VALUE CREATION AND DIFFERENT DIMENSIONS OF VALUE IN CORPORATE PRACTICE

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Abstract: *The purpose of writing this article is to present the company's value creation process, on the basis of the work of authors relevant to the subject. This study introduces approaches to understanding the basic objectives of the company, including the concept of dual value creation. Following this, I outline different dimensions of value, and describe the relationship between consumer value and shareholder value. From the perspective of the study, a relevant category of value is shareholder value, and this is given a detailed characterization and classification. The article is organized as follows. First, the value creation process is reviewed on the basis of work by the most prominent authors in the theoretical literature. In the following section I describe the company's main goal and the different value dimensions. I then turn to the characterization and categorization of firm value. Finally, in the last section I formulate my conclusions, in accordance with the works of authors I have studied, that the source of the firm value is derived from its operations itself, i.e. from the company's activities.*

Keywords: value creation, value chain, shareholder value, firm valuation

JEL classification: G32

1. The Process of Value Creation

"The process of value creation is the procurement, management and use of resources with the purpose of creating value for the consumer." (Chikán and Demeter, 2006:3) This definition approaches the concept and process of creating value from the perspective of the literature on management, more specifically production management, marketing and the corporate management; in other words, it defines the firm as an organisation which creates value during its operation, and which has as the main goal of its operation the satisfaction of consumers' demands.

In the approach followed by the article, however, this must be achieved in such a way as to increase the shareholder value as well; i.e. that value must be created for the shareholders as well as for consumers. This understanding of value creation is also reflected – among other things - in Chikán's (2003) work on the dual value creation.

Wimmer (2004), in connection with the creation of value, examines how performance measurement tools can be used to serve value creation. She concludes that it is necessary to understand the value creation process itself, and to understand the cause-and-effect relationships which could form the basis of support for effective and efficient operational decisions.

The strategic management approach of Bartek-Lesi et al (2007:282-285) analyses the achievement of the company's basic goals and the realization of its mission. Two main tendencies are identified, one being the acquisition of competitive advantages, the other, the increase in the value of the company.

Porter (1998a), in his theory of the value chain, focuses on the creation of value. In his opinion all companies carry out their activities in order to create value. These activities can be divided into two large groups; primary and support activities. Primary activities are involved in the physical creation of the product and its sale and transfer to the buyer as well as after-sale assistance. Support activities support the primary activities and each other by providing purchased inputs, technology development, and human resources, and various firmwide functions. The generic value chain is seen in the Figure 1. (Porter, 1998a:36-43)

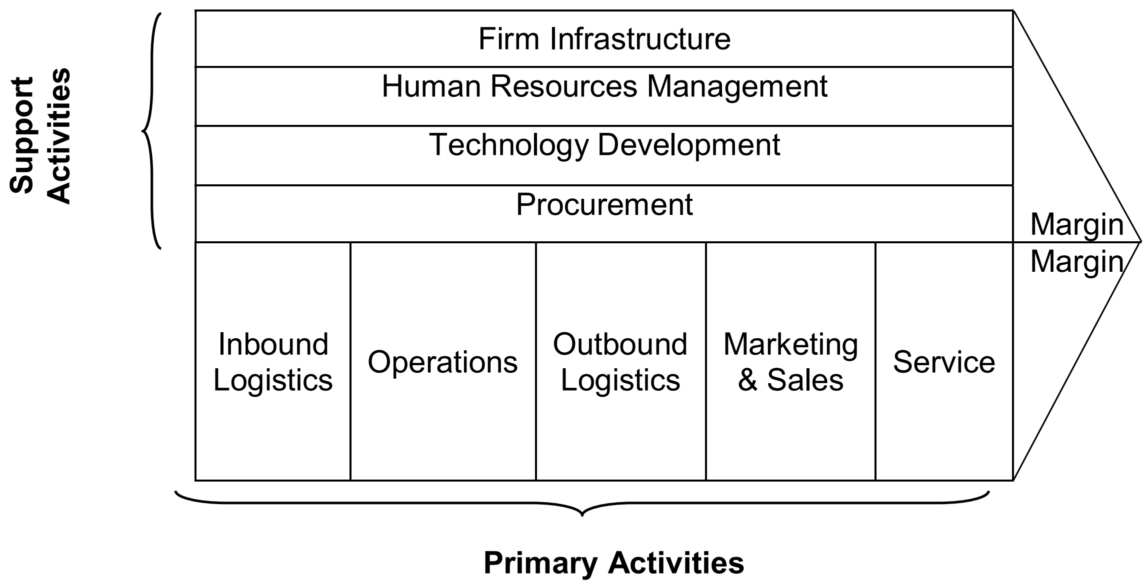

Figure 1. The Generic Value Chain
Source: Porter (1998a:37)

Individual actions alone can produce value, but the connection points between them are also important. Porter (1998a) points out that competitive advantage often derives from the relationship between activities, and not exclusively from the activities themselves. The value chain, as a chain of companies using analytical tools, can acquire the capacity to achieve competitive advantage through identifying and developing activities. In firm and corporate advisory circles the value chain is a concept which is very much appreciated.

Czakó wrote an excellent analysis (2003) of the concepts formulated by Porter, and their theoretical and practical problems. Among her critical remarks, the author highlights that in Porter's works, the different sectors of industry are not sharply demarcated, and these blurred boundaries can lead to misunderstandings. In practice, there is not such a sharp boundary between the two general strategies for building competitive advantage as Porter emphasizes in his theoretical works. In addition, Porter does not take into account the organizational characteristics of the firm, its organizational structure and culture. Besides these criticisms, however, it can be said that Porter's concepts provide a framework for thinking which can be used to organize various pieces of information and uncover the logical links between them. Linking the creation of strategy to economic principles is the other merit of Porter's work, helping management science to develop into a more disciplined area of studies. (Czakó, 2003:8-9)

Copeland et al (1999:233-240) divided competitive advantages into three groups in terms of value creation. One source of competitive advantage lies in a combination of the price and characteristics of the product, which results in higher consumer value and which cannot be duplicated by other companies. These properties may be tangible or intangible. The second factor is the realization of cost advantages over the firm's competitors, while the last is an effective investment of capital. By identifying the sources of competitive advantage, and through the analysis related to this process, the company can judge its place in a given industry, and determine its own value-creating ability by comparing the return in the industry sector with its own return.

Productivity expresses the ratio of output to input. Productivity can be increased if more output per unit is achieved than input per unit, or when less input is required to achieve the unit output. If a company is able to achieve this in the long run, it produces value, which is also a source of competitive advantage. (Copeland et al., 1999)

It can therefore be concluded that the creation of value and competitive advantage are closely related; the company can retain its competitive edge if it can realize greater value in the market when compared to competing companies. The leading strategic trends of the 70s and 80s basically focused on obtaining and retaining competitive advantage.

According to Porter (1998b), competition in a given industry depends on five forces. These are: threat of *New Entrants*, the threat of *Substitutes*, the bargaining power of *Buyers*, the bargaining power of *Suppliers*, and competition between competitors in the industry, the *Industry* Rivalry. The combined strength of these factors determines the industry's profitability and its ultimate profit potential. Profit opportunities are not the same in all industries. At the time the strategy is determined, the strongest competitive factor plays the crucial role, in such a way as to ensure sustainable competitive advantage for the company.

Porter (1998b) believed there are three generic strategies: cost leadership strategy, differentiation strategy, and focus strategies. The given strategy can be effective if the competitive advantage gained survives for the longest possible period. This requires that the company's competitive advantage is built on basic skills that

cannot be duplicated by competitors.
The real source of competitive advantage is the management's ability to implement the corporate merger of technologies and expertise in its basic capabilities, i.e. it is the basic capabilities which will ensure the company's long-term competitive advantage.
On the one hand, the basic skills include coordinating the technological trends, the organization of work processes and value creation, all of which are of paramount importance in carrying out corporate activities. On the other hand, basic skills include communication and participation, which extend to all corporate functions and to different levels of the workforce. The value of the core capability increases with use, and must be nourished and protected.
To determine the core competence of the corporation, three criteria must be considered. The first is that the core competence should provide access to different markets. The second is that the core competence should contribute greatly to consumer value, and finally, that competitors can only copy the core competence with great difficulty. (Prahalad and Hamel, 1990:83-84)
Companies generally can remain at the forefront of their business on a global level with five or six core competences, and these competences take ten or twenty years to build. At the level of core competences the company aims to build a world leading role in the design and development of certain kinds of product properties.
Managers should focus on creating a strategical framework which extends to the whole enterprise, which may be a route plan for the future which defines the core competence and the technology which supports them. If the entire organization is familiar with the strategic framework, the resource allocation priority will become clear, and so will itself determine the company and its markets. Competitors cannot easily replicate this kind of strategic framework. In order for the company to realize a return in excess of the cost of capital, it must create and maintain competitive advantage. The core competence is an enterprise resource which the management can transfer at any time.
Prahalad and Hamel (1990) compared a diversified company to a tree where the root system is the core competences, the trunk the core products - which are the tangible embodiments of the core competences -, the smaller branches the business units, and the flowers and the fruits the end products.
Once a company creates value through value-creating processes, it is important to clarify the forms and dimensions of this value and the closely related dimensions.

2. The Dimensions of Value

As noted at the beginning of the study, just as with the concept of value creation, the concept of value also appears in several disciplines, with various aspects of value being placed at the center of the analysis. Therefore, I consider it necessary to address the values dimension, where we must distinguish between consumer and owner value.

The dimension of consumer or, as Kotler and Keller (2006) put it, customer, value appears from the marketing side, that is, it is the consumer's subjective opinion of the extent to which the particular product or service meets his/her expectations, and satisfies his/her needs. (Chikán, 2005)

Porter (1998a: 8-9) also approaches the concept of value from the consumer side. In his view, value is what buyers are willing to pay for specific products or services, i.e. the firm will create value if it meets consumer needs.

Customer satisfaction and customer value can only represent value for the shareholders if the company's return is in excess of the cost of capital. Thus, owner and consumer value are closely related, which leads, through the dual dimension of the concept of value creation, to shareholder value. (Máté et al., 2016)

Chikán (2003) sees the creation of dual value as a condition for the successful operation of the firm. By creating dual value we create value for consumers and also for the owners of the company, so we simultaneously realize the criteria of satisfying demand and profitability, and the consumer and owner dimensions.

According to the concept of shareholder value, the primary objective of the company is to maximize shareholder returns in accordance with the law, which involves not short-term profit maximization, but long-term value maximization. Rappaport (1998) also notes that shareholder value cannot exist without consumer value.

According to Black and his co-authors (1999), in the value creation stage the company creates value for customers such that it also has a return in excess of the cost of capital. The resource allocation, financial management, risk management and other business decisions taken by managers all ensure the preservation of the value created. Finally, in the value realization stage, after investments, the owners realize gains based on the value of dividends and gain on exchange rate movements. These phases will accompany the value stream and ensure the relationship between customer value and shareholder value. (See the Figure 2.)

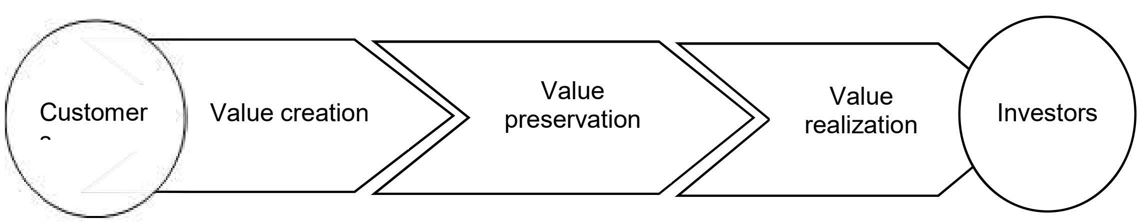

Figure 2. Relationship between the customers and the investors through the SHV model
Source: Black et al. (1999:101)

According to Black et al (1999), shareholder value is nothing other than the difference between the market value of corporate and the market value of debt. “A company will only be able to increase the value of shareholders’ equity if the return on equity exceeds the cost of equity.” (Black et al., 1999:37)
By analyzing consumer value and the shareholder dimension it can be established that although the various management disciplines represent different positions in relation to value, they are, however, in agreement that value is extremely important, and that an increase in owner value can be achieved through increasing consumer value.

3. The Value of the Firm

After the presentation of the values dimension, the article will concentrate on the relevant corporate values, and their conceptual bases and different categories.
“… value is like beauty: ...it manifests itself in the viewer…” (Pratt, 1992:12)
Company value does not always have the same meaning for all market actors. For the buyers of the company, the most important aspect is how cash flows can be realized after a future acquisition of the company, while the seller is interested in the present, current value of the company’s total assets. (Tóth and Herczeg, 2015)
Various economic situations can create an opportunity to determine the value of the company. Accordingly, the assessment can be carried out at specific times, in a specific transaction situation, and can also be carried out continuously, which usually serves to meet the demand of the company’s internal stakeholders. An ongoing evaluation can verify whether the company’s strategic goals are met, monitor the continuous evolution of shareholder value, and provide information necessary for taking a given decision. (Fenyves et al., 2015)
The value is substantially influenced by objective factors, but is also affected by subjective elements: the character of the evaluator, the economic environment, and the decision-making situations. Several value categories can be distinguished, depending on what the company aims to achieve.
Pratt (1992:11-17) differentiates six different value categories and concepts of value:

(1) **Real market value**, defined as the cash or equivalent instrument price at which the customer is willing to buy, and the seller to sell, the given property voluntarily when in possession of adequate information. The benchmark used in all official business in the USA, it shows the generally accepted legal measure of value.
(2) **Investment value, intrinsic value, value based on fundamental variables,** are terms which can be used interchangeably, and represent the sum of the present values of expected cash flows. The fact that the value so determined is equal to the real market value depends on what assumptions the operators have made in estimating future profitability, risk-

taking and the tax situation.

(3) **Fair value**, a common value standard, which is used on the basis of the experience of illegal assessments. If minority owners were forced to sell their stake below price, they have the right to value up their shares and receive fair value for them.

(4) **Value under the going concern concept** does not represent a rule of valuation, but simply indicates that the business is assumed to operate, so there is no risk that it will be suspended, or that anything will upset its operations.

(5) **Liquidation value**, the opposite of the value under the going concern concept. The net amount, or the net asset value, which may be realized if the company ceases its business.

(6) **Book value**, an accounting concept, not a valuation. It corresponds to the net value of assets in the balance sheet of the company.

According to Bélyácz (1995:10-11), among the various categories of value the market value and the *intrinsic* value it uses are relevant. Assuming an efficient market, these two values are equal; however, in only a few cases can the market be deemed effective, and the equality of the market value and the intrinsic value is only realized in the long run.

The market value and the intrinsic value of the company's capital can be measured in cases where the company is on the market, and the sale and purchase is made. The actual market value can occur only when the transaction is completed. In a case where the transaction does not occur, then the market value is no more than a reasonable estimate. Since the sale and purchase does not always occur, there is a need to continuously estimate the intrinsic value, what Bélyácz (1995:11) refers to as the deeper shelf of valuation. If the transaction occurs, then prior to its completion both the buyer and the seller carry out estimates to determine the intrinsic value of the asset or company. Market operators make their decision in the knowledge of the intrinsic value. Bélyácz (1995:15) distinguishes three rules in this regard:

(1) The purchase rule; when the market value of the asset is lower than the intrinsic value, then the device is considered to be undervalued, and it is worth purchasing it and then selling it when the market price rises.

(2) The sales rule, which means that the market price of the asset exceeds the estimated intrinsic value, in which case the asset is overvalued, and must be sold.

(3) The not-worth-trading rule, meaning that the market price of the asset and the intrinsic value are the same, and equilibrium is reached when the intrinsic value estimate was accurate, and profit cannot be gained through the transaction.

In relation to intrinsic value as the centre of motion of market value, Bélyácz (1995:14-16) presents a dynamic model in which both changes in supply and demand, and the risk of fluctuations affect the value of the given asset. This process requires constant evaluation, i.e. if any circumstances change, the evaluators must constantly review them.

Ulbert (1997:99-114) also supports the hypothesis that the intrinsic value of the company must be dealt with as the centre of motion of market value, i.e. the intrinsic value can best be determined if the effects which divert the market value from the intrinsic value are examined. According to his argument, corporate value determined by the values of assets and of yields has some relation to the market value, the intrinsic value is at the centre of motion of the market value, and cannot divert from it in the long-term. Since there are no algorithms that accurately determine intrinsic value, and explain the closeness of the relationship between the intrinsic market values, Ulbert (2011) logically proves the hypothesis is correct, and focuses on the factors that explain the differences between the intrinsic value and market value. These factors are divided into two groups: synergy effects and the goal hierarchy of the customer, as well as the international purchasers of firms.

The heterogeneity of the customer's goal system is emphasized by the representatives of the non-monetary school, according to whom monetary factors do not always dominate when a decision is made. A typical example of this is strategic acquisition, when the intrinsic values determined with the help of the asset based or the income based method only provide auxiliary information for decision-makers. In this case, elements of the goal hierarchy can include the strategy of expensive sales and cheap purchases, the acquisition of competitors, the liquidation of the company, currency manipulation on the stock market, increasing market share, as well as other targets (Ulbert, 1997:103). The synergy effect is also related to the customer's goal system, i.e. the factors which emerge after the firm has been purchased.

The international purchasers of the firm have special characteristics, due to the increase in risk. These risk elements include currency risk, political risk, and risks associated with environmental changes. (Ulbert, 1997:107)

In a subsequent study, Bélyácz (2011:13) concludes that a separation between market value and intrinsic value is unthinkable. Sustained and significant differences between the two values do not occur on a regular, but on an ad-hoc, basis; in the long term the market value always converges on the intrinsic value determined by the firm's fundamentals.

In their writings, Bélyácz and Kovács (2010) present a new approach to the relationship between intrinsic and market value. The authors identify a difference between the two values, the reason for which can be seen in the role fulfilled by the intangible assets of the firm. On the basis of these theoretical bases, the property elements which do not appear, or are not adequately presented in the balance sheet, can be attributed to surplus value, which is the source of corporate competitiveness, operations and financial performance. Juhász (2004) dealt with the issue in his doctoral thesis, in which the difference between the market value and the book value is explained; he comes to the conclusion that the differences are derived from the firm's off-balance sheet items.

4. Conclusions

This study has presented the value creation process and the basic purpose of the firm, on the basis of the works of relevant authors in the field. I have examined the concept of dual value creation, and the relationship between customer value and shareholder value. The article has also characterized and subdivided in detail the category of shareholder value, which is the relevant category of value from the point of view of this study. On the basis of the literature I have studied, and in accordance with their findings, I have come to the conclusion that the source of corporate value itself is derived from the operations of the company's activities, and the acquisition and maintenance of competitive advantage.

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