

DETERMINANTS OF THE COMPANY VALUE

K. Růžicková, J. Kolmanová, M. Loupová

Received: December, 17, 2010

Abstract

RŮŽICKOVÁ, K., KOLMANOVÁ, J., LOUPOVÁ, M.: *Determinants of the company value*. Acta univ. agric. et silvic. Mendel. Brun., 2011, LIX, No. 2, pp. 251–256

Today, there are many conceptions involving creation of the company value, as it is the main objective for the owners. However, there are still many companies interested primarily in the different company's objectives and enhance its competitive position differently. The aim of the paper is to present and analyze the viewpoints of Czech and foreign specialists on the issue of company value creation. The paper provides the determination of factors positively influencing the company value, the description of their characteristics, and on the basis of a detailed academic discussion proposes conclusions. Attention is paid especially to the value drivers which are not recorded in the financial documents.

The introduction of the paper gives a brief overview of the topic. The paper is divided into three main parts. The first part introduces the effective cost management. It clarifies the concept of the managerial accounting and explains its contribution to the creation of the company value. The second part deals with the external relationships of the company. It focuses on the buyer-supplier relationships and offers the detailed perspective on the specific issue of the agricultural companies and their competitiveness in relation to the land leases. The third part concentrates on the internal company environment, namely on the human capital potential and its effects on the value of the company. In the concluding part, the findings are summarized. Based on the results, the figure describing the determinants and generators of the company value is formed. This figure can be considered a systematic procedure how to create a company value.

All findings are supported with the literature review e.g. Armstrong (2007), Fibírová and Šoljaková (2005), Marinič (2008), Petřík (2007) and Porter (2004). Within the paper elaboration, the analysis and synthesis as scientific methods were used for explanation of the experts' points of view and then summed up as the partial and final results. The logical-systematic method was employed for clarification of the initial conditions, context illustration, partial outcomes creation and deduction of the final results.

buyer-supplier relationships, cost management, human capital, value of the company

In the past times of industrial revolution, traditional assets such cash, financial capital, property, plants and equipment established the wealth of a company. This conception has its own loopholes; therefore, inevitably, any shift towards the modern conceptions needs to be done. Today, when the economic crisis is slowly fading, many companies try to economise as effective as possible to remain viable and stand up to the competition. As far as the profit-oriented companies are concerned, the goal is to make money or create value for the owners. The company management, owners or investors advanced their interests in the company position im-

provement and hence create the company value. They may come up with objectives like maximize sales, minimize costs or maximize profits. However, these aims are rather indefinite so we concentrate on the more precise delineation of the company value determinants.

Supposing the disparity between the book value and the market value, we are trying to identify key generators of the company value, which are not recognized by the financial documents. This is because of specific reasons rooted deep in the historical context of each accounting system. However, in this article, we focus on three important factors

positively influencing the company value and their characteristics. Those factors are effective cost management, long-term buyer-supplier relationships and the potential of human capital in companies of today. The objectives of this article are presentation and examination of the viewpoints of Czech and foreign specialists on the issue of company value creation through aforementioned factors and find the connections and relations with the company value creation.

METHODS AND RESOURCES

Within the article elaboration, several scientific methods are used for explanation of the viewpoints of experts and for summarization of the partial and final results, namely the analysis and synthesis. Besides those two main methods, the logical-systematic method is employed for clarification of the initial conditions, illustration of the context, creation of the partial outcomes and final results deduction. The emphasis is laid on the secondary data from domestic sources, which are compared with the conception of these issues abroad. All findings are supported with the literature review of domestic and foreign resources, e.g. Armstrong (2007), Fibírová and Šoljaková (2005), Marinič (2008), Petřík (2007) and Porter (2004). Up-to-date information is based on latest articles from economic and management journals.

RESULTS

The objective of this article is to present and examine the experts' perspectives on the issue of company value creation through the factors not mentioned in the financial documents. Firstly, we identify three determinants, effective and accurate cost management, long term buyer-supplier relationships and human capital with its potential in

the company. Secondly, we detect the relations to the company objectives, such as profit maximizing, cost minimizing, avoiding bankruptcy or beating the competition. Thirdly, we assign the variables describing the effects of aforementioned factors to the company value creation. Finally, we design the figure (figure 1) illustrating the possible determinants and generators of the company value.

DISCUSSION

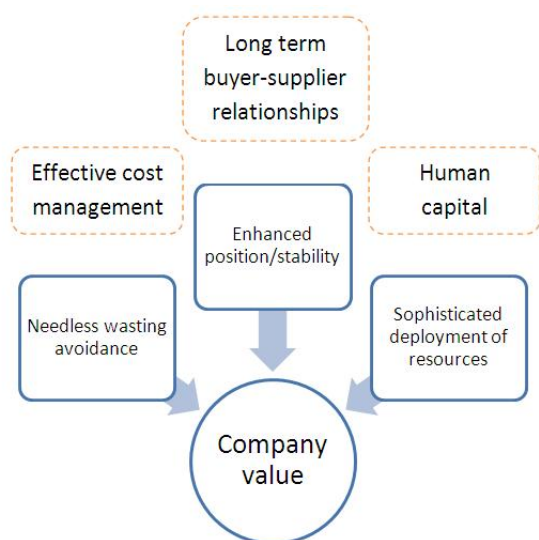
The most powerful tool for company value creation is the company itself. Companies can multiply the effort of one person and enable the collective performance of more people. The company increases in value by generating the value for its environment. Only a company with the most effective deployment of resources has the highest value. Following paragraphs are focused on the individual factors positively influencing the company value, however, not mentioned in the financial documents.

Effective cost management

In the business economics, costs are invested resources which accompany almost all business activities. Therefore, any measurement, monitoring, planning and management of costs need nowadays sophisticated tools and procedures, which should be useful for the management decision making (Popesko, 2009). Popesko (2009) points out that development of any modern cost management methods is inevitably connected with the development of IT/IS. His statement cannot be overlooked especially today, when the pressure is exerted on the effective and intelligent using of resources. And similarly Neumaierová (2005) states that today's economic environment which is based on the management of changes; the promptness is becoming a new economic discipline. Any decision should be hence supported with the information and IT/IS in the companies are becoming an obvious competitive advantage.

The substance of the cost management recorded in the cost accounting is the collecting of the business processes information transforming business inputs into the business results (Hradecký, 2008) and regular checks procurement for management decision-making (Synek, 2007). Therefore, cost management is of great importance and should be in a centre of the interests of companies.

The world's prosperity decline has lead to the reduction of turnover and sales, regardless of the branch of the companies. In the background of increasing market internationalization and reducing the product life cycles, the medium-sized enterprises are facing tough competition. Therefore, the business policies need to be adapted quickly to the new conditions. Moreover, the importance of cost management is rising among the other management challenges (Rpic-ekonomservis, 2010). The results in the businesses based on the effective cost management are higher resistance on the market risks



1: Determinants of the company value

and market volatility. However, the cost management consists not only of costs reduction, but continual, long-term strategic management of all costs in the business, in other words, the strategic cost management.

Nevertheless, being profitable company does not mean being economical. The system of costs and revenues reporting can make the business economy more visible. Based on this, the relevant person in the company can distinguish the profitable and unprofitable sections of the company, the effectiveness of the measures, the economical usage of the company potential and milestones for the further development. All these factors form the foundation for the targeted cost management (Rpic-ekonomservis, 2010). Monitoring both costs and revenues is the clue for the future success of the company.

However, the road from the cost reporting to the strategic cost management is long and it takes a long time to being implemented. Fibírová and Šoljaková (2005) see the key not only in the managing the costs in general, but also in the managing the main profitable activity of the company and monitor its capital demands.

The necessity of the cost management and monitoring is inseparably connected with the business itself. Any company properly managing the costs enhances its competitiveness and simultaneously creates its value.

Buyer-supplier relationships

M.E. Porter (1994) describes the characteristics of the competitive advantage which is reflected in the company value variously, in essence. However, it is not a rule being recorded in the financial documents and having a positive influence on the company value at the same time. Nevertheless, the buyer-supplier relationships can represent one of such an advantage. A company, in any branch, should give up considering its suppliers and buyers as rivals, but quite the contrary. The company management should focus on the strengthening their mutual relationships with those suppliers and buyers. It is the quality of the inputs what matters most in the process of satisfying the customers' needs, and this quality is directly related to the quality of the relationships with the suppliers. Although it may seem paradoxically, Nenadál (2006) states that "even though the competitive environment worldwide is getting tougher, more and more organizations regardless the branch and the size find their competitive advantages also in the strengthening the mutual cooperation with their suppliers".

The industry structure has a significant influence on the determination of the game rules within an industry. Due to the fact that agriculture constitutes such an industry, where the game rules are set appreciably by the weather which cannot be influenced, it is important to focus on the aspects which can be influenced and which can create the advantage from the point of competitiveness (Greer, 2005). In this context, the farmers should reinforce and form the

long-term relationships with their suppliers. Taking into account the practical purposes, the difficulties which have an impact on the farmer's competitiveness and hence his/her company value are caused by the lease contracts of the agricultural land used by the farmer for his produce growing. Therefore, if a farmer considers buying an agribusiness, much higher valued would be the company with lease contracts agreed for 10 years then the company with contracts only for 2 years. The lessor has no obligation to renew the contract after those two years and in this case the farmer would lack the basic input for production: the farmland. Another fact which should not be underestimated is the price of the farmland. Compared to the prices of the farmland in the western European countries, the Czech farmland is cheaper, for example, the prices in France are three times higher (Point info international, 2010), and the same when considering the lease contracts (Mediafax, 2010). Taking into account the possibility of the purchase of the farmland by the farmers from other EU member states, it could be deduced that the interests in the Czech farmland will be growing in the following years. This fact may influence the prices of the farmland and also the prices of the lease contracts (because the higher the demand, the higher the price). Simultaneously, the frequency of the new landowners will grow, too. The question remains what are the plans of those new landowners.

A company may benefit from the long term relationships with its suppliers, as those relationships can bring a certain level of stability in the business. Any change in the external conditions does not necessarily have a direct impact on the company itself. Strengthening the relationships in the long term may hence create some kind of protection.

Human capital

In order to outline the places where the company value is created, we definitely should mention the people in the organizations. Human capital provides companies the opportunity for future growth, not only due to the irreplaceable role of people in the organizations, but also their knowledge. This intellectual capital may be the answer for the gap between the book and market value, because it is not recorded in the financial documents as it is part of internal structure and individual competence (Sveiby, 1998). Stewart (1998) states: "In the new economy, intellectual capital not natural resources, machinery or even financial capital has become the one indispensable asset of corporations." However, the process of company value creation is comprised of assets in the form of the company inputs (Marinič, 2008). Generally speaking, simultaneous increasing of sales and reducing the costs leads to the effective employment of company assets. Consequently, based on this efficiency, a company may increase in value.

From the company management point of view, competent managers constitute a key resource in the company; moreover, they may be a promise of

the effective deployment of the company resources. Through this management, company value can be increased indirectly, by increasing the factors which influences the value; customers are approached and turnover and profitability may be enhanced. According to Porter, the above average profitability of the company in the long-term generates the sustainable competitive advantage (Porter, 2004). Based on that, the company gains the competitive advantage only if stands up to the competition, for example by competent management. These facts have the crucial impact on the company value creation (Armstrong, 2007; Marinič, 2008).

Methods and procedures creating the core competences of the company management can determine the company competitiveness and performance of the company (Armstrong, 2007). The potential of the human capital is measured differently from the other company assets. These calculations are not based on the financial documents, because the common accounting cannot measure the value of intellectual capital (Stewart, 1998). How-

ever, there are still few ways how to measure the human capital, for example, as a percentage of the cost wages, a percentage of the satisfied key employees, a percentage of loyal employees or a percentage of managers remained in the company compared to the previous year (Palán, 2008). Nevertheless, people in the company are rather then variable costs company wealth, company asset (Beer *et al.*, 1984). Fact that the human capital represents the source of competitive advantage (Legge, 1995; Armstrong and Baron, 2002) is evident, but its importance is exceptional. However, the legal code does not reflect this fact (Svačina, 2010). Nevertheless, the positive relation between human capital management and company performance is still the objective of many scientific and academic researches (Heiens, Leach and McGrath, 2007; Ittner, 2008). For example, one of the researches confirms a positive linkage among company reputation, company culture and financial performance of the companies (Flatt and Kowalczyk, 2008).

SUMMARY

The paper provided the determination of factors positively influencing the company value, the description of their characteristics, and on the basis of a detailed academic discussion proposed conclusions. Attention was paid especially to the value drivers which are not recorded in the financial documents. Those factors are effective cost management, long-term buyer-supplier relationships and the potential of human capital in companies of today. All findings were supported with the literature review of domestic and foreign resources and the stress was laid on the secondary data from domestic sources, which were compared with the conception of these issues abroad. Within the article elaboration, we used scientific methods as analysis and synthesis for explanation of the viewpoints of experts and for summarization of the partial and final results. Moreover, the logical-systematic method was employed for the clarification of the initial conditions, illustration of the context, creation of the partial outcomes and deduction of the final results. The detection of the relations to the aforementioned factors with the company objectives served as a basis for the final results; the assigning the variables to the company value creation.

REFERENCES

- ARMSTRONG, M., 1999: *Personální management*. 6. vyd. Praha: Grada Publishing, 963 s. ISBN 80-7169-614-5.
- ARMSTRONG, M. and BARON, A., 2002: *Strategic HRM: The Key to Improved Business Performance*. London: Chartered Institute of Personnel & Development. ISBN 0-85292-923-4.
- BEER, M. et al., 1984: *Managing Human Assets*. New York: Free Press; London: Collier Macmillan, 209 p.
- FIBÍROVÁ, J., ŠOLJAKOVÁ, L., 2005: *Hodnotové nástroje řízení a měření výkonnosti podniku*. Praha: ASPI, 264 s. ISBN 80-7357-084-X.
- FLATT, S. and KOWALCZYK, S., 2008: *Creating Competitive Advantage Through Intangible Assets: The Direct and Indirect Effects of Corporate Culture and Reputation*. *Advances in Competitiveness Research*, 16(1), 13–30. Retrieved from Business Source Premier database.
- GREER, A., 2005: *Agricultural policy in Europe*. Manchester University Press. European policy research unit series. ISBN 0-7190-6029-X.
- HEIENS, R., LEACH, R. and MCGRATH, L., 2007: *The contribution of intangible assets and expenditures to shareholder value*. *Journal of Strategic Marketing*, 15(2/3), 149–159. doi:10.1080/09652540701319011.
- HRADECKÝ, M., 2008: *Manažerské účetnictví*. Praha: Grada, 259 s. ISBN 978-80-247-2471-3.
- ITTNER, C., 2008: *Does measuring intangibles for management purposes improve performance? A review of the evidence*. *Accounting & Business Research*, 38(3), 261–272. Retrieved from Business Source Premier database.
- KISLINGEROVÁ, E., 2001: *Oceňování podniku*. 2. přepracované a doplněné vydání. Praha: C.H.Beck, 367 s. ISBN 80-7179-529-1.

- LEGGE, K., 1995: *Human resource management: Rhetorics and realities*. London: Macmillan Business.
- MARINIČ, P., 2008: *Plánování a tvorba hodnoty firmy*. Praha: Grada Publishing, a.s., 240 s. ISBN 978-80-247-2432-4.
- MARÍK, M., 2007: *Metody oceňování podniku*. Druhé upravené a rozšířené vydání. Praha: Ekopress, 492 s. ISBN 978-80-86929-32-3.
- MEDIAFAX. *Zemědělci v ČR platí za pronájem půdy jen 13 procent oproti průměru EU* [online]. cit. [2010-4-21]. www: <<http://www.mediafax.cz/ekonomika/3018999-Zemedelci-v-CR-plati-za-pronajem-pudy-jen-13-procent-oprotiprumeru-EU>>.
- NEUMAIEROVÁ, I., 2005: *Řízení hodnoty podniku: Nedělejme z podniku záhadu*. Praha: Profess Consulting, 233 s. ISBN 80-7259-022-7.
- NENADÁL J., 2006: *Management partnerství s dodavateli*. [s.l.]: Management Press, s. r. o., ISBN 80-7261-152-6.
- PALÁN, Z., 2008: *Národní vzdělávací fond* [online]. 2008-04-03 [cit. 2010-08-29]. Akumulace lidského kapitálu. www: <<http://www.nvf.cz/rozvojlz/dokumenty/akumulace.pdf>>.
- PETŘÍK, T., 2007: *Procesní a hodnotové řízení firem a organizací*. Praha: Právnícké a ekonomické nakladatelství, 911 s. ISBN 978-80-7201-648-8.
- POINT INFO INTERNATIONAL, 2010: *Le prix des terres* [online]. [cit. 2010-4-19]. www: <<http://www.terresdeurope.net/prix-terres-agricoles-france.html>>.
- POPESKO, B., 2009: *Moderní metody řízení nákladů: Jak dosáhnout efektivního řízení nákladů a jejich snížení*. Praha: Grada, 233 s. ISBN 978-80-247-2974-9.
- PORTER, M. E., 2004: *Competitive advantage: creating and sustaining superior performance*. [s.l.]: Free Press, 557 p. ISBN 9780743260879.
- PORTER, M. E., 1994: *Konkurenční strategie*. [s.l.]: Victoria Publishing, a.s. ISBN 80-85605-11-2.
- RPIC-EKONOMSERVIS, 2010: *Řízení nákladů* [online]. [cit. 2010-11-11]. www: <<http://www.ekonomservis.cz/index.php/ekonomicke-poradenstvi/rizeni-nakladu>>.
- STEWART, T. A., 1998: *Intellectual capital: the new wealth of organizations*. [s.l.]: Nicholas Brealey, 278 p. ISBN 9781857881837.
- SVAČINA, P., 2010: *Oceňování nehmotných aktiv*. 1. vydání. Praha: Ekopress, 214 s. ISBN 978-80-86929-62-0.
- SVEIBY, K. E., 1998: Sveiby Knowledge Associates – SKA [online]. 1998-08-25 [cit. 2010-08-30]. *Measuring Intangibles and Intellectual Capital – An Emerging First Standard*. www: <<http://www.sveiby.com/articles/EmergingStandard.html>>.
- SYNEK, M., 2007: *Manažerská ekonomika*. Praha: Grada Publishing, 464 s. ISBN 978-80-247-1992-4.

Address

Ing. Kamila Růžicková, Ing. Jana Kolmanová, Ing. Michaela Loupová, Ústav podnikové ekonomiky, Mendelova univerzita v Brně, Zemědělská 1, 613 00 Brno, Česká republika, e-mail: xruzic11@node.mendelu.cz, xkolmano@node.mendelu.cz, xstepa17@node.mendelu.cz

