action which on the one hand allow to use opportunities, and on the other hand to avoid risks. As pointed out by M. Marcinkowska, companies cannot shape the legal regulations, but they may have an impact on their form, for instance through lobbying. They can also affect the labour market and social attitudes, through the creation of such conditions and their own image which allow them to affect certain people's behavior (Marcinkowska, 2000) The most common traditional concepts of value creation of the company are:

1. The concept of A. Rappaport, based on financial factors that create value of the company whose aggregation should be made by highlighting "driving forces", namely: operating carriers of value, investment carriers of value, financial carriers of value and general carriers which reflect the strategic period of growth. According to the concept, the process of value creation of the enterprise is implemented in all areas of activity and requires a focus on identification of "driving forces". (Rappaport, 1999)
2. The concept of A. Black, P. Wright, J.E. Bachman based on free cash flows takes into account the transition from strategic factors influencing the value (macro-factors) to operational factors (micro-factors). The model is based on the stratification of factors in the context of the key aspects of a common platform for the value growth (the rate of growth in sales revenue, additional investments in current assets, additional investments in fixed assets), profitability (cash operating margin, income tax rate to be paid in cash) and risk (cost of capital, the duration of the increase in value). The concept takes into account financial factors as well as operational and strategic factors of value creation. (Black. A., Wright P, Bachman J.E., 2000)
3. The concept of T. Copeland, T. Koller, J. Murrin determines the value of the company in terms of the potential growth and value of existing assets. According to the concept, the value of the possible growth of the company is determined by such elements as: the profitability of capital (ROIC), the value of net investment (the investment rate, the operating profit after tax), the forecast period and the weighted average cost of capital (WACC). The most important generator of value is the profitability of invested capital, the weighted average cost of capital and the net investment required by the increase. They provide a basis for estimating the development of free cash flows, and as a result the future value of the company. (Skoczylas, 2004)
4. The concept of T. Copeland and J. F. Weston is based on the expected growth rate of sales, sales stability in the future, the structure of assets in the company, control and attitude of the owners and managers to take risks, the attitude of creditors in relation to the company and industry. (Copeland T., Weston J.F., 1988)
5. The concept of D. R. Emery and J. D. Finnerty takes into consideration the company's risk at the operational level, the company's position in the market, the level of achieved profitability, applied accounting principles, the value of operating cash flows, flexibility of financing development of the company, the degree of financial leverage. (Emery D.R., Finnerty J. D., 1994)

6. The concept of T. Gunther takes into consideration a three-step approach to the value based on the value of the entire company, the value of individual business units and the value of individual business units in a particular year. (Skoczylas, 2004)
7. The concept of S. Nahotko is based on factors dependent on the management of the enterprise (e.g. profit generated by the company, the risk associated with the functioning of the enterprise) and independent from the management of the enterprise (e.g. interest rate, inflation, economic situation on the market). (Nahotko, 1988)

Traditional concepts of value creation of companies definitely have made an important contribution to the development of science in this field and make a contribution to the development of modern concepts. The value of the company and its creation in the traditional approach takes into account to a too much extent a unified range of the value creating sphere, based mainly on the financial determinants.

### **3. CHALLENGES OF SCIENCE IN THE FIELD OF VALUE CREATION OF THE COMPANY**

Contemporary challenges of science in this field should not rely on the negation of the analyzed approach, but rather on its improvement. This weakness is evident even in comparison with current needs and realities of capital markets. Studies carried out in this field<sup>1</sup> show that market participants expect an increasing range of information that allows to formulate a view on the company value and factors which determine its level. Increasing the range of information disclosed by companies is a determining factor for increased transparency of their operation and presentation of a true and fair view for the interested parties. It brings several advantages among which should be emphasized: increasing the reliability of companies and improvement of investor relations; increasing the likelihood of making rational investment decisions, increasing access to more liquid markets with smaller changes in prices between transactions; a more efficient allocation of capital, reducing the risk of engaging capital (lowering the cost of obtaining capital); reduction in volatility of share prices; reduction in market uncertainty.

So far disseminated traditional theories of value creation based primarily on the tangible generators of the value are not always useful in the recognition of "true" value of the company. Although these concepts are universal, they are limited to the traditional model of the enterprise, functioning in a traditional model of the economy.

Business practice forced to focus on the intangible factors of the value. Their consideration in the value creating process corresponds to the modern trends of research in the field of creating value. Recognition of the importance of intangible factors of value creation has resulted in the emergence of new concepts, or the elaboration of models that take into account "soft" value generators. The concept was relied on this important intangible aspect of the company functioning by R. S. Kaplan, D. P. Norton, who in addition to the financial aspect of value creation, also took into account the intangible factors, i.e.: the aspect of customers, the aspect of internal processes and the aspect of learning and development. (Kaplan R.S., Norton D.P., 2001) Also R. Boulton, B. Libert, S. Samek indicate the intangible generators of value of enterprises in their concept, in the developed Model of Value Dynamics, where in addition to traditional factors influencing the value they point out to three other

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<sup>1</sup> Research of Jenkins Commeete (American Institute of Certified Public Accountants – IACPA) (Improving Business Reporting – A Customer Focus, Special Committee on Enhanced Business Reporting, American Institute of Certified Public Accountants (AICPA), New York, 1994); Ernst & Young, (Measures that Matter, Ernst & Young LLP, 1997); Corporate Edge ([www.corporate-edge.com/news/press](http://www.corporate-edge.com/news/press)); PricewaterhouseCoopers (Value Reporting Revolution, Moving Beyond the Earnings a Game, John Wiley & Sons, Inc. 2001; *Corporate Reporting – a time for reflection. A survey of the Fortune Global 500 Companies narrative reporting* PwC, April 2007, p. 9; *Show me more than Money. Assessment of how prepare companies for the business review* PwC (<http://www.pwc.com>); Polski Instytut Relacji Inwestorskich [Polish Institute of Investor Relations] (<http://www.piri.pl>)

categories of assets that contribute to value creation in the new economy: employees and suppliers, customers and organizational assets. (Boulton R., Libert B., Samek S., 2001), Modern concepts of value creation of the company were developed also by: E. Northon (1991), D. Walter (1997), Y. Allaire and M. F. Firsirotu (2000). Considering the current concepts of value creation of the company, they cannot be embedded only in the convention of intangible factors. The achievements of science in this field indicate the simultaneous need to take into account in the value creating process both tangible and intangible factors.

When making a synthesis of conceptual and terminological scientific achievements in this field, it can be seen not only the lack of standardization of terminology, but also gaps involving the deficiencies in identification tools, not only the individual factors of value creating, but also their scope in the process of value creation of the enterprise. For the development of modern theories concerning the value creation of the enterprise, the concept of knowledge-based economy (KBE) is significant. It should be noted that in the conditions of KBE the shift of paradigm of enterprise value is observed, and value creation becomes the primary objective of this concept. Also in the case of modern concepts of value creation, science had to adjust to the needs of business practice. Highlighting the value creating sphere based on an intangible factor shows that science recognizes its importance in creating and developing theories based on the creation of value, however there are still areas within it, requiring the systematic conceptual and modelling improvement. An example of these areas is certainly a broadly defined relational aspect, specifying not only the relationships with customers and other stakeholders, but also emphasizing cultural and ethical aspects. Within the research value creating factors were categorized, relevant to the development of the modern enterprise, but management models within particular value creators were not fully developed. Thus, the challenge for modern science in this regard is not only the creation of value in real dimension, measurable but also communication, determining relationships and connections with stakeholders, which often determine the directions of development of enterprises.

#### **4. RESEARCH HYPHOTHESIS**

Taking into account the scope and nature of the problem in order to conceptualize a research project, the main hypothesis is formulated that multi-faceted value creation of a modern enterprise<sup>2</sup> in dynamic economic and social environment (at the level of relations with a broadly defined stakeholders) contribute to a real increase of its value only in the case of a proper identification of the value creating factors. For the purpose of verification of the main hypothesis tangible and intangible generators are recognized as the value creating factors, and the current achievements of science in this field are taken as a base. Since the purpose of the study is not creating a new theory within value creation of the company, but rather an attempt to improve and adapt it to the realities of today's market. In order to verify the main hypothesis, additional detailed hypotheses are formulated:

1. Multi-faceted value creation of the contemporary enterprise in a dynamic economic and social environment contributes to a real increase in its value only in the case of a proper identification of tangible generators of value. Tangible generators of value of the company include, among others: the rate of sales revenue, operating margin, income tax rate, investment in working capital, investments in fixed assets, a level of cash flows, the duration of the increase in value.
2. Multi-faceted value creation of the contemporary enterprise in a dynamic economic and social environment contributes to a real increase in its value only in the case of a proper identification of intangible marketing generators of value, which include, among others: marketing knowledge, customer base, customer loyalty, distribution channels, the strength and value of relationships with customers, brand awareness and brand attachment, relationships with suppliers, contractors, local community; concession contract, franchise agreements; corporate reputation; alliances, or (and) the strategic network (relational capital).
3. Multi-faceted value creation of the contemporary enterprise in a dynamic economic and social environment contributes to a real increase in its value only in the case of a proper identification of

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<sup>2</sup> Not acting under a traditional model to benefit in the long term, but focused on achieving long-term benefits.

other (than marketing) generators of value, such as: human capital (including: know-how, education, professional qualifications, knowledge related to work, entrepreneurship, innovation of employees) and organizational capital (including: patents, copyrights, design rights, trade secrets, trade marks, brands, logos, distinctive services, management philosophy, management processes, information systems, network systems, organizational culture, financial relationships (process capital)).

4. Multi-faceted value creation of the contemporary enterprise in a dynamic economic and social environment is based on mutual synergy and convergence of value generators. Only a comprehensive and complementary approach to create the value of the company strengthens its information and communication potential.

#### **THE ORIGINAL CONTRIBUTION WHICH WILL BRING A SOLUTION TO THE POSED PROBLEM TO THE ACHIEVEMENTS OF THE SCIENTIFIC DISCIPLINE**

Such posed research problem allows for comprehensive and a multi-dimensional analysis of the problem of value creation of the enterprise. Although the value of the company and its creation are the subject of scientific research for centuries, yet the modern economy in a significant way exposes weaknesses of the theory in this area, issuing completely new challenges to science. The purpose of a proposed research project will not be the negation of the former unquestionable and certainly considerable scientific achievements in this area, but an attempt to improve them and their verification from the viewpoint of changes taking place in today's economy and business management systems, based on creating long term relationships with a broadly defined community of stakeholders. Value creation of the enterprise is a category closely related to the development of economic and social sciences, including management sciences. The comprehensive and multi-faceted approach to solving the posed research problem, including the use of the proposed modelling method allows not only to develop a methodological order in the process of value creation of the enterprise, the development of the concepts ex post, but mainly dynamic concepts ex ante. This constitutes certainly an important step in the development of science in this field.

The interdisciplinary research team, composed of persons representing different fields of science (accounting, marketing and management, finance, statistics and econometrics) in their approach to issues of value and its creation, provides a multidimensional analysis of the research problem. This structure of the research community forces to look at the problem of value creation from the perspective of various disciplines and thus helps to understand the changes occurring in the researched scientific field.

The purpose of the research project is to improve the scientific process of identifying the generators of company value creation, but also their mutual synergy and convergence. This may be a contribution to the creation of new theoretical concepts of modern enterprises' value creation, based on the isolation of not only individual factors, but their mutual connections in the form of value creation links.

The implementation of the proposed research project will be important for the development of theory relating to the issue of value creation of the enterprise. The proposed concept of the study forces to review and verify scientific achievements to date in this field in terms of the requirements of modern economy and the modern methods of the enterprise management. The critical analysis itself of scientific achievements in this field will not determine the cognitive value of the proposed research project, but even from this point of view may become a contribution to the improvement of existing concepts in conditions of a devaluation of the traditional model of the market and enterprises.

Building models of value creation of the company based on the tangible and intangible generators forces a simultaneous use of several tools that provide multi-faceted and comprehensive approach to the presented research problem. The development of many fields of science, including marketing, finance, accounting, aims at optimization of scientific concepts within value creation. The lack of comprehensive and multidisciplinary concepts is still noticeable.

The realization of research project will strengthen the scientific potential of its executors and may become important for shaping their future scientific careers. It should be emphasized that the value and its creation from the viewpoint of science are issues that require continuous theoretical conceptualization, and the dynamics of changes in the environment makes the development of the exposed field of research evolve toward an interdisciplinary direction. Undertaking tasks carried out within the proposed project could become a multi-faceted and multi-directional analysis of the problems of value creation.

### **THE PROPOSED METHODOLOGY**

The method of descriptive analysis is proposed to use as the first one, in respect to the current global and national scientific achievements concerning the issues of company value creation. Its result could be a terminology and conceptual systemization for tangible and intangible generators in terms of probability of their identification. Another important methodological tool in terms of identification of the generators, thereby creating company value is desk research. The implementer of study will identify the research problem and develop research hypotheses on the basis of companies listed on the Warsaw Stock Exchange, mainly due to the availability of data and the possibility of segmenting according to various criteria. At the level of desk research it will also be possible to use a comparative analysis. The implementer of study also intends to conduct quantitative and qualitative research. Their aim will be to obtain information of fundamental character. The results of qualitative and quantitative research will not be used for direct conclusions at the level of surveyed companies, but they will help to formulate general conclusions at the theory level relating to the issue of company value creation. The use of quantitative and qualitative research allows a preliminary estimation and testing of theoretical models. The main method of verification of research hypotheses, arising from the specific research problem should be modelling at the level of each stage of the research process. For the project purposes, it is assumed that the structural equations method could be used for modelling the impact of individual variables on the value of the company. The research procedure should be following:

1. Analysis of the research concept from the viewpoint of global and national scientific achievements (including comparative analysis and the systematization of the achievements) within studied issues.
2. Collection and analysis of national and international statistical data (including comparative analysis for the purposes of conclusions and modelling).
3. Preparation of research tools, including their verification.
4. Conducting pilot research.
5. Implementation of quantitative and qualitative research, along with statistical analysis.
6. Development of preliminary model solutions. Dissemination of research results at national and international scientific conferences and in journals of a national and global issue.
7. Preparation of the concept of a scientific monograph.
8. Publication of the monograph as a result of the implementation of the concept of the research project

### **CONCLUSIONS**

The conditions of modern economic development both in the context of the whole economy and individual entities strengthen the role of value creating determinants critical to the level of development of business entities. The dynamism of processes in the environment has forced the strong process of enterprises' adaptation to the changing conditions of business environment, thus enhancing the importance and scope of the value creating sphere. Taking into consideration the value creating sphere of the enterprise development and the factors influencing it, these aspects of the enterprise'

market activation in a broad sense should be pointed out which regardless of its size and the specificity of the sector have an impact on the achieved economic benefits. The most important include:

- market share,
- relations with stakeholder, including relations with key customers,
- building a position in the awareness of stakeholders,
- effectiveness of cash flows,
- the ability to raise capital,
- human capital,
- degree of innovation,
- brand,
- patents,
- possessed distinctive competencies,
- communication skills.

Thus, the value creating sphere will consist of internal company resources, as well as possessed by a particular entity abilities to adapt to changing environmental conditions, which affect directly or indirectly its value. Without doubt, the value of the company today is one of the most important factors leading to the quantification of its economic strength and market position. However, it should be noted that from the point of view of modern science it is not a clear conceptual category. The dynamics of changes and a wide but often inconsistent range of the value creating sphere poses to science many challenges related not only to the measurement of value, but mainly to its creation. The former great scientific achievements in this field not only confirm the importance of the issue, but also its multi-aspectness and complexity. The pace of economic changes forces science to focus on the problem of value, which is still based on the ex post rather than ex ante concepts. The challenge of modern science is the creation of the concept which not only improves the existing reality, but also allows its improvement in the future, which from the point of view of the concept of value creation of the enterprise is a major challenge for science. Using the method of modelling allows a multidimensional analysis of the research problem, while maintaining the methodological order. The comprehensive and multi-faceted approach to solving the posed research problem, including the use of the proposed modelling method allows not only to develop a methodological order in the process of value creation of the enterprise, the development of the concepts ex post, but mainly dynamic concepts ex ante. This constitutes certainly an important step in the development of science in this field. Building models of value creation of the company based on the tangible and intangible generators forces a simultaneous use of several tools that provide multi-faceted and comprehensive approach to the presented research problem. The development of many fields of science, including marketing, finance, accounting, aims at optimization of scientific concepts within value creation. The lack of comprehensive and multidisciplinary concepts is still noticeable.

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