

Company Actions and Value Drivers: Manager Reports from Polish Firms

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Abstract

Purpose: The purpose of this article is to identify what are the cause-effect patterns of how company actions influence value drivers in Polish firms.

Method: The method used in the study consists of (1) the generation of informant reports (stories) about what actions performed in their firms influenced the value drivers and (2) the identification of the repeating (replicating) patterns of such influence.

Results: The study identifies five actions that reduce the unproductive time of participants of business processes and three actions influencing new product introductions or modifications.

Managerial implications: Managers should (1) use standardization and automation, delegation of secondary activities, and trainings in teamwork to reduce unproductive time, more quickly fulfill contracts (with current products), and influence four financial value drivers. Moreover, they should (2) gather knowledge about the alternative ways of thinking about particular problems and (3) use personal participation of knowledge possessor's teams in clients' problem-solving places.

Limitations and future research: The author identifies five limitations of the performed study and formulates relevant suggestions for future research.

Originality/value: The study contributes to management theory by (1) clarifying conceptual relations between the actions of firms (causes) and value drivers (effects) and (2) analyzing the manager reports about the real business value-creation processes.

Keywords: financial value drivers, non-financial value drivers, business processes, value creation, qualitative research

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Introduction

Scholars seek the answer to the question of how to create value for customers and suppliers. Some researchers hope to answer the above question by focusing on the non-financial and financial value drivers, others by explaining of how the possessors of specialized knowledge or co-create value-in business processes. The category of the value proposition (VP) is the common element of both explanations. The author of this article identified the gaps and mixed results in the previous research that concern the two explanations and performed own research to answer what are the cause-effect patterns of how company actions influence value drivers in Polish firms.

The paper comes in three sections. The first concentrates on the arguments and empirical evidence of the relations between knowledge transfer, time management, motivation, and business value. The second presents exploratory research to identify what are the cause-effect patterns of how company actions influence value drivers in Polish firms. The third, final section, discusses the study's results.

Part I: Previous research

Value creation – financial value drivers

Value creation holds the attention of scholars from various schools who seek to explain the effectiveness of business processes (value creation processes). For instance, the scholars that use Value Based Management (VBM; Rappaport, 1986, 1988; Young and O'Byrne, 2001) and Business Model (Magretta, 2002; Teece, 2010) concepts to explain business processes, suggest that the question of how particular actors in business processes contribute to value creation, forms the main problem of business research. Moreover, Rappaport (1986) formulates the concept of financial value drivers related to business value (Net Present Value, NPV):

1. Sales dynamics. The bigger the sales revenue, the bigger the NPV. However, when additional sales revenue comes with price reductions, gross profit, and consequently, operating profit margin, the NPV can decrease.
2. Operating profit margin. When operating profit margin increases, the NPV increases.
3. Tax rate. When tax paid decreases, the NPV increases.

4. Effectiveness of working capital investments. Working capital equals current assets (cash, accounts receivable, and inventory) minus accounts payable. The effectiveness of working capital investment may be measured as relation between operating profit, cash frozen in accounts receivable, and inventory (the bigger the relation, the better) or determined by the time of outflows and inflows of cash; the shorter time between cash payments for buying parts and materials and cash inflows from sales, the better.
5. Effectiveness of fixed asset investment. The bigger the relation of operating profit to the cash frozen in fixed assets, the bigger the NPV.
6. Cost of capital. The smaller cash paid by the company to debtors (interest rate) and the owners (return) for their capital, the bigger the NPV.
7. Value creation period. The longer the business can generate NPV on the expected level – the longer period of competitive advantage of products – the bigger the NPV.

There is also the 8th value driver – launching an additional business unit, new product, or additional source of value – that may be qualified as the financial or non-financial value driver. For the purpose of research, this paper qualifies it as non-financial.

In business-to-business market, both suppliers (when offering their products) and customers (when choosing among alternative offers) aim and act to increase own NPVs. Both the supplier and customer can (1) increase their values by the dimensions of financial value drivers or (2) perform activities that influence the financial value drivers. The assumptions behind the description of b2b supplier-customer relation are that (1) the business customer actively creates value (NPV) and (2) value creation is interactive (cooperation-based) in nature, which agrees with suggestions of Vargo and Lush (2008). Consequently, the suppliers should describe their offers in terms of how they influence (co-create) customer NPV in comparison with alternatively available offers. A value proposition (VP) is a statement that translates the features (design attributes) of supplier offering into monetary impact on customer business value (Töytäri et al., 2011; Terho et al., 2012; Wouters and Kirchberger, 2015; Kłeczek, 2017).

Cooperation and knowledge transfer

Financial value drivers are not enough to explain how businesses create value. This calls for additional explanatory categories: (1) non-financial value drivers as measures of business performance and (2) business processes (that is, processes which generate value) descriptions.

Prahalad and Hamel (1990) offer anecdotal evidence that cooperation between specialists (precision mechanics, fine opticians, microelectronics) gives basis to new product creation (electronic camera, laser printer, laser fax) and increases business value.

In turn, knowledge management scholars suggest that knowledge transfer between specialists (actors) that (can) cooperate in business processes is the key to the effectiveness of business value creation. Thus, the goal of business management is to enhance the transfer. Choi and Lee (2003) argue that knowledge management means transferring tacit knowledge during interpersonal interactions embedded in business processes. Cross, Borgatti, and Parker (2002) and Balkundi, Kilduff and Michael (2007) suggest that knowledge management consists of the pooling of unique specialized knowledge of particular actors – from both inside and outside of the firm – that (may) take part in business processes. The possessors of specialized knowledge are more innovative when influenced by the knowledge of other specialists. Windeck, Weber, and Strauss (2015), Wouters and Roijmans (2011), and Briers and Chua (2001) posit that the lack of knowledge transfer between the operating and finance-controlling specialists creates the main challenge of today's business.

The usage of “boundary spanning” objects, persons, or situations enables the effectiveness of knowledge transfer between the actors that participate in business processes. Carlile (2002; 2004), Windeck, Weber and Strauss (2015), Wouters and Roijmans (2011), and Briers and Chua (2001) suggest that the boundary object is every object that enables mutual understanding and influence of specialized knowledge between specialists that need to cooperate in value creation processes. Sketches, models, and prototypes are the simplest boundary objects. Quality circles, managerial costing systems, and balanced scorecards are more advanced. Wouters and Kirchberger (2015) and Kłeczek (2017) suggest that the “value proposition” – supplier statements about how the offer influences or co-creates customer business value – may also be the boundary object: an integrating device for managing knowledge across intra- and inter-firm knowledge boundaries. Salesmen are treated as “boundary spanners” because they are in the position to transmit the knowledge between buyers and internal units in their firms. Similarly, every person that is in the position to transmit knowledge between internal units (possessors of specialized knowledge) of one's firm becomes the boundary spanner. Faems et al. (2012) suggest that even a temporary presence of one specialist in the workplace of other specialists enables their knowledge transfer. Nonaka (1994) suggests that a business meeting or even casual dialog between specialists creates a “boundary spanning” situation in which tacit knowledge transforms into explicit. In larger organizations, boundary spanning requires more complex infrastructure like information

repository and document management systems. “Boundary spanning” tools are effective when used in the context of real customer problems.

The research results on the relations between knowledge management and business value vary. First, researchers suggest a positive relation between knowledge management and business value (for a critical review, see Mårtensson, 2000). Brown and Duguid (2001), Chen and Huang (2009), Gómez et al. (2004), and Zhu et al. (2014) suggest that knowledge transfer and integration of different types of knowledge enhance innovativeness, new products, and new business processes. Cho and Korte (2014) confirm positive relationships between knowledge management infrastructure (technology, structure, and culture), knowledge process (acquisition, conversion of tacit knowledge into explicit, application, and protection), and organizational performance. Second, researchers cannot identify the positive relationship between particular aspects of knowledge management (such as information technology, information flow, and knowledge sharing) and organizational performance (Carrillo et al., 2003). Faems et al. (2010) supply empirical evidence that technological alliances (cooperation with external possessors of knowledge) increase sales of new products but decrease business value. Sung and Choi (2014) find that group forms of learning (“quality circles”) that enhances knowledge transfer between particular specialists in the firm positively enhance innovativeness (new product introductions and product modifications), but they found no similar evidence for individual learning (training of particular employees).

Time structure of activities in business processes

To explain value (NPV) creation scholars also use time-related categories. Kaplan and Anderson (2004; 2007) – the authors of the Time-Driven Activity-Based Costing (TBAC) – argue that using a cost-per-time of activities devoted to products and customers is a useful tool for the analysis and improvements of value creation processes. TBAC gives insight in how products, customers, or transactions consume time and related cost (time-driven cost) of homogenous activities; for instance, in customer service activities, the time to process the order or perform credit checks. The authors use the terms of productive and unproductive work time in their explanations of business process effectiveness. The managerial interventions in the form of process re-engineering or introduction of new technology enable the same activity to be done in less time (the elimination of lead time, setup-time, and rework time) at a smaller cost and fewer resources.

The VBM scholars suggest two time-related ways of value increase (NPV): (1) the reduction of component periods of operating cycle (the reduction of manufacturing

period, sales period, or receivables period) which contributes to the reduction of working capital requirement (Young, O'Byrne, 2001, p. 48–49) and (2) the reduction of the time in which a new product or product modification is introduced to the market (time to market) which contributes to the prolongation of value creation period (Rappaport, 1986; 1988). Schonberger (2013) suggests time-related metrics of business performance to achieve a better understanding of cause-effect relations between managerial actions aimed at improving business processes and, consequently, better managing the value creation processes improvements: reductions of lead times, down times, and set-up times.

Motivation of actors cooperating in business processes

The activities of actors participating in value creation processes are not automatic and require motivation to (1) act in line with the owner's (value increase) goals and (2) share knowledge with other actors who participate in value creation processes.

The VBM scholars (Yung and O'Byrne, 2001, p. 114–142) suggest that the main objective of motivation systems for employees that act in business value creation processes should be to align the interests of actors and shareholders. A motivation system should prevent actors' decisions and activities that cause excessive investment (both material like fixed assets and intangible assets like time, knowledge, or quality for customers) that fail to increase business value. Improvements to motivational systems comprise improvements of links between the employees, incentives, and business value (value drivers). A good motivation system should hold incentives that enhance the elimination of value-destroying activities along with costs and assets that support them.

Blumberg and Pringle (1982), Bourdeau et al. (2003), Argote et al. (2003) and Siemsen et al. (2008) supply empirical evidence that – although employee's cooperation network creates opportunities to share knowledge with others – the employees need adequate motivation and ability to exploit this opportunity. Because knowledge and motivation complementarily influence knowledge sharing, the effectiveness of managerial interventions aimed at one of the factors depends on which of them creates a bottleneck in the value creation process. Shah and Ward (2003) suggest that process improvement programs may be fruitless without the motivation of employees. Motivation may consist of proper incentive structures (Ferrin and Dirks, 2003) or leadership and internal competition (Siemsen et al., 2007).

Summarizing, there are two gaps in the explanations of how managerial interventions influence value: (1) what are the particular actions that influence both time and know-

ledge in business processes and financial value drivers and (2) what are the patterns of this influence? The study below addresses these two knowledge gaps.

Part II: The study

Research questions and method

The author of the article asked twenty-one managers, all students of part-time MBA program at the Wrocław University of Economics, to share stories-reports (with the form presented in Appendix 1) about what actions their companies performed to influence both business processes and financial value drivers. The aim and analyzing stories – elicited by loosely structured interviews, containing the words: “Can you recall...” – is to gain access to deeper organizational realities closely linked to their members’ experiences (Cassell and Symon, 2004, p. 114). The actions that cause the changes in both business processes and financial value drivers were to obtain in the study. Comparing the stories from different firms enables us to understand if the respondents attach the same or similar value-creation meanings to the reported actions.

With the structure of the form presented in Appendix 1, the author of this study suggested to the informants what is important in their stories to generate their perceived causes: financial value drivers, time management, and product modifications.

Every MBA student delivered four stories in the form of short, structured accounts along Appendix 1: two stories about what were the actions that influenced value by (1) a reduction of unproductive time and (2) an introduction of new or modification of an old product. Moreover, the informants reported the number of employees from both internal units of their firms and other firms that contributed to particular actions. The author performed the study in June and July 2016. The twenty-one managers delivered eighty-four accounts of activities performed in years 2010–2015, in companies from such industries as debt collection, law, call center, packaging, construction, IT, telecommunications, energy, heating, agriculture, food production, medical, automotive and printing. The stories describe actions the following employees: product designers, product managers, production managers, process managers, analysts, salespeople, sales managers, telemarketers, lawyers, programmers, testers, customer service employees, production workers, and warehouse workers. The analysis of the reports consists of searching for replicable patterns of relations between the actions performed

by the companies (causes), changes in business processes (effects), and financial value drivers (effects).

The results

The author of the article identified patterns of relations between particular actions/initiatives (causes) and changes in business processes and financial value drivers/effects perceived by the informants (Table 1; Table 2), which were replicated at least two times in the reported stories. The study identified five actions that reduce the unproductive time of actors that participate in business processes (Table 1) and three actions influencing new product introductions or product modifications (Table 2). Employees (specialists) from both internal units of the firms and other firms contributed to the reported actions. The time-to-effect of the identified initiatives took one to six months. The informants reported that the durability of the effects (positive changes in financial value drivers) was longer than one year.

Actions that reduce unproductive time

The author of this study identifies two actions that cause a decrease of particular employees' unproductive time (Table 1): (1) training in current work procedures to reduce the number of failures, repetition of activities, and supervision activities; (2) delegation of secondary activities to lower level employees. Two other actions reduce cooperation time (the time of one employee waiting for work result of another employee): (1) meetings of specialists in their spare time; (2) training in teamwork. Furthermore, the fifth identified action – standardization and automation of business processes (ERP, CRM, e-systems for design management, software supporting sales order management, and standardization of production orders) – reduces unproductive time in both the work of particular employees and their cooperation. The actions that reduce the unproductive time of actors in business processes, the time in which they use their core competencies, quicken the realization of particular contracts (delivery of current products). The informants report the positive influence of these actions on four financial value drivers: sales, operating profit margin, effectiveness of working capital investment, and effectiveness of fixed-assets investment. The time between the actions and financial effects was one to three months. The number of employees that contributed to the reported actions varied from three to fifteen from internal units and from zero to twelve from other firms.

Table 1. Actions that cause changes in both business processes and financial value drivers that last at least one year

Actions Participants of the action*	Reduction of unproductive time	Financial value drivers (time-to-effect)
A. Reduction of unproductive time		
1. Training in current procedures Participants: 5–6 employees from 1–2 internal units 0–2 employees from 0–2 other firm(s)	Reduction of the number of failures, need for rework, elimination of supervision	Sales, Operating profit margin, Effectiveness of working capital investment, Effectiveness of fixed assets investment (1–3 months)
2. Delegation of secondary activities to the lower level employees Participants: 5–15 employee from 1 internal unit 0 employees from 0 other firms	More productive time for higher level employees	
3. Meetings of specialists in spare time Participants: 3–10 employees from 1–8 internal units 0–5 employees from 0–1 other firms	Reduction of waiting time between employees cooperating in internal business processes	
4. Trainings in teamwork Participants: 6–8 employees from 1–2 internal units 6–8 employees from 1–2 other firms	Reduction of waiting time between employees cooperating in internal business processes	
5. Standardization and automation Participants: 2–15 employees from 1–3 internal units 0–12 employees from 0–1 other firm(s)	Reduction of unproductive time of both particular and cooperating employees	
B. Product introductions		
6. Creation of knowledge bases for particular problem solving Participants 4–30 employees from 2–5 internal units 0–2 employees from 0–2 other firms	Product modification	Sales, Operating profit margin, Effectiveness of working capital investment,
7. Direct, personal participation of firm's employees in client problem-solving places Participants: 5–25 employees from 2–6 internal units; 20–40 employees from 6–10 other firms	New products, product modifications	
8. Regular meetings and cross-trainings of employees from more than one internal unit with participation of employees that have direct contact with customers Participants: 6–8 employees from 2–6 internal units 0 employees from 0 other firms	New product introductions, Product modifications	Effectiveness of fixed assets investments (3–6 months)

*The number of actors from internal units and other firms that contributed to the actions.

Source: own work.

The actions that enhance new product introductions and modifications

Three other identified actions enhance value through new product introductions and modifications (Table 2): (1) the creation of knowledge bases of alternative technologies or standards for particular problem solving (just gathering knowledge in repositories is not enough); (2) direct personal participation of firm's employees in client problem-solving places like workshops at the client's or moving of employees workplaces to the client's (this agrees with the suggestion of Faems et al. (2012) that even temporary presence of one specialist in the workplace of other specialists enables knowledge transfer); and (3) regular (one per month) meetings and cross-trainings of employees from more than one internal unit – among others, analysts and managers, salesmen and designers, salesmen and product managers, headquarter and branch employees – with the participation of employees that have direct contact with customers.

These actions increase the same financial value drivers (increase in sales, operating profit margin, effectiveness of working capital investment, effectiveness of fixed assets investments) as the reduction of unproductive time does, but it takes more time to achieve effects (3 to 6 months).

In this pattern, the sales are replaced or increased by new or modified products. The number of employees that contributed to the actions numbered from four to thirty from internal units and from zero to forty from other firms.

Discussion

There are two separate kinds of actions that trigger two different mechanisms that influence the same range of financial value drivers but in a different time (after 1–3 months and 3–6 months respectively): (1) the reduction of unproductive time and (2) new product introduction and modification.

Thus, the managers should (1) use standardization and automation, delegation of secondary activities, and training in teamwork to reduce unproductive time, more quickly fulfill contracts (with current products), and influence four financial value drivers. Moreover, they should (2) gather knowledge about the alternative ways of thinking about particular problems and (3) use personal participation of knowledge possessor's teams in clients' problem-solving places.

The author of this article identified six limitations of the performed study.

First, the reported unproductive time reductions and product modifications and introductions influenced the same scope of four financial value drivers, and the financial effects lasted longer than a year. However, this study does not identify the mechanisms that make the difference in the range of influenced financial value drivers and duration of the financial effects, which calls for future research in the matter.

Third, the informants did not mention other financial value drivers as the effects of reported actions. The underlying reasons should also be the subject of future studies.

Fourth, the study identified the boundary spanning objects (the bases of alternative solutions or standards) and situations (workshops). Other boundary spanning objects to enable the transfer of knowledge between the actors of value creation processes need to be investigated in future research.

Fifth, the informants did not report any actions concerning how changes in motivation systems influence the effectiveness of business processes and financial value drivers, which also calls for future research.

Sixth, the informants reported knowledge transfers between various specialists, but not between the operating and financial-controlling specialists. Windeck, Weber and Strauss (2015), Wouters and Roijmans (2011) and Briers and Chua (2001) suggest that the latter transfer is the most important in today's business. Thus, future research must consider the matter more closely.

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Appendix

Appendix 1. The stories-generating instrument used in the study

Actions	Changes in financial and non-financial value drivers
<p>A company in ... industry performed (when? year ...) an action aiming to eliminate unproductive time, consisting of ... geared towards:*</p> <p>a/ the employees on the following posts: ... or b/ the employees on the posts: ... cooperating with employee in the posts ...</p>	<p>The effect of the action was that the employees a/ on the posts ... could increase the amount of activities (what activities) ... in which their key competences (what competences?) ... were used and could decrease the amount of activities (what activities) ... in which their competences were not used.</p> <p>b/ on the posts ... and on the posts ... could increase the amount of activities (what activities) ... in which their key competences (what competences?) ... were used and could decrease the amount of activities (what activities) ... in which their competences were not used.</p> <p>The action and its productive time 'a' or 'b' effect positively influenced the financial value driver(s): ... (in what time lapse?) ... The positive financial effect of the action lasted longer/shorter* than one year time.</p> <p>How many people ... (in the company?) from how many departments of the company ... and how many people ... from outside of the company?) ... contributed to the 'a' or 'b' effect?</p>
<p>A company in ... industry performed (when? year ...) an action (what was the action?) ... that enhanced knowledge transfer between employees on posts ... and on posts ... The knowledge transfer consisted of ...</p>	<p>The effect of the knowledge transfer was: a/ introduction of new product (what product?) ... or b/ product modification (what modification?) ...</p> <p>The action and its productive time 'a' or 'b' effect positively influenced the financial value driver(s): ... (in what time lapse?) ... The positive financial effect of the action lasted longer/shorter* than one year time.</p> <p>How many people ... (in the company?) from how many departments of the company ... and how many people ... from how many other companies?) ... contributed to the 'a' or 'b' effect?</p>

* delete as necessary.