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INTERDEPENDENCE OF BUSINESS VALUE COMPONENTS IN VALUE CREATION AND VALUE CAPTURE CONCEPTS[1]

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Abstract

Modern economic concepts are focused on sustainable business models where key processes and resources contribute to a company's value creation and capture. It is important to notice the existence and the interdependence of the three value categories in this process: value in use, shareholder value and shared value. This process is manifested with the ability to create future cash flows based on strategy and business excellence, capital structure, optimal shareholder value, as well as competitiveness of a company in advancing the economic and social conditions in the communities in which it operates. Such a sustainable system of value creation and capture is based on trust, cooperation and responsibility.

The value in use category is presented in this paper through combination of the return on existing assets and new investments evaluation. Shareholder value category implies the increase of equity market value, dividends paid during the year, other payments to shareholders and outlays for capital increases. Connection of social needs, business opportunities together with corporate assets and expertise form the basis for the shared value component.

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Based on the essential parts of the aforementioned value categories, the authors propose a conceptual model for value creation and value capture. This approach emphasizes the connectivity of company success with social progress.

Keywords: *value creation, value capture, value in use, shareholder value, shared value*

JEL Classification: G32, L21, M10

1. INTRODUCTION

The company that creates value can be defined as one in which the management manages to integrate the interests and actions of all participants interested in the company's business processes. These are primarily the owners, managers and employees, as internal creators of business processes, and customers, suppliers, creditors, as well as the entire community in which the company operates as external participants.

Creating value for the company is achieved by optimizing the system of business performance and business models which are aimed at achieving sustainable competitive advantages and operational objectives with the support of optimal capital structures.

Capital is the input entering the system of value creation, which, through assets and business activities and interactions, is transformed into output business results. The business results, in short, medium and long term, either create or destroy value for the company, the business process stakeholders, community and the environment (EY, 2013).

The goal of optimization within the process of value creation is to provide consistency between operating, investing and financing activities. Such a system should result in a positive sustainable cash flow that exceeds the cost of capital. The essence of the strategy in the value creation process is to harmonize a series of activities, from procuring raw materials to satisfying the end consumer, which will allow the creation of a new product or service in the future. The value is captured by retaining part of the benefits derived from these activities for the means of further development and operation (Chesbrough, 2007).

Value capture is primarily related to the allocation of business profit, which should ensure conditions for future production or provision of services, ensuring thus sustainable operations and meeting the expectations of all participants in the business process.

Therefore, the control points in the process of value capture are related to the organization's focus on new technologies, intellectual capital, ownership, brand creation and so on. The ability to develop implies a balance between the key potentials of existing resources and processes (Bowman & Ambrosini, 2000).

According to Hamel (2000), modern era requires business models in which value creation and values capture occur in business networks that include suppliers, partners, distribution channels, as well as associations that expand access to resources (Zott et al., 2011).

Resulting from the above mentioned, there is a need for the analysis, research and appropriate defining of value creation factors and their interdependence. Therefore, within this paper, the authors define the basic value concepts and propose a conceptual model with the purpose of identifying the elements that contribute to value creation. The proposed model is based on value preservation and business sustainability.

2. BASIC VALUE CONCEPTS IN VALUE CREATION AND VALUE CAPTURE

A company as an asset for itself has no value, unless it can generate profit for the owner. Therefore, in simplest terms, the theory which surrounds value interests in business operations depends on the future benefits for its owner (Brlečić Valčić & Crnković-Stumpf, 2013). In this context, the value of a company can be observed as an estimate of the future benefits that a company, as an asset, can produce for its stakeholders and the needed rate of return at which this future benefits are discounted to present value (Brlečić Valčić & Crnković-Stumpf, 2013). Creating and capturing a company's value can be seen through several value concepts depending on the stakeholders in the value process.

The first value concept refers to the stakeholders who are directly involved in the business process and the achievement of business results i.e. value in use.

Value in use represents the possibility of creating future cash flows. It reflects the value for employees, customers, suppliers and owners, recognizing the extent to which assets contribute to the company in terms of achieving positive business results. However, the essence of this concept are not only the assets contributing to positive business processes, but also the value of each individual factor in these processes that contribute to value creation, as well as their interaction.

For example, a company's collaborative relation with its buyers and suppliers can lead to value creation and excellent business performance of all participants in the business process. Increasing the total relational value created in such a relationship, results in a share of value capture for all participants (Miguel et al., 2014). The specificity of these relations in the context of value creation is mainly reflected in the mutual access to resources, since value is created through the integration of resources, and affects the mere nature of the system by defining the course of changes in the context in which value creation will create processes that will occur in the future (Corsaro, 2014). The complexity of this process affects and is affected by social and economic exchange (Corsaro, 2014).

Value creation can be seen as the ability of companies to understand and meet the needs of consumers by developing superior solutions. In this aspect, suppliers participate in value creation as value facilitator, value advisor, value organizer, value amplifier, and/or value experience supporter, while customers as co-diagnosers, co-designers, co-producers, and co-implementers (Aarikka-Stenroos & Jaakkola, 2012).

Value capture can be conceived as the outcome of managing customer as assets. Risks and assets, according to some authors, are the key aspects of value capture (Nenonen & Storbacka, 2014).

On the other hand, the way in which employees are treated results in value creation through their business performance. Allocation of a part of retained value for creating better working conditions, further training and new intellectual capital provides the creation of value in the future.

The value of the company's management is viewed in set business strategies, achievement of set objectives, management of business processes, resources and employees management, as well as the management's liability in these actions.

Therefore, the essence of creating and capturing value in use is the survival and continuity of business operations i.e. the ability to create future business results. In this context, the objective value, as a real independent interpretive value, can be formed based on the value of the substance or the reproductive value. A company's value is long-term when average operating expenses become commercially justified and determine the value effect (Koletnik, 1991).

The second value concept is shareholder value i.e. the value from the capital (equity) market value aspect.

The current market value is closely related to the concept of value in use, and in the context of value creation depends on:

- strategy and business excellence created through internal improvements;
- conclusion and termination of partnership (acquisitions and sales) that create improvements caused by external action;
- capital structure;
- optimal shareholder value that contributes to the positioning on the financial markets;
- ability to create greater value for shareholders.

However, shareholder value is not the same as the market value of equity. Shareholder value is created by increasing the market value of equity, dividends paid during the year and other payments to shareholders and it is decreased by increasing company's investment in capital expenditure and the conversion of convertible bonds (Fernandez, 2002). If shareholders decide that that they did not achieve sufficient value or return on invested money, they can decide to withdraw their invested capital. However, if the money which is not fully paid through the dividend is reinvested and thus creates new value, the relationship between the management and shareholders can improve. Added shareholder value that the shareholders gained can also be reinvested in the purchase of new shares of the company.

According to the shared value concept, value is created and accumulated in a joint system made up of companies and communities in whom the companies operate. Such system of creating and preserving value requires development of new skills and knowledge by the company's management, but also the ability to act within profit and non-profit boundaries. The creation and preservation of value within such a concept brings benefits to all participants in this process through the improvement in terms of: living standard, community self-sustainment, resource conservation, work/life balance, economic contribution, stakeholder trust, reduced business risk and enhanced business opportunities, obtaining and maintaining licences for operation and growth, operational performance and efficiency, attraction and retention of workforce, maintained security of operations, ability to strategically make long term plans and brand recognition and reputation.

The social value in the shared value concept refers to the dialogue between economic organizations and companies in the context of creating a modern economy (Santos, 2012). This concept emphasizes that there is no duality between the economic and social component of value.

3. CONCEPTUAL MODEL OF VALUE CREATION BASED ON VALUE CAPTURE AND BUSINESS SUSTAINABILITY

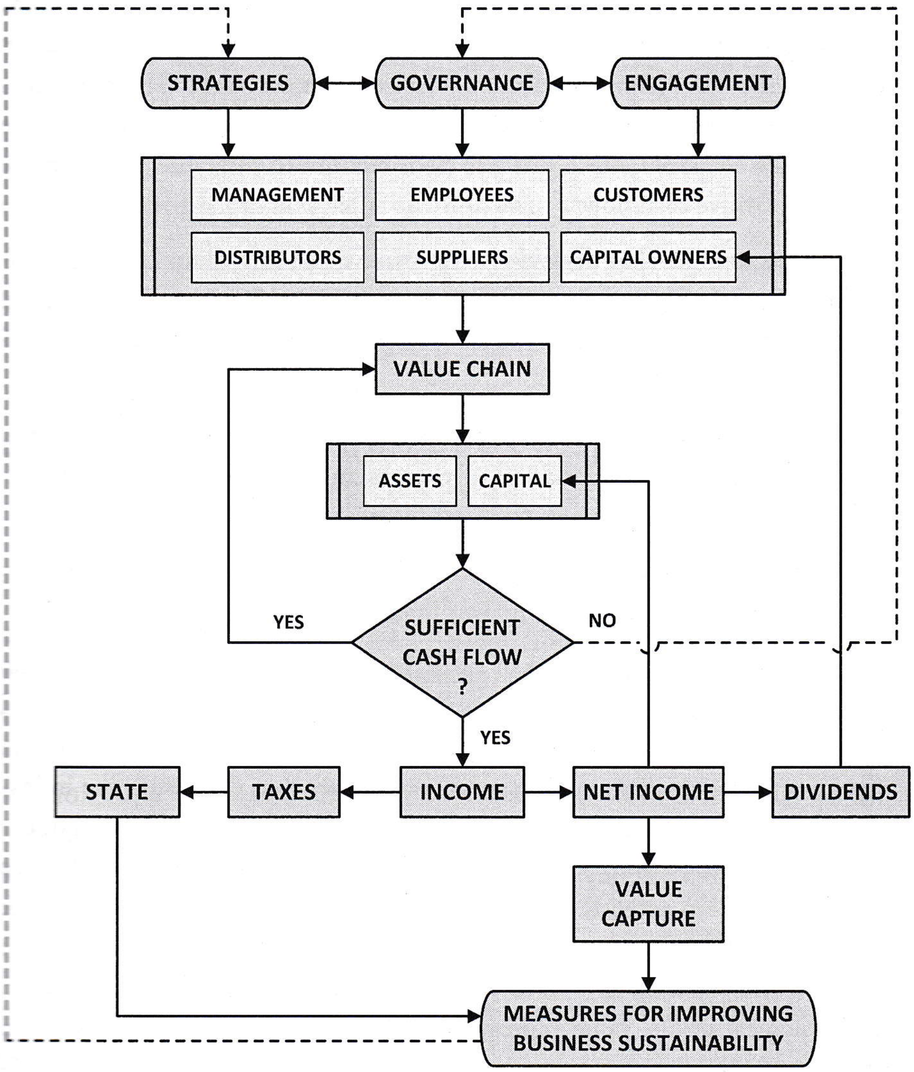
The central focus in value analysis is put on the manner in which the company shares the created value between interested participants in the value chain. The basic idea on how to divide the value among the various users in the value system is presented by authors in (Garcia-Castro et al., 2013), where value creation is represented as a system on a scale between willingness to pay and opportunity costs. The subsystems include price categories in view of the remaining profits and interests of the owners who finance the capital i.e. the costs which are made up of taxes, top management salaries, labour costs and costs of materials and services. On the other hand, value users are defined as consumers, providers of capital, government, management, employees and suppliers. When talking about the concept of value creation, authors emphasize that value is not only that positioned towards capital providers, but towards all participants in the value process. Therefore, in order to create, but also capture value, it is necessary to define all users of value in the value process and their relationship with the value. In this context, business results are efficient if there is a maximum possible realization of all value chain users in created value. Added value, or the total amount of created value, will be lost if a group of value creators does not participate in its further creation (Chatain & Zemsky, 2009). Therefore, there is a need for an optimal allocation of created value in the value chain as well as for the understanding of all stakeholders of the level of value accumulation per group, in order to enable its further creation.

The proposed conceptual model of value creation based on value capture and business sustainability is shown in Figure 1. The inputs within the model are strategies, governance and engagement (Two Tomorrows, 2011). It is important to emphasize the mutual interactions in these relations. Namely, strategies, in the context of alignment between sustainability and core business strategy focused on managing major sustainability impacts, opportunities and risks, affects governance, which represents the quality of top-level governance of sustainability issues and vice versa. Governance is, on the other hand, directly related to engagement which refers to the understanding and acting on process participants' concerns and vice versa. These processes directly affect the most important subsystem in value creation - the value chain. Business policies manage the value chain, from suppliers to distributors, including the product's life cycle. They are developed to enable business process participants to efficiently use assets and capital to create sufficient positive cash flows in the context of value creation.

Value can be created by a single participant or through collaboration of more participants in the value process. The sources of value in the collaborative process refer to (Austin & Seitanidi, 2012):

- complementarity of resource through the access to necessary resources for value creation, which is not possible or is difficult for a single participant and as such requires cooperation between several participants in order to create value for all stakeholders in the value process;
- nature of resources through cooperation between partners in the process of value creation that may contribute to generic resources i.e. those that each participant in the cooperative process possesses e.g. money, or common intangible resources, such as creating a positive reputation, knowledge, skills, infrastructure;
- use and direction of resources through the flow of resources that can be unilateral or bilateral, and can come from multiple sources within the partnership;
- linked interests through the achievement of equal frameworks of value creation so that different perceptions of value lead to an unfair value-exchange.

Figure 1. Simplified conceptual model of value creation based on value capture and business sustainability



Source: Prepared by the authors

In this way efficient positive business results are achieved, which after settling the obligations towards the state, are distributed to owners of capital or are retained.

The concept of value creation in the context of a sustainable business requires measures for the retention of the remaining profit and its allocation to funds for achieving procedures that improve business sustainability. Such allocations are necessarily linked to the strategies of those companies that start over with all value creation processes in a new business cycle. The strategy has to be changed when it is found that the achieved positive effects on the creation of cash flows in the system of value creation are not sufficient. Therefore, it is very important to constantly assess the value chains in order to determine the degree of each element's effect, but also their relation in the value chain, on the creation of positive cash flows.

The characteristics that drive the selection of mechanisms for capturing value include the definition of the mechanism, institutional frameworks, industrial characteristics, the characteristics of the company and technological characteristics (James et al., 2013).

The mechanisms that create value capture are: patents, secrecy, lead time, complementary assets, combination of patents and secrecy, and the combination of patents and complementary assets (James et al., 2013).

Institutional frameworks must ensure strength of intellectual property rights i.e. a concentrated ownership over intellectual property.

Competitive intensity, number of rivals, barriers to imitators, fragmentation of suppliers, rivals and buyers, signalization, technological standards, horizontal differentiation (differences in product features) versus vertical differentiation (differences in the quality and efficiency) are factors that constitute the industrial characteristics in the value creation mechanisms. The characteristics of the company within the mechanisms of value capture relate to the scale and scope of R&D, innovation activities, the ability to manage the patenting process, but also the scope of R&D technological specialization, in relation to the company's size, absorptive capacity, as well as the ability to acquire and use information. In technological terms, value capture is related to investments in innovation processes and product innovations, rapid or radical technological changes, complexity in generating intellectual capital and the utilization of processes.

The higher the created value of the company, the higher is the value for the state and society and therefore, the state, in the shared value concept, should create preconditions which will help the company to create value. This refers mainly to the interaction between state institutions and companies in realizing those activities which include measures for improving business efficiency. The measures by which the state can impact value creation and value capture relate primarily to satisfactory legal solutions for patenting innovations, obtaining licences for new investments, investment into universities in order for them to be able to effectively contribute to the business community, the formation of effective technological parks to enable open innovation (Gassmann et al., 2010), co-operation between universities and companies in finding and testing new technologies and business processes, better education of future employees tailored to meet company requirements, further training or retraining of employees, tax relief for investment in new value creation etc.

The model of the value creation system based on value capture in the context of business sustainability is a constant dynamic process in a company's life cycle. This is reflected in the constant connection between all elements of the system.

4. CONCLUDING REMARKS AND GUIDELINES FOR FUTURE RESEARCH

Creating and maintaining value in the context of sustainable business depends on strategies, governance, engagement, value chain and innovation. Strategies and business policies that are aligned with the operational purpose and capacity of companies in a competitive environment ensure safe returns to shareholders, awards for managers and employees, but also provide for quality and excellence in the relationships with customers, suppliers and creditors. This, in turn, provides for expected future cash flow patterns. Value chains and relations within them are a central part of the value creation process.

Competitiveness between the value users in the value chain is always present. Value users are organized into certain subgroups and each group is trying to take advantage of and create the largest part of the value. The result of this competition is limited value capture by individual interest groups. Therefore, in a collaborative process requires organizational compatibility and focus on same goals.

By observing cash flows, as well as other operating results over a period of several years, and on this basis, projection of future results, conclusions are drawn about the benefits a particular company, through its business activities, brings to the stakeholders in the value process, based on which it is possible to determine the quality of business operations.

This paper presents a conceptual model of value creation based on value capture and business sustainability, as well as the factors participating in this system.

In order to further this research, the interdependence of participants in value creation should be analysed, as well as the impact of selected strategies and business policies on the value chain.

It is also important to further develop the shared value concept and acknowledge the importance of value creation and business sustainability for the state in which the company operates. It is only by investing into systems that help transform companies' retained value into new value creation that new value for the society is created.

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