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Value(s) Based Management

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INTRODUCTION

Managing an organization from the shareholders' value perspective has been called a Value Based Management (VBM) approach. It has been one of the leading concepts in management since '80, 20th century. The idea has been used and widely implemented by advisory firms in some companies, including big, global ones. There has been even many successes announced in making the concept work and have been found connections between company's successes in sales, turnovers, increase of market value, surviving on a market etc. and pursuing VBM. Thus the full methodology has been implemented barely. It has the partly implementations' record mainly. However, the part realizations have been inculcate in numerous organizations making the idea one of the most influential on business that time. It is not that the concept disappeared and must be treated as a historical curiosity. The past time used is only to highlight it's changes over time.

New events and trends in the contemporary environment make the researchers, business people, advisors and others to revise the approach to the business presented by VBM. The changes make them also think about the future development of the concept. The general idea is still vital anyway! Shareholders and investors are strongly interested in the rate of return even though the approach requires profound changes. The managers are still challenged by the company's owners who influence their decisions. Whatever is told or written, the VBM made the concept of market and shareholders value being embedded in business. Nowadays one can't talk about the strategic management and managing any company disregarding it's owners.

Anyway, the approach to value based management and value creation need significant changes. The developing global economy, global down turns, maturation of markets, takeovers and consolidation undermined the trust into companies and invisible hand of a market as a solution to many market diseases. The economic slowdown of the beginning of the 21st century caused by the financial systems and accelerated by modern means of communication exposed its power in influencing the environment. A single consumer, stakeholder or other market actor may influence the entire system. The exclusive shareholders value focus seems to be inappropriate. It is more about the balance between the shareholders value and the other stakeholders value creation. In this way the concept of the shareholders value creation as a main goal for the company (in particular the stock exchange listed one) evolves into an idea of Values Based Management (VsBM). The VsBM is a different approach and contains not the financial or market value goals only. This concept is about finding the balance between interests of different stakeholders.

This study book is to present areas that have served as inspirations for birth and raise of both the VBM and VsBM concepts. The areas may also be used for further development of VBM and VsBM. The authors want to make the readers understand the factors influencing the evolution of the VBM approach. For that purpose there have been described some short cases on living companies and their problems in achieving the VsBM. The main goal of the book is to present the contemporary approach to the value of a company and the value creation.

First chapter has been devoted to definitions of value, consequences of choosing one type of the value among the plethora of them for the strategy, strategic goals and making strategy work.

Chapter two is to present the idea of a success of a company defined by its' top managers. Thus the success may be described in many different ways depending on the group of stakeholders being considered as more influential as all the others. It also depends on the perspective the decisions makers adopted.

Chapter three describes the context of the VBM and relates it to the stakeholders perspective. In this chapter one can find descriptions of the point of view depending on the particular group of stakeholders.

In the fourth chapter one can find the traditional approach to VBM. There are named some sources of value and ways they are evaluated and considered while applying the VBM idea into the real life.

Chapter fifth relates to possible evolution of the value creation in contemporary organizations. It presents the concept of business model as well as innovations in business models.

In chapter six authors ask the question on how to make the strategy work. In this chapter it is described the sales function of the organization as a way of the value creation.

Chapter seventh links the Value Based Management with the corporate social responsibility (CSR). It is presented the growing meaning of the CSR for companies and their relations with stakeholders. As authors, we assume the CSR starts to be significant in creating the market value of any company.

1. VALUE – THE APPROACH AND DEFINITION.

1.2. GENERAL OUTLINE

The value the Values Based Management roots is perceived in many possible ways. Residual, fair, intrinsic, book and many others reflect to different measures , different ways of managing business and different definition of a company's success. The crucial point here is to describe the approaches to values and show the differences in defining the term of value.

- General idea of value.
- Market value.
- Income value.

  Value management.

1.3. VALUE

The term value roots in market economy and is a subject of interest any time an exchange transaction happens. In this situation, a problem of quantitative product exchange relation arises[1]. It refers to the phenomena and things that have certain importance, essential for the interested. Although this term has an extensive history, it is not always understood in the same way by everyone in every situation. A wide range of well-known authors of economic theories refer to the term of value, inter alia V. Pareto, R. Valras, F. Quesnay, K. Marks, J.S. Mill, J. M. Keynes and many others. According to E. Kucharska - Stasiak[2], value is one of the most important, and at the same time, the most difficult to define concept in economics. This problem is related to the lack of the answer to the question whether there is value independent of people, stable, lasting and called internal value; or whether it is essentially a subject to people's various evaluations, activities and external factors.

Value, as the dictionary reads, is "how much something is worth materialistically" [3]or "an amount of money that something is worth"[4]. So the price of goods is only a monetary expression of their value. And so it is not a value as such, but just its measure. As S. Bailey claimed, value is not an independent and objective characteristic, but rather a ratio of how products sustain "showing similarity to

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[1] T. Budziak – *Ile jest warte przedsiębiorstwo*, Poltext, Warsaw 1990, p.11

[2] E. Kucharska-Stasiak, *Nieruchomość a rynek*, PWN, Warsaw 1997, p.75

[3] *Polish Language Dictionary* - Vol.III, PWN, Warsaw 1981, p.660

[4] *English business dictionary* - Peter Collins Publishing, Teddington 1990, p. 323

distance”[5]. According to Marxist political economy, value stands for socially necessary human workload expressed in the form of goods or monetary units[6]. However, without a doubt, the base for value's existence is the rarity of goods and their demand[7].

The above definitions are characterized by relatively high degree of generality, even though they become certain foundation for further reflection on this subject.

Company value can be divided into two categories[8]. Namely the value of components that make up the company as well as its value in use, and therefore the capacity of these assets to generate money or achieving goals.

The value of assets corresponds to the substance of company's assets. Its stocks, fixed or financial assets. Company's asset value is therefore a sum of these components and is usually not even the transactional price. This is because these components usually have the ability to generate profit and in the issue of company valuation, it is their utilization that becomes the key area of interest. Value in use is the "condition of existence of company's assets"[9]. Every investor asks himself a question about the rate of return on investment. Hence, the analysis of revenue in respect to the amount of invested capital becomes extremely important.

This approach, however, does not exhaust the ambiguity of the concept of company value. In fact, you can also consider the value in use, and thus the capacity of an organization to fulfill certain needs of an investor[10]. According to W. S. Jevons, "value depends entirely on usefulness"[11].

As D. Zarzecki writes, the replacement value is the ability to exchange some good for others. At this point we should differentiate between replacement value and use value. An asset with 'value in use' characteristics does not necessarily have to have characteristics of an exchange value; however, value in use is undeniably a prerequisite to replacement value. Therefore, the fact that an asset, or in this case an organization, presents a vision of achieving certain profits, is what decides about the

[5] M. Dobb - *Theories of Value and Distribution Since Adam Smith: Ideology and Economic Theory*. PWE, Warsaw 1976, p. 52

[6] Edited by Z. Łempickiej, H. Auderskiej i S. Skorupki, *Mały słownik języka polskiego* ,PWN, Warsaw 1968, p.879

[7] T. Budziak, *Ile jest warte przedsiębiorstwo*, Poltext, Warsaw 1990 p.11

[8] S. Nahotko, *Współczesne metody wyceny wartości przedsiębiorstwa*, TNOiK, Bydgoszcz 1998, p.26

[9] S. Nahotko, *Współczesne metody wyceny wartości przedsiębiorstwa*, TNOiK, Bydgoszcz 1998, p.26

[10] D. Zarzecki, *Metody wyceny przedsiębiorstw*, FRR, Warsaw 1999, p.22

[11] W. S. W.S. Jevons, *The theory of political economy*, London 1871, p.2

attractiveness and ability to be the subject of replacement[12]. As G. V. Smith and L. R. Parr state, value reflects any future benefits related to ownership and expressed through a specific sum of money[13]. In the theory of economics there is also the concept of natural value, meaning a value to which prices of various assets aim to be at[14].

Plurality and diversity of approaches to the definition of value makes it a problematic classification of its shots. Individual authors often introduce a number of assumptions and concepts appropriate only for their own research. Here, I would lean towards the classification adopted by D. Zarzecki. Namely, he forms a type of value definition based on work (D. Ricardo, K. Marks) and definitions that are based on certain rules individually viewed by creators of utility (A. Smith, L. Walras, V. Pareto and others)[15]. Utility, according to N. W. Senior, is not a characteristic of a given asset but rather an expression of a relationship towards people's distress or pleasures[16]. This was also confirmed by W. S. Jevons, who claims that both, “pleasure and distress are, without a doubt, the final element in the economic balance"[17].

W. F. Lloyd expressed value as a state of mind "always borderline between fulfilled and unfulfilled needs"[18].

W. S. Jevons was the first to use the term "marginal utility level" in reference to removable value. It should be noted that he used these terms interchangeably. He defined utility as an abstract characteristic, thanks to which a given product can become the subject of a transaction". He also argued that the utility of an asset is not its fixed characteristic but rather a characteristic resulting from buyer's requirements. The term "utility" has become extremely popular among terminology of economy. It is presented as the causative power of any patterns of consumption and investment. However, we should pay close attention to the theory of decreasing marginal utility. This correlation determines any decision-making processes, and thus has a significant impact on company's market value.

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[12] D. Zarzecki, *Metody wyceny przedsiębiorstw*, FRR, Warsaw 1999, p.22

[13] G.V. Smith, L. R. Parr, *Valuation of intellectual property and intangible assets* - New York 1993, p.140

[14] M. Dobb, *Theories of Value and Distribution Since Adam Smith: Ideology and Economic Theory*. PWE, Warsaw 1976, p. 52

[15] D. Zarzecki, *Metody wyceny przedsiębiorstw*, FRR, Warsaw 1999, p.23

[16] N.W. Senior, *An outline of the science of political economy*, London 1836, p.11.

[17] W.S. Jevons, *The theory of political economy*, London 1871, p.3 and the following

[18] W.F. Lloyd, *A lecture of the notion of value*, London 1834, p. 9-16

Economic concept of value refers directly to needs and to satisfying those needs. This approach includes both, axiological and quantitative characteristics of the term. However, to be able to measure it, appropriate criteria are necessary in order to state that an object is undergoing valuation as well as it has a certain amount of characteristics recognized as valuable. The economic value of one item is expressed through another item. An opinion is being formed on the basis of comparisons and determining a degree of differentiation. Therefore, there is a system of relations between the value of individual objects and items, and a slight change in any of the elements can disrupt the balance and cause new reviews. It is not so much about the value relationship of one product to another, but rather about comparing it with the entire system.

During the 70s of the twentieth century, it was considered, that the efforts made to find the objective, real and sole value are doomed to fail and be useless[19]. This does not mean, however, that this issue is resolved. In the approach proposed during that period of time, the term of value was understood as the objective value of an item, and that it may differ to each participant of the market. It also depends on things like its purchasing power, position in the market, the level of acceptable risk or future expectations.

Standard value is the specific definition of searched value. It forms the answer to questions about the purpose of estimating value and about who are the recipients of value. There is no doubt that this has a significant influence on estimation methods selection. Usually standard of value boils down to four types[20].

- Fair market value
- Investment value
- Integral value
- Fair value

Interpretation disturbances of research results on value may be related to changes in purchasing power of money which is expressed by value of different products. With time, the price of many products changes, which often does not correlate with other changes in the prices of other products being traded. For instance, the 1MHZ computing power in 1990- 2002 fell by 95%, while the price of business class airline tickets between Warsaw - New York has increased by approximately 80 %. Hence,

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[19] N.M. Sutkowska, *Wycena przedsiębiorstw w warunkach polskich*, „Gazeta SGH", Nr 157/158, 15.V.2002

[20] D.Zarzecki, *Standard wartości i podstawowe założenia dotyczące wyceny*, p.183 w *Wartość przedsiębiorstwa – z teorii i praktyki zarządzania* edited by Duraj J., Novum Płock - Łódź 2001

company value is expressed in monetary terms and may be diversely interpreted. Referencing it to value of other goods and services may be different in different periods. These dependencies are particularly important in predicting future values such as cash flows or options. Asking frequently the question about the validity of using compound interests or discounts, takes on a whole new meaning. Is 100USD in five years a lot or a little? If yes, in terms of what? Perhaps it is today that we purchase much less for that amount rather than in a few years.

Additionally, different fluctuations in inflation and currency on various markets change the value of discounted cash flows.

It is generally accepted to express company value in money, often times in a particular currency, together with the growth of foreign exchange and financial markets are subjected to generalizations and approximations. Transition from precious metals through coin, paper bills, checks, debit cards, electronic records until various points, such as, loyalty points functioning as money, creates an interpretive confusion.

The above types of values are relatively best fitting to the analysis of a company operating on the market. For further examinations, we adopted a modified definition of market value. The market value includes some of already presented here types of value. As the components we can deem value of: books, operating business, goodwill, liquidation, economics, consumer, as well as in some sense, stock market or estimate capitalization. Each value definition can in fact be included within the concept of market value. This recognition, however, requires adopting certain assumptions.

First and foremost, there needs to be a non-manipulated market, in which the company operates on, and in which its shares are traded.

The second assumption, are rational operations of market participants and other stakeholders, who have full access to information and considerable knowledge about transactions and the organization. In such circumstances, they may calculate into the purchase or sale price of shares the various components and types of business value.

1.4. VALUE TYPES

Economic Value[21] - it represents company's ability to bring its owner free cash flow streams. Its measure is based on projections as to the value and distribution of specific cash flow streams for the years covered by the forecast. It may also be a reflection of a sale of part of fixed assets or the entire company. Economic value refers to the future but is calculated for a given moment. Therefore it

[21] D.Zarzecki, *Metody wyceny przedsiębiorstw*, FRR, Warsaw 1999, p. 23-26

reflects the amount of benefits that the buyer is willing to provide in order to obtain expected future income. With this approach, a number of challenges occur. The fundamental is an appropriate spread of forecasted free cash flows as well as determining appropriate discount rate. Next, is definitely to determine the activity risk level. Economic value is usually the primary decision making criterion during acquisition of a company. It is therefore often considered to be the base for other types of value and for any financial estimates associated with any transaction.

Economic added value is often used in business management concept. Peter Drucker has described it as an important comprehensive performance meter, reflecting any dimensions that affect the value of the company[22]. Al Ehrbar claims that it is not only the measure of results of company activities but it is also the backbone of financial management and payroll systems[23]. It also measures real profits.

Income Value - this term is often used in business valuation process. Income value is due to production capacity of an organization and refers to a rationally acting investor[24]. It can therefore be argued that income value is a compilation of both, economic and goodwill value. Income value of a company depends on its ability to generate profits in the future. As a general rule, it is a determining factor when deciding on investing capital in the project. An investor, however, looks for an opportunity to allocate resources, so in the shortest time possible he gets the highest rate of return on the capital invested.

Value in use - refers to any of the features a product has in relation to functions performed by it. It refers to the ability to meet specific needs of a human[25]. According to the Polish Language Dictionary, it is a reflection of general characteristics deciding of its capacity to meet people's specific needs and of product's usefulness[26]. With regard to a company, it is the value of expected future cash flows expressed in values valid on valuation day. Assumed here is the possibility of such use of a business, as to match its income to cover expenses and to bring additional profits expected by the owner. This is conditional upon a number of factors such as state of physical or moral consumption, modernity, usefulness or the degree of the use of value-in-use expressed in form of fixed and current assets[27]. As

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[22] P. Drucker, *Harvard Business Review*, 1995.

[23] Al. Ehrbar , *EVA – strategia tworzenia wartości przedsiębiorstwa*, WIG Press, Warsaw 2000, p.1

[24] Edited by W. Baranowski and others, *Wycena przedsiębiorstw*, Wacetob LLC, Kazimierz Dolny 1997, notebook 5, p.10

[25] M. Dębniewska, J. Suchta – *Zagadnienia ekonomiczno – finansowe w procedurach wyceny nieruchomości i przedsiębiorstw* – ZCO, Olsztyn-Zielona Góra 1996, p.39

[26] Edited by Z. Łempickiej, H. Auderskiej i S. Skorupki, *Mały słownik języka polskiego*, PWN, Warsaw 1968, p.879

[27] A. Bartold, A. Paczkowski, T. Sadowski – *Wycena wartości i szans rozwojowych małych przedsiębiorstw handlowych i usługowych*, „Gazeta Przemysłowa", nr 1/1991

T. Budziak states, in case of a sale of the company, the former owner requests compensation for future lost profits, guided by the self-created value-in-use[28]. It can be therefore concluded that at the root of this value is its subjective perception by various, individual parties. Value in use can be also generated by businessman. If a company does not produce any profit, potential buyers will only be interested in individual assets of that business. Only their appropriate organization will cause that the expected value in use will be created. In this case, the value of assets cannot be higher than their market value[29]. Value in use is a prerequisite for company value to even exist[30]. This would mean that company assets without utility value have no value at all, but this is not consistent with other definitions.

During literature analysis, we can come across a slightly different concept of value in use then the ones shown above. W. Bień extends the concept of dynamic changes occurring in the market. He writes that the consumer has also the ability to change the form of specific asset components in different components that are more effective and adapted to the requirements of the market[31].

Value in use is closely correlated with market value[32].

Residual value - definition of value in use also includes the so-called residual value, an attempt to estimate how much will be a company worth at the end of the forecast period. In a sense, this is a definition of an economic value. The primary assumption is that the owner of company shares, in addition to having benefits and privileges associated with, let's say, owning shares, has also the right of ownership, which can be achieved by selling it after the last year of projected forecast. In this scenario, residual value is the amount that a company will be worth it in the end[33]. The relatively best[34] method for determining residual value was proposed by A. Rappaport. By adopting certain assumptions it shows an additive as the quotient of the cash flows at time [t+1] and the cost of capital[35]. He points out, however, that the size as significant component of company value is crucially

[28] T. Budziak – *Ile jest warte przedsiębiorstwo*, Poltext, Warsaw 1990, p.12

[29] T. Koller, R. Dobbs, B. Huyett, *Value: The Four Cornerstones of Corporate Finance*, McKinsey & Company, Wiley & Sons, Hoboken NJ, 2011

[30] B. Haus, M. Wrzosek, M. Kufel, Z. Luty, *Wycena majątku przedsiębiorstwa (II)*, „Calculation of capacity to create income" - a review of an organization no 6/1990

[31] W. Bień – *Zarządzanie finansami przedsiębiorstwa*, SKwP, Warsaw 1992, p.44 et seq

[32] M. Dębniewska, J. Suchta, *Zagadnienia ekonomiczno – finansowe w procedurach wyceny nieruchomości i przedsiębiorstw*, ZCO, Olsztyn-Zielona Góra 1996, p.39

[33] S. Nahotko, *Współczesne metody wyceny wartości przedsiębiorstwa*, TNOiK, Bydgoszcz 1998, p.38

[34] A collaboration by A. Hermana i A. Szablewski – *Zarządzanie wartością firmy*, Poltext, Warsaw 1999, p.43

[35] A. Rappaport, *Cretaing shareholder value*, New York 1998, p. 41

dependent on assumptions as to its financial strategy covered by the projection period and states that there is no single model for its calculation.

Ownership value - this value is an attempt to identify both direct and indirect consequences for the current owner and resulting sale of a business or shares. Value of deprivation is described in literature as a tool that measures ownership value[36]. Hence it should be concluded that it is extremely important to the seller what possibilities are created by making a sale transaction, followed by money made from it. The fact of making a sale must comply with his requirements for e.g. acquisition of other goods for the amount obtained. Therefore, it must meet his certain requirements in this respect. The buyer has also such requirements; however, here they are to a lesser degree. As the D. Zarzecki states, "the vendor pays greater attention to money or rather the things he can buy for that money, than the buyer does"[37].

Deprival value - it is company's attempt to assess the potential loss of profits on disposal of assets. A reversed situation can also be analyzed here, and thus increase in revenue resulting from acquisition of certain assets. As a general rule, established cash flow and possible changes in values are subjected to analysis. In practice this value is often used as a measurement and indicator of ownership value.

Book Value[38] - refers to a decrease in value of goods with passage of time, presented by accounting scale regulations. In general, however, those assumptions are not reflected in reality. The decrease is generally called a deduction. Book value indicates more the consumption rate rather than the actual asset value and is used for the purposes of tax liability rather than as a basis for determining, for example, sales prices. Many experts in company valuations bring attention to the inadequacy of such values in relation to the market price or economic value. There is a possibility that in accordance with book value, a loss-making enterprise is worth much more than one that brings profit. In the literature related to this subject, book value is defined as the current status of organization's assets after the deduction of current liabilities, loans, taxes, debt etc[39]. According to T. Waśniewski and Z. Miklewicz, book value is the sum of net values of fixed and current assets, financed with equity capital. As a base for its determination - balance of trade is used[40].

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[36] D. Zarzecki, *Metody wyceny przedsiębiorstw*, FRR, Warsaw 1999, p.26-27

[37] D. Zarzecki, *Metody wyceny przedsiębiorstw*, FRR, Warsaw 1999, p.27

[38] ed. R. Borowiecki, *Wycena nieruchomości i przedsiębiorstw Volume II – metody wyceny przedsiębiorstw i przykłady ich zastosowania*, Twigger, Warsaw 1995, p. 62 and following

[39] W. Werner, *Kontrowersje metodologiczne wyceny przedsiębiorstw*, „Przegląd Organizacji” nr 4/1993

[40] T. Waśniewski, Z. Miklewicz, *Metody wyceny przedsiębiorstw w RFN*, „Ekonomika i Organizacja Przedsiębiorstwa” nr 3/1992

An interesting take on this issue is presented by N. A. Skov. He claims that book value is the amount obtained from the sale of all net assets according to their book values, paying off obligations; any claims including those arising from preference shares on the distribution of assets, and by dividing the remaining amount by the number of already issued ordinary shares[41].

Book value may be significantly different from the market value. There were cases that companies share price exceed their book value by several or dozen of times. B. Cornell describes such example[42].

Reproduction value -this type of company's value is closely related to the experts' knowledge, related to the degree of physical and moral consumption of assets. This indicates the cost of replacement of fixed assets with identical as to their type, class and consumption. With regards to the current economic value this value is vitiated by certain imperfections already by definition. This raises a question whether this happens due to the inability to reproduce (purchase) the identical to that of the analyzed of fixed asset and if it is, in any way, economically justified. Rapidly evolving technologies effectively impede measurement methods value based on reproduction value. Moreover, there is also a problem of establishing of current reproduction cost for fixed assets data. An interesting case study for this issue is described by Z. Czerwiński. He considers the situation, when the fixed assets are no longer produced "because measures have been replaced by other, more modern means (...) it seems reasonable, that in this situation, for the price of reconstruction of the fixed asset we take its current price, which would give the same effect". So you can see a clear reference to replacement value. Next, however, he writes that "Such measures may no longer exist, because the technology could drastically change meantime and the means of productions giving the same effect are no longer generated. Nevertheless, if means are produced for the same purpose, the effect of using the new measure may be incomparable with the effect of using an old one. How to compare results of manually controlled and numerically controlled machine tools, when they differ so much in speed, precision and variety of operations which can be performed? How to compare results of a coal plant to a nuclear plant? Despite the fact that eventually they give you the same product - electricity - each of them causes numerous side effects, which is extremely difficult to compare[43].

Replacement value is an approach to the value of fixed assets, based on their type and kind[44]. I. Ignaciuk also extends this concept to purchase of patents, held licenses and permits, organized

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[41] N.A. Skov, *Finance and management. American proposals for Polish private companies*, Intl. School Of Management, Warsaw 1991, p. 127

[42] B. Cornell, *Wycena spółek. Metody i narzędzia efektywnej wyceny*, Liber, Warsaw 1999, p.22

[43] Z. Czerwiński, *Dylematy ekonomiczne*, PWE, Warszawa 1992, p. 69-70

[44] D. Zarzecki, *Metody wyceny przedsiębiorstw*, FRR, Warsaw 1999, p.30

distribution channels, recruitment and employee training. He writes that replacement value from the owner's point of view can be identified with the original cost of launching the business. From the potential buyer's point of view, it can be considered as costs that he would have to pay to purchase the assets at their market price[45].

In the case of company liquidation valuation, replacement value usually exceeds its market value, and reflects a specific, specialized production profile and the specific buyer[46]. However, the information value that it entails should not be underestimated. There are cases, where due to gaining knowledge about replacement value, it was decided to build an organization from the ground up, rather than purchasing off the market.

Z. Czerwinski makes a distinction between the price and the replacement value. Price is adequate for each of the assets, whereas replacement value is adequate for collection of those assets. Price can only be estimated, what is encumbered with a certain error[47].

Substitution value - substitution value is a certain extension of replacement value. It reflects purchase cost of such assets, which could perform the same or similar tasks, such as held at a given moment by the company. There is therefore an approach to the value of fixed assets from the function they fulfill within the organization. It is not identical with the concept of replacement value.

Market Value - appears in a range of activities related to this subject matter as the value of objects, or in the case of my analysis of all of the companies, in the organized open market turnover. According to the "Bank-Stock Market Lexicon", such market is, for example, a stock exchange or a regulated OTC market[48] (and therefore secondary markets), where the subject of trading are company shares. Some authors extend this definition, claiming that this value is the traded price on each (not necessarily organized) market. So this is the same for a monopoly, competition or imperfect market[49]. This approach is supported by numerous studies and facts related to effective market[50]. It may also be due to an alternative method of using assets[51]. Market value is equal to present value of future benefits

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[45] I. Ignaciuk, *Jak ustalać wartość przedsiębiorstwa*, „Przegląd Organizacji", nr 6/1990

[46] Edited by W. Baranowski and others, *Wycena przedsiębiortsw*, Wacetob LLC, Kazimierz Dolny 1997, notebook 5, p.10

[47] Z. Czerwiński, *Dylematy ekonomiczne*, PWE, Warsaw 1992, p. 70

[48] Z. Krzyżkiewicz, W. Jaworski, M. Puławski, *Leksykon bankowo – giełdowy*, Poltext, Warsaw 1998, p.627

[49] D. Zarzecki, *Metody wyceny przedsiębiorstw*, FRR, Warsaw 1999, p.29

[50] B. Cornell, *Wycena spółek. Metody i narzędzia efektywnej wyceny*, Liber, Warsaw 1999, p.36

[51] Edited by W. Baranowski and others, *Wycena przedsiębiorstw*, Wacetob LLC, Kazimierz Dolny 1997, notebook 5, p.10

arising out of current property rights[52]. This definition does not imply, however, how to best use your business. This issue was left to management professionals.

Often cited here, is the definition of fair market value given by R. C. Miles. It defines it as the price expressed in money or other form of payment which the buyer is in a position to accept and a reasonably acting seller can expect. Henceforth, a certain model of transaction parties is assumed[53]. Included here is also the fact that the goods must be offered on the open market and both transaction participants have a full access to the information and both act reasonably[54]. Often times, there is a definition clause about the number of participants in the market being significant. B. Cornell states that the market value is the amount of share capital, preference share capital and organizations' debt[55].

Based on the above definitions, it can be concluded that the market value is current only at the time of transaction and results from an agreement concluded between the parties. It may be impacted by economic value estimated by the purchaser or transaction subject use, the geopolitical conditions, trading volume, preferences or fashion. Exchange value of goods is subjected to a variable widely depending on place, time and location[56]. Market value is, however, considered to be one of the most reliable sources for determining the value of assets and liabilities[57]. Difficulty in estimating the market value is due to the fact that its only true measure is the same as used during performing an actual transaction. This fact cannot be changed even by the amount of data or by an analysis of similar cases. Referring to the stock exchange where company shares transactions are being made, determining the market value of shares as a priori may not be reflected in the actual, changing by a minute, exchange rates. However, it seems to be even more difficult to determine value of companies or shares that are not the subject to frequent turnover, which is often the case for non-public companies.

Estimated value - with difficulties or inability to determine market value, an estimated value is being used. It often is the value determined by the authorized and specially appointed experts. Reliability

[52] A. Podszywałow, D. Pelc, Wycena wartości niematerialnych i prawnych, ODDK, Gdańsk 1999, p.17

[53] Edited by W. Baranowski and others, *Wycena przedsiębiorstw*, Wacetob LLC, Kazimierz Dolny 1997, notebook 5, p.10

[54] R.C. Miles, *Basic business appraisal*, John Wiley & Sons, New York 1984, p. 19

[55] B. Cornell, *Wycena spółek*, *Methods and tools for effective valuation*". Liber Publishing. Warsaw 1999, p.7

[56] M. Dębniewska, J. Suchta, *Zagadnienia ekonomiczno – finansowe w procedurach wyceny nieruchomości i przedsiębiorstw*, ZCO, Olsztyn-Zielona Góra 1996, p.39

[57] D. Zarzecki, *Metody wyceny przedsiębiorstw*, FRR, Warsaw 1999, p.30

restrictions of these estimates are based on the knowledge, competence and impartiality of experts. This value is normally presented as a range in which the value is acceptable for the seller and buyer.

Added value - also known as additional value, reflects increase in market value received as a result of the conversion of certain goods, their specific organization or submission of components. According to the Polish Language Dictionary, it is a part of the value of goods produced by paid workers and allowing the entrepreneur to achieve desired profit[58].

Good (fair) value- many theoreticians and practitioners of economics use this concept without giving it, however, an unambiguous definition. Attempted explanations can be divided into two groups. According to the first group, it is a concept containing market value, and according to the second one, its importance is much more limited. The first definition group refers to parties to the transaction having full knowledge of the traded subject, available information and developed non-manipulated market. Second trend investigating the good value comes from the desire to establish "appropriate" prices on goods, services or tax rates. This term is usually used in legal terminology. In the US, a fair value is the value obtained from the data analysis of historical transactions[59]. Usually, in this case, fair value is an estimate of an expert. This concept results from the legislators efforts to create the most favorable conditions for making a transaction for both parties. The fact that this is not, however, the term synonymous with market value it can be concluded that the transactions involved do not take place in the free market. “The buyer is not in a position to find corresponding goods from other suppliers (this can be done but without the effect on the transaction), as much as the seller has no chances to request the highest price[60]”.

Investments value - this concept takes into account preferences of specific people in the field of investments and not hypothetical party transactions. Therefore it is very similar in its importance to the concept of shareholder value. It can be summarized as discounted streams of specific profits adequate to specific situations and corresponding to a given investor. So you can consider differences in the discount rate adopted by individual investors. Therefore, it indicates that the discount rate may be different for different people and is not always equal to the current rate of return.

Going concern value - this value includes an organization as a whole, consisting of both, regular and intangible assets.

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[58] Edited by Z. Łempicka, H. Auderska & S. Skorupka, *Mały słownik języka polskiego*, PWN, Warsaw 1968, p.879

[59] F. Clark, *The tangled web of price variation accounting*, Garland Publishing, New York 1982 , p.21 and next

[60] D. Zarzecki, *Metody wyceny przedsiębiorstw*, FRR, Warsaw 1999, p.30

Value in use - the concept is based on calculations carried out by analysts or investors and usually it is their subjective valuation of assets. The measure is determined by using different techniques based on discounted cash flows and expectations. Terminology includes synonymous terms, such as, permanent value or fundamental value. In literature, the market value is the agreement of market participants about the height of value in use. In an efficient market, the market value and value in use cannot significantly differ, because these variations are likely to be counteracted by the investors' actions.

Nominal Value - this term refers to securities and it reflects the monetary value of the security. In accordance with the rules in force, in Poland, shares of a public limited liability company must have the same nominal value[61]. The minimum value of shares was also established.

Liquidation value - This type is mainly concerned with hypothetical situations to not conduct business and liquidation of the assets and claims. The liquidation valuation is also applied for loan applications for enterprises with a questionable economic-financial situation[62]. There are also assumptions related to an inconvenience of a situation based on time pressure, or even working under pressure. They have a significant impact on the valuation of both, the buyer and the seller. The buyer must in this case have a full knowledge of the situation of the necessity of the sale by the vendor. These assumptions greatly reduce evaluation in relation to market value. S. Nahotko defines liquidation value as the sum that can be obtained from sale of organization's assets, not taking into account their book values[63]. He clearly distinguishes between these two types.

Referring to literature, we can differentiate further definitions of the concept. According to I. Ignaciuk, it represents a sum of prices obtained from the sale of individual components of assets in a given period of time[64]. But as the "Vademecum on privatization" states, it is the sum of cash the owner gains in the event of business liquidation and sale of both, tangible and intangible assets. All kinds of obligations and costs associated with the liquidation should be deducted from the sum[65]. In these definitions the liquidation value will be examined from the already completed liquidation's point of view.

Exchange value - presents the relationship in which goods can be exchanged for other goods or means of payment. As the "Small Polish Language Dictionary" reads, this is the value of the goods expressed

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[61] Z. Krzyżkiewicz, W. Jaworski, M. Puławski, *Leksykon bankowo – giełdowy*, Poltext, Warsaw 1998, p.625

[62] D. Zarzecki, *Metody wyceny przedsiębiorstw*, FRR, Warsaw 1999, p.34

[63] S. Nahotko, *Współczesne metody wyceny wartości przedsiębiorstwa*, TNOiK, Bydgoszcz 1998, p.37

[64] I. Ignaciuk, *Jak ustalać wartość przedsiębiorstwa,* „Przegląd Organizacji", nr 6/1990

[65] Edited by J. Kwaśniewskiego, *Vademecum prywatyzacji*, Poltext, Warszawa 1990, p.11

in money or by other means of payment[66]. Therefore it is reflected in its price. However, as E. Kucharska-Stasiak writes, the price is at the most an external expression of exchange value[67]. Exchange value is a specific picture, a current price only at the time of transactions and valid only for the case within a specified time frame.

Goodwill value - according to D. Zarzecki, goodwill value is the ability of a business to generate additional benefits from already existing assets[68]. It is a surplus value of a business over the value of its assets. It separates the concept into two approaches. In assets, it is the excess value of the company over an above sum of its tangible and intangible assets. The income is expressed in monetary units, the ability to bring profits larger than average in a given industry or larger than possible to obtain in the standard terms and conditions. This type of value is impacted by managers' skills, brand, reputation and position of company on the market, database, customers, etc. In the case of company's valuation, there is an analysis of value of assets and the ability of those assets to raise profits. Goodwill may also constitute a separate subject of a transaction.

The term is often used interchangeably with the term of 'business value'. In 1810, Lord Elton the judge, ruled that business value is the probability of old customers to return to old place, despite not having the same buyer[69]. According to "Quick Reference Accounting Encyclopedia", business value is the difference between the purchase cost and the sum of its individual assets[70]. This indicates a very similar explanation of both definitions. However, in this approach, business value is the subject of a depreciation charge. According to A. Kamela-Sowinska, it is the ingredient of a non-material nature, independent of the cost of production. This component is assigned to a business that operates on the principle of continuity. Outside of the actual business, business value doesn't occur spontaneously[71].

Issued shares capitalization value - this approach is based on market value of shares, also called the market capitalization value. It is the sum of the entire value of all issued shares at a given moment. As a rule, it applies to valuation of shares on stock exchange. Based on which the value of the remaining shares is established. Stock Market, however, is very sensitive to a number of factors often not having much in common with the true value of an organization. Emotions, intentional actions of brokers, market volume or relatively low predictable behavior of investors decide about a fairly low level of

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[66] Edited by Z. Łempickiej, H. Auderskiej i S. Skorupki, *Mały słownik języka polskiego*, PWN, Warsaw 1968, p.879

[67] E. Kucharska-Stasiak, *Nieruchomość a rynek*, PWN, Warsaw 1997, p.75

[68] D. Zarzecki, *Metody wyceny przedsiębiorstw,* FRR, Warsaw 1999, p.34

[69] C.G. Glover, *Valuations of unquoted shares. Accountants digest*, ICAEW, 1987, nr 214 p.24

[70] M. Klimas, *Podręczna encyklopedia rachunkowości*, Poltext, Warsaw 1997, p.507

[71] A. Kamela, *Sowińska*, „Wartość firmy", PWE, Warsaw 1996, p.48

usefulness of this value in practice. Despite correct arithmetic mean, this assessment is therefore vitiated by a significant error and generally deviates from the actual price which would have to be paid for purchasing the business.

Cadastral value - the value is closely correlated with the applicable tax laws and is the basis for determining the amount of tax liabilities. It may be equivalent to market or estimated value but it depends on legal solutions.

Mortgage value- is a type of value used when it is necessary to make security commitments. This value is generally the highest ceiling to what the incurred liability may be included. However, due to different risk preferences of individual lenders, valuation of a specific asset may significantly differ from each other.

1.5. VALUE MANAGEMENT

To be able to come to the best possible and most reliable conclusions, presented are the basic explanation of the term management together with an answer to the question of what is company management.

Although recognitions of this problem are really numerous, I will try to present them in a fairly comprehensive manner. One of the basic definitions is the one proposed by F.W.Taylor. He writes that management is a thorough knowledge of what to expect from specific people and making sure that they can implement such management in a timely and inexpensive manner[72]. It's deceptively simple approach, however, does not exhaust the topic. Management is in fact, something much more complex.

According to the "Polish Language Dictionary"[73], management can be identified with directing and refers to giving directions in the physical or mental sense. It is the regulation of operations and is synonymous with leading and governance of operations. One can get an impression that occurrence of subordination is necessary and is expressed by the fact of having power over others and therefore giving direction.

According to R. W. Griffin[74] it is easier to understand the concept of management by referring to the theory of systems. The basis for it is the assumption that all organizations use four basic resources,

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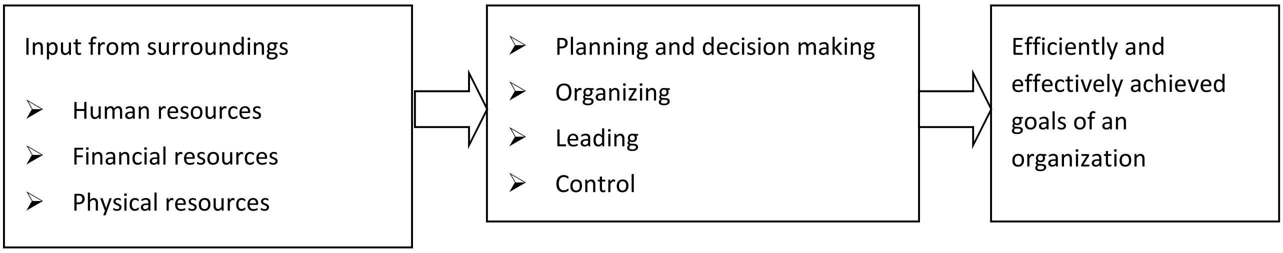
[72] F.W. Taylor, *Shop management*, New York 1903, p. 21

[73] Edited by Z. Łempicka, H. Auderska & S. Skorupka, *Mały słownik języka polskiego*, PWN, Warsaw 1968, p.272

[74] R.W. Grifin, *Podstawy zarządzania organizacjami*, PWN, Warsaw 1998, p.37 and next

namely people[75], information, capital and fixed assets. Management, in accordance with this theory, is called the appropriate interaction and coordination of these resources, which lead to the achievement of relevant objectives.

Fig. 1 Management in organizations



Source: based on R. W. Griffin, Podstawy zarządzanie organizacjami, PWN, Warsaw 1998, p.37

The author gives a differentiated and consistent definition of management. This is a set of activities including planning, decision making, organizing, team leading, control and directing of already set out resources with the intention to efficiently (and thus without wastage and wisely) achieve objectives of the organization. It should be noted that these function of management are distinguished in the early twentieth century by Henri Fayol. The authors also represent management in terms of a process, and thus giving the analysis outlined above a management function. B. Wawrzyniak[76] notes that management is an extremely complex problem, beyond the management experience and/or known theories. It shows three "truths" concerning the analysis of the problem.

- Management occurs always in someone's interest, when what is actually important is whose interest it concerns and what are the expectations of the stakeholders.
- There is no single, true management even if a single company is involved. Management depends on a given situation and recalls a "trash can" decision-making model.
- With the current fast changes on the market, managers must continue to gain more and more managerial knowledge and supplement already existing one. This sentence is quite important, because it indicates that one should not cross out achievements of economic thought or dispassionately replace old systems with new ones.

The author distinguishes three types of management, namely the standard, change and future management. Standard management is based on standardized procedures and regulations of existing

[75] Sometimes in literature management functions presented as labor and human thought, information, goods and money can be found.

[76] B. Wawrzyniak, *Odnawianie przedsiębiorstwa na spotkanie XXI wieku*, Poltext, Warsaw 1999, p.15

ones within an organization and refers to situation of relative peace and confidence. In change management, heuristic algorithms are the basis. It refers to the situation of new and largely predictable failure or success. Future management occurs when it is necessary to move away from the previously applicable rules and procedures and replace them with new ones and adequate for the conditions. That is when developing own algorithms proceedings becomes extremely important[77].

Although the definition brings a lot to the issues I have been analyzing, it does not give a full response to the question of what management is. Based on that, you can only reason about the same management technique. Certainly, however, it complements the already presented by me approaches of their practical applications.

In summary, presented recognition of management measures in respect of an organization, you can enclose the concept as planning, organizing, directing and monitoring implementation with regard to human resources, property, financial and information services.

By referring to the quoted definitions and by applying them to each other, we can observe a clearly visible contradiction. Indeed, even if having so many approaches of value relating to a business, it is still possible to manage every single one of them. Is it possible to plan, organize, manage or even inspect value? The key problem here in my opinion, is lack of precision that is a result from using the term "business value management" acquired from a specific language ribbon with English literature (creating a value). In American textbooks, management is an area called "value based management", so you might as well explain this as a value-oriented management of the company, which in my opinion much better reflects the whole issue. You can also refer to this approach as the foundation of the whole issue. However, even with such constructed definition we cannot discuss every single type of value management. It is impossible to effectively manage, for example, ownership value, which is only a subjectively perceived assessment of a company's trustee. So you cannot just assume the rationality of this perception in every situation.

According to A. Herman and A. Szablewski[78], when the goal of a company is about increasing its own market value, it is necessary to comply with certain rules; namely:

- Restructuring and reorientation of company's strategic objectives into owners' main interests, and therefore long-term growth in its market value.

[77] B. Wawrzyniak*, Odnawianie przedsiębiorstwa na spotkanie XXI wieku*, Poltext, Warsaw 1999, p.27

[78] Collective work edited by A. Herman and A. Szablewski, *Value Based Management*, Poltext, Warsaw 1999, p.51

- Changes in organization and management of a company on both, the functions and processes level.
- Introduction of reporting results in relation to objectives, plans and budgets of individual departments.
- Implementation of cost-benefit principles recorded in clearly defined organizational units.
- Designing and implementing of an incentive system aimed towards the value appreciation of an organization on its every level.
- Designing and implementing of a clear system of information flow internally as well as creating the right public relations outside the company.
- Focus on activities which could be a competitive advantage and generate potential market growth, as well as omission of activities in which to achieve such advantage can be a very big problem.

The above points suggest that managing aimed towards growth in company’s value is a certain strategy of an organization, and as one of many types of strategies mentioned in literature, is still not a separate field of management. Based on these rules, we can conclude that value management, as such, does not exist. We can only talk about management of organization's components or a relevant organization of its resources only through the appropriate allocation of funds, adequately chosen strategies and efficient management. This is how a market value increase of an organization can be achieved.

When discussing company management focused on growth of its market value, businessmen, managers and investors often think about shareholder value. At this point we could ask ourselves questions about what kind of value it is and how it differs from ones already discussed. According to A. Rappaport, shareholder value includes capital gains due to shares held within the company and paid out dividends[79]. So based on the price of shares and the amount of the dividend, shareholders build their own concept of company value. In this situation, the value can be applied to an already-described market value. It is simply the present and potential shareholders that can create the value. This approach makes it possible to define value management as an attempt to influence the market price of shares or generating profit with which you can pay out significant dividends. It should also be noted that, in accordance with the already set B. Wawrzyniak's "truths" related to management, managing is always in someone's interest. In this case, it is the shareholders’ interests who are committed to the greatest possible rate of return on invested capital.

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[79] A. Rappaport, *Creating shareholder value*, New York 1998, p. 42 and next

1.6. CASE STUDY QUIKR

QUIKR.pl is a company that owns a portal about career management, job placement and staff recruitment. It is also involved in a number of activities related to employee recruitment, Human Resources and activities associated with the IT. It has been listed on the Stock Exchange for a year now. Last year, it has issued an initial public offering (Initial Public Offer - IPO) of 1,000,000 shares with a nominal value of 1 Euro (EUR) each. Purchasers of shares bought them at 1.8 EUR per share. Today, the rate of one share is at 5.5 EUR. While the equity investor proposed a purchase in the form of a transaction package of 51% of shares for a total amount of 2 million EUR. Another investor offered to purchase all the shares at 4.2 EUR a piece in order to withdraw the shares of the stock exchange. In total, he was willing to pay 4.2 million EUR for all of them. The deal did not happen though. However, the position of the executives of Quikr was very interesting. In response to a journalist's question of why does the company refuse an equity investor, the executives said that the company is currently undervalued by the market. Its value is certainly higher and is at least worth 10 million EUR. So there is not even a chance of considering the offer of 2 million EUR. The founder of the company always claims that it was his "baby", and even though he currently owns only 15% of the shares of the total capital, he backed up company’s executives and stated that the value of the company may be even at 15 million EUR, although it would be still very difficult to prove it just based on the analysis and forecasts of revenues or profits. Its current income is equal to 1 million EUR per year. The increase in the income value is estimated at 20% per year, and although there is no profit yet, it should by visible by next year. It even plans to issue dividend by next year.

The company owns assets purchased mainly in the last year, out of which the moral and physical consumption can be estimated at 10%. The purchase price, including all assets, was worth 100,000.00 EUR twelve months ago.

An appraiser hired by the company found the value of the property at 80,000 Euro, but if to build this company from the ground up and lead it to the state it is in today, the value would be at least 1 million Euros. Just the brand itself is valued at 0.5 million. The company's revenue is not high enough to justify the executives’ opinion on the possible price of the transaction. Despite their dynamics, in terms of income, the appraiser determined the value at 4.5 million.

Recently, there have been two purchases of shares of companies of a similar nature and activity profile. The first one, can show off with a revenue of 0.6mln EUR per year and the dynamic growth of 15% per year, while the second one with 1.2 mln EUR per year with a 10% annual dynamic growth. None of them are, however, a public company and its shares are not listed on the stock market. These are limited liability companies. For 100% of shares of the first company, 3.5 million EUR was paid, whereas 2.8 mln EUR was paid for 50% of the second company.

It is also worth focusing on the price of the company shares. For one million of shares issued, the daily trading volume is approximately 5 thousand pieces, but the price fluctuates frequently. Today it is at 5.5 EUR, but the average of the last 52 weeks is at 4.8 EUR, while from 14 weeks ago - 5.9 EUR. The price has increased in the course of a few days to 6.0 EUR when shares were purchases by a pension fund. But when shares were sold by one of the major private investors, the price dropped from 5.6 EUR to 5.0 EUR within couple of days. For a moment, trade magazine suggested that there will be a massive purchase by the executives in order to redeem them. The possible price of the repurchase was established at 4.5 EUR. During this time the price has increased from 4.2 to 5.0 EUR per share. It is estimated that if the company would promised a dividend this year, prospects of price increase to 6.0 EUR would be significant. However, the company has not made such declaration. The rate of return on investment in shares over the 12 months is 15%, 6 months - 18%, 3 months - 5% and 10% is over a month.

Discussion Questions

1. *Name all the types of value that could be mentioned in the text.*
2. *Try to evaluate the company using any of the types of values.*
3. *Present what problems could arise in determining the market value of Quikr. Try to determine this value and describe how it was evolving in the described period of time.*
4. *What factors may have an effect on the market value? Try to replace them and determine their impact on the market value.*

2. COMPANY'S SUCCESS

2.1. GENERAL OUTLINE

The chapter is devoted to the problem of business's success and different approaches that influence the business and its management. The success seen from the profit perspective is different than seen from, let's say, sales or social responsibility (CSR) perspective. Does it mean that the activities connected to sales or CSR cannot be measured or implemented via value based management model? It is visible that, nowadays, for companies to become successful they must succeed in many different fields. Therefore, success becomes blurry. The valued based management is strongly connected to different types of success. To make it clear, the definition of success becomes crucial for goals and metrics in contemporary activities.

- General the idea of a company's success.
- Different approach to success.
- Contemporary challenges of measuring success.
- Failure vs success.
- Value as success.

2.2. COMPANY

Citing the code definition, "a company, as an assembly of tangible and intangible assets which are intended to carry out economic tasks, includes everything that is a part of the company, in particular:

1. Business (name), trademarks and other marks individualizing a company
2. Account books
3. Real estate and movable property belonging to the company, including products and materials
4. Patents, utility and decorative templates
5. Liabilities and charges related to owning a business
6. Rights under the lease and rental of premises occupied by the company. "[80]

According S. Nahotko concept of a company can be considered in two aspects[81];

[80] *Civil Code, Act of 1964, Act of. with later amendments. Consolidated text*

[81] S. Nahotko, *Współczesne metody wyceny wartości przedsiębiorstwa*, TNOiK, Bydgoszcz 1996, p.16

Subjective aspect: the organization becomes the company at the time of its entry in the relevant register and until it is printed. It has a variety of goods and uses numerous laws. Company, in terms of a subjective aspect, is defined by the Civil Code[82].

In a subjective aspect, company is presented as a properly organized set of properties and rights. It may also be the subject of these rights. The same author states[83] that a company is an economic system consisting of elements between which there are certain dependencies. He also examines the relationships between the company and the environment. The table below shows components of that organization.

Tab. 1 Company components

<table>
<tr><th>Non-production zone</th><th colspan="4">Production zone</th><th>Marketing Zone</th><th rowspan="7">Economic Measures</th></tr>
<tr><td rowspan="5">Non-production fixed assets</td><td colspan="3">Means of production</td><td rowspan="3">Production-in-progress and expenditure of future periods</td><td>Finished products</td></tr>
<tr><td colspan="2">Work means</td><td rowspan="2">Work objects</td><td>Goods, materials</td></tr>
<tr><td rowspan="3">Fixed assets of production</td><td>Equipment</td><td>Cash, receivables</td></tr>
<tr><td colspan="2">Stock material</td><td colspan="2" rowspan="2">Circulation Measures</td></tr>
<tr><td colspan="2">Liquid Resources</td></tr>
<tr><td colspan="2">Fixed assets</td><td colspan="4">Current assets</td></tr>
</table>

Source: based on S. Nahotko "Efficiency and risk in innovation processes (models and examples) ". Ed. TNOiK, Bydgoszcz 1996 p.16

[82] *Civil Code, Act of 1964, as amended, consolidated text. Art. 551 Ed*. Studio Sto, Bielsko Biala 1998, Ed. II, p.16

[83] S. Nahotko, *Efficiency and risk in innovation processes (models and examples)*, TNOiK, Bydgoszcz 1996, p.16

A.K. Koźmiński defines enterprise as a "journey through chaos". Its essence is to rein in diversity and perform transformations. Construction of organization being out of resources such as people, relations between them and their ideas, tangible assets, cash resources and numerous laws[84]. He makes the primary objective of the company its long-term survival and growth[85]. In the "Accounting Encyclopedia", you can find an explanation of the term: state-owned enterprise. It is extremely valuable because not only it can be referred to a state-owned company but also to its remaining types. According to the Encyclopedia, it is a leading accounting unit, separated in terms of organization and law. It has a selected and properly organized group of people for the tasks that are to be pursued. These people are subordinate to managers and are included in a transparent way of management. In addition, this unit is equipped with material and financial resources in the form and quantity necessary for tasks realization. These elements constitute a separate economic unit[86].

To summarize the presented approaches of companies, they can be described as adequately organized human, financial, material and information resources between which significant dependencies occur. The basic idea of a business is to achieve its set goals, and as a rule they are associated with generating profit. The company operates in a set environment, not only utilizing it but contributing to it as well.

It is worth mentioning that we are talking not only about traditional companies, but also about Internet companies. Today's e-business enterprises also meet all the requirements of a company. Based on this definition, we can specify that an e-business is a company operating primarily or exclusively on the Internet market. Therefore, it is a specific type of services involving providing their servers or just disk space to customers, providing information, software, enabling or facilitating the use of Internet, together with offering of services, brokerage, sales and purchases of goods on the Internet, and many - many other services that can be implemented via the Internet. Companies involved in this industry are involved in eg.: running portals, vortals, providing specialized system applications, running online stores, the stock market, etc. Summarizing, it can be said that these companies deal with transferring the physical market into the virtual world. They are characterized by providing advanced services, as well as having a highly qualified and professional staff. It is a major challenge from the value point of view and especially value creation and value management. Small share of tangible assets and even their absence (so-called "Zero gravity" business) in the structure of resources causes that the added value is created through knowledge and competence of the personnel. It does not mean, however, that tangible and intangible assets don't matter. They could not exist without appropriate servers,

[84] Edited by A. K. Koźmiński, R. Piotrowski, *Management. Theory and practice*, ed. PWN, Warsaw 1998, p. 130

[85] A.K. Koźmiński, K. Obłój, *Zarys teorii równowagi organizacyjnej*, ed. PWE, Warsaw 1989, p.23

[86] M. Klimas, *Podręczna encyklopedia rachunkowości*, Poltext, Warsaw 1997, p.305

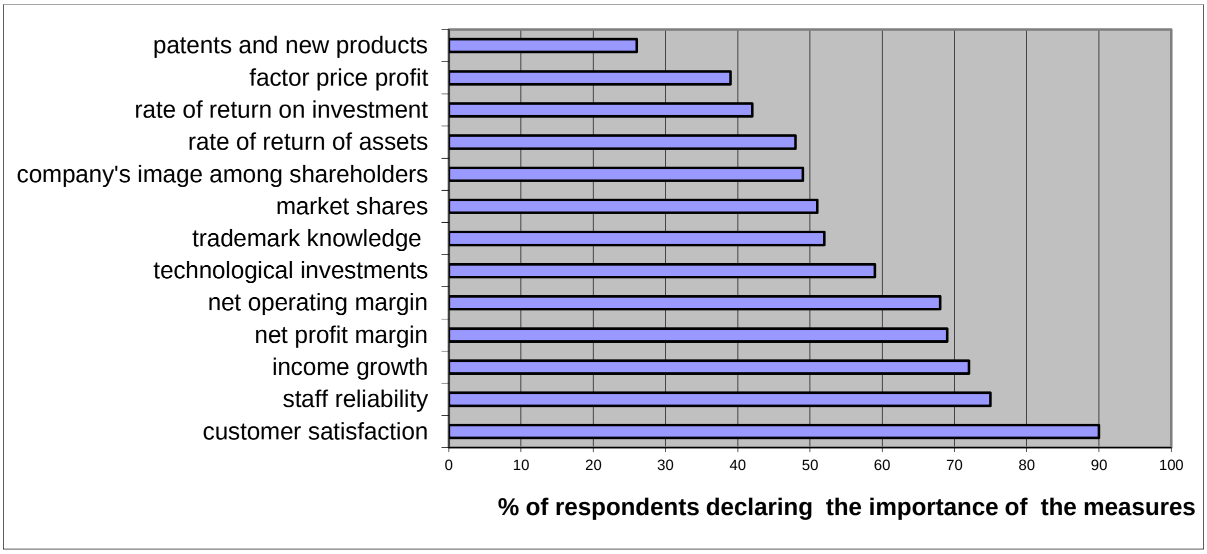
telecommunication networks or software, despite the fact that these assets do not actually have to be part of their property.

2.3. COMPANY'S SUCCESS KEY FACTORS

In a study conducted by Boulton, et al., managers of leading American companies answered the question of what current measures of success will condition it in the future. Answers provided in the graph below, clearly indicate that the most important are customer satisfaction, staff stability and growth in revenue. So there are clearly some key aspects of creating a market value in today's economy.

As to the question of how organizations create value, meaning what are its sources, authors answer as follows: by taking a risk and creating unique combinations of assets[87]. The greatest successes in this field are achieved by the entities, which farsightedness is supported by the ability of combining assets in a very unprecedented way. It is therefore not to overestimate the role of the manager - the leader and the support of his/her administration and the board of directors.

Diagram 1 The main measures of success according to managers working in the USA

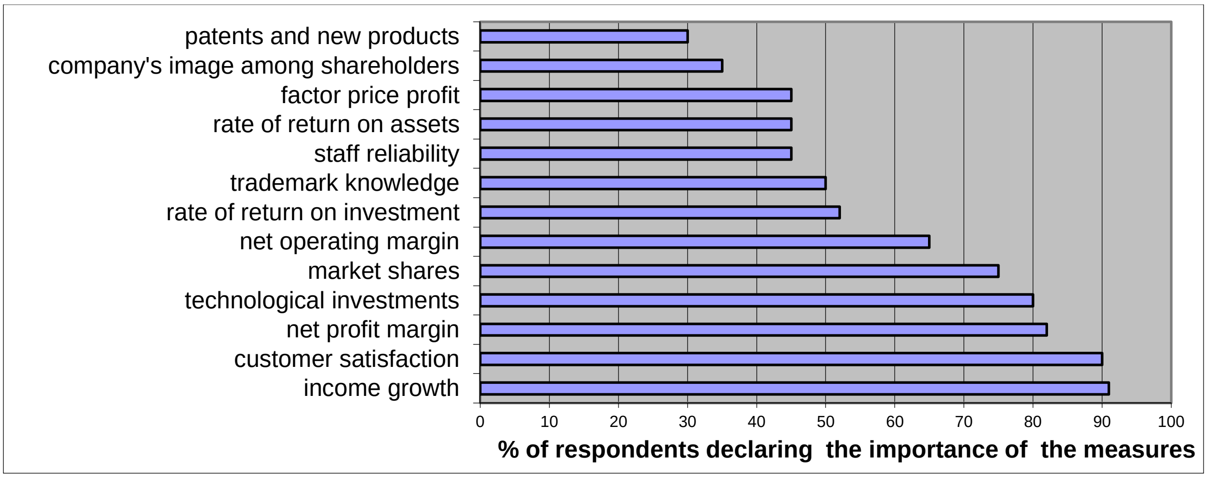


Source: Boulton, R.E.S. , Libert B.D. , Samek S.M. - "Cracking the Value Code. How Successful Businesses are Creating Wealth in the New Economy", p. 15, Harper Collins, New York, 2000.

[87]R.E.S. Boulton, , B.D. Libert, S.M. Samek, *Cracking the Value Code. How Successful businesses are Creating Wealth in the New Economy*, Harper Collins, New York 2000, p.36

Exactly the same questions that R. Boulton and others have asked the US managers, were asked[88] in a survey to the 32 key managers of companies listed on the Warsaw Stock Exchange. The results are shown in the table below.

Diagram 2 The main measures of success according to managers working in Poland



Source: own, based on research carried out by the Department of Management Theory, SGH, May-July 2014. Research under the direction of M. Pindelski.

Compared to the results of the American researchers, Polish managers predict that the future of success will be primarily determined by company's growth in revenue. Interestingly enough, both, the staff reliability and the image among shareholders in the companies undergoing the study, are not important aspects. In Poland, the most traditional measures of success are the market share and the return on investment. Although, due to the scale, it is difficult to compare these studies, a preliminary data suggests a slightly different perspective of the Polish employees.

In 2010, the Cap Gemini Ernst & Young has published the results of "Measures that Matter" (measures of high importance). The primary objective of the study was to identify non-financial measures of business entities that affect their market value. Based on the results, a thesis was formed stating that financial measures have an increasingly smaller share in creating value. It grows while in the case of aspects that are hard to measure and currently affect 35% of the value. A confirmation of this phenomenon is the fact that more and more investors during decision-making times, use recommendations based on non-financial factors. It can be assumed, that in the short-term expectations, the primary value-creative factor is finances, but certainly in the long run, more

[88] *The results of the research carried out in the Department of Management Theory, the Warsaw School of Economics* (SGH) V-VII. 2014 Research under the direction of M. Pindelski.

important are the non-financial measures[89]. The strategy and the process of its implementation become of a great importance. Both, historical data and perspectives based on different scenarios are included in the strategy's creation. It is not without significance, that there are IT support systems for the planning, knowledge management or decision-making processes.

Tab. 2 Non-financial measures impacting company's value

No.	Measure
1	Strategy implementation
2	Directors and management credibility
3	Strategy's quality
4	Innovation
5	Ability to attract talented people
6	Market share
7	Executives' experience
8	Managements' wage quality
9	Quality of main processes
10	B&R Leadership

Source: CapGemini Ernst & Young

To summarize the above table, of great importance are strategy implementation quality, together with directors and management's credibility. Based on the study results, the credibility of people on executive positions is certainly, in some way, determined by the stability of the Supervisory Board and the Management Board.

Hence, fluctuations in stock markets and investors' moods are no longer the essence of operating businesses. Knowledge, intellectual property, patents, organizational capacity and relationships between the environmental components and global economy in the network have undergone amplification to an unprecedented level yet.

[89] M. Barcz, *Błędy w budowaniu strategii firmy*, “Manager”, No. 1 (64), January 2003.

Given the long-term customer relationships or the development of employees' skills, we see a new dimension in both, creation and company value management. Perception change of the intellectual capital and sometimes its enormous cost is also taken into account by the intuitive market. The lack of its appraisal or methods giving quantifiable results prevents proper management and increases the investment risk. In conjunction with turbulent surroundings, unstable economy, and changing reality, managers are forced to navigate using tools measuring inadequate parameters. Resources are therefore allocated in different projects, not necessarily those, which could have the greatest rate of return. Moreover, without knowing certain measures, we are unable to determine trends, predictions, or the direction in which the organization follows.

2.4. VALUE DYNAMICS MODEL

In accordance with the definition developed by E. S. R. Boulton, et al., [90] in the Value Dynamic Model it is assumed, that the source of value and competitive advantages of companies are their employees, suppliers, customers and the right asset organization. For specific subjects, the weight of each of these factors is different. Reduction of capital-absorbing assets investments and growth in importance of organizational assets, employees and customers, is the shortest characteristic shifts in this model. Specifying the interdependence between the individual asset groups leads to a clear definition of a business model, and at the same time, it expedites the process of company's valuation. In view of the fact that, with each asset is referred to investment risk, as a result of their isolation can be much easier to determine their impact on the entire company as a result of its market value. The dynamic model assumes, however, that effective management is a matter of strategy, risk management, processes and information with these elements in the proper balance. Conclusions, in this respect, are therefore not too revelatory.

[90] R.E.S. Boulton, B.D. Libert, S.M. Samek, *Cracking the Value Code. How Successful Businesses are Creating Wealth in the New Economy*, Harper Collins, New York, 2000, p.5

Tab. 3 Classification of Processes in Value Dynamic Model

No.	Designing the business model		Assets and markets Development of strategies and vision Allocating investments			
			Phases			
			I	II	III	IV
1	Asset portfolio management	Financial Assets	Offer Assessment and Offer Formation	Financial Management	Financial operations restructuring	Liquidation
2		Tangible assets	Assessment of needs and acquisition	Management	Strengthening	Liquidation
3		Customers	Understanding the needs and creating an offer	Delivery of products and services	Development of new products and services.	Ending the relationship
4		Employees and suppliers	Assessment of needs, recruitment, employment	Creating a relationship management	Support and rewarding	Redefining relationships
5		Organization	Needs Assessment and structure design	Creation and improvement of systems and processes	Knowledge coding and its sharing	Redirection of assets
6	Measures and reporting		Identification f needed information and sources of acquisition Measurement of risk and of added value Continuous improvement			

Source: own elaboration based on Boulton, R.E.S., Libert B.D. , Samek S.M. - "Cracking the Value Code. How Successful Businesses are Creating Wealth in the New Economy", p.152, Harper Collins, New York, 2000

This model also shows substantial differences in organization's resources and their impact on the market value.

Based on three types of measures, for example, an ownership (the number or value of the assets), flow (the life-cycle or rate of changes in assets) and effectiveness (achieving planned and measurable results) and by referring them to various, listed here categories of assets, the authors of the Value Dynamic Model proposed the key factors of success.

Tab. 4 Critical Success Factors for Value Dynamic Model

No.	Categories of Assets	Ownership Status	Transfer	Efficiency
1	Financial	Investment value Cash in hand Debt to equity ratio	Free cash flow Accounts receivable turnover ratio	The rate of return on investment Cash flow per employee
2	Tangible	Investments Inventory Office Space	Depreciation Depreciation rate of inventory turnover Dynamic growth of office space	The rate of return on assets Storage Costs The use of fixed assets Use of space
3	Customers	Number of clients Market share	Client rotation	Revenue per customer Customer Satisfaction
4	Employees and suppliers	Number of employees Number of suppliers	Employee turnover indicator Number of strategic suppliers and suppliers meeting the right standards	Revenue per customer Purchase costs Ability to gain staff and suppliers Staff competencies
5	Organization	Number of patents	Expenditure on research and development	Income from patents and licenses in respect to the expenditure on B&R Business Strategy Revenue from products in the first three years

Source: own elaboration based on Boulton, R.E.S., Libert B.D., Samek S.M. - "Cracking the Value Code. How Successful Businesses are Creating Wealth in the New Economy", p. 169, Harper Collins, New York, 2000.

This method is also valuable, because it draws attention to particular needs of using the parallel measuring of all assets, along with the analysis of their mutual relationships. By comparing the traditional model of critical factors influencing market value, with the, so called, Value Dynamic Model[91], we can observe, that in the traditional model the main market value components are the assets, liabilities, equity (balance sheet), income and expenses (profit and loss account) and finally the cash flow meaning income and expenditure. The Dynamic Measurement of Values takes into account

[91] R.E.S. Boulton, B.D. Libert, S.M. Samek, *Cracking the Value Code. How Successful Businesses are Creating Wealth in the New Economy*, Harper Collins, New York, 2000, p. 20.

such factors as physical and financial, customer, employee, supplier assets and the, so-called, organizational assets including leadership, structure, strategy, organizational culture, systems, processes, knowledge, innovation, etc. So it is a wider recognition of the business activity issue and it appears to be much more responsive to modern business specifics.

2.5. CASE STUDY - ALPINUS - FROM SUCCESS TO FAILURE

In the last decade of the 20th century, the observers of the Polish market chose Alpinus JSC, as a prime example of a successful company. Throughout the mid-90s, the Alpinus brand was growing strong and growing fast, reaching the 2000 record turnover at approx. 80 million PLN. The brand was considered to be one of the most valuable and best recognized Polish brands. Hardly anyone imagined that a company owning such a reputable trade mark may have only a few months left. In fact, at the beginning of 2004, the company declared bankruptcy, and the brand was taken over by the Meritum Bank (formerly known as the European Corporation Bank JSC), then in October 2004, sold to the main competitor of Alpinus -the Euromark company, also the owner of the Campus brand. The reason for this dramatic fall, however, should be spotted much earlier in the incorrect business strategy of Alpinus JSC, its inability to respond to emerging market trends and inability to recognize real customer expectations.

2.5.1. HISTORY OF SUCCESS

Alpinus JSC was founded in 1990 by three former Himalayan climbers: Artur Hajzer, Janusz Majer and Richard Warecki. The mountain expeditions’ experience was supposed to be just an asset in becoming successful in business. The founders decided, in fact, to use their experience in manufacturing clothing and equipment necessary for enthusiasts of alpine tourism. Initially, a German company vau Du Sport became the company's shareholder. The company provided machinery and technology with which they could make clothes from Polartec designed for tourism and sports. This market was virtually pristine. Besides the products of world renowned brands, which, moreover, were due to the price barrier and lack of distribution virtually unavailable in Poland, the only alternative for the new company Alpinus, were not comparable in quality of Highlander sweaters, military leather boots and similar products which technologically seemed to come from an entirely different era. Alpinus' products were excellent in quality, had interesting patterns, a wide range of colors and, above all, were created from materials which formed a technological breakthrough in the market for outdoor clothing, for example, the famous space tested Gore-Tex fabric of American company "Gore", or the extremely robust Cordura by the DuPoint Company. So it's no wonder that the average Alpinus customer, from that period of time, was quite mesmerized by the offer and despite the relatively high price of jackets, shoes, backpacks, tents, sleeping bags and many other Alpinus products, the company began to conquer the market. These products were purchased not only by professional climbers, but also by average young tourists who traveled perhaps once or at most a few times a year for a few days, but wanted to remain fashionable, modern, and therefore investing in this type of equipment.

The company headquarters along with its factory was located in Silesia, in Chorzów, however it managed to achieve extremely great result. The average customer of tourist and clothing stores did not associate Polish products with high quality products and not to mention, with advanced technology products. Hence the brand "Alpinus", having an international sound to its name, was associated with "the West", which is presumably a better producer. A relatively large group of audience by seeing a high price, excellent quality, great, fashionable designs, automatically assumed that the brand Alpinus does not come from Poland, but it's rather one of the global brands of tourist equipment. In addition, this effect strengthened its image and caused increase in sales.

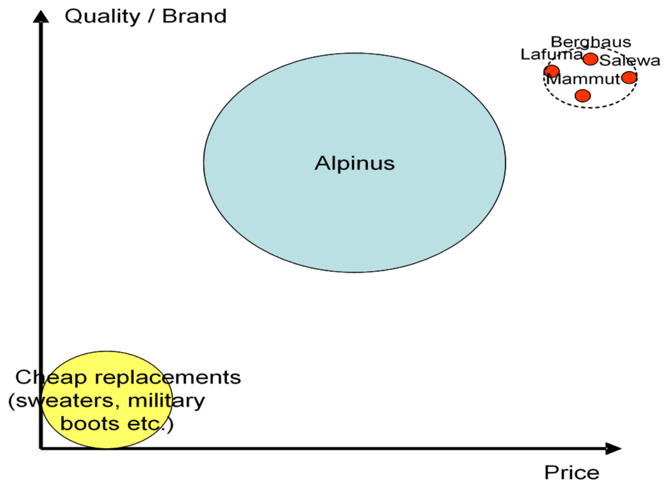
The result of such situation was an incredibly dynamic growth of the company. The company initially started with five tailors, while during its prime employed over 400 people. Revenue grew with each year and the company was constantly dealing with an overload of orders. As the President of the company, Artur Hajzer said in 1996: "The market is so absorbent that we are failing to keep up with the production"[92].

These first years of growth became the period of time when the company was almost deprived of competition. The advantage of Alpinus was also created by the fact that it cooperated with reputable suppliers of materials, such as Gore or DuPoint, which at that time did not have less expensive replacements. Yet in 1997, there were only two companies that had the right to use the Gore-Tex brand products in Poland. One of the biggest problems of this period for Alpinus was the fight against counterfeit products.

The late 90's of the 20th century, was also the time of a very sudden growth of the tourist clothing and equipment market in Poland. With the increasing affluence of society, increase in purchasing power of money, economic development and the propensity of the Polish to buy also increased. The quality of the products has become increasingly important and a much higher price was acceptable by the purchasers.

[92] For: A. Błaszczak, *W namiocie jak w hotelu*, „Rzeczpospolita" May 16th, 1996

Fig. 2 Matrix of strategic groups of the outdoor market in Poland during the early 90's of the twentieth century



The size of the circles symbolically represents the size of the revenue

Source: own elaboration

The initial lack of competition for Alpinus resulted in ideal conditions for development. There were a number of factors:

- advanced technology,
- excellent, modern, stylish, refined product,
- high quality production
- excellent reputation of the brand, "Western" image,
- lack of potential competition,
- improving macroeconomic situation,
- little market saturation.

2.5.2. SITUATION CHANGE - SUDDEN COMPETITION AND CHANGE IN CUSTOMER EXPECTATIONS

However, the exclusivity on the market could not last that long. Following the success of the Silesian company, new ventures began to form quickly. A few major competitors appeared on the market: Bergson, Mara, Milo, Yeti, or Wolfgang. Alpinus, which really created a market for outdoor clothing and equipment in Poland, no longer had the monopoly on this market. However, the previously established position, allowed the company to maintain its success. For customers, Alpinus was a point of reference for competition's products and a fashionable and unique model. Although the price was high, there were still plenty of Alpinus' enthusiasts.

In 1997, a new player came to the Polish market-a Polish-British company, called "Euromark". The origins of the company date back to 1991, when the head of a British company Eurotech was looking for contractors who might help it make clothing for the British Army fighting in the Desert Storm operation in Kuwait. The company found its way to Legionowo, Poland, and the bankrupt company 'Aviotex'. A company named Euromark was founded in 1993 as a result of this collaboration, however, it was not until 1997 that the company started to operate under its own brand named 'Campus' and deliver products to the Polish market. Campus products visually resembled Alpinus products– similar designs, colors, fashionable cuts. Euromark didn't quite use the highest quality products or the most expensive materials such as Gore-Tex or Cordura to manufacture its products. In the meantime, the market became full of cheap, substitute fabrics, like the ones used by Euromark. The quality was definitely worse; however, the majority of consumers thought it was sufficient.

Late 90s of the 20th century is also a period of changes in behavior of customers of outdoor clothing and equipment. Customers, who in the absence of alternatives for good equipment and willing to spend a lot of money were almost distinct. The average user of such equipment in Poland doesn't go away onto expedition in the Himalayas, or even the Alps, but rather goes hiking in Bieszczady or to the Tatra mountains at most. In such circumstances, products with low-cost alternatives to expensive fabrics were sufficient.

Initially, the market has not reacted too fast to Campus's new offer. Customers were very skeptical about new, unfamiliar brands such as Campus. Their rates placed at around 30 to 70% of the price of similar Alpinus products (although with better materials), however these prices were still too high for potential customers. Gradually, however, customers began to realize that the cheaper products were not of a lesser quality than the Alpinus products, and their technical parameters were adequate to their needs. Hence, the late 90s were still a period of Alpinus' sales growth, but also a period of increased sales and market shares of competitors, Campus in particular.

After all, in the year 2000, Alpinus had record level sales of 80 million PLN[93] (Euromark sales were several times smaller). The international expansion of the company had a huge impact on the success in terms of revenue. During this period, Alpinus expanded to the Central and Eastern European

[93] *Po co Euromark reaktywuje Alpinusa*, „Gazeta Wyborcza", October 14th, 2004

countries, in particular into the Czech Republic and Slovakia. The company used a very similar strategy as it did in Poland -it mainly competed with quality and technological sophistication.

Observing the action of Alpinus from the late ' 90s of the 20th century, one gets the impression that the company focused on its own previous success and strategy, without trying to observe and react to the changes happening in the environment. Alpinus continued to manufacture from the best materials available, counted on the demanding client for whom the price was of secondary importance in relation to the quality of the products. The constant struggle for improvement of the manufacturing processes was also an ongoing issue. In 1999, Alpinus (or later known as the ADD Company), has introduced a quality management system according to ISO 9001 standards. Alpinus, however, didn't notice any changes in customers' expectations and, above all, appeared uninterested in rivalry with emerging competitors, recognizing that the advantage gained represented lack of a threat. During this period, a temporarily adopted strategy did not affect depletion of revenue or profits, however, in a later period, due to the economic downturn it resulted in the lack of possibilities for further development and major financial problems. The company's image, from this period of time, which until then had been a great asset, to some customers could weigh in heavily -Alpinus was simultaneously seen as a great and a very expensive brand.

2.5.3. ALPINUS AND THE CRISIS

The first visible signs of the coming crisis began to emerge at the beginning of the first decade of the 21st century. In 2001 Alpinus began experiencing losses (in 2001 it was already up to 3 million PLN[94]). We can search for the direct causes of this situation in several overlapping phenomena:

1) The beginning of the 21st century in Poland is definitely a period of an economic slowdown. Economic growth came to a halt, with even some signs of recession. Unemployment significantly increased, but wage growth had stopped. As a result, customer willingness to buy-declined. The tourist clothing and equipment market, especially its top shelf products, were extremely sensitive to overall economic prosperity. This situation resulted in general reduction of the total market (market worth 200 million in the year 2000, shrunk by at least 1/3rd). This situation did not last too long, however long enough for Alpinus to suffer from it.
2) The beginning of this decade was a period of highly intense price competition in the outdoors equipment and clothing market. Drop in prices stemmed not only from a matter of searching for continually improved material replacement, but also lowering costs through competition,

[94] M. Rabij, *Alpinus się broni*, „Newsweek Polska”, 02/16/2003

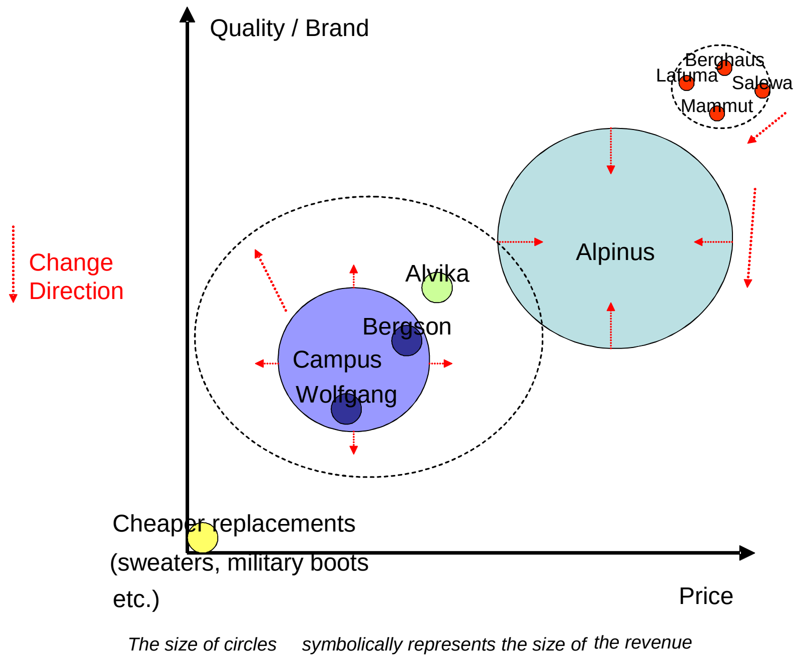
which was looking for a way to deal with declining willingness of consumers to buy. Euromark began to manufacture its products in Asia, where labor costs were much lower than the production costs in Poland. Campus products were made in China, Korea and Taiwan. During this period Euromark employed in Poland only sales representatives, accountants and designers (roughly 30 people). This type of strategy allowed the company to reduce the price of products compensating for potential deterioration in the quality.

3) Meantime, other competitors on the market also grew in strength. An example here would be the family owned business Alvika, from Sosnowiec. This company managed to fill the gap between the technologically advanced Alpinus products and the cheaper, "urban" Campus products. Alvika imported a special fabric called 'winprotec' from Japan, that wasn't far behind the Gore-Tex fabric, but it was definitely cheaper. As a result, the Alvika products were only slightly of a lesser quality than the Alpinus products, while the price was at least 40% lower.

4) The fight for a reduction in cost of production and prices involved not only Polish, but also of Western manufacturers. As a result, the products of world renowned companies with decades of tradition, which so far have been completely inaccessible for the Polish relatively poor consumer, have begun to be only about a few dozen zloty more expensive than the advanced models of Alpinus. It turned out that Alpinus had to compete with such brands as the British 'Berghaus', French 'Flauma', Italian 'Salewa' or the Swiss 'Mammut'.

5) The obstacle to lowering the cost for Alpinus was unwieldy the distribution system that caused the formation of payment gridlocks. At the beginning of 2003, there were 70 Alpinus brand stores in Poland, but only 24 of them belonged to the ADD JSC (formerly known as Alpinus JSC). Other worked on the principle of Alpinus as a franchise. Each of these stores set its own price and order ceilings. It was estimated that the dispersion of the distribution network management would cost the company approx. 1.5 million PLN per year.

Fig. 3 Matrix of strategic groups of the outdoor market in Poland during the first decade of the 21st century



Source: own elaboration

Alpinus recognizing the problems arising from its own business strategy and in limited demand for its expensive products, especially in a situation of an economic downturn, tried to modify the strategy during this period of time. It significantly increased the range of products. Specialized product lines for cyclists, skiers, sailors and urban clothing were also added. Some new sub-brands, such as Alpinus-Biko (equipment and clothing for cyclists), Alpinus Vasco (clothing for sailors), Alpinus Classic (an urban clothing line) were created and introduced to the market. Certain products were manufactured with cheaper materials.

Such policy, however, did not bring results, because Alpinus products were still seen as too expensive. Partly, it stemmed from objectively high prices of equipment (operating expenses of the company in the end were still too high), but partly it was due to years of creating an image of a great, but also a very expensive brand. This image was Alpinus's forte in a situation where there was no other alternative and lack of recognizable, cheaper brands. Over the years, other images were also created by the competition (Campus, Wolfgang, Alvika, Bergson), but it was an image of definitely cheaper brands, yet sufficient and of good quality.

In addition, the change in Alpinus strategy for creating cheaper products from inferior materials under the brand name Alpinus, began to have a negative impact on the brand name. Until then Alpinus was not only a synonym for the highest price but also for the highest quality products. Suddenly it turned out that although the price remained high, the products varied in quality - good and not so good. The image began to lose its clarity, which further had a negative influence on sales.

At the same time, Alpinus tried to take actions relating to lowering the cost of business operations. These operations (for example, expanding its own distribution network) were, however, very costly. Alpinus began to fall into financial trouble. In order to save itself and bring down the costs, there had to be an increase in investments. The company took out several loans and was supposed to be paying them off with profits from sales. But sales were low and the company wasn't able to make enough money to cover costs and pay off the loans.

Alpinus also tried to reduce production costs. In 2002, one of the two sewing warehouses shut down and employment was reduced from 400 to 280 people (then another 120 people was let go). The effect was to reduce the range of products (reducing from 2000 offered products to 500) and lower the price by roughly 30%. Either way Alpinus was not able to win with Euromark and other competitors' prices.

The end of this situation was easy to predict. By the end of 2003, Alpinus debt was estimated at 5 mil PLN[95]. In November of 2003 the creditors (200) rejected the proposals for settlement made by the Board of Directors of the ADD JSC. Meantime, the company ceased to be the owner of the trade mark Alpinus who was securing the credit granted by the Meritum Bank. Due to the failure of paying off the loan, the bank took over the rights to the name Alpinus. At the beginning of 2004, the ADD JSC submitted an application for bankruptcy.

It is worth mentioning, however, that at the time of the fall, Alpinus still controlled about 30-40% of the market in outdoor clothing and equipment. According to a study conducted by the Sygma LLC in 2003, for BWE LLC it had 75% spontaneous awareness[96] and approx. 85% of assisted awareness[97]. As you can see, however, these indicators did not save the company (ADD S.A.) before the fall, which sources should be sought in adopting wrong business strategy even during the prime days of the company in the late 90s and the inability to cope with the crisis and financial management in the first decade of the 21st century.

It's worth asking yourself a question of what Alpinus could have done to avoid such situation. It seems that the earlier observation of the fact that the outdoor market in Poland wouldn't quite be about the luxurious and more advanced products, but rather about the cheaper, more popular yet professional

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[95] *Czy jest jeszcze szansa na dalszą produkcję*, „Goniec Górnośląski”, 01/21/2014

[96] V. Makarenko, *Alpinus wraca na rynek*, „Gazeta Wyborcza”, 2004-10-07

[97] For: O. Krynicki, , *Alpinus powraca do gry*, http://www.mediarun.pl/news/id/8411, 2007-07-26

products, would grant Alpinus its success. A good model here was Euromark's strategy. Perhaps the construction of another brand, with lower production costs, the use of low-cost producers in the Far East, cheaper materials, which wouldn't damage the exclusive image of Alpinus, with the simultaneous strengthening of Alpinus as a premium brand, would ensure the ADD JSC company survival, success and further domination on the Polish market. However, such a decision should have been made before the year 2000, and prior to the commencement of the period of economic downturn in Poland.

2.5.4. EPILOGUE-FURTHER STORY OF ALPINUS

On October 5th, 2004, it was announced that Euromark JSC, owner of Campus, is buying Alpinus from the Meritum Bank. Alpinus was to become a premium brand for Euromark and thus supplement the product portfolio of the company. It was agreed that until 2010, the Euromark Company was to give a part of the profit from Alpinus brand sales to Meritum Bank. Products under the brand name Alpinus, were supposed to be directed towards the most demanding customers looking for the top shelf product. The assumed target group included consumers ages 18-45, active outdoor enthusiasts, with a professional verve, willing to pay more for the product in exchange for benefits that it offers. As Mark Forkun, the Vice President and Managing Director of Euromark said: "Expanding our offer by Alpinus products does not only create an opportunity to reach out to a new group of consumers but it also creates an opportunity of growth, which we are giving to our existing clients. If they only want to follow the footsteps of professional enthusiasts of the outdoors, some mass merchandise recipients of Campus will naturally grow and look for more high-tech products, just like the ones Alpine brand has to offer"[98].

In conclusion, we can say that Euromark adopted a strategy, which a few years ago could have been adopted by the Alpinus company itself, which during the 90's had by far, a way better position on the Polish market than Euromark ever had. Strategic and management errors caused, however, that it was Euromark that took the place of Alpinus JSC.

[98] For: Ibidem

3. CONTEXT OF VALUE BASED MANAGEMENT

3.1. GENERAL OUTLINE

The main assumption here is that there are different types of stakeholders surrounding the company. They have different goals and pursue to achieve them. Thus their positions and powers vary and it becomes visible that they do not work towards the value of a company in the same way. Sometimes it may also influence the strategy and the strategic goals. In VBM concept the strategy is shareholders biased needs. It does influence the company but the question is what will happen with other stakeholders needs.

- Environment of a company and investment decisions.
- Stakeholders-the concept.
- Agency Theory and inequality of getting the information.
- Shareholders and their goals.

Case study – the company's environment, shareholders and other stakeholders needs, agency theory.

Management concepts, in the context of increasing the market value of companies, have gained publicity in the early 80's of the 20th century. Strong pressure put by investors, Globalization, capital mobility and the ability to simultaneously compare the rate of return on different even geographically distant markets have caused migration of capital and, consequently, the incentive to search for methods of investing in specific projects. A study was done on behavior and expectations of investors and helped to systematize and prioritize the determinants of investment decision in the stocks or shares. It was easy to see that just by issuing of shares connected with the activities of public relations were not enough to acquire new investors or even to maintain the existing ones. The result was often a sale of held values and, consequently, decrease in the market value.

3.2. MARKET CONDITIONS AND VALUE CREATION

Referring to the generally recognized Porter's model, the attractiveness of the market depends on its size, the ruling competition, barriers to entry and exit, suppliers, buyers and the available substitutes. The most important factors influencing the attractiveness are, however, without a doubt, the size and the competition.

Determining the size of the market, that is, the study of its size, should be initiated by answering the question, how big is it currently, what is its pace and at what stage in the life cycle (industry, product) it is.

Exercise

Industry life cycle –Kodak's case

For years, Kodak used to be the world's leader in manufacturing and sales of photographic films, cameras and photo development and processing equipment. Competing with Fuji, OrWo, Agfa, Konica and other suppliers, not even once Kodak felt like its product had been ousted by digital matrix. While performing one of their strategic goals and achieving almost 100% of the market of photographic films, the company announced bankruptcy in 2012. The market simply shrank so much that the turnover could not maintain the international structure of the company, their laboratories, distribution channels, etc.

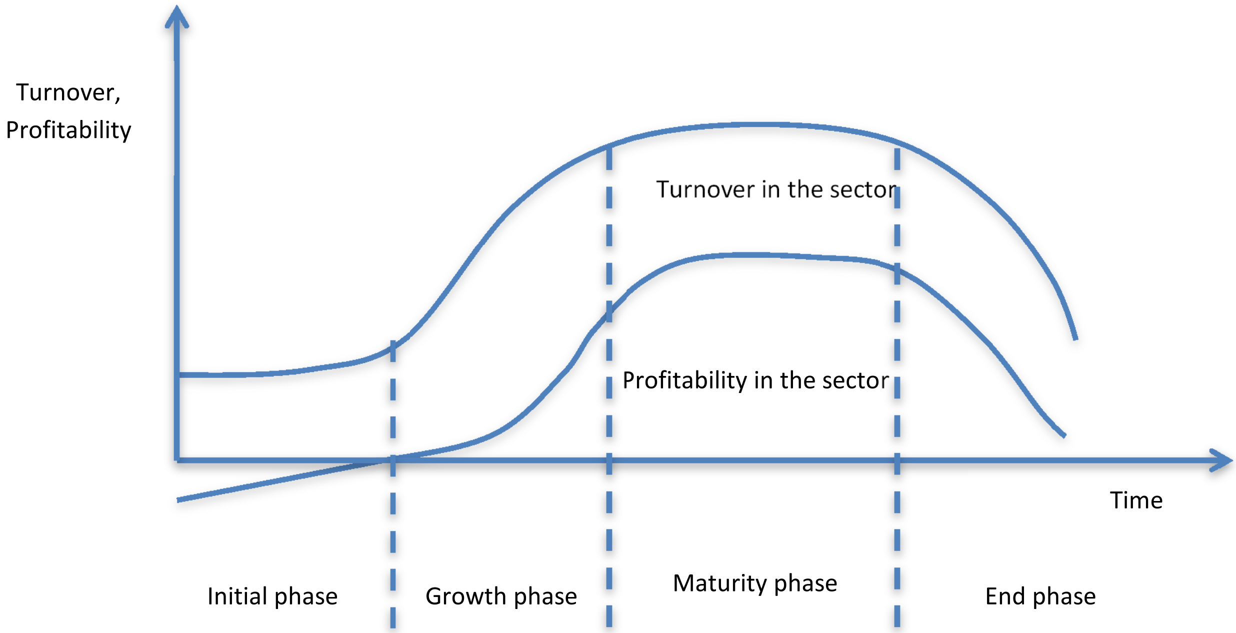
Discussion questions:

1. *Why companies do not notice changes in a lifecycle and do not follow one?*
2. *What should Kodak do to watch the lifecycle?*

Competition analysis and competition intensity are an important source of information for the risk assessment and the return on investment which, in turn, greatly influences the results of valuation and assessment by investors. Equally important, this analysis should apply not only to the present conditions, but also to the prediction of future options for creating value.

Industry lifecycle

Fig. 4 Sector's life cycle-turnover and profitability



Innovator, seeker, diversification,	Diversification, product development, occupying niche market, concentration	Analyst, cost leadership, market penetration	Cost leadership, development of new markets, withdrawal	Preferred strategies
Very high	High to medium	Medium to low	Low	Relative demand for capital
Negative to very low	Low to medium	high	From medium to negative	profitability
Orientation to win clients through information and education	Growth above market growth, winning new clients	Taking over the market from competitors (horizontal integration)	Vertical integrations, vanishing competition	Winning the market
Low	Strong	Very strong	Low	Competitive fighting in the sector

Source: author's own elaboration based on Kerin R., Hartley S., Rudelius W., (2012) Marketing, 11th Edition, McGraw-Hill/Irwin, USA

The strength of a company, based on its market position, usually comes down to determining its market share. This is not usually the deciding factor, but many professionals especially those involved in the creation and implementation of marketing strategies, recognize market shares as the primary objective and as a deciding factors affecting value. The method of calculating market shares is proposed by, for instance, the matrix of Boston Consulting Group (BCG). It is the relative market share, which are company's shares relative to its largest competitor on the market. It seems, however, that the measure is at most the result of company's activities and its analysis does not bring the expected results, particularly in terms of predicting the future and determining value. Referring to the SWOT analysis, it is rather a derivative of the strengths and weaknesses of a company and of used opportunities with risk reduction. Additionally, the measure is charged with an interpretation error from the get-go. It does not even mention the dynamics of the market itself. It is easy to realize how little value a double-digit percentage of market shares value will have on a vanishing market, just like in case of typewriters being replaced with computers. Sources of value should rather be sought within the organization, especially if it is associated with a high-tech market. Finally, one of the key factors influencing the market value is the management of the company. It is not the industry that determines the value, but the artistry and proper strategy chosen by the management[99] and the supervisory board members[100].

3.3. HUMAN FACTOR

In recent years, the minds of researchers were occupied with human resources (including the leaders of course[101]) their irreplaceability, the impact on the creation of value and finally the attempt of valuation. Without a doubt this is an extremely important element of the organization. Nevertheless, there are many companies appearing on the market that outsource most of their operations. Even DELL Computers outsources despite the fact that the company doesn't manufacture nor does it have chain of stores. For the past several years, company's employees are recognized as the most important resource of an organization. But this is not the entire truth. Almost as important in an organization like DELL are, for example, the relationship with suppliers and cooperators, channels and ways of communicating with customers or the efficiency of the methods and management systems.

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[99] A. Ehrbar, *EVA. Economic Value Added. The Real Key to Creating Wealth*, John Wiley & Sons Inc., New York, 1998, p. 41

[100] S.D. Young, S.F. O'Byrne, *EVA and Value – Based Management. A Practical Guide to Implementation*, McGraw Hill, New York, 2000

[101] H.M.J.Jr Kraemer, *From Values to Action. The Four Principles of Values Based Leadership*, Jossey – Bass, San Francisco, CA, 2011

In terms of value creation through human resources, not without significance, is the appropriate leadership. Charismatic and visionary leadership can lead to a flourishing business. One of such leaders is Robert W. Pittman, a CEO of America on Line (AOL). This extraordinary leader generated AOL's market value higher than, for example, Time Warner. Unfortunately, it is extremely difficult to determine whether the leader and his vision represented the market value. All the models used so far, failed. As the analysis of above tables shows, the practice of investing in high-risk projects, leadership and management are the fundamental basis for the assessment of a project. Steve Jobs at Apple and Louis Gerstner at International Business Machines Corp. largely affect the growth of companies they run. This is confirmed by increase in earnings, cash flow or market shares after their take-over. Gerstner seems to deal just fine with complex and difficult situations. It is under his leadership that IBM buys from competitors, sells to the same competitors and sues them.

It is not a coincidence that in companies like Venture Capital, one of the most important elements of investment decision is a discussion with the entrepreneur[102].

[102] M. Lewandowski, *Venture capital*, conference materials “Venture capital”, Centrum Prywatyzacji, Instytut Rozwoju Biznesu, Serock, December 15 – 17, 2000

Tab. 5 Steps taken by the venture capital funds in the framework of a careful analysis and evaluation of companies and ventures in which they intend to invest

No.	TYPES OF ACTIONS	Frequency of taking actions (in %)
1	Meeting with all the members	100
2	Visit at the company	100
3	Interview with company's former business partners	96
4	Interview with company's shareholders	96
5	Interview with company's clients	93
6	Interview with company's potential clients	90
7	Market value assessment of similar companies	86
8	Informal interview with experts about the product	84
9	Thorough analysis of financial forecast	84
10	Interview with competition	71
11	Interview at entrepreneur's bank	62
12	Interview with company management of same industry included in fund	56
13	Interview with existing or potential suppliers	52
14	Gaining opinion of venture capital fund	52
15	Interview with company's accountant	47
16	Interview with company's legal advisor	44
17	Review of literature about technologies used in the company	40
18	Project's technical data acquisition	36
19	Market data acquisition	31

Source: M. Lewandowski, Venture capital, w: materiały z konferencji "Venture capital", Centrum Prywatyzacji, Instytut Rozwoju Biznesu, Serock, December 15 – 17, 2000

Tab. 6 Basic selection criteria-results of three tests (according to the criteria of the declining importance)

Poindexter (1976)	Tyebjee & Bruno (1984)	Premus (1984)
Quality of the management team	Quality of the management team	Quality of the management team
Expected return rate	Market characteristics on which business operates	Market niche and a large potential for growth
Expected risk	Expected return rate	Product's technical evaluation
Estimated share of funds	Market position	Capital's "delivery" cost
Estimated share in management	Company's financial history	Time until breaking even
Company's development phase	Company's localization	Industry type
Rate of dividend	Growth potential	Legal matters (eg. patent protection)
Company's capitalization	Obstacles when entering the market	-
Level of control from investors	Size of investment	_
Tax issues	business sector/market assessment	-
-	Company's development phase	-
_	Size of shares owned by managers	_

Source: M. Lewandowski, Venture capital, w: materiały z konferencji "Venture capital", Centrum Prywatyzacji, Instytut Rozwoju Biznesu, Serock, December 15 – 17, 2000

In terms of creating value through human resources, not without significance is the appropriate leadership. Charismatic and visionary leadership can lead to a flourishing business. One of such leaders is Robert W. Pittman, a CEO of America on Line (AOL). This extraordinary leader generated AOL's market value higher than, for example, Time Warner. Unfortunately, it is extremely difficult to determine whether the leader and his vision represents the market value. As the analysis of above tables shows, the practice of investing in high-risk projects, leadership and management are the fundamental basis for the assessment of a project. Steve Jobs at Apple and Louis Gerstner at International Business Machines Corp. largely affect the growth of companies they run. This is confirmed by increase in earnings, cash flow or market shares after their take-over. Gerstner seems to deal just fine with complex and difficult situations. It is under his leadership that IBM buys from competitors, sells to the same competitors and sues them. It is not a coincidence that in companies like Venture Capital, one of the most important elements of investment decision making is a discussion with the entrepreneur.

3.4. INTELLECTUAL CAPITAL

The distinction between the real economic costs and those that show company's financial and accounting statements, turned out to be a dramatic step for a number of valuation methods. Based

on centuries of history of writing and presenting of rules for recording transactions, costs, revenues, and a number of other categories have been insufficient to describe the modern structure. Technological developments have only intensified this difference and opened a gap between the market and the book value.

For a number of years, widely used measures of accounting and finance have been guarding methods of using external resources. As a result, it allowed external investors to assess the financial condition of their current investment. The tax function appeared a bit later, and meant protection of government's interest. Such approach has perpetuated and accounting-financial measurement goals focused around these terms. Cost analysis and management accounting, being relatively innovative approaches, have their roots in concepts from close to two hundred years ago, when the first publications appeared in periodicals related to engineering and technology. That is how financial analysis tool for engineers was created. The development of accounting management belongs to the 60's of the twentieth century, when budgeting and cost control of diversified increasing production has become of great importance. Based on this model principles of data presentation do not support the interpretation, allowing any possibilities in this regard. They are strictly used for price-fixing, identifying cost level, enhancing decision-making and ultimately contributing to making profit. Interested parties should know on their own what conclusions should be drawn from the presented data and how to assess and ultimately perform enterprise valuation.

It follows that the methods of wealth, income and partially multiplier, based on accounting-financial data use faulty sources and as a result are not able to make a valuation of intellectual capital. As it is the most important asset of a company in a new economy, the methods cannot be used to perform the proper valuation.

Valuation of intellectual capital in 500 companies recognized by the Standard & Poors as the most accomplished, were performed by a team of researchers from New York University, in 1999. The assessment began by estimating the expected revenue of material and financial assets that were deducted from the past and expected profits of the enterprise as a whole. Results of these calculations are organization's profits coming from utilization of organization's existing intellectual capital. The result is divided by the rate of return on intellectual assets after adding tax based on the calculation of the biotech, software and pharmaceutical industries. The results are shown in the table below.

Tab. 7 Intellectual capital value on the US market according to trade

No.	Industry	Intellectual Capital (1999, million US $)	Intellectual capital/book value	Market value/book value
1	Air and military	23.447	3.58	1.8
2	Airlines	7.949	2.12	1.0
3	Biotechnology	4.393	5.18	16.3
4	Chemicals	9.948	3.08	2.2
5	Computer Hardware	49.857	6.69	17.5
6	Computer Software	38.908	5.68	15.2
7	Electricity	7.690	3.70	3.6
8	Electrical Equipment	10.351	1.11	2.1
9	Food	18.565	7.48	9.1
10	Wood	8.884	0.87	1.6
11	Home appliances	19.296	8.10	6.6
12	Manufactured goods	23.132	3.65	3.3
13	Media	16.759	0.94	2.7
14	Automotive	13.413	3.50	1.9
15	Publishing	5.619	3.77	3.2
16	Petrochemical Industries	24.559	1.71	3.4
17	Pharmaceutical Industry	75.224	8.44	12.2
18	Retail Trade	15.406	2.89	3.8
19	Semiconductors	42.029	6.23	12.6
20	Specialized trade	10.320	2.62	8.0
21	Telecommunications	81.221	3.26	3.5
22	Telecommunications equipment	26.947	3.25	7.7
	The average		**3.99**	**6.33**
	Median		**3.54**	**3.55**
	Standard Deviation		**2.26**	**5.24**

Source: Own elaboration based on Westland Ch., Valuing Technology. The New Science of Wealth in the Knowledge Economy, John Wiley & Sons, Singapore 2002, p.43

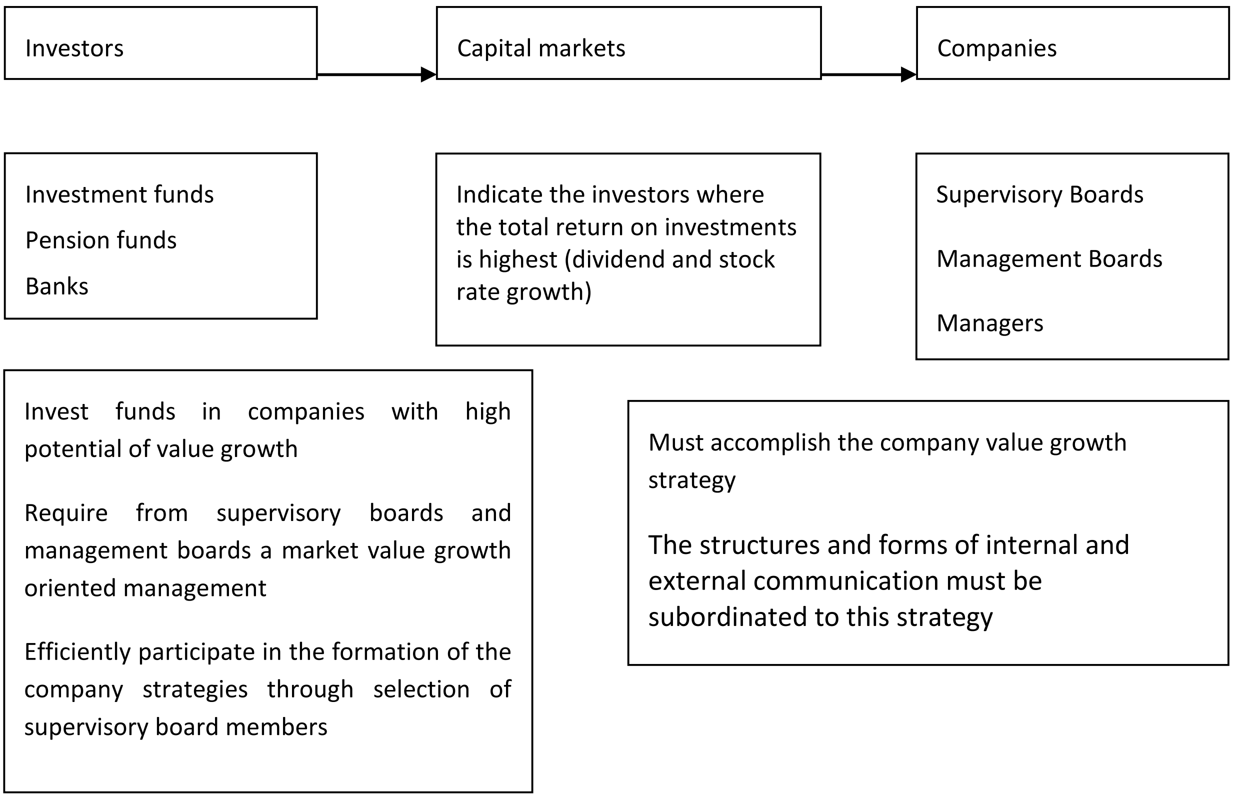
Note that the median for all industries. Its value is similar in intellectual capital indicators/book value and the market value/book value.

As the median analysis enables us to ignore the extreme results, we may come to the conclusion that it is the market that evaluates the intellectual capital (including the managers and supervisory boards). In hi-tech companies, such as software, hardware, biotechnology, pharmaceuticals and semi-conductors, the coefficients reach values far beyond average. Therefore, their market value is largely generated by the intellectual capital. Similar results to those of the industries particularly knowledge-based have been attained by the food industry. The advanced technology of breeding, cultivation, supply, quality control, use of chemical products, etc. clearly contributed to the intensive use of knowledge by the industry. Interestingly, except media and wood industry, the intellectual capital value exceeds the value of equipment and fixed assets. The research also considered the correlation between the investments in knowledge and changes in the later profits on knowledge, which in consequence is transformed into the entity's competitiveness on the market. The close correlation is noticeable between the three determinants of the intellectual value, i.e. research and development, promotion and capital expenses and intellectual capital.

3.5. AGENCY THEORY

The targets of shareholders and management or supervisory boards may significantly differ from one another, because managers, like shareholders, tend to satisfy their own needs. There are numerous cases where the targets of the company management boards diverged from those of the shareholders. This is related to the fact that, according to the behavioral theories of conduct, they act in their own interests that may not be identical with the shareholders' needs. This is also confirmed by the concept of political organization model. This is related to a situation where the shareholders perform their managerial functions through their agents, in this case supervisory boards. Such plenipotentiaries may commit in unfavorable situations from their principals' point of view.

Fig. 5 The investor-company relations



Source: the autors' own study based on A.Herman i in., Zarządzanie wartością firmy [Company Value Management], Poltext, Warszawa 1999r. s.27

The reference literature [103] [Rappaport 1999] specifies four factors to induce the supervisory or management board members to act in the shareholders' interest. The first to be mentioned is the significant share of the supervisory board in the ownership, i.e. their shareholding in the company they supervise. The second one decides on the method of remuneration correlated with the return rate on investments. The third is the threat of takeover and the fourth is the competition among managers occurring on the market. If we assume that the supervisory or management board members hold shares in the company they manage, they may significantly differ from the shareholders by the extent of the risk level accepted. A shareholder usually diversifies their portfolio, while a manager managing the entity has restricted possibilities to split the risk between various investment projects.

At first, the lack of the managers' interest in the market value of the organization managed by them was attempted to be resolved by legal regulations granting more and more rights to the shareholders. Further regulations, however, led to excessive rights, inadequate to the shares in the capital structure.

[103] A. Rappaport, *Wartość dla akcjonariuszy*, Wig Press, Warszawa 1999, p.3

It mainly concerned minority shareholders who, by means of one ordinary share constituting e.g. 0,00000001 of the capital could effectively block important strategic decisions. An example can be the blockage by minority shareholders of the merger between Bank Inicjatyw Gospodarczych and Bank Gdański. In consequence, new regulations arrived to restrict the rights of single share holders. However, depriving some shareholders of effective claiming some in court, is not characteristic for the Polish market only. Solutions in this scope originating from English speaking countries do not guarantee privileges to shareholders either, the minority shareholders, in particular. Therefore the growing role of management and supervisory boards takes place as well as more and more attentive monitoring of their actions.

In the literature concerning the topic it has become customary to state that the investors usually and most of all expect more than average return rate on the capital invested. Thus, the first issue is related to more than average return rate and settling the factors affecting the amount thereof. The various ways of perception thereof are indicated for example in the stock purchase and sale transactions with almost all the price levels. It seems that, disregarding the price, the shares always find people willing to buy and sell them. Announcing sale or purchase offers indicating significant excess of supply or demand, respectively, blocking the transactions, takes place relatively rarely. In the stock exchange history such cases practically do not occur, except the periods of serious stock market crashes.

What are the determinants of allocation of funds in a company as they are to be seen to differently? The first and basic one seems to be the assessment of the risk related to economy as such, which may usually be related to the interest rate on stock issued by the government of a country. The statement that such securities are risk free is untrue. This is proved for example by the fact of their long maturity period, restricted liquidity in this range, change of market price in time, possible announcement of complete or temporary insolvency and loss of potential investment opportunities.

Another aspect is the expected investment period. For investments with the horizon of one or more waiting sessions, the expectations are totally different from the multi-annual ones. Although it is usually assumed that the long-term investments are related to higher risk and, in consequence, higher return rate expected, in case of the investor's short-term orientation (e.g. one day) their expectations towards the growth of the allocated capital are often higher (e.g. in annual ratio) than for the long-term players. This is a specific paradox that, however, is rarely correlated to fundamental analysis and thorough interest in the company policy concerning market value appreciation, restricting the risk or dividend payment.

The risk related to a specific entity is also important. As such this is an issue in so far complex in as much subjective in assessment. Some of the determinant categories have both subjective and objective dimensions. Therefore, management quality may be perceived in relation to its quantifiable effects and clear facts derived from the history as well as subjectively recognizable development potential, attitude towards the investors, management and supervisory board stability, etc.

Dividend, although in Polish conditions perceived as a minor extra to the expected rate appreciation, becomes more and more important nowadays. With dropping inflation and interest rate for time deposits or government bonds and the stagnation dominating at the stock exchange, a dividend on the level of a few per cent of the market value constitutes a more and more significant source of encouragement for the potential and present shareholders.

The analysis of historical data, either financial or concerning e.g. the managerial staff, sometimes leads to the growth or drop of trust and, in consequence, to differences in expectations concerning the return rate. A stormy history and instability may also prove a misguided policy and the lack of uniform organization strategy. The effect thereof may be capital outflow, investors' discouragement, loss of market value and, eventually, takeover.

3.6. CASE STUDY – HIPPIE BUSINESS SUCCESS – SIE MA

The business history began untypically. In early 1990's two students of a catering high school in Tricity, Poland (Gdańsk, Gdynia, Sopot), known in their environment for rather unconventional behaviors, crazy parties and continuous school problems, got the idea to create a small business producing untypical ice-cream, from natural ingredients only, designated for rebellious youth, referring directly to the ease and originality of youth culture.

Almost 20 years after this event, the company of Janek and Krzysztof (called by friends Big and Little Hippie, for the points of view they followed) was not one of thousands of small Polish businesses, but rather resembles a mini ice-cream empire. „Sie ma" (as this was the name of the company) had 50 branches in numerous cities and holiday resorts at the Polish sea coast, several shops in central Poland and three big factories in Gdynia, Słupsk and Koszalin. For 5 years the company also was a stock exchange company of ca. PLN 50 million value. Most of all, however, the two businessmen established a business that was environment friendly and, giving it a smart name, socially responsible. They were not rich in material wealth, were not proud of a series of new limousines. First of all, the company helped sick children, the poor and the homeless in the region. It spent 7,5% of their gross profit per year to their friend, Grand Orchestra of Christmas Charity [Polish abbreviation WOŚP] Foundation of Jurek Owsiak (its name was inspired by fascination with Owsiak). The company paid salaries to their employees, highly above average (mainly very young people from difficult environments), provided extra health insurance, long maternity/paternity leaves to parents. Moreover, they gave three small ice-cream packages to each employee, free of charge, every day. Proecological actions were not unfamiliar to the company, either. It joined the campaign against the construction of the road across the Rospuda valley and bought milk for their production from the local farmers. The milk had to be free of any chemicals, including hormone agents. They packed their products in recycled, unchlorinated packages. The company organized demonstrations against the erection of nuclear power stations in Poland and provided financial support to ecological organizations. It also participated in the campaign for the withdrawal of Polish army from Afghanistan and Iraq.

The annual financial statement was probably more colorful than the Greenpeace magazine and the annual general meetings were only an opportunity to celebrate together: which included without limitation open-air concerts with most famous Polish alternative music bands. The further types of ice-cream – to express the ideals of the company founders – were called „Liżta co chceta" [Lick whatever ye want], „Woodstock" of „Riedlowy Dżem" in memory of late front man of the band Dżem. Rock music was played in the production halls of the company.

Instead of spending money on TV, radio or large media, Janek and Krzysztof traveled along Polish sea coast on a large refrigerated truck with the company logo on its side and would give out ice-cream samples, free of charge, telling the people about the company. At the grand final of WOŚP all the volunteers were given one portion of ice-cream, free of charge. It was trendy to show off with „Sie ma" ice-cream or wear a T-shirt with the company logo.

This unusual philosophy and business management method, commitment in numerous social activities, publicity and confidence in stating their points of view plus a pinch of luck made „Sie ma" one of top ten most respected companies in Poland. By the way, it was a treat for larger companies. The company shares cost PLN 28 at the stock exchange. Polish ice-cream manufacturing giant, Koral, offered PLN 35 to the shareholders. Unilever (Algida) also joined the competition trying to win the shareholders with the offer of as much as PLN 40 per one „Się ma" share. However, the condition of accomplishing the offers was the takeover of the control package of shares, while minor shareholders had only 55% shares and Janek and Krzysztof still held 45% shares.

Janek and Krzysztof launched their company on the stock exchange in 2006, because they needed capital to erect a new factory. Then they put themselves between the devil and deep blue sea. Rejection of one of the offers of either Koral or Unilever could result in abandoning the company by disappointed shareholders who expected good gains on selling the shares. At the same time, the company needed money for further development. Some measures had to be taken.

Discussion Questions:

1. *What is the success of „Sie ma" based on?*

2. *What would be the effects of takeover of the company by one of its competitors?*
3. *Analyze the stakeholders in „Sie ma". What is the reason for the interest in the company of each of the groups specified?*
4. *Which option – defense against takeover or takeover – would you select? Why?*
5. *Prepare a strategy of communication measures that would assure a trouble-free accomplishment of the option selected. Consider the actions related to each group of stakeholders.*

3.7. CASE STUDY E-CIGARETTES – FREE PRODUCT ON A REGULATED MARKET

Instytut Badań nad Gospodarką Rynkową (Market Economy Research Institute) and consulting companies, such as Immoqee advise the government of Poland and the governments of other countries to charge e-cigarettes with such financial encumbrances as excise tax. The importers of e-cigarettes are against it. They incite to protest not only other tobacco industry entities, but also other users and some third parties who do not like excessive state interventionism and excessive regulations. Other tobacco industry entities seem to have various opinions. The Ministry of Finance has not made decision whether to charge the product with excise tax or not, either. However, the pharmaceutical corporations treat e-cigarettes as medical products and want them to be classified in this way. They are supported by Ministry of Health in this aspect. The media are diversified too, some of them support the action, some want the absolute withdrawal of the product and some have the opinion that it should be more available, without any additional taxes, including the excise tax.

For the last few years, Poland has been the fastest growing e-cigarette market in Europe and one of the fastest growing markets in the world. According to the report prepared by Opinie Polska, 4,5 per cent of all adult Poles use e-cigarettes (ca. 1,8 million). Independent analysts say it is 2 million people, while TNS Polska, that it is 1,3 million. Such surveys build the image of growing commonness of the said product and may indirectly affect encouraging others to use it.

Chic is a leading company in the sector of e-smokingu device commerce. Its management board estimates that the value of sales of devices and liquids in the coming years should reach Eur 0,5 billion p.a. as compared to Eur 200 million in 2014. In the opinion of the analysts cited by Bloomberg BusinessWeek, the global value of the said market in 2017 shall be Eur 3 billion and in 2025 it will be worth more than the market of traditional cigarettes. The market also draws the interest of capital investors, banks, manufacturers of traditional tobacco products, state administration and the companies producing it. A serious competitor, rich with available cash, has appeared, i.e. large pharmaceutical corporations (big pharma). All the parties concerned want to have possibly the highest share in the financial annuity resulting from the fast market growth and the businesses present thereon. Instex, the manufacturer and distributor on the e-cigarette market, decided to benefit from the interest in this market sector and presented its Initial Public Offering (IPO) in 2013 and entered the stock market. 12.000 individual and corporate shareholders bought the shares, while the price of the stock grew by 35% in the first year. By date the Company has not annouced dividend payment, although it closed the financial year with profit.

Ministry of Finance

The question whether e-cigarettes are a tobacco or medical product has been left with the governments of particular countries in the European Union. For example, the anti-nicotine plasters and some preparations taken by those who want to give up smoking. In case of e-cigarettes, however, the Ministry of Finance has no defined opinion in this scope. The experts appointed by the Ministry have not formulated a uniform opinion thereon, either. The lobbyists appointed by the sector, although seem to succeed, however, this is rather due to the Ministry's reluctance to add any further encumbrances and regulations thereto. According to the lobbyists, along with the growth of e-cigarette sales, the access to tobacco products, both from the legal and illegal market, is restricted. This is due to the fact that the consumption shifts towards tobacco inhalers that, according to the lobbyists, cause no smoking-related diseases. E-cigarettes containing nicotine inserts, by their legal definition are not a tobacco product and therefore are not subject to excise tax. Ministry of Finance found that it received no applications by manufacturers of cigarettes concerning the issue.

Tobacco corporations

For tobacco corporations e-cigarettes represent both risk and opportunity. The CEO of Philip Morris promised the investors and shareholders a dynamic launch of e-cigarettes on the market. He added that it is the most dynamically growing market of relatively low damaging alternatives to traditional cigarettes. Philip Morris also scrutinizes the Polish market and values it as a very promising one. The shareholders willing to gain more profits also exert pressure on British American Tobacco to invest in such market. The latter company launched their own e-cigarette brand in the UK last year, called Vype. The e-cigarette market in the UK grows very dynamically, which translates into a growing number of users. Both companies declare support to the development of alternative tobacco and nicotine products, not very harmful to the users' health. Both companies invest EUR 100 mio p.a. in research and development, which includes research and clinical test addressed to the said group. Similarly, the e-cigarette market draws the interest of Imperial Tobacco and Japan Tobacco International. Not only did both companies declared entering the promising market to their shareholders, but also they have taken the first steps to patent solutions in the scope of manufacturing appropriate equipment.

The said companies may launch on the Polish market thanks to the provisions of the EC Directive on Tobacco, according to which the maximum concentration of nicotine in e-cigarettes should be 20 mg/ml. Thus, the e-cigarette cartridges have been legalized, but may not exceed 2 ml capacity. The said Directive also reserves the option of to ban some types of cartridges, while the manufacturers and distributors of e-cigarettes have been obliged to test the toxicity and quality, at the same time constricting their advertising.

Nevertheless, Imperial Tobacco, Japan Tobacco and Philip Morris lobby for imposing excise tax on e-cigarettes, while British American Tobacco is against it. In the opinion of the first three companies, the rise of excise on classic tobacco products could be lower if e-cigarettes were included therein. E-cigarettes cost ca. EUR 0,5 today per a packet of cigarettes. Were they included in excise tax, Polish budget would gain ca. EUR 0,5 mio.

Finance Commission and Research Institutes

The excise tax is an idea of senators and MP's from Public Finance Commission. They state that an electronic cigarette is almost as harmful as an ordinary one. The Market Economy Research Institute in its report also indicates including e-cigarettes in the excise-tax. Particularly now that the gains on taxes imposed on tobacco products have dropped. The lobbyists also appear here, both of tobacco corporations and the manufacturers and distributors of e-cigarettes.

The Importers

The importers of e-cigarettes do not want any changes on the market, particularly they do not want the excise tax thereon. Usually, these are domestic companies, i.e. in Poland they are Polish companies with Polish capital. They are owned by private persons and profit-oriented capital investors. There are almost 50 companies in Poland and the leader is the Chic Group, the owner of eSmoking World brand, with 100 retail parlors. The other companies own ca. 220 parlors and numerous brands. In addition to the brand parlors, e-cigarettes are sold in ca. 200 thousand retail points from shopping malls and big stores to small kiosks and newsstands. The sector tries to care about its image and the CSR code, best practices code, internal bans to sell e-cigarettes to minors. According to the distributors and importers, taxation may cause big problems and bankruptcies. Smaller businesses on this market would not stand the significant growth of costs. The smallest entities usually sell the cheapest e-cigarettes, leaving the more expensive ones with the largest entities of the industry. However, even the Chic Group is unable to compete against the largest players of the tobacco market, should high excise tax be imposed.

Big Pharma

Big Pharma lobbied for acknowledging e-cigarettes a medical product already during the preparatio of the Tobacco Directive. However, it gave no effect, but a provision of the Directive appeared assigning the question whether e—cigarettes are medical or tobacco products on the level of the EU state governments. According to the analysts, the possibility of including e-cigarettes to their own offer would be an immensely promising opportunity for the big pharma. Both the investors and the companies count on profits thereon. They would have everything that is used for giving up smoking in their offer – nicotine plasters, chewing gum, pastilles and e-cigarettes. The products could also be advertised, which brings the possibility to promote the brand. Such advertisements are restricted, particularly for companies offering prescription medicines, so-called RX. According to official data, only the total budgets of the companies amount EUR 70 billion at present. The marketing costs them another EUR 100 billion. Their launch on this market, both in Poland and all over the EU would be a serious challenge for less wealthy distributors of the products.

Ministry of Health

Considering the health reasons, Ministry of Health acknowledged that e-cigarettes may help treating the smoking addiction. They promised that on the next amendment to the Law, the Minister of Health will take into the consideration restoring the attempts to regulate the case so that the non-tobacco products containing nicotine are to be registered as treatment or medical products. Their registration shall also improve the level of control over appropriate institutions and for a better responsibility level of their sellers, distribution methods and availability. The regulation, however, would be unfavorable to the distributors, users or even the tobacco corporations. Registration of e-cigarettes also means the necessity to certify them and obtain a number of permits. Moreover, it usually is a process lasting up to two years and related to significant costs.

Perhaps, the cheapest e-cigarettes would disappear then, while new brands introduced by big pharma would appear to replace them. Probably the distribution method would change as well, because the products would appear in pharmacies and as a target would be sold in this distribution channel only. Their price would probably grow by 100% and the number of people willing to buy them would significantly drop, at least at the initial phase of the change.

Discussion questions:

1. *Specify all the stakeholders, distributors and manufactures of e-cigarettes.*
2. *How do the actions of specific stakeholders affect the amount of stock and shares.*
3. *Which actions of the particular stakeholders could affect the decrease and which could affect the increase of the market value of stock and shares of e-cigarette distributors and manufacturers?*

4. *Which actions taken by the stakeholders could satisfy the shareholders and owners of e-cigarette distribution units?*
5. *Which actions taken by the stakeholders could cause short-term changes in the market value of shares and stock of distributors and manufacturers of e-cigarettes and which could cause long-term ones?*
6. *How could we prevent stakeholders' initiatives that could reduce the market value of stock and shares of e-cigarette distributors and manufacturers?*

4. TRADITIONAL APPROACH TO VALUE BASED MANAGEMENT

4.1. GENERAL OUTLINE

Value Based Management (VBM) comes from early ’80 XX century. Based on Cash Flow, Profits and Loses, financial indicators VBM became less human oriented and more numbers oriented. Though at the very beginning the valuation of any activity and any work done by any worker was the measurement it was always connected to cost or profit of the work pursued. Imaginable some or the majority even of activities were unable to be calculated. The traditional approach however presents the value for shareholders (owners) measured by a cash flow and some other financial metrics. The unit here is money.

This chapter will present Rappaport’s approach and some profit/cash flow based methods of company valuation.

- Value Based Management (VBM)
- Shareholders’ Value Management (SVM)
- Economic Value Added (EVA)

Case study – value based management challenges, measuring of EVA, limitations and creative accountancy problems.

4.2. TRADITIONAL VALUE FACTORS

Some interesting conclusions about the sources of value are provided by the analysis of labor efficiency in particular countries. In the USA, although by far lower capital falls per one employee (e.g. it is by 40% higher in Germany than in the USA) the production per one employee is significantly higher than e.g. in Japan or Germany. Interestingly, the Japanese work much longer in average and save more money than the Americans. Thus, investing more labor, capital and effort, they obtain less. The issue, in the opinion of the specialists from McKinsey, is in much lower capital efficiency. In most highly developed countries it does not exceed 75% of that of the USA. Thus, these are the managers and their ideas about the use of funds decide on the level of efficiency, and, in consequence, the level of return on investments and how wealthy are not only the shareholders, but also the other part of the society. The researchers as one of the main reasons mention different mentality that makes the Germans, the Japanese or other nations invest without considering the market value of an enterprise as a whole. Although it is somewhat the result of their actions, it is treated as the necessary evil, rather than related to individual decisions of the management board. However, according to the researchers, achieving the American efficiency is not restricted by anything.

The social human workload is mentioned as the value source, however, it is immensely difficult to be established[104]. After First Boston[105], the basic supports of value include cashflows, risk and profit sustainability. S.Nahotko classifies property assets and their ability to generate profits within the basic factors implicating the total corporate value.

Tab. 8 Corporate value factors

Value factors	
Dependent on corporate management and supervisory board	Independent of corporate management and supervisory board
Profit generated by the company	Interest rate
Risk related to the company functioning	Situation in the industry
Company development perspectives	Situation on the stock exchange market

Source: the authors' own paper after S.Nahotko – „Współczesne metody wyceny wartości przedsiębiorstwa" [Contemporary methods of business valuation" , publisher: TNOiK, Bydgoszcz 1998, p.29

The sources of value may also be divided into those derived from the market itself, the company market position and its inside, that is e.g. strategy, product, etc.[106].

Within the value sources, disregarding the environment values beyond the company's control, such as the economic situation, competition, etc., the employees' enthusiasm, their commitment and the overall company competitiveness are the aspects that count. The value generated by the companies is a function of inventiveness and workload the employees add to the capital employed.

The polls of Skandia – a Swedish insurance institution concerning measuring of factors creating the business value led to a conclusion that the dynamic factors building the organizational capital, often invisible for accounting measures, may be presented in two categories. The first comprises people –

[104] M. Dębniewska, J.Suchta, *Zagadnienia ekonomiczno – finansowe w procedurach wyceny nieruchomości i przedsiębiorstw*, ZCO, Olsztyn-Zielona Góra 1996, p.39

[105] First Boston, EVA ABC, internal document, unpublished.

[106] M. Michalski, *Zarządzanie przez wartość. Firma z perspektywy interesów właścicielskich*, WiG Press, Warszawa 2001, p.30.

organization participant, their knowledge, abilities, skills, the culture and philosophy created by them. The market certainly evaluates this category of assets, even though it does it intuitively, rather than deliberately. The second category is the structural capital, i.e. a set of aids supporting human productivity, such as computers, software, brand, know-how, customers and relationships with them.

An interesting point of view on the company value determinants is presented by Prof. Curtis C.Verschoor from DePaul University[107]. The research he carried out explicitly showed that the market value of the companies that refer to the code of ethics is by far higher that that of those who do not. In his research he divided 296 large companies into three groups. The first included those who do not even mention ethics in management in their annual reports. The second group comprised those who claimed the compliance of their conduct with the code of ethics to a certain extent only, while the third group consisted of entities that clearly emphasized it. At the next stage he compared their market value added (MVA). It appeared that the average MVA for companies explicitly stressing their attachment to the code of ethics is USD 16,8 billion against USD 11,1 billion for entities showing partial attention thereto and USD 5,7 billion for those whose reports contain no information about ethics. So it appears that the enterprises, including hi-tech companies for whom market value is among the important operational aspects and they are aware of the same, clearly try to emphasize their ethical activity. This may result from a combination of connections between the customers, suppliers, employees, shareholders and other stakeholders in the organization. If any of these group is disappointed, the long0term losses shall certainly appear to be by far more painful than short-term profits made on unethical actions.

The new economy, however, effectively changes the world creating new principles of business operation, causing establishment of new relationships among companies, their employees, customers and governments. Not only the corporate targets, but even corporate structures change. Subject to redefinition is the term of risk and uncertainty, generated by the new principles and rate of changes[108].

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[107] A. Ehrbar , *EVA – strategia tworzenia wartości przedsiębiorstwa*, WIG Press, Warszawa 2000, p.14

[108] *Handbook of the Business Revolution – Manifesto*, “Fast Company”, XI.1995, p.8

4.3. SHIFTS IN VALUE FACTORS

Tim Koller et al. state, that the roots of value and value creation are hidden in return on capital and growth. The growth a factor underlines also M.Pindelski et.al[109]. What is important however this two factors do matter equally in any occasion. Accelerating growth or maximizing returns derive from different basics and may matter less or more depending on the situation of the company. In particular, the situation related to its' stakeholders[110]. Finally they reckon that the only root of any value similar to market value is in the growth of a cash flow. That depends on relations with the market, way of organizing resources, managing organization etc.

The contemporary economy is an environment created as the effect of simultaneous development of new communication and data transmission media, Internet-based technologies, consolidation of industries, globalization, growing importance of intangible components of businesses and the new generation entering the job market. The classic theory of finance and bookkeeping consider the competitiveness of companies as their ability to reduce costs, maximize profits and sometimes the market share. The very term of market competitiveness in case of new economy companies, however, needs to be redefined. The opportunity for cost reduction or current profit increase become of secondary importance. Thinking about future and the main asset, i.e. the intellectual capital, we need to concentrate on the reduction of key personnel rotation, customer satisfaction and income growth potential.

The present sources of organizational value are thus located in totally different places than before and are generated by assets that usually are difficult to be measured. They form value in a different way and the traditional systems are unable to recognize or measure it. The analysis of sources of business value is immensely significant in their management and financing, risk assessment or determination of appropriate discount rate. As the existing business models become obsolete and the future seems to be unprecedented and the risk level has grown. The risk is also an opportunity offered to the companies by the new conditions. Under such conditions the companies use the knowledge, relationships and intellectual property to create values, take opportunities and leveling the risk, therefore the role of perfect, knowing the industry and experienced managers is priceless. The

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[109] M. Pindelski, J. Żukowska, Growth Strategies. Case Study, [in:] ed. J. Czech-Rogosz, J.Pietrucha, R. Żelazny, *Wybrane aspekty przemian strukturalnych*, wydawnictwo Uniwersytetu Ekonomicznego w Katowicach, Katowice 2011 (wydano w 2012), p. 237-245

[110] T. Koller, R. Dobbs, B. Huyett, *Value: The Four Cornerstones of Corporate Finance*, McKinsey & Company, Wiley & Sons, Hoboken NJ, 2011, p.16, 30

distinction of appropriate value generating areas still remains an issue immensely difficult and ambiguous in terms of interpretation.

The appropriate combination of tangible and intangible assets forms a structure resembling the company DNA, which may create or destroy its value. S.Kasiewicz[111] specifies the basic differences between traditional business and business based on the new economy. They can be synthetically presented in the table:

Tab. 9 Contemporary vs. traditional business – sources of value

No.	Traditional business	Contemporary business
Identification of customer needs		
1	Marketing actions addressed to everyone	Direct individual marketing
2	Incomplete, biased and costly customer databases	Comprehensive, regularly updated and relatively inexpensive customer databases
3	Dissatisfying relationships between the employee and the customer	Consolidation of relationships between the employee and the customer
Data acquisition and storage		
4	Costly information acquisition process	Generally and easily accessible information
5	Initiative on the part of the customer	Sending information at an early stage
6	Data delivery and updating – difficult and labor-consuming	Easy and relatively inexpensive regular updating of data
7	Single or phase process of informing	Interactive and continuous communication in both directions (customer – company) and possibility to detail the needs in this scope
Evaluation of alternative products and services by the customer		
8	Customer's experience	Software and network facilitating search for products and comparison thereof
9	Brand perception and evaluation	Revisions and exchange of information within consumer forums.
10	Research and ranking institutions	Multiple choice charts currently edited by the customers

[111] S. Kasiewicz, *Zasady konkurowania w przestrzeni internetowej*, [in:] red. K. Hejduk, M. Grudzewski, Przedsiębiorstwo przyszłości, Difin, Warszawa 2000, p.209

Purchase decision		
11	Material cost infrastructure	Building virtual and interesting points of purchase
12	Expanded distribution channels	Alliances with distributors
13	Relatively restricted selection	Rich product range offer
14	Restrictions in the form of payment	Alternative forms of payment
Post-sale services		
15	Good contact with the customer	High level of service technology
16	Significant standardization level	High individualization level
17	Post-sale monitoring system under construction	Ongoing post-sale activity monitoring system
Competition		
18	Price competition	Ongoing price war
19	The expenses on the promotion of brand and products represent more than a dozen per cent of income.	The expenses on the promotion of brand and products often represent more than 50 per cent of income.
20	Restricted role of the B+R department	Dominating role of the B+R department, patents and innovations
21	Closing within own organization	Competing with the ability to create partnerships with other entities
22	Difficulty at making changes	High flexibiliy and susceptibility to changes
23	Costly investments in infrastructure	„Zero gravity”
24	Important company location factor	Fading importance of physical location

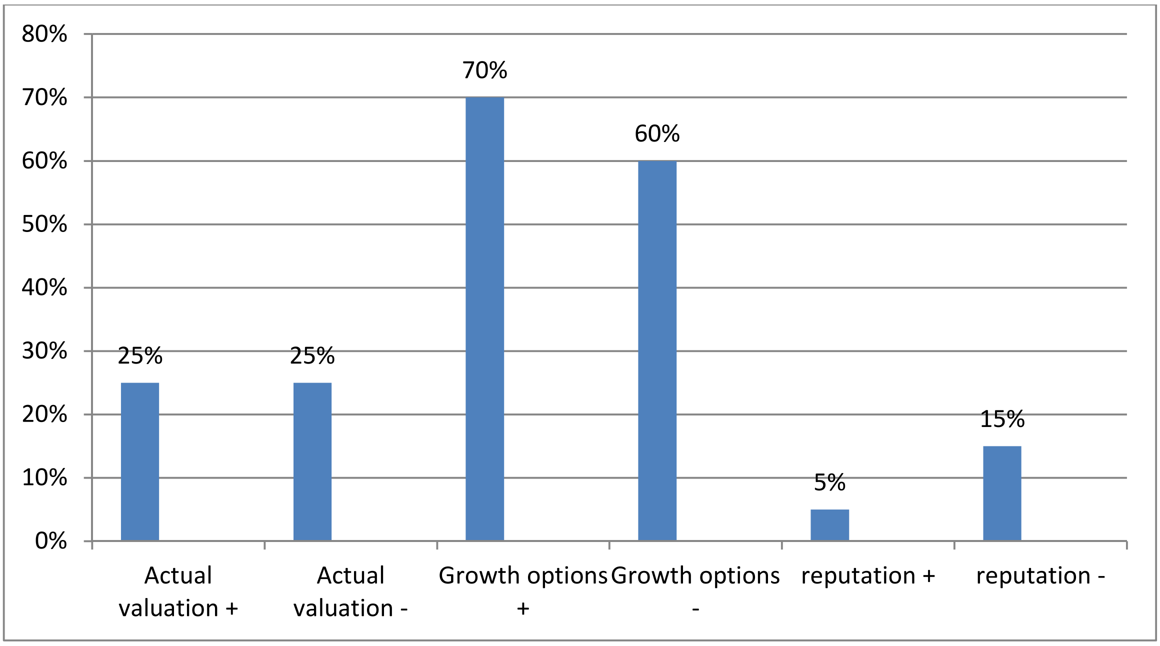
Source: the autors' own work after: Kasiewicz S. – „Zasady konkurowania w przestrzeni internetowej" [The Principles of competition online" p.209 and next at „Przedsiębiorstwo przyszłości" [Business of the Future] edited by: K.Hejduk, M.Grudzewski, Difin, Warszawa 2000.

Rory Knight and Deborah Pretty in their studies carried out in 2002[112] on shifts in value sources have presented a hypothesis that there are three basic components thereof. The conclusions of the studies have been confirmed by M.Pindelski in the research projects carried out in the years 2005-2014. So

[112] R. Knight, D. Pretty, *Managing the risks behind sudden shifts in value*, European Business Forum No 12 2002/03

the first component is the value of the evaluation day level expresses as the present value of the future cashflows on the operating business. The second comprises prognoses on the increase of the said values in the future resulting from the growth option performance. The third factor is the widely understood market reputation of the company. The influence of such factors on the market value changes in relation to its drop or growth has been reflected by the diagram below.

Diagram 3 Sources of value



Source: authors' own research, Jan.-Dec. 2014, Polish Warsaw Stock Exchange, companies listed in the WIG30 index. Actual valuations and some other data: Panfil M., Szablewski A., (red.), Wycena spółek z WIG30. Specyfiyka, metody, przykłady, Poltext, Warszawa, 2014

So, eg. In the case of value dropping it is in 25% explained by the actual valuation, in 70% by the growth options and in 15% by the reputation. In case of increase of market value it is explained by actual valuation (25%), growth options (60%) and reputation (15%).

Warren Buffet[113] uses a comparison of a contemporary economy business to a student paying tuition fees. Referring to the known terms of value – book value is obviously the sum of tuition fees paid to the university. The internal value means the total of future flows generated by the graduate upon being conferred the diploma related to the results he would attain starting a job instead of studying. The book value would be lower than the internal value. Certainly, there may be a situation when the student is expelled from the school and gets no diploma. In such case the book value will be higher than the internal value. In both cases, however, the measures based on book values are useless for

[113] W.Buffet, *Shareholders Manual*, www.berkshirehathaway.com (10.09.2014)

determining the internal value. Thus, the knowledge and relationships are acknowledged as fixed elements, while assets – as the source of costs. The research and development works, employees and knowledge cease to be costs. These are the very elements in new economy businesses that represent assets.

The meaning attributed to intangible assets sometimes brings astonishing effects. In early 2000, the market value of Microsoft[114] capitalization already amounted to USD 602,4 billion and exceeded the total capitalization of Boeing, Caterpillar, Ford, Kellog, General Motors, Eastman Kodak Comp., Roebuck, Sears and J.P. Morgan Comp. The following years only proved the same and in 2014 each Amazon and Apple separately were of higher value than the evaluation of entire Poland. The value of the said corporations was mostly based on intangible assets. On the other hand, however, basing on tangible assets would be a mistake in this case. In contemporary companies even the value of the products made and materials used for such production lose their value very fast. The decreasing length of product life and shorter and shorter time interval between subsequent models of the same product and innovations significantly affect conducting and evaluation of business. Typically for virtual economy, it happens that the drop of value reaches 50 per cent and more per annum. In this situation, inventory management becomes a very important element. The inventory rotation cycle should not exceed ten to ca. dozen days. It is important to manage them in such a way that they correspond to the current production. The fact that almost every product should be treated individually certainly is a difficulty. here.

T.Koller[115] et al. indicate the four "cornerstones" if the value and value creation deriving from a financial statements. First is related to investors' expectations and created by investing the capital delivered by investors to generate appropriate cash flows the exceed the cost of capital. The combination of return on investment end expected growth sometimes leads to high P/E (Price of the market share / Earnings of the company) ratio trading. That may replace the low growth and give a short term result.

Second cornerstone states that the value is created for shareholders by increase on cash flows. That is called a conservation of value. In case some companies issue debt to repurchase their listed shares or substitute debt with equity it doesn't change the cash flows. Same situation happens when company changes accountancy techniques in order to show better results in, say, the P/E ratio. It also happens

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114 R.E.S. Boulton, B.D. Libert, S.M. Samek, *Cracking the Value Code. How Succesfull Businesses are Creating Wealth in the New Economy*, Harper Collins, New York 2000, p.XVIII

115 T. Koller, R. Dobbs, B., Huyett, *Value: The Four Cornerstones of Corporate Finance*, McKinsey & Company, Wiley & Sons, Hoboken NJ, 2011, p.4-5

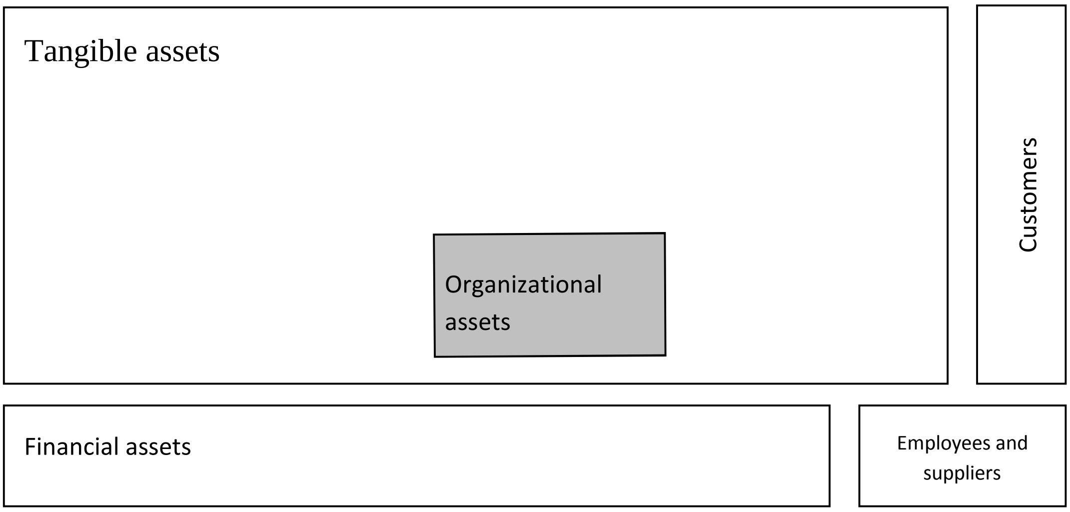
when a high P/E rate company acquires the low P/E ratio company that is in that moment rerated replacing the low P/E with the highest P/E of the buyer.

The third is driven by stock market expectations, risk, investors' behavior etc. It is not necessarily connected to the company's performance and depends' on external factors in many occasions. Anyway, the higher the expectations are, the higher the price of a single share is. One can consider now from where the expectations result. It is not impossible that these are related to internal data, brand, PR and many other things.

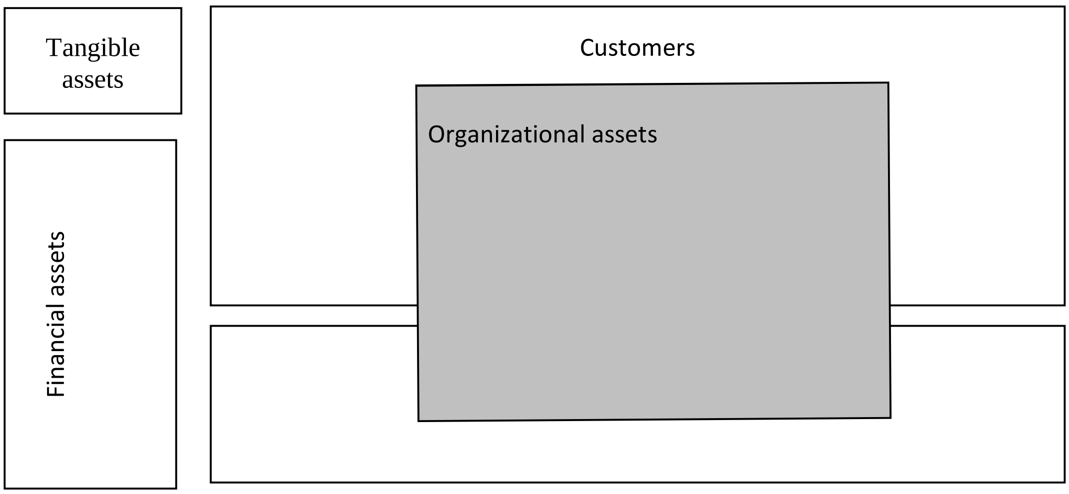
The fourth depends on what the strategy is, how it is made to work, who is the manager, what are the opinions of customers etc. These are strongly connected to many managerial issues, the way the resources are combined and managed, business model, sales strategy etc. We can call it organizational asset. As we, the authors assume, that one is a key point for all the others. In a long run in particular.

Fig. 6 Sources of value

A. Traditional business



B. Contemporary business



Source: the autors' own paper after Boulton R.E.S., Libert B.D., Samek S.M. – „Cracking the Value Code. How Successfull Businesses are Creating Wealth in the New Economy", s.112, Harper Collins, New York 2000.

According to Westland Ch[116]. three knowledge economy factors make the existing financial and accounting measures are inadequate to it;

- the technological acceleration, rate of replacing the technologies used so fare with new ones and their aging.

[116] Ch. Westland, *Valuing Technology. The New Science of Wealth in the Knowledge Economy*, John Wiley & Sons, Singapur 2002, p.45

- Network liquidity and market liquidity as significant determinants of value reflected in the changes of intensity and interaction scale in social business networks.
- The expansion of the term „money” onto electronic record, loyalty program scores, credits granted to credit card users and payments made with various types of cards.

The said issues change the methods of company analysis used so far. Most of them refer to and results from money, its value and purchasing power. The less stable it is and the more difficult it is to understand what money is, the lower reliability is there in the analysis and the more difficult is the interpretation of the results. So far money has been a category of exchangeable goods thanks to which one may possess other goods and compare their value in an absolute approach. Due to the fade of borders in cash flows, establishment of transnational organizations and the phenomenon of globalization, the necessity to convert money into various currencies emerges, considering various regulations, monetary and policy, characteristic for a country. In 2014 Daimler Benz, with its shares rated at New York Stock Exchange, gained USD 327 mio profit, while according to the American regulation, it presented loss of USD 1,1 billion. However, such differences occur more and more seldom, as global accounting standards become common.

4.4. FUNDAMENTALS OF SHAREHOLDERS VALUE

In spite of all the doubts and changes, there is, however, one set of factors accepted in the world of management determining value formation. Particularly, this is the case in the context of values for the shareholders and building competitive advantages of the companies[117].

[117] J.J. Kauffman, *Value Management: creating Competitive Advantage*, Sakura House Publishing, Etobicoke Ontario, 2009

Tab. 10 Factors forming the growth of value for shareholders[118]

Goodwill for shareholders			
Cash flow expectations		Return rate required from the capital invested. (bonus for risk above the risk free rate, e.g. on investments in bonds or treasury bonfs of stable state economies)	
Expected return on investments	Expected company growth	Operating risk	Financial risk
• Period of competitive advantage	• Managerial staff and organizational potential	• Domestic and regional law	• Liquidity
• Assets	• Employees and organizational culture	• Business control	• Size of business undertaking
• Operating margin	• Type of business, market launching barriers,	• Potential and absorption of the purchasers' market	• Risk management (experience, abilities and efficiency)
• Legislation, sectoral regulations	• Potential and volume of sales	• Market risk	
• Fiscal regulations, taxes and other compulsory encumbrances	• Level and structure of competition in the sector	• Communication with the market	
• Capital demand	• Business and product development potential		
	• Development and availability of technologies		
	• Viable options		

Source: the autors' own paper after: Fernandez P., Valuation Methods and Shareholder Value Creation, Academic Press 2002r., p.51

The analysis of the above factors, including numerous parameters of value seems to be the foundation for identification of parameters most significantly influencing the goodwill for shareholders. The factors surely will differ for particular economy segments and types of business, nevertheless, their

[118] P. Fernandez, *Valuation Methods and Shareholder Value Creation*, Academic Press 2002, p.51

basic assumptions and determinants remain the same. Although the knowledge about them is continuously developed, these are the ones considered the core and source for value management and awareness of what is consists of[119,120].

One of the methods of creating value in companies is the application of financial leverage basing on debt. The issue of bonds or taking credit may be a source of acquisition of capital that, subject to appropriate use thereof, shall be a flywheel for the operations and market value. This is the method used, without limitation, by the recognized book distributor, Amazon.com. Issuing bonds they acquired capital subsequently used to build the brand, develop systems and software, etc. The market capitalization of the said company in the peak period of the Internet boom, reached the value sixty times higher of the its book value. Cisco Systems applied a different strategy in this scope, buying companies providing substitution services or complementary ones to the multi-protocol routers offered for Cisco Systems' own shares with growing value. Thanks to such investments, the comprehensive customer service has been made possible, obtaining one standard in the scope of multi-PC communications or the Internet development and winning a significant market share. However, the right investment is not an unambiguous issue from its justifiability assessment's point of view [121].

Charles Schwab applied another approach building his stockbroker's empire and creating its value as a result of efficient merger of three state-of-the-art. distribution channels and contacts with the customers. He used customer-service offices, telephone helpline and the Internet. Such combination of new and traditional technologies created the opportunity to solicit an almost unlimited number of customers without bearing any substantial additional costs.

A.Rappaport[122], a pioneer of the value management idea, presents a network of values shareholder values. He explains the very term and indicates the method the managers may influence its amount in terms of satisfying shareholder needs.

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[119] R.B.Stewart, *Fundamentals of Value Methodology*, Xlibris, Bloomington, 2007

[120]A.K. Mukhopadhyaya, *Value Engineering Mastermind. From Concept to Value Engineering Certification*, Sage, Delhi, 2009

[121] R.H. Davies, A.J. Davies *Value Management*, Gower, Burlington, 2011

[122] A. Rappaport Creating Shareholder Value: A Guide For Managers And Investors, 3rd ed. Free Press, New York, 1999

Tab. 11 Network of shareholder values

Corporate terget	Shareholder value added	Dividends and capital profits		
Estimated value components	Cash flows on operations	Discount rate	Corporate debts	
Value driving forces	Duration of value appreciation	Growth of sales Operating profit margin Income tax	Investments in working capital Investments in fixed capital	Capital cost
Decisions of the corporate management		operating	investment	financial

Source: A.Rappaport – „Creating shareholder value", New York 1998r. p.42 and A.Herman, A.Szablewski "Zarządzanie wartością firmy" [Business Value Management], Poltext, Warsaw 1998, p.50

Shareholder value according to managers in the USA

Some immensely interesting studies concerning the perception of shareholder value, implementation of systems supporting the task and the impressions and conclusions derived therefrom have been provided by Harley E.Ryan and Emery A.Trahan[123]. In 1999 they carried out surveys among the

[123] Ryan H.E., Trahan E.A., *The Utilization of Value – Based Management: An Empirical Analisys*, "Financial Practice and Education", Spring/Summer 1999, pp.46-58

managers of 1000 largest American corporations [Ryan, Trahan 1999]. Although, they restricted their selection to directors and financial vice-presidents, nevertheless these are the ones with the greatest influence on the policy of the company value formation. The authors of the study addressed a two-page questionnaire to them to survey their awareness of the concept and shareholder value creating methods. Out of 186 top level managers who filled out the questionnaire, 13% were not familiar with value management methods, while the others were aware of such concept's existence. Out of those who were familiar with shareholder value, 94% knew the method of Economic Value Added (EVA®) while 72% were familiar with the Return on Invested Capital (ROIC) method. 19% respondents knew several value creation methods. The conclusion is that the vast majority of managers on the US market are fully aware of the requirements made to them by the business owners [shareholders], while the EVA method has become the most common one in the field of corporate life. The respondents also indicated the scope of application of the assumption.

Creating shareholder value

Creating shareholder value is based on the economic value of the investment, i.e. on the assumed discounted net cash flows minus capital cost[124]. It represents the foundation for shareholder profit related to the market value growth of their values and dividend payment. In the literature we encounter the value creation approach based on cash flows, market value added or economic value added.

The total corporate economic value is usually assumed as the total value of company indebtedness and equity. The value of equity as a component of the corporate value, is often called the shareholder value. The indebtedness is understood here as the debt market value, uncovered by the assets of pensions benefit liabilities and other claims and liabilities. Thus, the shareholder value formula may be drawn

$$W_{DA} = W_{\text{corporate market value}} - W_{\text{indebtedness}}$$

The basic issue is in this point the determination of the company market value. When using the income methods and, more precisely, the widely popularized method of discounted cash flow method, the projection of discounted cash flows plus residual value are used to determine the value. The consideration of certain measures is also recommended here, the said measures, although have no direct effect on the business operations, may be promptly transformed into cash. These may include,

[124] J. Dermine, *Bank Valuation and Value Based Management: deposit and Loan Pricing, Performance Evaluation and Risk*, 2nd edition, McGraw Hill, USA, 2014

for example, marketable securities and other investments. Although such values are not included in cash flows, they may be significant to such an extent that the adjusted profit/loss will be made much more viable. Summarizing, in order to calculate the shareholder value, the company value shall assume the following form:

$$W_{company} = W_{CF\ discounted} + W_{residual} + W_{other\ investments}$$

Cash flows represent differenced between operating incomings and operating expenses. Within the concept analyzed they represent foundation for estimating the company value. After the precise calculation thereof for a projection that usually covers five years, discounting is carried out, for each year respectively. The capital cost or average weighed cost of indebtedness and equity may be assumed the discount rate.

The following factors are mentions as the company value determinants[125]

- operating profit margin,
- sales growth rate,
- income tax rate,
- investments in working capital,
- investments in fixed assets,
- capital cost,
- projection period.

The company value determinants presented above may be broken into specific components of the company value formula presented below, of which

$$W_{company} = \frac{\sum_{n}^{i=1} CFi}{WACC}$$

Looking more closely at the components of the said formula, it is conspicuous that such factors as sales growth and operating profit margin significantly implicate the incomings, while the tax rate, fixed or current assets determine the cash outflow. The average weighed capital cost, in turn, largely depends on equity and borrowed capital and the structure thereof.

[125] J. Fraser, B. Simkins, K. Narvaez *Implementing Enterprise Risk Management. Case Studies and Best Practices*, Wiley, Hoboken NJ, 2014

New methods of measuring the company business effects

The numerous actions[126] taken by companies in the USA in 1990-2014 have proven that the efficiency measures used so far frequently do not reliably reflect the market value. In other words, the lack of correlation between the price of listed shares and the indexes to assess them. In case of the Price/Profit index the correlation was from 0 to 15%. If the return on equity (ROE) were considered, the value grew up to 35%, if the projected cash flows were considered, it reached the level of 60 – 70 %.

Thus, it became necessary to consider such values, while testing the organization's efficiency. Out of the new measures, the following may be stated:

Based on cash flows

- free cash flows;
- cash flows per share;
- cash flows on capitals invested;

based on value added

- market value added (MVA);
- economic value added (EVA);
- shareholder value added (SVA);
- total shareholder return (TSR).

Free cash flows represent the stream of cash on operations after tax, (net profit plus depreciation and adjusted by the value of change in net current capital).

Cash flows per share are calculated according to the formula presented for free cash flows, where the result obtained is divided into the number of shares issued. This is a measure generating a clear indication enabling the determination of the company capability of inducing the growth of its value.

The Cash Flow Return On Investments (CFROI) is usually defined as the internal return rate for the investment duration. The index uses the measure of cash flows, cash invested directly into a specific project and the duration thereof.

[126] Badania przeprowadzone w latach 1990-2014. przez A.Rappaport, PricewaterhouseCoopers, Credit Suisse First Boston, AT Kearney, ImmoQee i in. see also: J. Fraser, B. Simkins, K. Narvaez, *Implementing Enterprise Risk Management. Case Studies and Best Practices*, Wiley, Hoboken NJ, 2014

The market value added is an idea patented by Stan Stewart & Co. It represents surplus of market value understood as the capitalization of shares present on the stock exchange over the book value of the share capital. The positive values are related to a situation when the shareholder value increases.

The Economic Value Added, also owned by Stan Stewart & Co, is the product of operating profit difference after payment of compulsory encumbrances and equity and borrowed capital cost and the capital invested in the organization.

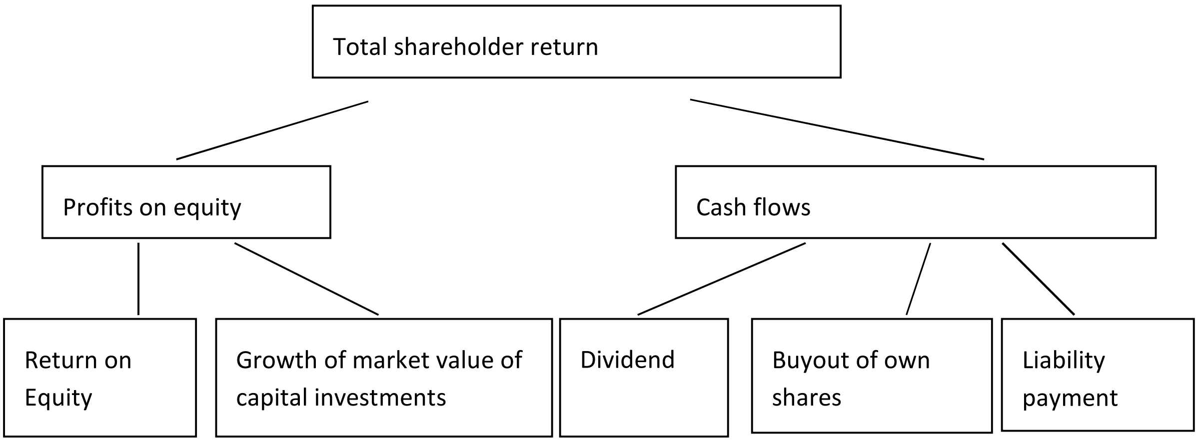
EVA = (operating profit – tax – capital cost) x capital invested[127]

or

EVA = (Return On Investments – capital cost) x capital invested

The overall measure summarizing the process of creating value is the total shareholder income. It results from the assumption that the shareholder's profit is closely correlated to selling share at the price above their purchase price and to the dividends paid to such shareholder.

Diagram 4 Return of capital invested to the shareholders[128]



Source: the authors' own work after: Shmidlin M., The Art of Company Valuation and Financial Statement Analysis, Wiley, Chichester West Sussex, 2014, p.5, A.Herman, A.Szablewski (ed.), Zarządzanie wartością firmy [Company Value Management], Poltext, Warsaw, 1999, p.30

[127] A. Ehrbar, *EVA - Strategia tworzenia wartości przedsiębiorstwa*, Wig Press, Warszawa 2000

[128] A. Herman A. Szablewski (ed.), *Zarządzanie wartością firmy*, Poltext, Warszawa 1999, p.30

Indications for the Management Boards

Enforcing the concept of value management requires us to take up several basic steps. The first is to set the remuneration systems motivating to actions aimed at increasing the company value. Determination of appropriate measures making the decisions dependent on the vision of creating or destroying value. The vast majority of companies cannot any afford long-term waiting for the effects of actions considering the market value. The investors usually assess the potential in virtue of observations and historical data. Therefore, the actions creating value should be long-term and clearly diverge from daily organization targets.

The value management systems, successfully implemented, have several characteristics in common, namely:

- the management board support – giving a common vision and evoking in the personnel the sense of co-authorship of success and common liability for creating or destroying value,
- combination of change of value with motivation system,
- investing in training courses and other forms of education familiarizing the employees with the significance of value throughout the entire organizational system,
- simplifying, to a reasonable extent, the procedures and transpositions affecting the value,
- setting the determinants of value in the company and creating or complementing a supervision system over them,
- controlling the actions that may influence the change of entity market value (e.g. investments, purchase of tangible assets, changes in management boards, dismissal or employment of specific employees, etc.).

4.5. EVA, MVA, CFROI

CFROI

The Cash Flow Return on Investments (CFROI) is a figure used as discount rate at determination of the current value of future cash flows. It is used, to the relatively widest extent, for the assessment of the investment effect on the company value. In relation to SVA, the basic advantage thereof is the possibility to compare it to other return rates, which enables to assess the impact of particular company elements and particular decisions on its value. CFROI is particularly often compared to the quotient of market value and current net value of assets. The figures obtained enable us to assess whether the venture presents a higher rate of return than that obtained so far in the company and how it would change the company value (upon consideration of capital expenditure [CAPEX] value.

EVA®

The Economic Value Assed (EVA[129]) is in other words the surplus of operating profit after tax over the cost of capital engaged.

EVA is to settle whether the company creates value for its shareholders expecting Return on Investments. The company value increase takes place when the Return on Invested Capital is above the Weighed Average Cost of Capital. This means that ROIC must be higher than WACC.

ROIC = NOPLAT/K (Net Operating Profit Less Adjusted Tax / capital invested)

WACC – Weighed Average Cost of Capital

Income gained = EBIT * (1-tax rate) = NOPAT [Net Operating Profit After Tax]

K – capital invested

Expected income = K * WACC

thus:

EVA = Net Operating Profit After Tax – cost of capital engaged = (ROIC – WACC) x K

That is:

EVA = EBIT x (1-T) – K x WACC

Of which;

EBIT – operating profit before tax;

T – income tax rate

K – value of capital invested, including equity and borrowed capital (fixed assets + current assets without interest bearing current liabilities). This can be expressed by, e.g.:

K = fixed assets + current assets – non-interest bearing liabilities

K = fixed assets + net working capital

[129] EVA is a Registered Trademark

The Economic Value Added may also be expressed in the following two ways:

EVA = NOPAT – K x WACC

EVA = (ROIC – WACC) x K

The formula of evaluation of economic value added is based on the efficiency measure, i.e. profit, which is related to numerous disadvantages. The basic one is disregarding the incomings that are not revenues and expenses representing no costs and considering non-cash events. The practice also indicates that the measuring of the capital cost does not consider precisely enough the investors' expectations on the future market condition and value of rating of the particular values and the attractiveness of alternative investments. Moreover, the method disregards the consequences of any extraordinary events.

However, the fundamental advantage thereof is the simplicity and easy interpretability of the method.

For some inspiring cases see book writhe by Stewart G.B.III, *Best Practice EVA*[130].

MVA

Market Value Added is to a great extent complementary to the Economic Value Added concept. It refers to the changes in the company perception on the capital market, mainly due to the hard-to-measure intangible factors. Its formula is the difference between the market value and that of the company equity. The market value is determined by the product of the number of shares issued by the company and their unit price fixed on the efficient market. With the support of the formula, we may definitely observe the changes of values brought about by particular strategic decisions of the company and enables to test the changes in the long- and short-term expectations concerning the entity's potential.

As the basic disadvantage[131] we may specify the high sensitivity of the results obtained in this way to the variations of the market situation, unfair competition actions disseminating false and deforming information as well as various interpretations by the market players of the published results.

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[130] G.B.III Stewart, *Best – Practice EVA. The Definitive Guide to Measuring and Maximizing Shareholder Value*, John Wiley & Sons, Hoboken, NJ, 2013

[131] S. Wrzosek, *Decyzje strategiczne i bieżące a wartość przedsiębiorstwa*, [w:] red. J.Duraj, *Wartość przedsiębiorstwa – z teorii i praktyki zarządzania*, Novum Płock - Łódź 2001, p. 27

It can be expressed by means of a formula[132]:

Namely:

$MVA = EVA \times 1 / (1+WACC)^{t}_{i}$

so MV:

$MV = EVA \times 1 / (1+WACC)^{t} + K$

SVA

Shareholder Value Added is based in its assumptions on economic projections and specific factors affecting the company value. It is obvious that in case they are right, the method guarantees the obtainment of a relatively good result, due to the fact that it is based on the estimation of future cash flows. S.Wrzosek[133] suggests to consider the uncertainty related to projecting the future through multiple calculations with replacing various values and testing the sensitivity of the particular elements. In case of the possibility of particular variant occurrence, the expected value, its standard deviation and variation coefficient may be determined by means of the statistical data.

Its formula is the current (i.e. discounted) cash flow on operations value during the projection period plus the present value outside the projection period. Considering the residual value is simplified here to fix outside the projection period the constant or monotonically growing cash flows. The sum shall be increased by the market value of the most liquid assets unused in the operations (e.g. other company shares) and reduced by indebtedness.

The principal characteristic by which the method differs from DCF is the clear determination of the indebtedness and the present value of liquid assets, instead of projection amounts occurring in the future on their repayment or realization. The omission of estimated indebtedness and its repayment in the projections brings about omission of financial costs and, in consequence, influences the discount rate applied[134].

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[132] P. Szczepankowski, *Zarządzanie finansami przedsiębiorstwa*. Wyd. WSPiZ, Warszawa, 2004

[133] ibidem

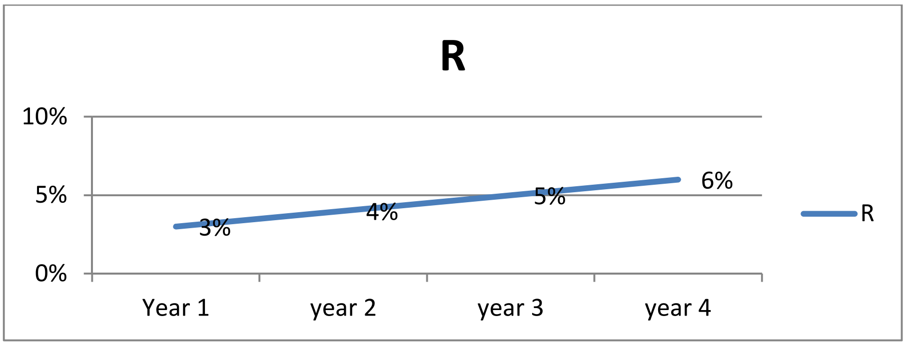
[134] S. Wrzosek *Ocena efektywności rzeczowych inwestycji przedsiębiorstw*, Sygma, Wrocław, 1994, pp.36-43.

4.6. YIELD CURVE, PRESENT VALUE AND DISCOUNTING

In value based management (as well as in the valuation of a company) this terms seem to be fundamental. It is to be mentioned here some of the significant but here simplified metrics as net present of a cash flow and series of cash flows under non-risk circumstances. It is also be discussed an interest rate yield curve.

Let us start with the risk free interest rate(R) yield curve. Valuating the cash flows over years it may be taken the zero risk, fixed interest rate but in many situations it is to be applied different interest rates according to different time perspective. Say, the four years maturity cash flow interest rate is 6%, three years maturity cash flow is 5%, the two years maturity cash flow interest rate is 4% and one year maturity is 3%. The relationship between the maturity and interest rate is called yield curve ad is depicted on the pict. below.

Diagram 5 Yield curve



Source: authors' own elaboration.

In this case, the series of cash flows should be discounted as in the table below:

Tab. 12 Cash flow discounted, different risk free interest rates

Year	1	2	3	4
Cash flow (CF)	+30	+40	+50	+60
Risk free interest rate	3%	4%	5%	6%
Discounted cash flow (DCF)	29,1	37,0	43,2	47,5
Present Value	156,8			

Source: authors' own elaboration

Thus the present value is usually presented as a cash equivalent, any of the presented cash flows must be discounted and finally added totaling with the present value (PV). The equation used for this example are as follows:

$$DCF = \frac{CFn}{(1+R_n)^n} \qquad [4.6.1]$$

$$PV = \frac{CF_1}{(1+R_1)^1} + \frac{CF_2}{(1+R_2)^2} + \cdots + \frac{CF_n}{(1+R_n)^n} \qquad [4.6.2]$$

There were mentioned the terms of a risk free interest rate. We can assume that these are the interest rates of the governmental bonds of leading economies. These do not represent truly the risk free situation but in a relatively short period we can take them as a close to risk free. Because the money in the future is not that sure as having it in hand right now and because you can't use many opportunities to invest it the future cash flows must be discounted. The value calculated with the risk free discount rate represents the situation that the money were alternatively invested in risk free bonds. Thus they are not the risk is taken into consideration.

Assuming fixed interest rate 5% the cash flow values from the tab. 4.6.1. are as follow:

$$PV = \frac{30}{(1+0,05)^1} + \frac{40}{(1+0,05)^2} + \frac{50}{(1+0,05)^3} + \frac{60}{(1+0,05)^4} = 157,4 \qquad [4.6.3]$$

Taking into consideration, that the investment or the company cash flow was 0 during the years 1-3 and only in a 4th year it delivered casf flow of 60, the PV will make 49,4 (equation 4.6.4).

$$PV = \frac{60}{1,05 \cdot 1,05 \cdot 1,05 \cdot 1,05} = \frac{60}{(1,05)^4} = 49,4 \qquad [4.6.4]$$

The future cash flow (FCF) resulting from actual one is calculated using the same way. The value of 49,4, multiplied by 1,05 to the fourth power (equation 4.6.5).

$$FCF = 49,4 \cdot (1+R)^4 = 49,4 \cdot 1,05^4 \cong 60 \qquad [4.6.5]$$

4.7. EXERCISES

Exercise 1

In one of the companies, cash flows and valuation with the use of them, profit and other financial measures significant for creating the company value were as follows:

DCF valuation

	2014	2015	2016	2017	2018	2019	Residual Value
net profit	1 584	1 663	1 746	1 834	1 925	2 022	2 123
investments	440	462	485	509	535	562	0
FCF	1 144	1 201	1 261	1 324	1 391	1 460	2 123
discount coefficient	0	0,932505	0,810874	0,705108	0,613137	0,533163	3,554418
DCF	0	1 120	1 023	934	853	778	7 545
valuation	**12 253**						

EVA

	2014	2015	2016	2017	2018	2019	Residual Value
net profit		1 663	1 746	1 834	1 925	2 022	2 123
initial capital		9 500	9 962	10 447	10 956	11 491	12 053
Return on equity (e)							
capital cost (r_t)		15,0%	15,0%	15,0%	15,0%	15,0%	15,0%
difference($e-r_t$)							
EVA (initial capital.*difference)							
discount coefficient		0,932505	0,810874	0,705108	0,613137	0,533163	3,554418
DEVA							
accumulated DEVA							

Formulae that may help you:

Perpetuity (residual value): $(1/r)/(1+r)^n$

Initial capital: Initial cap.$^{n-1}$+investments^{n-1}

Return on Equity (e): : net profit / initial capital

Capital cost: e.g. WACC

Adjusted initial capital: initial cap.*(1+CC)0,5

Accumulated and discounted EVA (DEVA):

Accumulated and discounted EVA + adjusted initial capital

1. *Determine the values of:*
    a) *Economic Value Added (EVA)*
    b) *Discounted Economic Value Added (DEVA)*
    c) *Accumulated DEVA (Shareholder Value Added)*
    d) *Market Value Added (MVA)*
2. *Discuss the differences between the value measured with cash flows and profit and the value measured with Economic Value Added.*

Exercise 2

One of the companies running a fast food bar network in 50 % uses equity funding. The expected rate on Investments of the strategic investor is 20%, while the borrowed capital cost is 10%. The operating profit (EBIT) gained by the company last year is EUR 1 mio, while the capital invested is EUR 10 mio. The CIT rate is 19%.

Calculate, discuss the results and explain the following measures: EVA, MVA, ROIC (Return on Capital Invested = net profit after tax / equity), NOPAT (net profit after tax), WACC (Weighed Average Capital Cost).

Exercise 3

Considering the stakeholders in the organization, present the disadvantages of the MVA, EVA and SVA approaches. Which of the stakeholders they consider and which of them they omit? What may be the reason for such attitude? What will be the long-term value of company basing on EVA, MVA and/or SVA only?

5. BUSINESS MODEL AND VALUE CREATION

5.1. GENERAL OUTLINE

The concept of a business model became crucial in explaining the ongoing and future businesses. Thus the value creation from the company's inside point of view seems to be unclear, the business model may help to explain where and to what extent the value is created. What type of value is connected to which part of the company? The questions to be answered here is whether the value created in some parts of the organization is monetizing capable and how the value streams inside of the company are connected and how it influences the final value of the business.

- Business model – what it is, how it could be implemented in the value creation processes.
- Business model canvas, where the value streams come from, how the business model influences the value of a company.

Case study: new innovative business models based on open source movement ideas and their implications for companies.

5.2. EVOLUTION OF THE COMPETITIVE ADVANTAGE MODEL

In the last quarter of the century, achieving competitive advantage has become the foundation of any business operations. This indicator was intended to provide an increase in profitability, quality and effectiveness. The search for ways to permanently achieve and maintain turned many researchers into two tracks-cost advantage and product advantage by highlighting the product as part of competition's offer.

Achieving the lowest costs in the sector becomes possible through the development of economies of scale, experience curve, vertical integration and investments in high-performance technologies. According to Porter, the market differentiation is possible by providing as much relative value added to customers, as possible; relative, as relating to similar measures used by competitors[135]. The value added for the buyer quickly transforms into an added value for the manufacturer and as a result, allows it to achieve above-average profitability. In this regard he recommends building a brand, keeping up with high quality standards related to modern technology and knowledge of consumer market. This advantage can be maintained through the construction of entry and mobility barriers resulting from investments in information, skills and resources. This is a typical example of position training, which,

[135] M.E. Porter, *Competitive Advantage. Creating and Sustaining Superior Performance*, The Free Press, New York, 1985.

however, has quickly eroded. Changes, blurring borders, technology transfer, etc., all happening in the '90s, caused that the market position in a sector became less important. It is not the market share or position but rather unique resources, which began to determine the success. Resource Based View gives particular importance to resources based on knowledge and its practical use. The end result, which is customer's satisfaction, is based on maximizing the efficiency of all stages of the value chain. An elaboration of this concept is a strategic asset theory, and just like having an ace up a sleeve, it should always be available to a company during critical time, and however, until then, it should remain in hiding.

The Value Chain proposed by M.E. Porter, includes a set of activities creating value for customers. However, these measures appear to be related not only to the value for customers, but also to the value of an entire organization. Ensuring the achievement of goals and objectives within this model, indirectly affects the increase in wealth of stockholders and shareholders of a company. It may not be a condition sufficient enough to ensure an increase in the market value, but without a doubt, it is a necessary one.

Tab. 13 Value Chain

<table>
<tr><td rowspan="6">Supporting Actions</td><td colspan="5">Organization's Infrastructure</td><td rowspan="6">Margin</td></tr>
<tr><td colspan="5">Human Resources Management</td></tr>
<tr><td colspan="5">Technology Development</td></tr>
<tr><td colspan="5">Logistics, Supply Chain System</td></tr>
<tr><td>Inward Flows</td><td>Basic Operations</td><td>Outward Flows</td><td>Marketing and Sales</td><td>Additional Services</td></tr>
<tr><td colspan="5">Basic set of operations</td></tr>
</table>

Source: own elaboration based on M.E. Porter, Competitive Advantage. Creating and Sustaining Superior Performance, The Free Press, New York 1985.

According to this model, operations of an organization used in creating value, can be divided into primary and supporting activities. Primary activities include inward flows (supplies of raw materials), basic operations (processing raw materials), outward flows (product localization on the market), marketing, sales, and additional services (sales service, delivery, etc.). Supporting activities include the supply system (purchase of necessary elements to each of the processes), technology development (improvements at each stage), human resources management (planning and personnel management), infrastructure (management, finance, accounting, administration, etc.). Porter draws a special attention to the need of focusing on improvements in each of these spheres, as well as mutual interactions between all departments, simultaneously giving it a new, much broader context. Even the finest and most effective operations within one process, do not guarantee success. It is closely related to the fact that interests of individual cells may vary considerably. Clearly this model corresponds to rules of creating business value, which is a much broader concept than the customer value one.

Besides ensuring smooth operations of company's value chain, a similar analysis for suppliers and distributors appears to be of a similar importance. Only such a comprehensive approach may determine the competitive advantage. Building an effective system for creating value is the key element in strategy building. This concept can be represented as a variable function.

Wc - company - basic and supporting operations of a subject

Ws- supplier - basic and supporting operations of suppliers

Wd - distributor - basic and supporting operations of distributors, that can be expressed as:

W(Wc, Ws, Wd) = Total value offered by a company is read as a concentration of contracts.

The increase in system value is possible by increasing the *W* function value. Weakening of each variable cause function's values to decrease. It is not without significance that modern technologies prevail for the quality of created systems. Using the data transfer or commonly known computerization, does not only make it easier to build appropriate structures but also ensures their smooth operation. The focus on values supplied to individual stakeholders of an organization should be based on value analysis and on costs necessary for its achievement.

5.3. SEARCHING FOR NEW STREAMS OF VALUE – THE BUSINESS MODEL CONCEPT

Recently the notion of a business model has begun to attract attention of organizations run by scientists and academics. This term has been definitely used as early as in 1957 in an academic thesis[136], but hasn't become popular until the turn of the 20th and the 21st century, with the emergence of IT and the Internet[137]. It can be assumed that the principal reason for which this notion became popular were the new possibilities for running a business and achieving organization's financial objectives, arising due to new methods of obtaining, distributing and using information.

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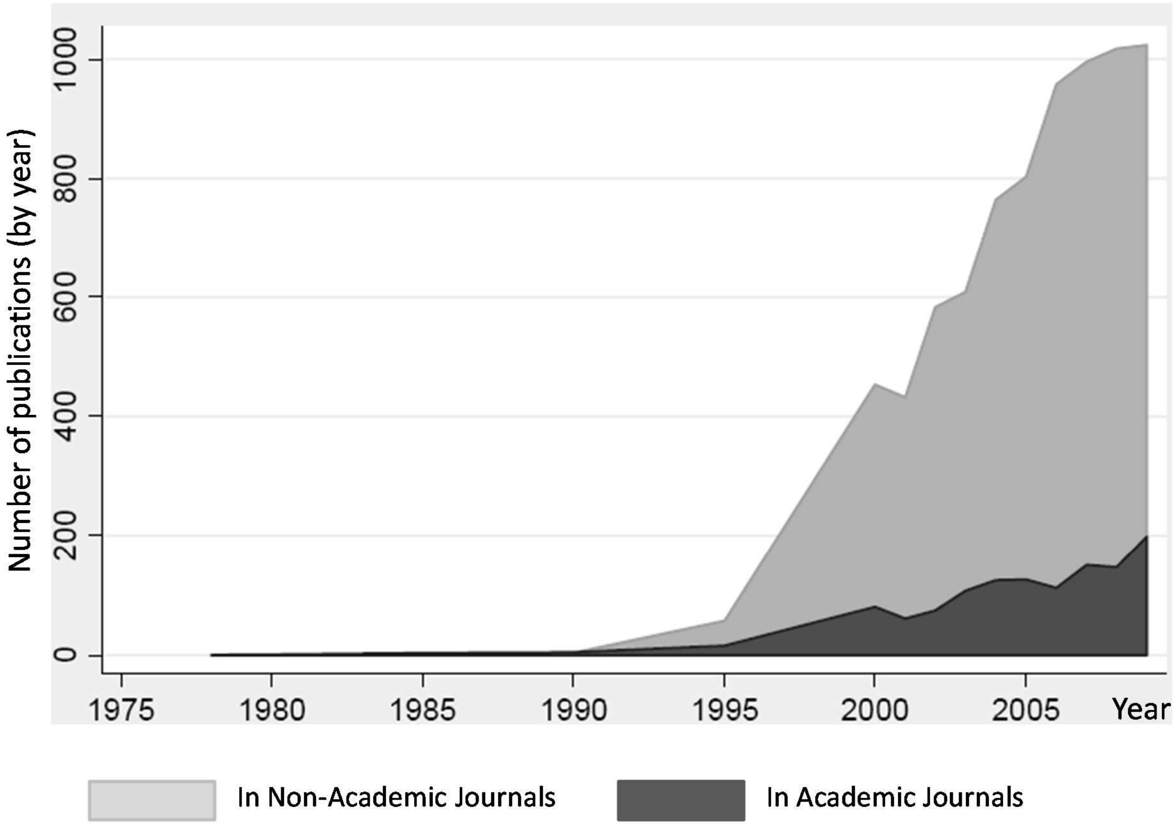
[136] R. Bellman, C. Clark et al. (1957), *On the Construction of a Multi-Stage, Multi-Person Business Game*, "Operations Research" 5 (4), p. 469-503.

[137] A. Ostenwalder, Y. Pigneur, C.L. Tucci, *Clarifying Business Models: Origins, Present, and Future of the Concept*, "Communications of AIS", Volume 15, (2005), Article 1; Zott C. et al. (2010), *The Business Model: Theoretical Roots, Recent Developments, and Future Research*, WP-862, IESE, June, http://www.iese.edu/research/pdfs/DI-0862-E.pdf.

As interest in the business model concept grows, one can see by analysis, that this definition is appearing in databases of academic works. An example of such analysis can be seen in the diagram below.

Diagram 6 Amount of publications containing the phrase "business model" in the EBSCO database between 1975 and 2009



Source: C. Zott et al., The Business Model: Theoretical Roots, Recent Developments, and Future Research, WP-862, IESE, June 2010, http://www.iese.edu/research/pdfs/DI-0862-E.pdf, p. 3.

However, as Ostenwalder et al.[138] points out, various writers use the term "business model" to present various things:

1. The term business model can be describing all possible methods of running a business and all the elements that make up the description of a business.

2. Some writers prefer to talk about various types of business models describing specific ways of running a business, distinguishing certain types from others.

[138] A. Ostenwalder, Y. Pigneur, C.L. Tucci, op.cit.

3. Some writers even talk about a business model as a term describing a method by which a specific individual business enterprise runs a business.

Thus this term is used on three different levels, and each level is contained within the previous levels.

Boundaries distinguishing between the business model notions and the strategy are also not clear. In the opinion of most writers, however, the term "strategy" incorporates competition on a given market rather then the implementation of a business model. Therefore many businesses that are putting their strategy into practice might apply a specific business model.

For the purpose of this paper the definition used, is the definition given by Afuah i Tucci[139]:

> *“A business model is a method adopted by a business of increasing and making use of resources in order to offer customers products and services of a value higher than those of the competition and which, at the same time, ensures that the business has the capacity to generate income".*

According to this definition there can be many types of business models and each is different from the other. Specifically, to give at least one example, work of Zott et al.[140] describes various typologies of business models.

According to Osterwalder et al.[141], an introduction of a business model consists of three basic steps:

1. designing a business model-organization's management defines and designs an idea for business response to the challenges of the market;
2. financing of a business model-organization's management draw up a financial structure model (e.g. internal financing, venture capital, actions);
3. implementation of a business model- a business model is implemented, included in the business structure, the processes, the actions of the organization.

According to the authors, a business model consists of nine elements, presented in the following table. This diagram gives the ability to fully and universally describe methods of market operations. Each of the 9 business model components described can serve as a source of values for an organization. This

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[139] A. Afuah, C. L. Tucci, *Internet Business Models and Strategies: Text and Cases*, McGraw-Hill/Irwin, 2 edition. 2002.

[140] C. Zott et al. (2010), op.cit.

[141] A. Ostenwalder, Y. Pigneur, C.L. Tucci, op.cit.

model focuses on the creation of innovation in the organization's business models field - seeking new sources of value.

Tab. 14 Business model canvas

Pillar	Element forming the business model	Description
Product	Proposed value	General outlook on the set of products and services of a company.
Customer interface	Target customer	Describes a segment of customers, which the company wants to offer the value.
	Distribution channel	Describes various means by which a company remains in contact with its customers.
	Relationship	Explains type of connections that company establishes between itself and the different types of customers.
Infrastructure management	Value configuration	Describes the set of activities and resources.
	Key competence	Describes competences necessary for business model implementation.
	Partner network	Describes a network of agreements with other organizations necessary for creation and commercialization of an offer
Financial aspect	Cost structure	Summarizes financial implications of various resources used in the model.
	Revenue model	It describes the method used by a business to make money by using various operations.

Source: A. Ostenwalder, Y. Pigneur, C.L. Tucci, Clarifying Business Models: Origins, Present, and Future of the Concept, "Communications of AIS", Volume 15, Article 1, 2005, p. 18

5.4. CASE STUDY: INNOVATIVE BUSINESS MODELS BASED ON OPEN SOURCE MOVEMENT IDEAS

5.4.1. INTRODUCTION

In recent years open source projects have become more and more popular. A number of spectacular successes of similar ventures, such as Linux, Apache or Open Office have created interest in this subject not only among internet enthusiasts but also serious business organizations. For an organization, open source projects can be a means of overcoming stiff and unyielding procedures, releasing innovative spirit, and initiating new methods of operation connected with new sources of value creation.

5.4.2. THE DEFINITION OF OPEN SOURCE

The origins of the notion of open source can be found in the so-called free software movement, dating as far back as the 1980s. The pioneer of this movement of computer programmers and computer users involved in promoting free access to software for all users was hacker Richard M. Stallman at the Massachusetts Institute of Technology. He formed the Free Software Foundation (FSF) – a foundation mainly dealing with the promotion of free software and development of the GNU project – an operating system similar to UNIX.

According to the Free Software Foundation the definition of free software is as follows[142]:

> *"'Free software' is a matter of liberty, not price. To understand the concept, you should think of 'free' as in 'free speech', not as in 'free beer'. Free software is a matter of the users' freedom to run, copy, distribute, study, change and improve the software."*

According to this definition software users are entitled to four fundamental types of freedom listed by the Free Software Foundation, numbered 0 to 3. Software is classified as "free" when its users can exercise all of the freedoms listed below:

- *"The freedom to run the program, for any purpose (freedom 0)."*
- *"The freedom to study how the program works, and change it to make it do what you wish (freedom 1). Access to the source code is a precondition for this."*
- *"The freedom to redistribute copies so you can help your neighbor (freedom 2)."*
- *"The freedom to distribute copies of your modified versions to others (freedom 3). By doing this you can give the whole community a chance to benefit from your changes. Access to the source code is a precondition for this."*

The name open source did not come into existence until 1998, when Netscape Communications Corporation distributed the source code for the Netscape Navigator search engine on a license guaranteeing everyone the right to freely use, modify, and redistribute the code. This was the start of the entire open source movement. The open source movement, as opposed to the free software movement, places greater emphasis on technical and organizational issues relating to freedom of the

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[142] http://www.gnu.org/philosophy/free-sw.html, 2010-09-22

code, and pays somewhat less attention to ideological issues. In practice any free software is open source software at the same time, but not all open source software is free software at the same time.

The argument that free software should be promoted solely on the basis of its technical superiority was formed by Eric S. Raymond in the well-known essay entitled "The Cathedral and the Bazaar"[143], presented for the first time at the Linux Congress on 27 May 1997[144].

In this essay Raymond[145] juxtaposes two different models for developing software:

1. The cathedral model, in which the source code is made available with each new version of the software, but the devised code is only known and created by a small group of programmers.
2. The bazaar method, in which the code is created on the Internet in a way visible to everyone and with the participation of anyone interested. According to Raymond this method was created by Linus Torvalds, coordinator of Linuks' core project.

Open source was meant to be, by its nature, a concept more readily acceptable to business than free software. The idea of free software grew after all out of opposition of users to corporations creating software and demanding payment for its use. The open source movement did not reject the idea of commercialization of software, but rather placed emphasis on its creation.

In connection with the movement the non-profit organization Open Source Initiative (OSI) was created, which promotes the idea. The reference point for measuring success of the concept was the level of involvement in open source projects of many firms, such as IBM, Corel, and Sun Microsystems, in addition to programmers themselves.

Despite the fact that the open source movement grew out of the free software movement, nowadays there is strong ideological antagonism between the free and open software groups. There are however many elements that the movements have in common. The software common to both trends is described as FLOSS (Free/Libre Open Source Software).

5.4.3. OPEN SOURCE AS A BUSINESS MODEL

It could appear at first that open source cannot be used as a business model. This is because open source projects involve making software with an open code, i.e. a code which is not protected against

[143] E. S. Raymond (2000), *The Cathedral and the Bazaar*, http://www.catb.org/~esr/writings/cathedral-bazaar/cathedral-bazaar/, 2010-09-22.

[144] http://pl.wikipedia.org/wiki/Open_source , 2010-09-22

[145] E. S. Raymond, (2000), op.cit.

modification, copying and distribution, available for free. It could appear at first that it is difficult to find an element ensuring that something of value for the organization can be generated by that process.

For the idea of open source to be able to be used as an element of a business model, as least a general understanding of the licensing rules according to which open source software is to be made available is however vital. Two extreme examples are given below[146]:

1. The license that contains the greatest restrictions is the GNU General Public License. This contains a ban on sale of software and also requires that a similar license be used for all products that make use of a given source code. This means that the possibility for commercial use of products with this license is highly restricted.

2. The most liberal licenses are the BSD License and MIT X License. These two types of license are unusually similar. They allow the source code to be modified in any way and to be enclosed with commercial products.

Between these two extremes there are a number of indirect types of licenses.

The diversity of open source licenses, including a lot of liberal licenses as far as commercialization of recorded data is concerned, makes open source projects potentially valuable. The most popular models, are, according to Nojszewski et al.[147]:

1. Optimization of software from the point of view of hardware – the costs of development of software are covered by the firms producing the hardware for which the software is produced. This helps to bring that hardware into general use. At the same time the sale of the hardware, and not the software, generates revenue.

2. Enhancement of value on the basis of open source software – open source projects are a base, and complement commercial products, but help to bring about popular use of those products, and make them more adaptable to customers' specific expectations.

3. Generation of profit by way of additional services – profits are gained not from the sale of software but rather installation, configuration and technical support related to use of that

[146] D. Nojszewski, P. Rubach (2010), *Modele biznesowe firm produkujących oprogramowanie open source (Business Models of Companies Producing Open Source Software)*, www.swo.ae.katowice.pl/_pdf/190.pdf, 2010-09-22.

[147] Ibidem.

software. Demand for additional services of that kind, given the high level of complexity of the main product itself, is sufficient.

4. The sponsorship model – thanks to support of a sponsor for the open source software this weakens competition and has the potential to increase sales of its related services or products. In such a case the sponsor needs to direct and specify the objectives of the project.

5. Provision of services via the Internet – it is not the software alone that is sold, but a service performed online using that software.

6. In-built software in a device – an open source program becomes part of the device sold (for example a mobile telephone, MP3 player).

7. A double license – various types of license are sold for the software. This helps to bring about common use of the standard, and the creation of a certain critical mass of users.

8. The buying up of open source projects by commercial firms – projects can be bought in order to liquidate and mitigate competition or development, and, for example, commercialization.

To summarize, in each of these models the open source software there is only one of the vital elements ensuring that the business' financial objectives are met to a lesser or greater extent. This software gives an organization using a given model an advantage over the competitors not using open source. According to the definition of a business model, the approaches described above therefore fulfill the criteria for a business model. It should be noted however that we are not dealing with one type of open source business model, but rather with many subtypes of that model that share common features. These features are described in the table below.

Tab. 15 Elements of the open source business model

Pillar	Element building the business model	Description in the open source model (common to all subtypes)
Product	Proposed value	Software or hardware connected in whole or in part with open source software, while this software increases the attractiveness of the whole
Customer interface	Target customer	Various segments of users of hardware or software, extra significance of users who want to improve the code or adapt it to their own needs.
	Distribution channel	Main channel – the Internet
	relationship	customer – prosumer – is actively involved in creating elements of a product or service. A chain of entities communicating with each other. Features: • Peer-to-peer • Information Symmetry • Operating in real time
Infrastructure management	Value configuration	The key significance of people outside the organization involved in developing open source software.
	Key competence	The ability to attract and maintain people collaborating with the organization outside of the organization. Determining the direction in which open source software is to be developed.
	Partner network	A network consisting to a large extent not of formal organizations but of individuals.
Financial aspect	Cost structure	Covering of costs by the sponsor organization. Some resources (people collaborating with the organization) do not give rise to costs.
	Revenue model	Revenue obtained mostly not from the open source software itself but from additional elements (additional services, hardware, additional software, etc.)

Source: own research

Two elements distinguishing the open source business model are key to further discussions in this paper.

- Application of open source software as a key factor enhancing a business's competitiveness

- Application in a business's operations, in revival of the products offered by people developing software, of which at least some have quite a loose relationship with a given business (the bazaar model described by Raymond).

Also important are the relations that come into existence between a business and the people working with that business within a network, a hyperarchical structure, as Płoszajski[148] calls it, is created, with features such as:

- Peer-to-peer – networks of a certain type are created, in which the business is not the centre of the network at all, but an element. Each element of the network can however be connected directly to the others. To get from one element of the network to another it is not necessary to go through the hierarchical structure, it can be done directly. The hierarchy becomes irrelevant or even ceases to exist.

- Informational symmetry – each element of the network can have the same full access to information, no one stands out or gets preferential treatment.

- operation in real time – the effects of activities can be seen immediately, with no delay.

It seems that all of these elements create a completely new challenge for management of an organization making use of an open source business model, but also completely new possibilities for building, development and revival of an organization.

5.4.4. GOING BEYOND OPEN SOURCE

The final conclusion that be drawn from the discussions presented above relates to the relevance of the issues discussed above to areas other than just open source computer software. More and more organizations, even those outside of IT-related industries, are beginning to realize the benefits of business models similar to the open source model. This is because building of virtual communities developing specific solutions, and business projects, could be useful in many other industries, not only those relating to software. An example might be projects that are indeed closer to the IT industry such as Wikipedia, but there are other phenomena appearing at a much greater distance – new slogans in some way connected with the presented model such as open innovation or crowdsourcing. Some

[148] P. Płoszajski, *Polubić chaos! (Get to Like Chaos!)*, "e-mentor", nr 3/2007, Warsaw.

theoreticians see a use for this model also in science[149], provision of legal services[150] or in general projects requiring that a lot of people with various qualifications work together[151]. In every case the building of a hyperarchical community gives rise to a new incentive for the development of an organization, although also with a re-working of today's management models.

[149] A. Hessel, *Open Source Biology*, [in:] Ch. DiBona, D. Cooper, M. Stone *Open sources 2.0: the continuing evolution*, O'Reilly Media, 2005, p. 281-296.

[150] P. Jones, *Extending Open Source Principles Beyond Software Development*, [in:] DiBona Ch., Cooper D., Stone M., *Open sources 2.0: the continuing evolution*, O'Reilly Media, 2005, p. 273-280.

[151] S. K. Shah, *Open Beyond Software*, [in:] Ch. DiBona, D. Cooper, M. Stone, *Open sources 2.0: the continuing evolution*, O'Reilly Media, 2005, p. 339-360.

6. MAKING STRATEGY WORK AND SALES ABILITY IN VALUE CREATION

6.1. GENERAL OUTLINE

Making strategy work becomes important topic in strategic management. It depicts the company's ability to make the goals real. It is also the ability to manage and create the value, whatever it means. The chapter highlights the influence of workers getting in touch with the market on value, value creation and market success. It is also to depict the bottom level workers' influence on value.

From this assumptions root some linkages to strategic performance and value.

- Making strategy work.
- Sales function in companies.
- Sales ability and value creation.

Case study – making strategy work – problems, limitations and how to overcome the burdens.

6.2. MAKING STRATEGY WORK

Strategy of a key document or inarticulate concept immanently related to the organizational existence. The aim of existence and basic assumptions for action are necessary in each company functioning. The scope of strategic targets usually comprises mergers, takeovers, market selection, products and services or capital allocation directions. In the literature the purposes are distinctly separated from those directly concerning the realizations named tactical or operating ones. This distinct separation is also transposed on the practical ground where between the strategy and its realization there is a distinct space. Although strategy as the selection of the organization's activity directions is relatively well described in the literature, but its implementation and transposition on the operating ground, i.e. description haw such targets should be accomplished is a dimension often omitted both in the company documents and academic studies made by researchers dealing in this question. A lot more time is devoted to creating a strategy than its accomplishment[152]. While reading the literature devoted to this topic, one may get an impression that the ways and methods of reaching strategic targets are not a success determinant and are not significant from the very strategy's point of view. However, as it seems, the operations related to accomplishing strategic targets are necessary not only to reach them, but also from the point of view of the company's existence continuity guarantee. Strategies are

[152] J. Scholes*, Steps to implementation*, "European Business Forum", No21, Spring, 2005

ordinary plans based on uncertain prerequisites, but the operation or strategic target management level originates from the requirements articulated by the market[153]. Therefore, substantial part of strategies probably cannot be realized. Failure at the execution is a very frequent reason for the failure of the entire concept.

The term of strategy originating from military nomenclature covers with its range a wider and wider circle of terminologies related to the organizational existence. The areas, so far reserved for operations or tactics are called strategic today. A strategic product, strategic advertising campaign, strategic market, strategic client or even strategic project, employee and operations they carry out. Thus the existing term of strategy as the primary objective, basic vision of the company gradually loses its meaning and needs refreshing and, to some extent, return to its original form. Not all the managers are strategic after all, even though they have such an opinion about themselves. Similarly, the targets set by them, are not always strategic from the organization's point of view. Frequently, such a name may add importance to them and draw attention in a specific way.

The first basic issue is that the very word „strategy" is a noun. Even if we give it the name of a strategic process, this would not change the fact. Transferring it on the practical ground, strategy usually means description, plan, report or a series of slides describing the targets the organization should commit to. Considering that they usually have a horizon of at least a year, it seems reasonable to ask the question what will happen if any changes take place in the environment during its application. The present market is so complex that the only sensible solution may be the management of strategic target performance on the operating level within a continuous process system.

Strategy, as presented in the most popular way, is a set of long-term plans and targets. It is combined with the entity positioning on the market, selection of activity type and determining the customers, which is to guarantee distinction, occupying a certain position and profits above average. In order to facilitate the process, numerous methods and techniques are deployed, from macroeconomic concepts, through market surveillance to, for example, Ito equations of chaos theory by John Nash. Although it is difficult not to agree with all this, nevertheless numerous phenomena indicate that thinking about a strategy has substantially evolved. It often is also a reflection over the dynamically varying form of the organization, its resources and market position. It is also an indication that every organization, not only a company, functions under lower or higher competition conditions[154]. Monopolies, even the ones regulated by appropriate legislation provisions, gradually begin to lose

[153] M. Hammer, *Grounding Strategy in Reality*, "European Business Forum", No21, Spring 2005

[154] D. Schendel, *Redefining Strategy*, "European Business Forum", No21, Spring, 2005

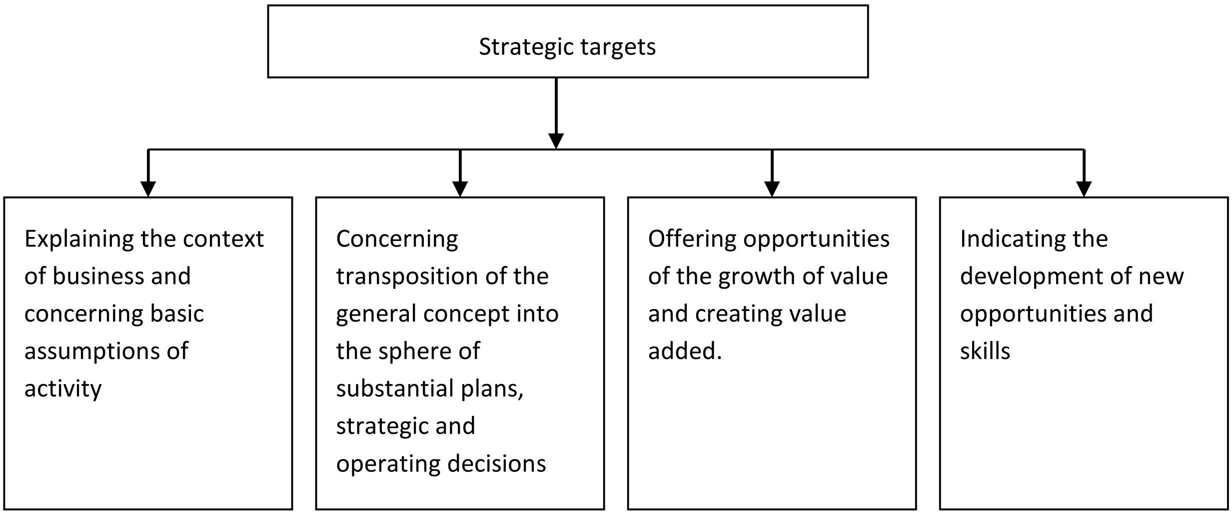
their power. It often happens that market players may order goods or use some services online, forgetting about state borders or they may very effectively use substitutes. A strategy is at the same time a document and considerations concerning operations. Each organization has a strategy it realizes, even though it seems that this is not the case. Obviously the issue of selecting appropriate targets appears here. As Professor Jan Jeżak stated on one of the conferences, the worst case is when wrong targets and tasks are realized very effectively and with immense enthusiasm. To prevent such situations, we need to understand the sense of business we participate at. The managers should be able to answer the questions who and what creates value to them, what is the sense of action and what is the whole venture about.

Strategy is a continuous process, not only containing calculations, budgets, plans and reports, but also guidelines and methods the organization members should realize them. Therefore, the employees, while doing their tasks, not only fulfill strategic targets, but also subject them to ongoing criticism, interpret them, experiment and learn. This requires space in which they could move while making decisions. Such space too large, however, enables a substantial divergence from the basic assumptions. So strategy is a framework program of actions enabling its interpretation, depending on the situation.

Strategic targets

Strategy, in addition to pointing a general direction of actions, usually contains targets that need to be realized by the organization. Although the literature concerning this scope suggests that they should comprise a remote time horizon, nevertheless the turbulent environment gives the suggestion a significant level of relativity. Depending on the type of business, a long period may mean one year (e.g. for biotechnological companies) and 25 years (for companies exploiting mineral deposits). The strategic targets, however, may be clearly distinguished, depending on the area they cover, which has been presented in the drawing.

Fig. 7 Division of strategic targets in terms of scope



Source: the authors' own work

Basing on the literature analysis we may establish that the strategic targets should meet the following criteria:

- Long-term horizon of the realization. Nevertheless, we must add that the translation of the strategic target onto a sequence of short-term targets enabling their efficient realization is equally important. This seems to be the basic principle of strategic target performance management.
- System based solutions – the organization as a homogeneous entity composed of numerous sub-systems should act in a coordinated manner, common for each area. This is a principles contributing the necessity for the conformity of targets in each scope of action and on every level. Thus, strategic targets should consider their impact on the particular organizational areas and be derived from the same basic assumption.
- Variability in time – acting in the context of turbulent environment, the organization must consider the possibility of changes during its operations. The performance of targets that have become obsolete long ago is pointless. The effectiveness should be replaced with efficiency. So strategic targets should also consider the possibility of being changed in time, which, in turn, is the condition for efficient and effective management thereof. This is a real „rerouting", close to the algorithm according to which GPS devices find the way to the target on an ongoing basis, whatever the location of the one who aims at reaching the said target.

- Clarity and focusing attention on specific aspects. Without this criterion, it is difficult to talk about target performance management quality. We cannot reach a specific point without knowledge where to find it. We cannot determine either what should be done or actions whose performance has no justification.

The first and basic question in creating strategic targets is the analysis of the present situation. The competitive position, conditions on the market and its specific nature, the characteristics of customers and a series of data coming from the environment and the organization itself form the foundation for acceptance of some assumptions for strategic targets. This is also the determination what the organization is, what role it plays and what are its primary values.

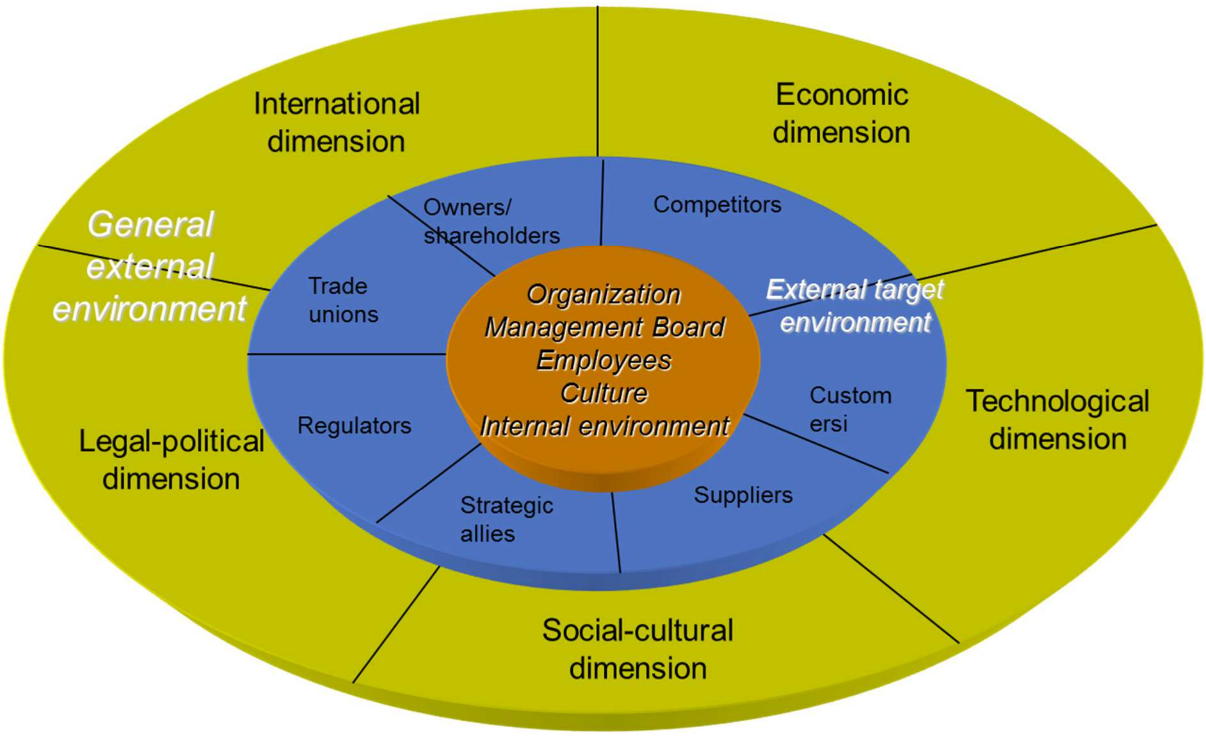
Another point in this process is to understand the target the entity aims at as a whole. This is a specific point placed in the future and giving the general azimuth. It often goes so far into the future that its precise location in time is unrealistic. However, it should, like a lens, focus specific important strategy determinants so that the organization tends to reach it. The process of assessment and prioritization of strategic targets and tasks, the effect whereof is the strategy formulation and definition of the determinants critical to it. When the general direction has been indicated, the strategic targets should be translated into their performance dimension, which is an important issue in the process of their performance management.

In this point we need to emphasize that the authoress of this paper does not intend to assess whether the performance of strategic targets is better then their negligence. It is easy to imagine a situation where the fact that strategic targets were not fulfilled became much more desired than the performance thereof. Such a case always occurs when the strategy is inappropriate in relation to market conditions or fundamentally wrong. Here, an a priori assumption has been made that strategic targets and the whole strategies are properly formulated and they correspond to the situation of the organization in the best way possible. Therefore, they are better in an absolute way than the non-coordinated actions of some individuals or groups in the company. Their fulfillment have a better impact on the entity's market position than their negligence.

6.3. STRATEGIC TARGET PERFORMANCE

When going on a vacation, a manager usually expects sunny weather. It does not mean, however, that he would not take an umbrella or raincoat with him. He predicts that there is a number of factors beyond his control, which may cause unfavorable phenomena. It may be a weather break and a spell of heavy rains. A change of the environmental conditions, although sometime frightening, does not mean, however, that we should not be prepared for it in the best way possible. The disturbances of the plans assumed are the more and more frequent reality. The projection of future events has become an immensely important question, inseparably connected to organization management. Along with the progressing globalization, the environment analysis has become very difficult. The companies so far adapting themselves to the laws of one country, today, operating on numerous markets, must adapt themselves to the laws of e.g. the EU countries, the USA and the Far East countries. The merger of Honeywell and General Electric, although approved by the US Government, was effectively suspended by the EU. The pharmaceutical corporation US Pharmacia almost every time adapts the formulation of a medicine to the requirements of particular countries, while Polish meat manufacturers who wish to trade with Russia had to meet numerous quality requirements set by the partner, including acceptance of inspections by Russian government representatives made almost every year. This obviously affects the strategy form and actions on the tactical and operating level.

Fig. 8 Environment of an organization



Source: Griffin R.W., Podstawy zarządzania organizacjami, PWN, Warszawa 1998, p.45

Talking about the impact of environment on the strategic target performance, we cannot, however, restrict ourselves to the political-legal dimension. The social-cultural dimension is of equal, if not basic, importance. A large group of products or services does not exist in a number of cultures, though it is not banned by the law. The habits, beliefs, social and demographic structure may effectively affect the dimension and method of fulfilling the strategic targets.

From the point of view of managing the strategic targets, the operation level seems to be really significant. The very creation of strategy is usually outsourced with third-party consultants, but their performance remains the company responsibility, i.e. of all its employees.

The strategic target performance process should progress in a coordinated way, not only on each organization level, but also in the particular units. According to both the practitioners and theoreticians of strategy, their performance management is related to appropriate communication and directing the day-to-day actions onto mission accomplishment. Strategy becomes the framework of procedures in the tasks made by each employee. Therefore, communicating basic directions as discovering the potential rather than a set of empty words that would never be transposed onto the practical grounds is so important. The lack of awareness and understanding of the mission and clear system of transposing it on substantial actions may lead to unconscious negligence of actions or even sabotage. The knowledge of strategy, participation in its formulation and conviction on its rightness are translated onto satisfaction with work, attachment to the organization, improvement of efficiency of actions and establishing a close connection between the current tasks and the primary objective[155]. The very fact of its existence is not directly and automatically transposed on the implementation. The latter takes place on the lower hierarchy levels.

The basic task of the management board is the appropriate announcement of the strategic targets, in reference to substantial actions that would have to be taken in order to fulfill the targets. The employees, while doing their tasks, have the best knowledge about the possibilities and methods of translating their tasks to strategic targets fulfillment[156]. Therefore, they should not only become the strategic target contractors, but also their co-authors. The management boards should participate in the process of bilateral communication with the employees supporting making current decisions and actions directed to the performance of the strategy. The combination of temporary actions with long-term vision is frequently not so obvious or clear. If soliciting new customers is a strategic target, each action taken by the employees should be oriented on winning them. From the selection of appropriate technology and structure of the products, through existing customer service and marketing to post-sale servicing. The situation is similar, when the target is the improvement or maintenance of the high quality level. Each organization level and each unit thereof should in such situation consider high quality - both from the part of the product or service and in the contact with the buyers. The principle seems fairly obvious, but it is not applied in numerous cases. Strategy is not translated into daily

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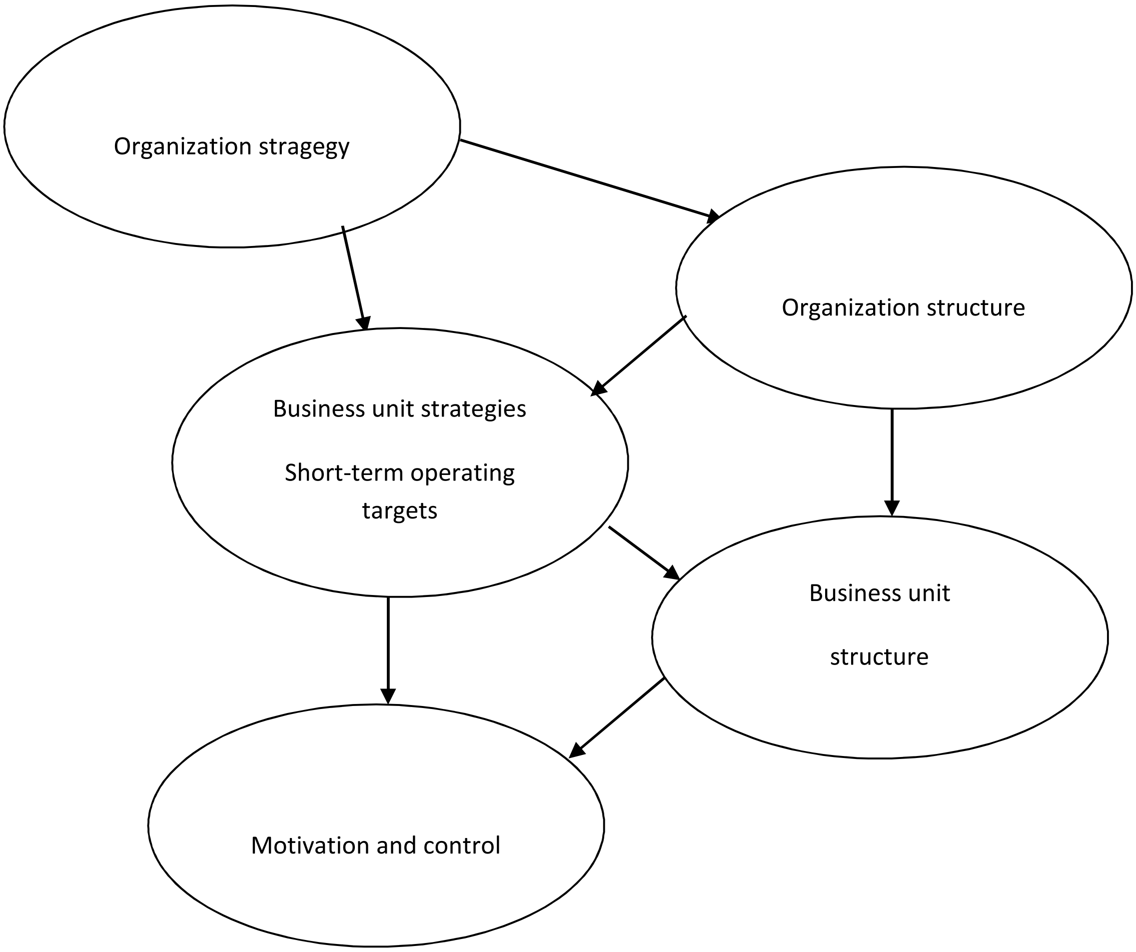
[155] J. Kohles, *Effective Dialogue for Strategic Rewards*, "European Business Forum", No21, Spring/2005

[156] J.R. Meindl *Invited Reaction: Enabling Visionary Leadership*, Human Resource Development Quarterly, 1998, p.21-24

actions, which the managerial staff should be blames for. The lack of target fulfillment management or ordinary gaps in communication form an effective barrier in transposing them into the operating sphere. It is only the bilateral communication that enables the articulation of the best methods of using the resources for the strategy performance.

Fig. 9 Strategic target performance model



Source: L. G. Hrebiniak, Making Strategy Work. Leading Effective Execution and Change", p.35, Wharton School Publishing, New Jersey 2005

Strategy implementation model is presented by Hrebiniak[157]. As the author emphasizes, this is an approach defining what should be done, how, when and in what sequence, giving the particular tasks a logic order.

In this model the initial document is strategy. It is very significant from the entire organization's point of view. Explicit, clear and focused on the selected issues and their transposition into practice. The

[157] L.G. Hrebiniak *Making Strategy Work. Leading Effective Execution and Change*, Wharton School Publishing, New Jersey 2005, p.35

appropriately made plans largely support their implementation. The above drawing indicated the logical flow between the particular areas. The source is the overall company strategy that is translated into the operating targets, business unit strategies and the structure. This, in turn, influences the business unit structure and, finally, on the motivation and control system. The arrows indicate the flow line and sequence of decision and target realization. However, we should not interpret them in the context of a unilateral flow, in the top-bottom direction without communication and participation of the further levels and people. The control element also contains a feedback and change element. Therefore, this is not a static approach. It enables the adaptation and variability in the course of its duration.

The management of strategic target performance is at the same time setting the sequence of their fulfillment and directing the resources to particular business units, sections or areas. At the same time the decision on giving bigger opportunities to some people as compared to others. Probably this is why, Lawrence Hrebiniak attributes particular importance in the process of strategic target fulfillment to the structure. He proves that the principle is clear, particularly in case of mergers and takeovers. As the academics pointed out several times, the company mergers often do not obviously translate into the efficiency improvement. The market noticed it fairly fast and in more than 60% case, the share prices after merger dropped from a few to several dozen percent. Therefore, we may presume that the standard targets of mergers, such as e.g. gaining profits on scale economy, reduction of maintenance costs of two structure through their merger and elimination of departments with similar competences, or, finally, the efficiency improvement, have not been achieved. Thus, the strategic targets have not been fulfilled, due to improper management.

The role of management boards in strategy realization

The management boards of companies are usually established in order to exercise permanent management and supervision over the most efficient use of the resources held. The question whether the primary target of the organization is to bring profit or some other forms of profits is not very important here. the basic competences of the persons present at this level of the organizational structure include the indication of the primary objectives and indication of general direction of actions. Frequently, however, according to the practice, the management board activity in the strategy sphere is restricted to such tasks only. This obviously causes or may cause a different approach to accomplishing a mission, not only on the particular levels of the structure, but also there may be differences on the platform of particular individuals. The communication deformations and other perception of the hierarchy of targets and their importance for the company as well as own interests may effectively lead to substantial differences between what is important in the management board's opinion and what is actually performed. No management of the strategic target performance impedes the prevention of the said phenomenon. In this case this is the effect that may disclose the extent of the strategy fulfillment. However, it might become too late for the management board to respond in the right way.

The organization's market position is thus largely affected by the phenomena taking place between setting the primary objective and the effect. Although the theoreticians see the decisive role of middle and lower level managers in this point, it seems, however, that from the point of view of the whole entity, the impact of the comprehensive approach of management board is not meaningless, either. This is not as much the impact in fulfilling the targets on the lower levels, but the impact in the context of managing the fulfillment of a bundle of strategic targets.

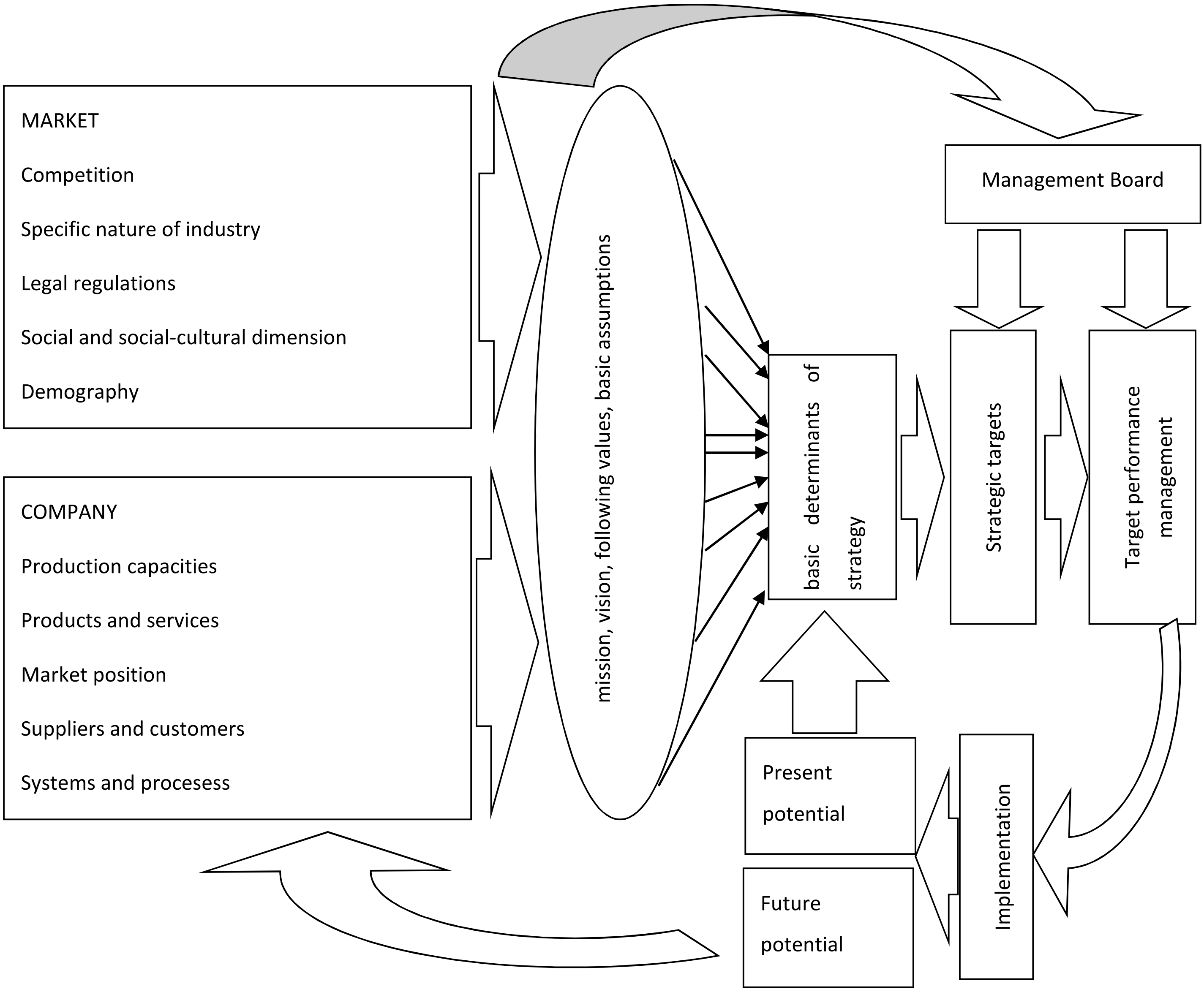
In the drawing presented below the process of strategic target fulfillment management starts already at the stage of input data analysis, both coming from the further environment and with restricted potential to change them and from the closer environment an the inside of the organization, sometimes called the internal environment [158]. The particular elements and dimensions of the environment create a mission and basic values, the strategy is based on. Filtered by the management board and the entire company, they are concentrated in the form of basic determinants of its activity. The way they are fulfilled affects the present and future potential and, finally, the environment elements. The management board role is thus very important, not only due to filtering the information and data reaching the organization, but also due to concentrating the company attention on important matters. The way they are going to manage the strategy fulfillment impacts the form and direction of the further actions. Through the use of opportunities on the level of fulfillment and leveling the threats, leveling the weak and enhancing the strong points, the organization not only affects its own potential, but also the form of its environment.

The management board members and the chief executive staff should at the same time participate in the process of directing the attention of the other levels onto the fulfillment of the strategic tasks. When the strategy contractors have no pool in the game, the failure probability is very serious. The motivation and control should, however, be focused on appropriate tasks and targets, so that they support the performance thereof. We usually get the result of what was rewarded not that of what could be penalized for. However, in as much the motivators support the performance, in so far the control may also indicate the need for changing the target and the method of its implementation This evokes feedback and the process of organizational learning as well as it releases the repairing

[158] J.A.F Stoner, R.E. Freeman, D.R. Jr. Gilbert, *Kierowanie*, PWE, 2nd ed, Warszawa 1997

mechanisms. This evokes feedback and the process of organizational learning as well as it releases the repairing mechanisms.

Fig. 10 The process of strategic target performance management



Source: own paper after www.ccl.com (Center for Creative Leadership, 2003)

The motivation systems should be organized so as to support the strategic target performance. Most people, as presented in the psychological and sociological tests (e.g. E.Aronson), perform tasks they may expect a reward for. Inducing action in a wrong direction causes abandonment of the strategy performance in favor of selecting a totally different way. On the other hand, badly selected or unattractive prizes would demotivate rather than improve the efficiency of action. This even applies to persons with the need for substantial achievements. The appropriate selection of rewards thus becomes the key question. Their division may be made into physical and usable (salary, bonus, business car, working conditions, promotion) and significant from the psychological point of view (organization and group membership, interesting job, competences held, development potential). Using the entire range thereof, the management boards may effectively manage the strategic target fulfillment. This does not change the fact, however, that they should be consistent with the strategic, tactical and operating targets. They should support them.

As an example, Telekomunikacja Polska use to reward some of its employees, depending on the growth or drop of the customer satisfaction. The measuring methodology is generally known, so the contractors of the strategic target, i.e. the satisfaction level with the use of services offered by TP S.A. concentrate their actions on satisfying customer needs, relegating other questions and targets to a secondary status. On the US or Western Europe markets the top-level managers sign contracts connecting their profits with reaching a certain share price or revenue level. This directs their actions to the performance of such primary tasks. Concepts, such as value added creation (e.g. EVA or MVA) or Balanced Scorecard impose transposition of the strategic target onto the ground of operations and reward, depending on the final result fluctuations. Nevertheless, the appropriate motivator should depend on a measurable result, which in the cases shown above, has been fulfilled. The impossibility to measure deprives the influence on real actions of any motives. They lead to different interpretations and enable taking up actions in various directions that not always are desired.

The transposition of strategy and strategic targets onto the operating ground does not obviously change the fact that is should be matched to the possibilities and scope of the entity’s actions, distinguish on the market and direct its actions, instead of resolving day-to-day problems. On the other hand, however, from the implementation point of view, the world of strategic thinking and operation sphere should not be separated. The strategists are also the contractors of the said strategy, while those responsible for the strategy performance are also the strategists.

The strategic target performance should be a process that is continuous, repeatable and unrestricted in time. Just like the management thereof. We can talk about managment as all the functions called by H. Fayol can be applied. Planning, organizing, directing and control are immensely significant in the target management process. Planning the performance such as definition of the time horizon, organizing the necessary resources, motivating people and finally the control of the point achieved should become a continuous and repeatable process.

The first task remains, however, to create consistent targets on each level. The operating targets should result from the tactical ones, while the latter – from the strategic ones. Moreover, an important element is the appropriate prioritization thereof. The direction of the resource flow direction and focus of the corporate attention on specific tasks depend on it.

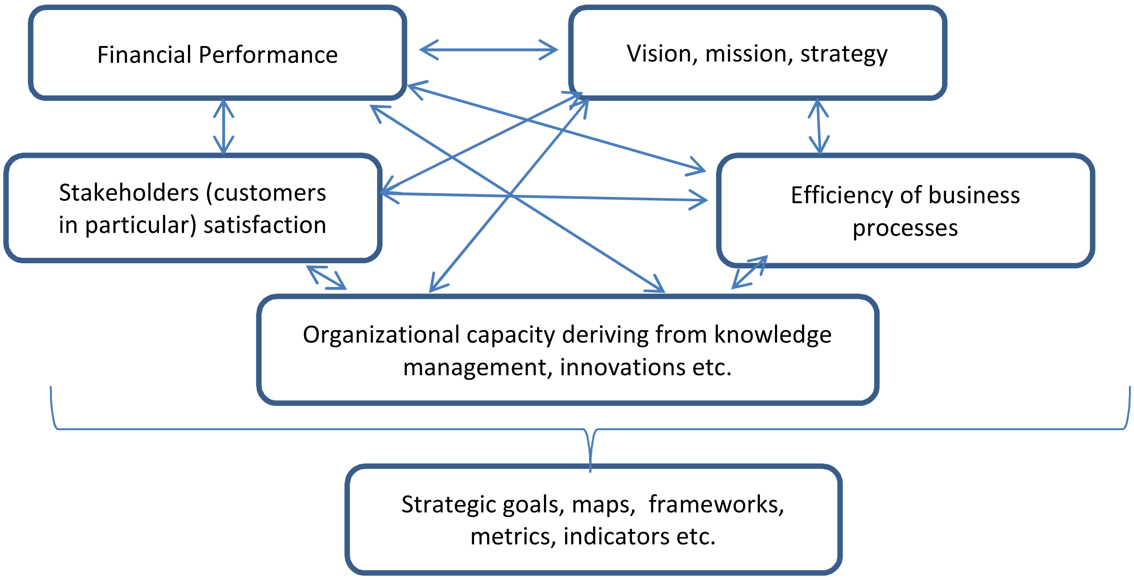
6.4. BALANCED SCORECARD

The Balanced Scorecard (BSC) as a tool for pursuing a strategy and creating the shareholders' value was invented by Harvard Professors Robert Kaplan and David Norton in the '90s of XXth century[159]. It helps measuring the companys' performance as well as allows to valuate some goals, activities, indicators and performance thus it forces the managers to measure them. Since it was introduced Strategic Balanced Scorecard evolved from a simple planistic tool to a full, complicated management system. As Kaplan and Norton wrote in 1996[160]; "*The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation.*

[159] R.S. Kaplan, D.P. Norton, *The Balanced Scorecard. Translating Strategy into Action*, Harvard Business Review Press, Boston, MA, 1996

[160] R.S. Kaplan, D.P. Norton, *Using the Balanced Scorecard as a Strategic Management System*, "Harvard Business Review", January-February 1996, p.76.

Fig. 11 Balanced scorecard concept



Source: authors' own elaboration on the basis of Kaplan R.S., Norton D.P., Using the Balanced Scorecard as a Strategic Management System, "Harvard Business Review", January-February 1996, p.76.

In the Balance Scorecard principal are the areas called "Perspectives". There are listed four of them, but according to version and the consultancy company making changes while fitting it into the case analyzed, it may vary from four to five-eight. In this book it is enough to focus on the four of them as it is in the basic methodology. In the frames of each of the perspective are named goals and indicated metrics that should be achieved in a particular, defined period of time.

First comes the **Business Process Perspective** that refers to all the processes and systems that are internal to the company. This perspective is also about all the managerial work, systems and ways the resources are organized and used and somehow refers to competitive advantages too. Metrics used in this perspective show the performance of the business as a system of processes and decisions. It answers the question how well the firm is running, do the products meet the market requirements and are traded. It is also about sales processes, product design, production services delivery etc. All the metrics used must refer to crucial areas of the major, managerial and other activities ongoing inside the company.

Second is the **Financial Perspective** that refers to all the financial statements and financial data that represent the financial condition of the business. This is not only about return on investment, equity etc. indicators. The financial data used in this perspective refers to broader scope of financial documents. These include risk assessment, cost, income, profitability of processes, projects and the whole business etc. The financials are widely used in the value based management concept what creates unfair situation that disregards other important business issues. As the financial statements are rather about the condition of the business without analysis of other perspectives may mislead investors, customers and societies.

Third goes the **Customer Perspective** that focuses on the customer satisfaction and willingness to purchase and then repurchase the product or service. It also refers to brand perception and recognition, acceptance for the sales policy and strategy, willingness to pay higher prices and remain as a client with the company. Poor customer satisfaction stands usually for future decline in value and competitive position. Eventhough the financial data may look pretty good. This perspective is also about all the metrics important on the brink of a company, where the customer meets the firm. That leads to the conclusion that not the client satisfaction is important but the processes connected to it too.

The fourth is the **Growth and Learning Perspective**. It refers to human capital, organizational culture, organizational knowledge, databases and possibility and willingness to developed all the skills needed for successful and profitable business run. Here are all the metrics connected to learning, training, personal development and self-improvement. The more influential the human factor is, the more important is that perspective. In a knowledge based company where the employee remains main repository of knowledge, innovativeness and competitive advantages this seems to be very important area of the BSC. The businesses of nowadays facing rapid changes, new technologies, globalization and other trends must keep all the members in a knowledge development mode. The metrics here become tools for directing managers towards company development and market survival. Put in place emphasize workers' and organizational skills turning managers into mentors, tutors and leaders. This perspective covers also some communication and motivation issues directed on higher performance work systems.

Tab. 16 Example of Balanced Scorecard Tool

Business Process	Acceleration of production	Average time spent for producing one item	minutes	decrease	15 mins
	Shortening the time of compliance explanation	Average time spent for explaining compliance	days	decrease	2 days
Financial	Increase of sales	Mio of USD	USD	increase	Increase of 2Mio USD
	Decrease of production cost	Mio of USD	USD	decrease	Decrease of 1Mio USD
Customer	Customer satisfaction	Customer satisfaction indicator	%	growth	85%
	Converting cheapest versions buyers into mid-priced version buyers	Rate of conversion (% of cheap buyers who bought more expensive versions)	%	growth	7%
Growth & Learning	Developing training programs and possibilities	Average number of training days per worker per year	Day	Increase	10
	Developing knowledge and data bases	Number of records developed and	Number of records	Increase	25 thousands

Source: authors' own elaboration

On the basis of the BSC there was developed a **Strategy Mapping**[161] (see example below) tool widely used for translating the BSC into the metrics used for valuation and value creation[162]. Strategy maps[163] describe the cause – effect chain of objectives (and sometimes activities) showing how and where the

[161] R.S. Kaplan, D.P. Norton, *Strategy Maps: Converting Intangible Assets into Tangible Outcomes*, Harvard Business School Publishing, Boston, MA, 2004

[162] R.S. Kaplan, D.P. Norton *Summary. Strategy Maps*. Business Book Summaries, Seattle, 2014

[163] L .Rivas, *Strategy Map 28 Success Secrets*, Emereo Publishing, Seattle, 2014

value is created. The maps show also the links between all the goals indicated in the BSC. The awareness of the roots and significance of the named goals influence the motivation of workers and helps to understand the significance of the targets. It explains that all the aims are connected and work as a whole system. Falls one is not achieved it may cause substantial problems to others in the company. Thus all is linked, Strategy Mapping tool allows to take a look over the entire company and disturbs all the myopic managers who want to see only their own department, goal and perspective.

Diagram 7 Example of a Strategy Map

Perspective					
Business Process		Acceleration of production			
		Shortening the time of compliance explanation			
Financial				Decrease of production cost	
					Increase of sales
Customer				Customer satisfaction	
					Converting cheapest versions buyers into mid-priced version buyers
Growth & Learning	Developing training programs and possibilities				
		Developing knowledge and data bases			

Source: authors' own elaboration

The Balanced Scorecard is supported also by special software systems helping managers efficiently using the method. It also helps to communicate all the metrics and current situation to all or selected coworkers.

6.5. SALES AND MAKING STRATEGY WORK

Sales concern the foundations of the overall organization functioning. The success thereof often seems to be the key for the entity functioning durability. However, sales are rather closely combined with the vision of the company functioning as a whole. Sales strategy comprises divisions into strategies based on products and product groups (vertically) and based on segments and markets (horizontally)[164], general – comprising the sales of all the products offered to each of the selected segments and specialized with precise matching of the product to the segment[165], directed to an individual customer (B2C) and to another business (B2B)[166]. For the further considerations, however, the approach of Rackham and De Vincentis[167] has been selected. According to them, the sales may be set basing on the customer's expectations. The distinguish three types of sales in the strategy performance:

- relationship selling,
- transactional selling,
- corporate selling.

The transactional selling assumes a substantial knowledge of the market about the products and services and is oriented on simplifying the access to the product and transaction closing as well as the entire sale process. In this case there is also a strong pressure on reducing the costs of sales, continuous and precise analysis of the viability of the specific actions taken by the sales personnel. Sometimes it requires resignation from costly forms of customer keeping and orientation on multi-dimensional analyses of the market and customer data collected.

The relationship selling is derived from perception of the customers as those who require education, advice, assistance or long-lasting relationships and high level of trust towards the supplier. Very often, according to the authors, sales are performed among the suppliers of complicated solutions or

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[164] A.A. Zoltners, S. Prabhakant, A. Sinha, S. Lorimer, *Zwiększanie efektywności działu sprzedaży*, Oficyna Ekonomiczna Wolters Kluwer, Kraków 2005, p.101

[165] D.F. Abell, *Defining the Business: The Starting Point of Strategic Planning*, PrenticeHall, New Jersey 1980, p. 192-196

[166] K. Cybulski, *Zarządzanie działem sprzedaży firmy*, Wydawnictwo Naukowe PWN, Warszawa 2010, p.79

[167] N. Rackham, J.De Vincentis, *Zespoły sprzedaży w obliczu zmian*, Wolters Kluwer Polska Sp. z o.o., Warszawa 2010, p. 61-69

equipment requiring substantial specialist knowledge. Such strategy is directed on generating value added for the customer, numerous interactions with them and maintaining ongoing good relationships. Such solutions are usually expensive, which brings about the necessity for bearing high costs of sales, but also it may make the entity dependent of the particular partners.

The corporate selling consists in expanded cooperation between the customers and suppliers. It usually concerns substantial transactions with high importance for the revenue structure. However, it requires the assumption that the interests of both parties to the transaction converge and both tend to maintain the partnership nature of the relationship.

Tab. 17 The characteristics of sales and requirements towards the particular corporate strategy elements

Area	Strategies		
	transactional	relationship	corporate
Segmentation	Very important, precise analyses	Matched to the competences and potentials of sellers	According to specific customers and commercial situations
Products	Reduction of price, simplifying the products, development of selected features akcnowledged as the most important ones to the customers	Expanding their additional values	Matching to the client and dynamically changing according to the customer's expectations
Selling process	Personnel specialization at various process points.	Major part of the process is focused around individuals. Wide range of seller's actions. Pressure on building and sustaining the relationships.	Fully dependend on the selling person, expanded and long-lasting. Pressure on building long-lasting relationships.
Employees	Relatively low requirements for competence, pressure on efficiency of actions.	High requirements for competence and pressure on development.	Very high requirements, pressure on development.
Structure	Considering segments and products.	Considering potentials of sales staff and geographic markets.	Considering individual sellers.
Information	Strong pressure on gathering numerous information and their wide and thorough analysis.	Pressure on obtaining information from sellers. Moderate analysis.	Pressure on case studies and generalizing knowledge about customers and cases

Source: own study after. Rackham N, .De Vincentis J, Zespoły sprzedaży w obliczu zmian [Sales teams facing changes], Wolters Kluwer Polska Sp. z o.o., Warszawa 2010

In comparison with the organization strategy and typology widely described without limitation by

A.Stabryła[168], H.Ansoff[169]] or K.Obłój[170] it was assumed that the corporate strategies may be distinguished as:

- planistic,
- evolutionary,
- positioning,
- resources and competences.

In the planning the basic decision making issue are appropriate selection and allocation of resources to the markets served. Planned in such a way they enable such organization thereof to make the useful, revenue target performance possible. Such characteristics correspond to a greater extent to the transactional selling strategy. The financial assumptions, targets and sales plans, ongoing control, expansion, cost control, decision repeatability and production level growth are important here. Presumably tha relationship or corporate selling strategies, oriented on substantial freedom of action of the personnel and high, often difficult to plan, costs of sales, shall be actions incompliant with the organization planning strategy.

In the evolutionary strategies the external and internal environment elements form the entity's existence and its strategy. In numerous cases it is impossible to foresee the direction the organization and its strategy are going to. Evolution, according to its assumptions, does not seem to have any specific purpose, nevertheless, it tries to respond to the environment elements impact. On the sales level, the closer the cooperation with the customer is, the higher customer's influence on the strategy form will be. Corporate selling is largely dependent on current agreements resulting from the cooperation. Its responsiveness to the buyer's expectations is thus desired and the actions tending to make the model of reaction to the stimuli generated by the customers more efficient, become an important task for its authors.

The basic assumption of the positioning strategy is the achievement and maintenance of competitive advantages. The growing risk of losing the advantage causes the necessity for fast response of the entity, while the pressure is put on making a decision on the direction of action, building the advantage,

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[168] A. Stabryła *Zarządzanie strategiczne w teorii i praktyce firmy*, Wydawnictwo Naukowe PWN Warszawa, Kraków 2000, p.54-68

[169] H.I. Ansoff, *The New Corporate Strategy*, Wiley, New York, 1988, p.48

[170] K. Obłój, *Strategia organizacji*, PWE, Warszawa 2007, p.60-198

entrenching oneself in the position and maintaining the status. The positioning strategies require the maintenance of the analytic rigor and creation of expanded databases being the source of information necessary for the decision making. The answer on the performance grounds here may be to a certain extent the transactional selling. It enables building of controlled advantages related to e.g. maintaining low costs and prices, where the seller's role is fixed in the particular points of the selling process. On the other hand, however, relationship or corporate strategies assume that the development of difficult to be copied relationships with the buyer and the growing importance of the sales department staff, responsible for such result. Although this is a strategic resource and it builds the advantage, however it is difficult to be controlled from the management board's position.

The concept of resource strategy initiated by G.Hamel and late C.K.Prahalad [171] describes the organization as a set of resources and skills. It is not the plan or target, but the improvement of the resources and their appropriate combination and layout that are of primary importance. Although the measurement of differences between profit on allocation of real and intellectual capital and extraction of revenues resulting from competence form an issue here, nevertheless the strategies find a wide application in the organization analysis and assessment of its ability to survive. In relation to the selling strategies analyzed, both the relationships with the customers and sales department staff and their skills of initiating and maintaining contact with the customer and transforming them into growing revenues may be an asset here. Therefore, the strategy corresponding to the greatest extent possible to the asset strategies, seems to be building relationships with the buyers. This requires not only the staff qualifications, but also investing in the durability of the contact. This may effectively eliminate the competition and represent an indisputable and difficult to be copied asset of the entity.

6.6. CASE STUDY IMQ

6.6.1. THE IMQ COMPANY

IMQ Ltd. became one of the largest Out of Home Televisions in Poland last year. It comprises more than 1000 screens emitting news and advertising material. Thanks to the use of high technologies, the IMQ Ltd. system is remotely managed and administered to as to match the information displayed to the passenger and advertiser needs and expectations to the maximum extent possible The Company develops complementary products based on the IMQ Ltd. carrier network, with the use of state-of-the-art communication tools. The company also has programming competences in the scope of creating PC and mobile applications that have not been fully used so far. The characteristic distinguishing the company offer is the control of each bus/tram screen online. With the possibility to adapt the contents displayed

[171] G. Hamel, C.K. Prahalad *The Core Competence of the Corporation*, "Harvard Business Review", May/June 1990

to the geographical location of a specific means of transport. This enables the focusing of the advertising in selected places of a specific town and increase the ROI on investments into marketing.

The Company struggled with financial issues since the very beginning of its existence. The company business model – selling advertising space with simultaneous costly maintenance of the operating infrastructure (more than a dozen of personnel, office, fixed payment for renting the advertising space) and technical (maintenance, service repairs of a few hundred devices) caused that sales have became the priority since the very beginning of the company existence. The few members of the sales section were responsible for the company future that generated losses almost every month reaching revenues that did not even cover half of the monthly costs. Last year passed on the monthly losses, numerous mutual allegations between the company departments and the lack of perspective of the results improvement. The sales plans were not achieved. Due to the dissatisfying results of the company, not exceeding EUR 1 mln, in the end of last year the company management board was changed, the strategic diagnosis of the selling process and preparation for restructuring the sales department became the tasks of the new team. In January this year the due diligence investigation of the selling processes has begun. According to the top-down approach taken up, the first step was the analysis of sales strategy, then the selling process was analyzed to overview the sales assets and assess the strategic adaptation of the assets to the company needs. The purpose of the analysis was to define the probable reasons for the bad condition of the sales department, suggesting the restructuring process to the Company Supervisory Board in order to carry out the operating implementation of the suggested changes.

6.6.2. ENVIRONMENT ANALYSIS

The analysis of the company situation was started with the business conditions of IMQ Ltd. operations divided into the external and internal conditions. The Management Board classified the following within the key external conditions:

- The specific nature of sales in the SME sector – the small and medium-sized enterprises appreciate local customers and allocate their low marketing budgets most of all on local advertising. They particularly appreciate printing and distribution of leaflets, local press and local ratio. Such entities may easily calculate the effects of their advertising campaign – contrary to big corporations they do not wait for the CRM software and a team of analysts analyses, effective advertising is one that brings new people into the shop/restaurant. Recently, the activity of small and medium-sized local companies in the marketing has grown, mainly basing on offering discounts and vouchers, including, without limitation, through the Groupon service. The local companies more and more often appreciate the Social Media power in the form of Facebook. Selling to such entities is strongly relationship selling.

- The sales for media houses are challenge for marketing business beginners – media owners. Such entities have very high advertising budgets and use them at a large scale, expecting the scale from their partners as well. The companies fight in tenders for corporate advertising budgets, reluctantly bearing the risk, allocating most of their funds in traditional ATL channels. The media planners form a hermetic and small environment, requiring strong relationships in order to win the budgets. It very often appeared that it is easier to reach a media house directly through the marketing department of a company, interested in a new product and contacted the media planner.
- Growing competition – the niche has recently been entered by a number of strong market players, with the Agora Group as the leader. On the one hand it proves the interest in the niche, on the other, however, it causes a fight for advertisement and the necessity to bear higher costs of the infrastructure maintenance.
- The macrotrend related to the growing role of the BTL (below the line) marketing– the traditional media have problems with drawing the consumers' attention and building the brand awareness and loyalty towards it. Thus, the attention of the marketing departments is directed to the alternative communication forms, including multi-channel ones through the Internet/Social Media, Mobile and Outdoor in coordinated media. IMQ Ltd. integrates into this trend.
- In spite of the crisis in the preceding years and the drop of the Digital Signage market by a few per cent (according to "Parkiet" data), this year the market has returned to increases, which was also related to the entering the competitors' segment, as described before
- The following have been classified within the key internal conditions:
- A committed investor - venture capital fund, financing the company in spite of the negative financial result, counting on prompt company restructuring, particularly on the restructuring of the sales department
- The new Management Board obtained budget to carry out changes in the sales department and a few months of additional time for the first effects
- The company lacked a uniform, long-term strategy of the sales department management, due to high rotation in the position of the sales manager
- The sales personnel of the company gained high for the sector commission rates – in terms of percentage, which was not translated into the bonus amounts.
- The company invested in the growth of reach, installation of new advertising carriers.

6.6.3. SALES STRATEGY

The sales strategy of IMQ Ltd. used to assume segmentation of the customers into two groups: the sector of small and medium-sized enterprises and media houses serving larger corporations. At first the actions were evenly concentrated on two types of customers, bringing no satisfying results. The customers from the media house sector were not interested in the selective and small offer, at the time searching for partners with large scale of operations, best the national scale. Small enterprises, on their part, usually had scarce advertising budgets, they were reluctant to new media, moreover, they most often did not have any attractive advertising content, which restricted the effectiveness of the marketing message. Another step of the new Management Board was the new division of the target sales segments and modification of the distribution channels:

Own sales (the SME sector, public sector, large businesses) – media houses have been removed from direct sales channel of the company sales people, while large companies have been added – often marketing managers – the hotheads were interested in the technological and medial novelties, suggesting IMQ Ltd. to media houses as an interesting communication channel. Public and local government institutions, disposing of the EU support for promotion campaigns have become a new group of customers.

Sales through a broker (media houses) – the company, due to poor results in the segment, decided to place the sales in media houses with a specialized broker, with appropriate scale (acting as an aggregator), as well as with built long-term relationships with the media partners.

Another step was the sales process analysis, consisting of four steps:

1. Cold call, the first contact with the customer – the sales people used their databases from the previous jobs and the customer details available online, in order to build telephone contact. They arose in a fairly chaotic way.
2. In case of interest in the offer, the offer was mailed to the potential customer by e-mail and then the telephone contact was repeated.
3. Closing sales – in case of larger potential customers, the next step was to make an appointment in order to present the offer, most of the customers, however, were served by telephone only. The customer was obliged to provide the advertising spot or a new spot was made for them based on the graphic materials provided.
4. After the campaign accomplishment, the customer received by e-mail a concise report on the number of their advertisement views in Excel format.

At the analysis stage a number of errors in the sales process was notice, which could suggest that the process itself was insufficiently supervised:

- the lack of methodological building of database about the customers, the knowledge about the customers remained in the company

- the lack of talks to the customer and examining their needs

- the lack of reporting the reasons for refusal to buy the service by the customer

- insufficient post-sale actions, mailing detailed reports, questions about advertising effectiveness, etc.

- more than 95% revenues were new customers, frequently the sales department simply did not restore sales in agreed periods of time.

6.6.4. PROBLEMS WITH SALES

- Insufficient sales results in the SME segment and the Media House segments.
- High personnel rotation in the sales department.
- Drop of motivation among sales personnel.

Tab. 18 Sources of problems with sales

Internal	Extermal
Determined capital investor willing to obtain Return on Investments in IMQ	Growing demand and growing market
Insufficient sales budget	The problem of sales to media houses, long decision making
Problems with recruiting sales manager	Growing competition
High commissions for sales employees	Sales to small and medium-sized enterprises – locally and pressure on price reduction
Growing number of advertising carriers	Problems with gaining funding sources with average rates of return.

Source: autors' own work.

The basic problem of the company, particularly the Sales section was the lack of sales or its relatively low level at the result stage, at the department management level – high personnel rotation in the department and their low motivation:

- Low results in the SME segment – revenues gained in this segment did not cover the salaries of the regular sales personnel, small enterprises approached the marketing channel with reluctance, they did not have advertising spots, did not restore the advertisement. It caused a feedback – the sales people reluctantly contacted such customers, expecting difficult talks and probable refusal and in case of selling success – small amounts of bonus.
- Dissatisfying sales results in media houses – in the current period the company did not have the appropriate operating scale, in order to be an equal partner for the said entities.
- High rotation of sales department personnel – due to the lack of sales results, the sales people were often changed, the annual level of rotation exceeded 100%, with average working time at the company of 4-5 months – which often did not enable them to settle in the company. The high rotation also included the Sales Manager position. Very often the least efficient employees stayed at work.
- The sales department was demotivated with the lack of sales effects, the staff often came late to work or left earlier, the atmosphere at the office was not very good. The sales department blamed the IT and marketing specialists with bad product quality (the advertisement was poorly visible, poor display, too seldom emission, etc.), while the other employees complained about the lack of commitment at the sales department

The established probable reasons for problems with sales:

- Errors and problems with the recruitment process.
- Problems with sales process control.
- Insufficient training, coaching and mentoring.
- No consistency in the sales strategy.

Tasks:

1. Create a Balanced Scorecard for IMQ.

Perspective	Target	Metrics	Units	Preferred direction of changes	Years			
					1	2	3	4
Business Process	1							
	2							
Financial	1							
	2							
Customer	1							
	2							
Growth & Learning	1							
	2							

2. Create a Strategy Map for the Company.

Discussion questions:

1. *Describe the sources or possible sources of sales problems claimed.*
2. *Determine how the particular problems affect or may affect the performance of the overall company strategy performance.*
3. *How may the specific problems affect the return on investment in the company and shareholder value.*
4. *Do you think that this is a good moment that the company should issue shares and enter the stock market with them? Justify your answer.*
5. *How should the problems claimed by solved?*

7. CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE SOCIAL VALUE

7.1. GENERAL OUTLINE

Thus the companies of nowadays are facing highly responsibility – aware societies the CSR become a crucial goal in their activities. It is not connected to the main performance paths however. The CSR concept seems to be not in the business value embedded. The connection between value management and CSR is palpable but not easy to prove. The CSV concept might be a solution. It takes into consideration company's social responsibility and it's strategic, financial, sales etc. goals. They can be blended and answer needs of local societies and a company's value together.

- Ethics
- CSR
- CSV
- CSR, CSV and value based management.

Case study – CSR, CSV – linking strategic goals with corporate social responsibility. The needs of societies.

7.2. INFLUENCE OF ENVIRONMENTAL CHANGES ON COMPANIES' APPROACH TO CSR – LINK TO VALUES BASED MANAGEMENT

7.2.1. SELECTED MEGATRENDS IN THE CONTEMPORARY WORLD

The notion of megatrend was used in business context for the first time in 1982 by John Naisbitt in his best-selling book „Megatrends: Ten New Directions Transforming Our Lives"[172]. Naisbitt decided to determine key factors affecting the changes in global economy and societies basing on the reality surrounding him and interviews with numerous experts. The notion of megatrend defined as a force fundamentally changing the way of functioning of business entities, their way of operation, competition[173], significant movement, tendency or force that appears globally or locally and has a

[172] J. Naisbitt, *Megatrends: Ten New Directions Transforming Our Lives*, Warner Books, New York, 1982

[173] J. F Rock, *Green Building: Trend or Megatrend?*, Dispute Resolution Journal, May-Jul, Vol. 65, Issue 2/3 2010, p. 72-77

chance to function in the future, significantly affecting almost each aspect of societies' functioning, influencing both individuals and business entities[174].

So it seems worthwhile to attempt to select the most important groups of global megatrends appearing in the world in the second decade of the 21st century that would affect the questions related to creating strategies and programs of corporate social responsibility[175].

FURTHER GLOBALIZATION WAVE

Without prejudice to the phenomenon evaluation, globalization and its further process seem to be a fact. However, it is worthwhile to ask the question what is the distinctive characteristic of the present globalization wave. The point of view of Scholte[176] who has observed that associating globalization with internationalization, liberalization, universalization and westernization only brings nothing new to understanding contemporary social-economic phenomena, moreover, it even leads to controversial political implications – seems to be a good conclusion to the above question. „The new, cognitively promising perspective arises when globalization is grasped within the spatial categories, as the spread of transplanetary – and recently supraterritorial links between people". At earlier globalization stages the links used to be developed at the organizational level – at the level of entities correlated with state or regional structures creating various transnational organizations (aiming at the cooperation or coordination and control of some operation spheres) or on the level of business organizations, their entities, forming global corporations or global networks of cooperating organizations. The opportunities created by the development of the global IT structure, the Internet and new communication forms related thereto, recently mainly related to building communities, provide the opportunity of links not only on the level of organization but also between individuals. The development of citizen society[177] becomes characteristic for the present globalization stage, i.e. the development of citizen operations in the scope of global matters linking individuals dispersed all over the glove in real time, almost independently of the geographic location. Although the phenomenon is not entirely new, thanks to the contemporary communication opportunities its scale is significantly growing. It is also significant to note the fact that the criterion linking individuals geographically

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[174] M.F. Sultan, J.V. Mantese, D.A. Ulicny, A. Jr.Brown, *Defogging the crystal ball, Research Technology Management*, May/Jun 2008, Vol. 51, Issue 3, p. 28-34

[175] Due to a necessity to reduce the length of this dissertation, the authors decided only to outline the importance of selected mega trends. More information about the mega trends will be published in the research paper focusing on social responsibility of business in new economy, which is currently under preparation by Management Theory Department in Warsaw School of Economics.

[176] J. A. Scholte, Globalizacja, Oficyna Wydawnicza "Humanitas", Sosnowiec, 2006, p. 53

[177] Ibid., p. 251

dispersed is less and less frequently their national identity and more and more often non-territorial, hybrid identities, related to following common values, the same religion, social class, sex, sexual orientation, race, subculture membership or, finally, common interests, or combination of all such criteria. [178].

NEW MARKETS AND THEIR GROWING SIGNIFICANCE

The last few years of economic history of the world most of all mean the development of economies, such as China, India, Brazil, Indonesia. However, it is significant that the new economic powers are not built basing on production and exports of low quality cheap mass products only. The recent years have seen a qualitative change, however. The markets develop largely thanks to the production and exports of most advanced technologies[179]

The social structure of the developing countries is changing as well. These are less and less frequently farming, poorly educated societies with low-skilled workforce. For example, middle class is a dynamically growing social class in China [180]. The analyses by Goldman Sachs show similar trends in India and Brazil as well[181].

Better educated and wealthier societies of the developing countries pay more and more attention to education, development of new technologies and innovativeness [182]. The investments in new technologies and innovations concern the environment protection fields. According to the OECD report[183] already in 2007 the BRIICS countries (Brazil, Russia, India, Indonesia, China and South Africa) were more oriented on the implementation of technologies related to renewable energy sources than the global average, which was reflected, for example, in more new patents and applications therefor related to such technologies.

Summarizing, it needs to be pointed out that the growing power, importance and modernity of developing economies and the associated higher openness, exchange of concepts, similar challenges, may affect the increased interest in the issues so far associated with developed countries only and

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[178] Ibid., p. 287

[179] OECD, OECD Science, Technology and Industry Outlook 2010, http://www.nauka.gov.pl/fileadmin/user_upload/ministerstwo/Wspolpraca_miedzynarodowa/OECD/20110617_STI_Outlook.pdf, 2011-09-08, p. 189

[180]A. Sander, K. Haanaes, M.Daimler, Megatrendp. *Tailwinds for Growth in a Low-Growth Environment*, The Boston Consulting Group, 2010, http://www.bcg.com/documents/file47063.pdf, 2011-08-12, p. 4

[181] D. Wilson, A.L. Kelston, A. Swarnali, *BRICs Monthly, Goldman Sachs Global Economy*, “Commodities and Strategy Research”, Issue No: 10/03, 20 May 2010, Goldman Sachs

[182] OECD, op. cit., p. 58

[183] Ibid., p. 10

taking up leadership in solving the issues by such countries as China or India. Those two countries seem to have the largest potential to become the global leaders, however a lot of smaller countries appear with similar development perspectives, countries that may determine the trends in the contemporary world.

SOCIAL-DEMOGRAPHIC TRENDS

A very important group of megatrends characterizing the contemporary world is formed by phenomena related to social-demographic changes that obviously affect economic phenomena. They include:

- The growth of global population in the developing countries with stability in the developed countries[184],
- Aging societies of the developed countries[185], but also of China[186],
- urbanization progress[187].

The said demographic issues shall significantly affect the economy, businesses, their competition methods, but also the social-cultural questions, including people's interest in the new issues. On the one hand, a distinct discrepancy between the issues of wealthy and poorer, developing societies appears. On the other hand, however, the increasing migration, exchange of points of view and encountering similar challenges in various regions of the world should enhance the universalization of certain social problems appearing on the verge of business and society, including those being the object of interest in the scope of corporate social responsibility.

CONTINUOUS APPEARANCE OF NEW, REVOLUTIONARY TECHNOLOGIES AND THEIR CONVERGENCE – FURTHER DEVELOPMENT OF THE INTERNET

The beginning of the 21st century is a period of further dramatic acceleration in the scope of appearance of new, revolutionary technologies. The expenses, mainly incurred by business entities, on

[184] UN, World Population Prospects: The 2006 Revision, United Nations Organization, Department of Economic and Social Affairs, Population Division, 2007, http://www.un.org/esa/population/publications/wpp2006/WPP2006_Highlights_rev.pdf, 2011-09-12

[185] PRB, World Population Highligthp. Key Findings From PRBs 2007 World Population Data Sheet, Population Bulletin, Publication of the Population Reference Bureau, Vol. 62, No. 3, September 2007

[186] R. Shapiro, F*uturecast: How Superpowers, Populations, and Globalization Will Change Your World by the Year 2020*, St. Martin's Griffin, 2009

[187] PRB, op. cit., p. 10

research and development grow every year[188]. The effect thereof is the growing number of patent applications worldwide[189]. Fields like electronics, nanotechnology or biotechnology seem to be in the center of interest of the modern world. However, what seems to influence all the forms of human activity most are the new methods of communication, information acquisition, provision or exchange. The development of the Internet and mobile telephony on the other hand became most of all the phenomenon of the late 20th and early 21st century. Today, more than 2 billion people, i.e. over 30% of the global population have access to the Internet[190]. On the other hand, more than 5 billion mobile phones were used worldwide in 2010[191]. However, only the combination of those two elements indicates the contemporary dimension of the technological revolution related to the penetration of technologies . In 2009 half a billion of people used the mobile Internet access, while in 2015 the figure is to exceed one billion[192]. In late 2011 85% mobile phones sold worldwide shall have access to the Internet. The mobile access to the Internet, however is not only an additional channel to be used. The change means a dramatic opportunity to change behaviors related to the Internet use, it provides the option of staying on line permanently. This question will be further analyzed herein later.

So the contemporary Internet is not the final phase of the digital revolution[193]. One of the most promising ideas of the Internet development that should affect the appearance of further revolutions, reaching beyond the world lf technology is the Semantic Web concept, also synonymously defined as WEB 3.0 or the Internet of Things concept[194].

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[188] Buttelle, 2011 Global R&D Funding Forecast, R&D Magazine, Buttelle, December 2010, http://www.battelle.org/aboutus/rd/2011.pdf, 2011-09-20, p. 7

[189] WIPO, World Intellectual Property Indicators 2010, World Intellectual Property Organization, 2010, http://www.wipo.int/export/sites/www/ipstats/en/statistics/patents/pdf/941_2010.pdf, 2011-09-20, p. 33

[190] Internet World Stats, Internet Growth Statistics,2011, http://www.internetworldstatp.com/emarketing.htm, 2011-09-20

[191] ITU, Key Global Telecom Indicators for the World Telecommunication Service Sector, International Telecommunication Union, 2010, http://www.itu.int/ITU-D/ict/statistics/at_glance/KeyTelecom.html, 2011-09-20

[192] MobiThinking, Global mobile statistics 2011: all quality mobile marketing research, mobile Web stats, subscribers, ad revenue, usage, trends…, mobiThinking, June 2010, http://mobithinking.com/mobile-marketing-tools/latest-mobile-stats#subscribers, 2011-09-20

[193] Ch. Anderson, M. Wolff, *The Web Is Dead. Long Live the Internet, Wired, September 2010*

[194] *More for example in: Internet of Things – An action plan for Europe*, "Commission Of The European Communities", 18 June 2009, COM(2009) 278 final, Brussels, http://ec.europa.eu/information_society/policy/rfid/documents/commiot2009.pdf, 2011-09-20; Vermesan, O. et al., Internet of Things Strategic Research Roadmap, European Research Cluster on the Internet of Things (IERC), 2011, http://www.internet-of-things-research.eu/pdf/IoT_Cluster_Strategic_Research_Agenda_2011.pdf, 2011-09-20, p. 12

The number of technologies recognized as promising in the scope of bringing about radical changes worldwide or in some specific fields is obviously large. After all, it is difficult to evaluate their real meaning in advance. However, the analysis presented herein indicates that the field related to communication and information exchange within worldwide web is undoubtedly the field in which new revolutions are possible all the time.

SOCIAL-CULTURAL TRENDS

Globalization, demographic changes and most of all the appearance of new revolutionary technologies also influence the changes of the system of values and behaviors in the contemporary society. According to Tapscott[195], the time begins when consumers and employees who have grown up entirely in the digital area appear on the market, ones who do not know the world without the computer or Internet – the Z[196] or M (multitasking)[197] generation is entering the market. The most characteristic feature of such generation is almost the addiction to IT, available at any time and in any location thanks to possessing mobile telephones and tablets furnished with the Internet connection. This in turn means that permanent touch with other net users dispersed all over the globe and acquiring knowledge on all the world's aspects from the net is becoming a standard. The concentration of large part of their lives in the net and in numerous cases recognition of priority of virtual presence over real one is characteristic for the Z generation representatives. The expression of „netizenship" just appears, becoming the contemporary equivalent of citizenship[198] meaning the membership in a certain Internet community, gathered around a project, where the nationality of such group does not matter and the networks are often of global nature[199]. In addition, according to Grail Research[200] analyses, the access to a large amount of information caused that the Z generation is interested in contemporary global issues, such as terrorism, climate changes. According to the research ordered by Greenpeace in 2007

[195] D. Tapscott, *Grown Up Digital: How the Net Generation is Changing Your World*, McGraw-Hill, 2008, p. 2

[196] Grail Research, Consumers of Tomorrow. Insights and Observations About Generation Z, Grail Research, June 2010, http://grailresearch.com/pdf/ContenPodsPdf/Consumers_of_Tomorrow_Insights_and_Observations_About_Generation_Z.pdf, 2011-09-15

[197] C. Wallis, genM: *The Multitasking Generation*, "Time Magazine", March 2006; Holguin, J., Generation M: Natural Multitaskers, CBS News, May 2005

[198] J. L Zittrain, *The future of the Internet and how to stop it,* Yale University Press, New Haven & London, 2008, p. 142

[199] Grail Research, op. cit., p. 9

[200] Grail Research, op. cit., p. 12

among 50000 teenagers in 18 countries of the world , as many as 74% teenagers recognize the global warming a serious problem[201].

The appearance of the Z generation with its characteristics, including self-organization, „cyber-mentality", according to Falk[202], may weaken the regulatory role of the state and hand over the possibility of initiating various actions, business undertakings and social action onto the Internet communities.

The described trend related to the appearance of the new „netizen" generation in the society is certainly not the only one in the group of social-cultural megatrends, however its significance from the point of view of this paper seems to be fundamental. Other megatrends of this group include:

- the growing attention paid to various dimensions of safety with simultaneous, frequently opposite trend related to the attention paid to maintenance of privacy[203],
- the growing care about maintaining health, healthy life style, taking up activities enhancing it, the related development of medical services[204],
- permanent leveling of differences in treating women and men[205].

THE GROWING SIGNIFICANCE OF ECOLOGICAL ISSUES

Another group of megatrends is associated with the growing interest of the contemporary world in the ecological questions and sustainable development[206]. The fast development of the contemporary worlds generates the growing demand for energy and natural resources[207]. The value of natural resource markets grows very fast and the recessions of the last years of the first 21st century decade

[201] See: ibid., p. 12

[202] R. Falk, Achieving Human Rights, Routledge, 2008, p. 68

[203] More for example in: D. J. Solove, Noth*ing to Hide: The False Tradeoff between Privacy and Security*, Yale University Press, 2011; H. Nissenbaum, *Privacy in Context: Technology, Policy, and the Integrity of Social Life*, Stanford Law Books, 2009; Sultan, M F. et al., op. cit.

[204] More for example in: A. N. Garman, T. J. Johnson, T.C. Royer*, The Future of Healthcare: Global Trends Worth Watching*, Health Administration Press, 2011

[205] More for example in: World Economic Forum – The Global Gender Gap Report, R. Hausmann, L. D Tyson, P .Zahidi. (red.), The Global Gender Gap Report 2010, World Economic Forum, Geneva, Switzerland, 2010

[206]C Daheim, *Six Key Trends Shaping Future Society*, Z_punkt GmbH, OECD: TIP Workshop on Future Orientations for STI Policy, 14th Dec. 2009, Paris, http://www.benchmarkingpartnershipp.com.au/GBNglobalMegatrendp.pdf, 2011-08-19

[207] WTO, World Trade Report 2010. Trade in natural resources, World Trade Organization, Geneva, 2010, p. 55

could delay such trends for a while only[208]. This is not only due to the growing consumption of natural resources, but also to their growing prices. This directly forces businesses to search for alternative solutions, including clean technologies based on renewable sources of energy. After all, this does not only refer to the western developed economies, but also China and India that face the fastest growth of energy and natural resources demand.

Another reason for the interest of the contemporary business in the ecological questions is the growing pressure of the neighborhood on the preservation of natural environment and application of clean technologies. The source of the pressure are governments and international organizations and new legal regulations created by them[209], ecological organizations[210], but also the actions of the consumers themselves who more and more often base their choices on the evaluation of activity of enterprises related to environment protection[211] and expectations of company owners, shareholders who analyze the significance of the ecological questions and force the businesses to report the ecological costs and the use of clean technologies[212].

The effect of the growing interest in clean technologies is the immensely dynamic growth of their markets[213].

7.2.2. MEGATRENDS - SUMMARY

What conclusions arise from the analysis of selected contemporary megatrends? First one should note that the separated megatrends penetrate one another. It is difficult to talk about explicit boundaries between them, their separate nature. One can even say that all the other megatrends are the elements of each megatrend. It certainly does not facilitate their analysis, however, such conclusion cannot be surprising, either.

However, what seems to be in the center of megatrends and the driver that at least accelerates the action of the other ones undoubtedly is the appearance of the new technology, particularly the

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[208] D.A. Lubin, D.C. Esty, The sustainability imperative, Harvard Business Review, May 2010, Vol. 88, Issue 5, p. 42-50

[209] M. F. Sultan, et al., op. cit.

[210] J. Neild, P. Patterson, *Global mega trends for 2011 and beyond*, QRi Consulting, April 2011, http://www.qriconsulting.com/blog/wp-content/uploads/Global-Mega-Trends-for-2011-and-Beyond-QRi-Consulting2.pdf, 2011-09-13

[211] Ibid.; D.A. Lubin, D.C. Esty, op. cit.

[212] D.A. Lubin, D.C. Esty, op. cit.

[213] R. Pernick, C. Wilder, T. Winnie, P. Sosnovec, *Clean Energy Trends 2011*, Clean Edge, March 2011, http://www.cleanedge.com/reports/pdf/Trends2011.pdf, 2011-09-13

Internet and new communication opportunities built on it, with global communities, cooperation, global issues, life styles, innovativeness, culture being unified on the one hand and open to immense variety, on the other. Although, the „global village" slogan has been used for years, however the common, unrestricted access to the net and its communication opportunities caused that all the entities and numerous individuals acquired it. Therefore, "new economy" with the Internet and its influence on all the life areas in the center, disregarding the dispute whether the old rules of economics are still up to date as described above, seems to be OK and has become the indicator of global economic development. The net, links between individuals and various entities, should be in the center of interest of all the researchers analyzing the contemporary economic phenomena.

The next conclusion is related to the scope, rate and scale of changes taking place in the contemporary social-economic environment. Thanks to globalization, new technologies and most of all, the Internet, the changes, their scope and rate do not have any historic equivalent. The contemporary world changes faster and faster and in the more and more unforeseeable way, which arises simple associations with chaos. And in the chaotic system even the slightest disorder, the slightest impulse may have great, unforeseeable consequences. After all, this concept has become the guiding idea of Taleb's book „The Black Swan: The Impact of the Highly Improbable"[214]. Taleb talks of so-calles "black swans", i.e about positive or negative events, not always noticeable at first, but in the long-run having far reaching consequences for the world around. The significance of such events can be evaluated only when they actually happen. The conclusion of Taleb's book concerns the necessity to observe and search for such weak signals, i.e. paying attention to seemingly less important questions and examining their impact on the strategic issues for the business. Płoszajski[215] substantiates this indications stating that „the future of the chaotic systems appears on the edges", i.e. such weak signals should be searched on the edges of our own technology, business, on the boundaries of various areas because competition and other hazards shall most probably appear outside our own sector, outside what is recognized core business .

This statement may be the source of another conclusion arising out of the analysis of separated megatrends. Part of them may seem pretty remote and unassociated with their core business to the contemporary organizations. However, according to what Taleb says and Płoszajski summarizes, in chaotic systems (and such is, undoubtedly, the contemporary world), event the remotest signal may

[214] N.N. Taleb, *The Black Swan: The Impact of the Highly Improbable*, Random House Trade Paperbacks, 2 edition, 2010

[215] P. Płoszajski, *Zarządzanie w XXI wieku: Wyzwania menedżerskie ery petabyte*, Akademia Menedżerska - Nowoczesna Praktyka Zarządzania Firmą, Management Theory Department, Warsaw School of Economics, 2010, p. 244

become the key signal to the activity of a specific business. So the managers cannot afford to ignore megatrends.

In this point, however, doubts may aris: to what extent the said megatrends, considering chaos and unforeseeability of the contemporary world, really are lasting phenomena. The recession of the end of the first decade of the 21st century could become a certain test of their durability, the recession verified numerous forecasts concerning global economic development. The report of Boston Consulting Group[216] brings an interesting answer to this question. Since 2005, BCG have identified 78 global megatrends, divided into certain groups, so-called clusters. Out of the 78 megatrends as much as ca. 80% continued their development throughout the recession of 2008-2009 and 23 increased their significance even (particularly the growth of new growing economies, megatrends related to the development of the Internet, including virtual communities, e-commerce, development of new technologies, the questions related to the security hazards.

7.2.3. THE EFFECT OF CHANGES IN THE SOCIAL-ECONOMIC ENVIRONMENT ON THE STRATEGIES OF SOCIAL RESPONSIBILITY OF BUSINESSES

The growing importance of the social responsibility of businesses directly results from one of the megatrends characterizing the contemporary world. The global growing meaning of the ecological questions, forced by international organizations, state governments, but most of all by the consumers, more and more interested in the matters cause that businesses cannot afford to be passive in this scope while competing to win the client[217]. The programs of social responsibility of businesses related to the ecological questions may become a method to meet this growing demand.

In addition, ignoring this rising public interest may be dangerous in view of the global social changes as the consumers have gained a powerful weapon in the fight for their ideas, putting them in a position no weaker than that of the largest corporations even. The net, including in particular the development of the internet communities, the new cyber-mentality cause that the authority that may reach millions of the company clients, through the net, may become even an individual who would publish his/her dissatisfaction in front of the „socially irresponsible" actions of the company. The opinion reproduced as a virus may destroy the reputation and have significant financial consequences for the company.

In addition, the net also enhances the development of social organizations, NGOs. The NGOs in turn, that so far have put pressure on the governments, now have started to address their actions to the

[216] A. Sander,. et al., op. cit.

[217] D.A . Lubin, D.C. Esty, op. cit.

companies and force more responsible actions[218]. In response to the NGOs pressure, to fill the regulatory gap, business organizations began to implement self-regulating mechanisms voluntarily and offer public goods not provided by governments. So the programs of social responsibility become the necessary weapon in the fight for the company image and a specific protection in case of the more and more probable recession. They may be effective, however, only when no falsity lies behind them as falsity would be quickly noticed by someone and publicized on the net.

The latter issue also causes that strategies based on permission to differentiating actions in various regions of the world cannot be effective. Formerly numerous global organizations used to apply different strategies in the scope of the issues of social responsibility in the developed and developing countries[219]. In the former companies invested in their image through becoming involved in the social responsibility programs, while in the latter case the companies were not afraid of taking up exactly opposite, often unethical actions. The globalization of interactions causes that such strategies cannot be effective, because the information on corporate actions flow globally. In addition, the society of developing countries, now becoming wealthier, begins to become more and more interested in the matters of social responsibility, particularly in environment protection, sustainable development, which also takes place under the influence of exchange of ideas on the net, but also due to the increasing worldwide migration enhancing exchange of points of view.[220].

The interest in the social responsibility, particularly in the environment protection also forces a dramatic economic growth of the world, competition for natural resources, the appearance of real costs related to environment pollution (e.g. limits for greenhouse gas emission and trading in them)[221]. Investing in environment protection, in addition to the values of being recognized socially responsible may then become economically feasible.

Investing in staff satisfaction may also become economically feasible. It is necessary to provide the employees of generation Z with conditions to obtain commitment, treating work as a game to play, in order to use the creativity of generation Z entering the market. The programs of social responsibility of business may be helpful here.

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[218] A.G. Scherer, G.Palazzo, *The New Political Role of Business in a Globalized World: A Review of a New Perspective on CSR and its Implications for the Firm, Governance and Democracy*, "Journal of Management Studies", Volume 48, Issue 4, June 2011, p. 899–931

[219] R. Shamir, op. cit., p. 637

[220] A.G. Scherer, Palazzo, G., op. cit.

[221] D.A. Lubin, D.C. Esty, op. cit.

Businesses may also force social responsibility on themselves[222]. Building networks of links between them, they mutually affect their image. The social responsibility extent may become the partner selection criterion and therefore lower risks of charging the partner's image. An example, now famous, can be the case of charging the image of Apple with the issue of a series of suicides caused by difficult working conditions at Foxcon, a Chinese company – the manufacturer of numerous Apple products[223].

The changes in the business environment of contemporary companies and new challenges for the programs of social responsibility of businesses enable the formulation of certain indications related thereto. Scherer and Palazzo[224] point out that throughout the last decade, companies, particularly international corporations have begun to become involved in the activity traditionally reserved for governments rather than business organizations, including the issues related to public health, education, safety, defense of human rights, environment protection. The companies began to implement self-regulatory solutions, as the direct response to the changes in the business environment. The evidence is for example in the popularization of UN Global Compact program, joined by more than 5000 companies by the year 2000. Numerous concepts related to the social responsibility of businesses assume that the role of companies is restricted to the area of economics and the questions related to politics are treated in a purely instrumental way. Scherer and Palazzo in turn define a new concept called „political CSR". The concept assumes the increase of corporate commitment in creation of global democratic regulations, market transaction control and provision of global public goods. This is a post-national concept in which the role of democratic control and legal order decrease, while the variety of cultures and life styles expands. This is not the case that the state loses its power and influence on companies, but a significant part of global production is transferred to places without democratic control and legal order. Simultaneously global issues arise, affecting the functioning of organizations worldwide (e.g. global warming, financial markets regulations). These are the very programs to be subjected to corporate responsibility. It seems, however, that the implications from neighborhood do not leave any large sphere of freedom to the companies in this scope.

The indications of Pohle and Hittner[225] from IBM Institute for Business Value go to a similar direction. In their opinion, corporate social responsibility should be fully integrated in its business strategy and then bring maximum benefits. They show certain stages of CSR from guaranteeing the conformity of

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[222] G. Pohle, J. Hittner, *Attaining sustainable growth through corporate social responsibility*, IBM Global Business Services, 2008, http://www-304.ibm.com/easyaccess/fileserve?contentid=131474, 2011-09-19, p. 15

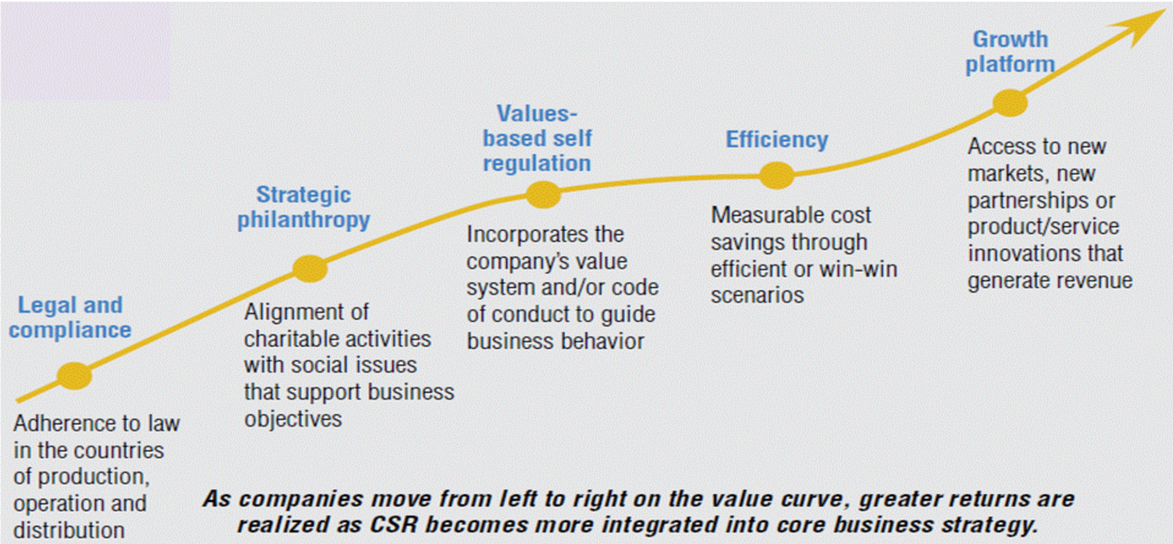
[223]J. Johnson, 1 Million Workers. 90 Million iPhones. 17 Suicides. Who's to Blame?, Wired, March 2011

[224] A.G. Scherer, G. Palazzo,op. cit.

[225] G. Pohle, J. Hittner, op. cit., p. 6

actions taken with the law to making CSR a platform of organization growth (Fig. 12). In the latter situation it is necessary to provide full transparency of organization, open information policy towards all the stakeholders, which in the light of the arising new communication opportunities seems to be a necessity today.

Fig. 12 CSR Value Curve



Source: IBM Institute for Business Value, G. Pohle, J. Hittner, Attaining sustainable growth through corporate social responsibility, IBM Global Business Services, 2008, http://www-304.ibm.com/easyaccess/fileserve?contentid=131474, 2011-09-19, p. 6

On the other hand, however, Lubin and Esty[226] basing on the example of actions related to the sustainable growth of companies, point out that the corporate social responsibility programs are chaotic, often devoid of vision or plan. They treat the necessity of sustainable growth as a contemporary megatrend and postulate, while following its indications, to use the knowledge how the indications related to historic megatrends were followed so far: With historic megatrends related to the use of quality and IT development, the market leaders went through, in their opinion, 4 stages of creating values:

1. The reduction of costs, risk and waste and focusing on providing proof-of-value,
2. Change of design of selected products, processes, business functions in terms of optimization of their efficiency – from making old things by new methods to making new things with new methods,

[226] D.A Lubin, D.C Esty, op. cit.

3. Obtaining the growth of revenues due to integration of new approaches with key strategies,
4. Distinction of the ways of acquiring values through implementation of new business models, using innovations to the modification of the organizational culture, brand-related leadership and other intangible methods of achieving competitive advantage.

It means that while performing the sustainable growth programs, it is necessary to: firstly formulate a vision of creating values thanks to the sustainable growth and secondly, its performance, i.e. transformation of the methods of action (structures, methods, processes) in terms of such creation of values. Operationally, it demands:

- From the leadership – to appoint a person responsible for the sustainable growth on the organization management level,
- Creating sustainable growth operationalizing methods from the most fundamental operations and consistent measuring of the sustainable growth level,
- The sustainable growth guarantee strategy may be created internally, but also with the engagement of external partners, according to the open-source model, engaging the external social networks,
- The operating targets for managers should be related to the sustainable growth,
- The actions related to the sustainable growth should be announced and reported.

It seems that the instructions concerning the implementation of practices concerning sustainable growth may be extended onto all the CSR programs. The analysis of Lubin's and Esty's postulates directly suggests that it is necessary, as mentioned before, to make CSR an element of its major business strategy.

The conclusions arising from the considerations concern most of all the growing role of global CSR under the influence of changes in the contemporary business environment. It seems that in the CSR phenomenon analyses we should replace a purely national approach with its global meaning. It seems that the reach of CSR should be wider and wider. CSR will more and more frequently base on the self-regulation mechanism instead of the response to stricter legal regulations. The companies themselves may provoke a discourse on the CSR in order the win competitive advantage on such foundation.

7.3. FROM CSR 1.0 TO CSR 2.0 AND CSV

As shown above, the importance of corporate social responsibility in today's enterprises has been steadily increasing. The very concept of CSR is based on the assumption that companies should not only focus on their narrowly understood economic interests, but rather adopt a broader perspective taking into account the interests of both, external and internal stakeholders, which affect is to achieve long-term sustainable development[227]. Since it's creation in the 70s of the twentieth century, the CSR concept has been significantly evolving. Visser[228] describes five stages of development of following eras: "defensive CSR in the greed era", "charity CSR in the philanthropy era", "promotional CSR in the marketing era", "strategic CSR in the management era" and "transformational CSR in the responsibility era". This contemporary, transformational CSR, also referred to as the 2.0 CSR, is associated with its professionalism, placing it in the business model of an organization and adopted by it strategy, making it the element of the competitive advantage and a tool to increase employee motivation and commitment. The 2.0 term correlates to the Web 2.0 term and the characteristics of the modern organization's environment that takes advantage of the possibilities of the community Internet with dialog communication model based on peer-to-peer communicating of equal system operators guaranteeing greater symmetry of information[229]. In such surrounding, companies are almost doomed to use social responsibility, otherwise, equipped with modern tools of communication stakeholders will stigmatize social irresponsibility or indifference and therefore weakening the long-term competitive position of companies[230].

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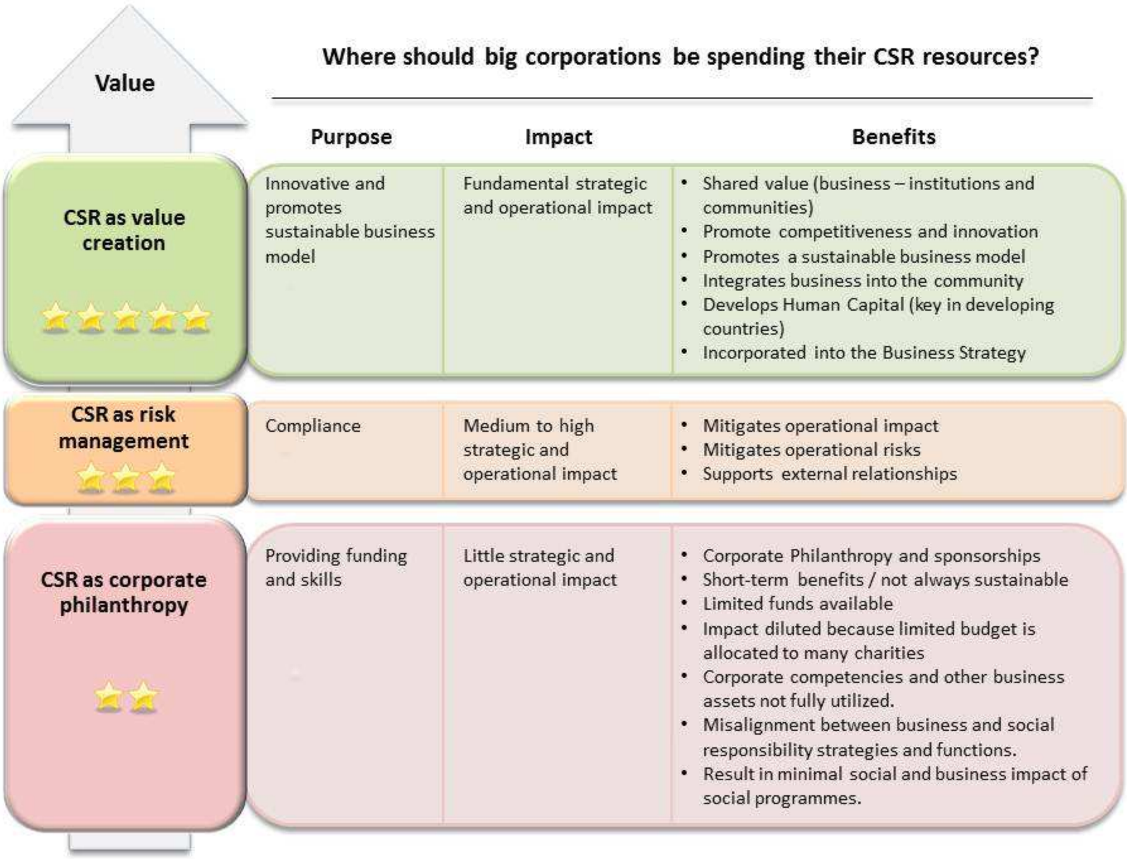
[227] F. J. Fuentes-Garcia, J. M. Nunez-Tabales, R. Varoz-Herradon, *Applicability of corporate social responsibility to human resources management: Perspective from Spain*, "Journal of Business Ethics", 82(1). 2007, p. 27-44; F. Maon, A. Lindgreen, V. Swaen, *Designing and implementing corporate social responsibility: An integrative framework grounded in theory and practice*, "Journal of Business Ethics", 87(Supplement: April), 2009, p. 71-89; D. Turker, *How corporate social responsibility influences organizational commitment*, "Journal of Business Ethics", 89(2), 2009, p. 189-204; H. Lam, A. Khare, *HR's crucial role for successful CSR*, "Journal Of International Business Ethics", 3(2), 2010, p. 3-15.

[228] W. Visser, *The Age of Responsibility: CSR 2.0 and the new DNA of Business*, "Journal of Business Systems, Governance and Ethics", 5(3), 2011, p. 7-22.

[229] R. Mrówka, *Organizacja hiperarchiczna – czynniki kreujące, geneza modelu, zarządzanie*, Oficyna Wydawnicza SGH, Warsaw 2013.

[230] P. Płoszajski P., *Ruchomy cel: o konieczności kolejnej redefinicji teorii i praktyki społecznej odpowiedzialności biznesu w warunkach nowej gospodarki*, [w:] Płoszajski P. (red.), *Społeczna odpowiedzialność biznesu w nowej gospodarce*, wydanie II zmienione i rozszerzone, Wydawnictwo OpenLinks, Warsaw 2013.

Fig. 13 Evolution of CSR Approach – value perspective



Source: http://en.wikipedia.org/wiki/Corporate_social_responsibility, 2014-09-28

As a consequence for transformational CSR 2.0 emerged the concept of Creating Shared Value[231]. Creating shared value (CSV) is a business concept first introduced in Harvard Business Review article ‘Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility’[232]. The concept was further expanded in the January 2011 follow-up piece entitled ‘Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society’[233]. Written by Michael E. Porter, a leading authority on competitive strategy and head of the Institute for Strategy and Competitiveness at Harvard Business School, and Mark R. Kramer, Kennedy School at Harvard, the article provides insights and relevant examples of companies that have developed deep links between their business strategies and corporate social responsibility. The central premise behind creating shared value is that

[231] R. Mrówka, M. Pindelski, *The influence of environmental changes in companies’ approach to CSR*, [in:] ed. J. Kaczmarek, T. Rojek, Dilemmas of the contemporary economy facing global changes, Cracov University of Economics, Cracow, 2012, p. 511-524

[232] M. E. Porter, M. R. Kramer, *Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility*, “Harvard Business Review”, 2006, Dec.

[233] M. E. Porter, M. R. Kramer, *Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society*, “Harvard Business Review”, (2011), Jan-Feb.

the competitiveness of a company and the health of the communities around it are mutually dependent. The concept of shared value can be defined as 'policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress.'[234]

Companies can create shared value opportunities in three ways[235]:

- Reconceiving products and markets – companies can meet social needs while better serving existing markets, accessing new ones, or lowering costs through innovation. For example, the provision of low-cost cell phones developed new market opportunities as well as new services for the poor.
- Redefining productivity in the value chain to mitigate risks and boost productivity – companies can improve the quality, quantity, cost, and reliability of inputs and distribution while they simultaneously act as a steward for essential natural resources and drive economic and social development. For example, in reducing excess packing in product distribution reducing cost and environmental degradation.
- Enabling local cluster development – companies do not operate in isolation from their surroundings. To compete and thrive, for example, they need reliable local suppliers, a functioning infrastructure of roads and telecommunications, access to talent, and an effective and predictable legal system.

Corporate social responsibility (CSR) differs from Creating Shared Value, although they share the same ground of 'doing well by doing good', Kramer states in his 'Creating Shared Value' blog[236] that the major difference is CSR is about responsibility, whereas CSV is about creating value. CSV concept supersedes CSR for it is a way for corporations to sustain in the competitive capitalistic market. Whereas CSR focuses on reputation with placing value in doing good by societal pressure, it generates both economic and societal benefits relative to cost in real competition of maximizing the profits. Instead of being pushed by external factors, CSV is internally generated not confined to financial budget as CSR is.

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[234]M. E. Porter, M. R. Kramer, 2011, op.cit.

[235] R. Williams, J.Hayes, Literature review: seminal papers on 'Shared value', Economic And Private Sector Professional Evidence And Applied Knowledge Services, http://partnerplatform.org/?5mar03m5, 2014-09-28.

[236] Creating Shared Value Blog, http://www.fsg.org/KnowledgeExchange/Blogs/CreatingSharedValue.aspx/, 2014-09-28.

7.4. CASE STUDY ENKEV POLSKA[237] –CSR AREA INTEGRATION WITH THE ORGANIZATION BUSINESS STRATEGY – CREATING CSV

Enkev Polska is a branch of International Company Enkev BV headquartered in the Netherlands (this is where both the company owners come from) and other branches located in the UK, Russia and France and joint venture companies in China and Sri Lanka. The Company specializes at the production of high-quality components, that mainly serve to fill mattresses and upholstered furniture. Enkev products may also be used in the production of automotive seats and filters as well as insulation materials, composites or packages and other technical solutions (e.g. in agriculture), adaptation to customer needs. Enkev products are made from natural materials only, such as coconut fibers, wool, animal fleece, cotton, sisal, jute and natural latex. Such products, which the company is proud of, do not contaminate the environment and are fully renewable.

Enkev sell their products to more than 40 countries all over the world. The Company continues the tradition of the textile factories in Łódź, where since 1964 there was a well prospering manufacturing plant making mats from natural materials. Since 2001 the plant has been a part of Dutch corporation Enkev BV, where it is the largest establishment employing almost 180 employees of the Enkev Group. This is the only enterprise in Poland and one of four in Central and Eastern Europe specializing at the production of articles from exotic fibers. Due to the particular stress put on the production based on ecological, environment-friendly materials, the present company motto is; „Enkev Polska… because you live longer in nature".

Czesław Grochulski has been the chairman of Enkev Polska Management Board, since 2005. Since taking up the function, he has dramatically reformed the company and optimized, without limitation the internal processes in the company, the instruments of regular economic and financial analysis, enabling making strategic decisions, as well as the method of the company management, basing on the active commitment of the employees in numerous key decision processes. As he emphasizes, "he builds management on the relationships with the Staff and making them aware of the common target of the Company and its Employees".

As the company authorities declare, the social responsibility is the foundation for the company functioning. The company takes numerous measures basically aimed at customer's satisfaction with the products supplied to them. However, it points out that what they do would harmonize with the nature and environment. Therefore it uses all the efforts to ensure that the materials used are

[237] The case study has been developed basing on the internal materials of Enkev Polska and IMMOQEE Sp. z o.o., Consultants, Enkev Polska website www.enkevpolska.com.pl (2014-09-28), and the author's knowledge about the company, acquired during the long-term cooperation with the company.

renewable. As the Company authorities declare: „We think that we do the right thing, producing articles that usually are a by-product of other productions. Maintaining such principles we care in this way about the future generations." The ecological nature and safety of the products are confirmed by numerous certificates, e.g. QUL and Öko-tex. It means that the products are not carcinogenous, contain no nitric colorants, heavy metals, pesticides, chlorophenols, are not allergenic and their pH is equal to that of human skin.

The Company also runs charity activity supporting Wielka Orkiestra Świątecznej Pomocy [Grand Orchestra of Christmas Charity], PCK [Polish Red Cross], Towarzystwo Przyjaciół Dzieci [Children's Friends Association], Polskie Towarzystwo Walki z Kalectwem [Polish Disability Fighting Society] and Polski Komitet Pomocy Społecznej [Polish Welfare Committee]. The Company also is a sponsor of the organizations and public utility institutions in Łódź.

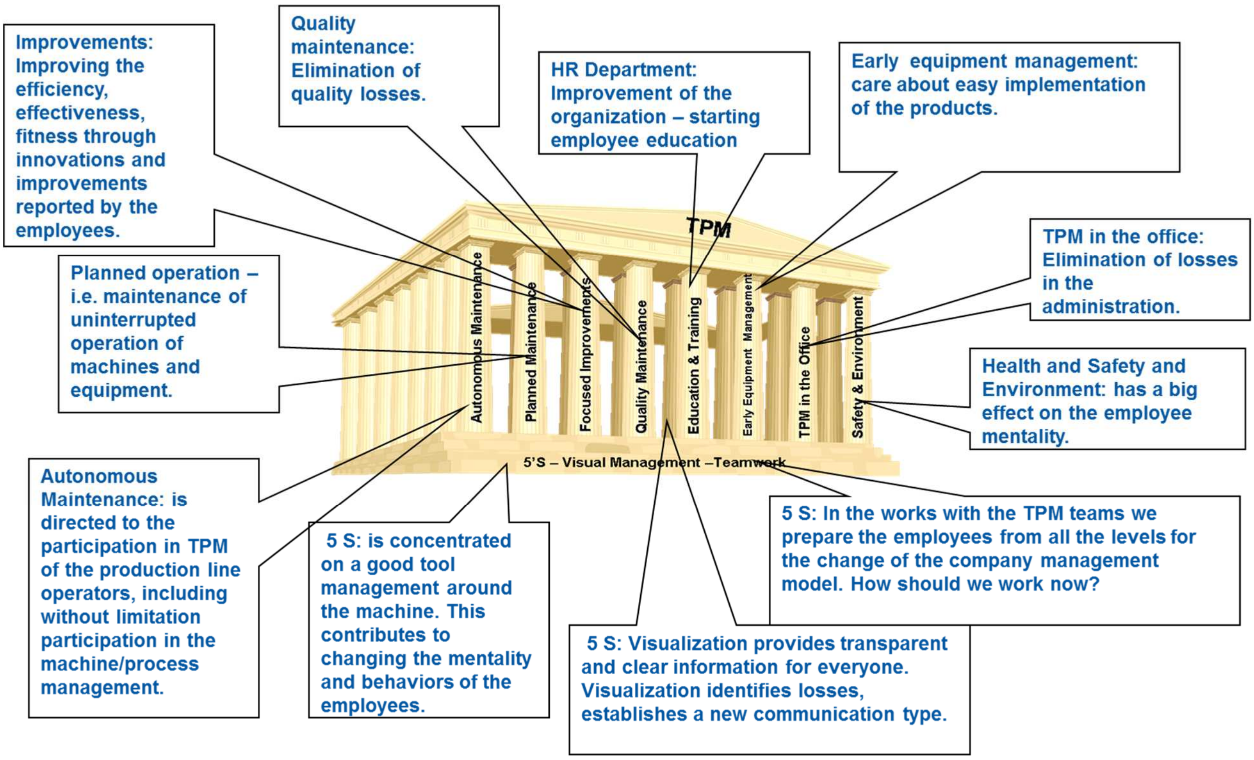
What particularly distinguishes the Company, however, against its surroundings, is the management's attitude to the employees. As the management board declares "we bet on the modern management system in which an individual and an employee are most important". However, the declarations are supported by substantial actions. Since 2007 the company has been implementing the *lean manufacturing* TPM program based on Japanese management techniques and philosophy. The foundations of the program are based on the employee commitment of all the levels in the organization management, leading to socially effective desired cooperation of the employees, trade unions, the management board and the owners from the Netherlands. All the groups are to feel the company co-owners, share the responsibility for its results and future.

The term TPM (*Total Productivity Maintenance*) is one of *lean management* tools whose operative task is to ensure the maximum availability of the critical devices[238]. The TPM concept has been developed by JIPM (*Japan Institute of Plant Maintenance*) to support Japanese companies. The main target of TPM is of achieve the level of three zeroes: zero failures, zero deficiencies, zero occupational accidents. The TPM targets are realized in two areas: the man and the machine. In the first area, the TMP task is to increase the employee efficiency through improving their skills and knowledge – which is equivalent to increasing their responsibility/ The employees, according to the assumptions – become more committed into work, they can properly interpret the occurring situation and, in consequence, make independent own right decisions. From the perspective of machines, the employee actions should focus on the maintenance of machines and equipment in the condition of high availability in such a way that the maintenance department receives information from the operators about the condition of the entire fleet, in order to plan the actions. On becoming well familiar with the machines, the

[238] Total Productive Maintenance, http://pl.wikipedia.org/wiki/Total_Productive_Maintenance, 2014-09-28.

operators and the maintenance staff and technologists develop improvement designs to facilitate the maintenance of make more efficient the machines (Kaizen ideas). The maintenance services transfer from the responsive into the productive machine operation, thanks to which the machine availability increases as well as their unfailingness, which directly reduces the cost of production and at the same time the company profits. The tasks related to the TPM program are taken up in several areas (pillars – Fig. 14).

Fig. 14 TPM Pillars at Enkev Polska



Source: Enkev Polska materials

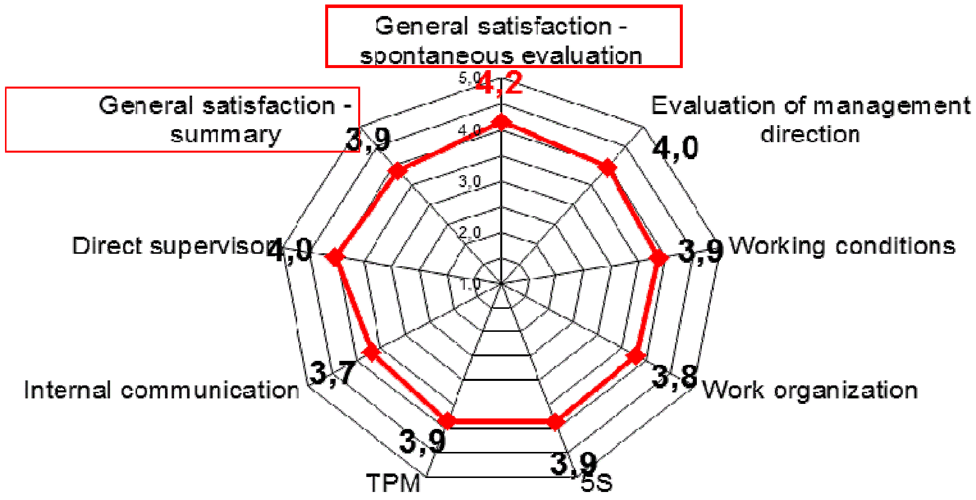
The foundation of the program (a specific fundament) is the commitment of all the employees in the 5S practices. It is to contribute to the improvement of productivity and making the employees responsible for their workplace. It is about the implementation of the habit of keeping the workplace and surroundings clean and tidy, under commonly elaborated standards, supporting the improvement of productivity and communication and also affecting the Occupational Health and Safety.

Summarizing, all the TPM, actions, including the pillar teamwork, small 5S groups, the ideas are reported by several dozen of employees of all levels at Enkev Polska– from operators, through foremen, supervisors to the management board and the management board and top executive officers grouped in the so-called steering committee. Each employee really has an influence on at least the arrangement of their workplace, while with appropriate commitment – also on the Health and Safety standards, quality standards, planning the frequency and scope of machine maintenance, work organization standards all along the production line.

All the HR pillar is also committed in the TPM program performance. The function is not very expanded at Enkev, but its importance is great. The HR department employees are responsible for Enkev Polska staff competence development – delivery and exchange of know-how – both technical, related to the necessary operating competences and the knowledge related to the performance and development of the TPM program. The important pillar of action is also related to the development of the so-called soft competences, for the managers of various levels at the company. Making the dialog, [exchange of information with the employees] based communication processes efficient, collecting information from the employees on the company directions of development and specific processes are immensely significant as well. Some of the HRM functions is performed by the unit coordinating the work on the TPM program, called at Enkev "The Temple".

The implementation of the TPM program significantly affects the perception of the company by the employees and the relationships with the employees. This is confirmed, for example by the results of employee polling in 2012 (Fig. 15) – the respondents highly appreciated the general satisfaction with work and the method of the company management, working conditions, work organization, internal communication, relationships with the managers and the TPM program implementation. The excellent employee opinions on Enkev Polska are also confirmed by the monitoring of satisfaction with work – regularly conducted by the HR Department of the company and the rewards in the rankings organized by third party entities - Enkev Polska won the title of the Best Employer of 2012 in the polling carried out by AON Hewitt.

Fig. 15 Aggregated results of pillar assessment in the pollling among the employees of Enkev Polska of 2012



121 out of 180 employees entitled thereto participated in the polling. The diagram presents the results and average assessment of the pillars – response scale 1 – 5, where 5 means very good. Source: polling carried out by IMMOQEE Sp. z o.o., own paper.

The TPM program performance resulting in the increased employee commitment in the company management, increase of their responsibility scope is also translated into the efficiency indexes. Since the beginning of the program implementation in 2007, the productivity has significantly improved, the product quality improved, the material consumption efficiency has significantly grown, the machine maintenance time has been dramatically reduced, the stoppage time due to failures has been reduced as well. As a result the company successfully prospers on the market, in spite of the growing competition and dropping product prices. In the opinion of the management, only such a dramatic improvement of productivity caused by the program implementation enabled the survival and further company development. At present Enkev Polska has begun an immensely expensive process of changing the company location. The change of location is related to the necessity of leaving due to expropriation of the plot occupied for dozens of years in the center of Łódź (the access road to the railway station is to be built in this place). However, the new location creates large development opportunities to the company – increase of the product range and production volume. The investment is possible thanks to the immensely positive financial results achieved by the company.

The managerial staff is convinced that the company success is most of all due to the TPM success. The program itself has been implemented mainly thanks to the committing leadership – specific approach to the employees resulting from the deep conviction of the managers starting with the chairman, about the possibility of gaining profit from employee commitment, making them commonly responsible for the company management, the possibility of creating a specific organizational culture enabling the self-realization to the employees, treat them subjectively and gain financial profits as well. The managerial staff representative continuously, on every occasion, also during the cyclic strategic workshops, emphasize that the major success factor of the company are people and they and their potential, but also needs should be the key direction conditioning the company management method. This approach may be fully acknowledged as socially responsible, however, the social responsibility of Enkev Polska is strictly correlated with the strategy realized by the company, the key pillar whereof being the use of the unique knowledge and potential of the qualified and experienced staff.

Chapter 4.6.

Exercise 1

EVA

	2014	2015	2016	2017	2018	2019	Residual Value
net profit		1 663	1 746	1 834	1 925	2 022	2 123
initial capital		9 500	9 962	10 447	10 956	11 491	12 053
return on equity (e)		17,5%	17,5%	17,6%	17,6%	17,6%	17,6%
capital cost (r_t)		15,0%	15,0%	15,0%	15,0%	15,0%	15,0%
difference (e-r_t)		2,5%	2,5%	2,6%	2,6%	2,6%	2,6%
EVA (initial capital * difference)		238	252	267	282	298	315
profit coefficient		0,932505	0,810874	0,705108	0,613137	0,533163	3,554418
DEVA		222	204	188	173	159	1 119
accumulated DEVA		222	427	615	787	946	2 065
initial capital (adjusted)		10 188					
valuation		**12 253**					

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