SUSTAINABLE SHAREHOLDER VALUE: ANALYSIS OF VALUE DRIVERS

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Abstract

The issues related to the shareholder value maximization have been frequently debated in the academic literature in the last three decades. However, different authors emphasize different types of value drivers. Thus, the purpose of the paper is to detect the most important factors affecting the value creation process in companies. Content analysis of the relevant discourse from Scopus, EBSCO, Thomson Reuters Web of Knowledge and other databases was performed to achieve the established objective. Frequency tables generated by AQUAD 6.0 and cluster analysis provided by Hamlet II 3.0 assisted the authors in obtaining critical factors stimulating value creation process in companies. The analysis performed by the authors revealed that the sustainable shareholder value is based on the long-term and stable economic performance, accompanied by the properly implemented corporate governance system, high CSR standards, rational capital budgeting politics and high financial results accountability. Considering the factors affecting shareholder wealth, it is possible to increase investment attractiveness of a company for the existing and potential strategic and retail investors. Besides, the distilled factors can be used for predicting shareholders' return.

The type of the article: *Research report.*

Keywords: *shareholder value maximization, value drivers, content analysis.*

JEL Classification: *G11, G3, M14.*

1. Introduction

Trade-off between short-term and long-term corporate goals

The issue of establishing balance between investors' short-term economic objectives and long-term goals has been frequently debated in the literature over the last two decades (Laverty, 1996; Penman & Zhang, 2002; Bistrova & Lace, 2011). Scholars and investors blame blue-chip companies' CEOs for the "short-termism", which causes a number of problems such as underinvestment, low transparency, and neglecting of stakeholders' interests. Finance theorists and practitioners (Helfert, 2000; Jensen, 2001; Titko & Lace, 2011) assert that the long-term shareholder value maximization should be an integral goal of any company.

Although the concept of shareholder value is often criticized by the proponents of stakeholder theory (Waal, 2008), the fact is "that the more shareholder value a company creates in an effectively regulated market, the better the company serves all its stakeholders" (Dobbs, 2005). Based on the viewpoint of BCG experts, sustainable value creation is balanced between short-term and long-term performance across the key drivers of TSR, and among all the stakeholders of the company's economic system, including employees, customers, suppliers, and society as a whole (Olsen *et al.*, 2009).

Thus, considering that value maximization should be an objective function of a company, it is extremely important to distinguish the factors affecting value creation.

The concept of shareholder value is well-defined and the importance of value creation is well established in the academic literature. However, the opinions differ and various authors emphasize different value drivers. For instance, the value can be created by different groups of individuals who have the impact on bank performance (stakeholder theory), or using critical success factors (balanced scorecard approach - BSC). Value drivers can be classified as financial and non-financial, tangible and intangible, etc. The research question is – what are the most important factors affecting value creation and its sustainability?

Shareholder value drivers

Shareholder value (SHV) is most often associated with the net present value of predicted cash flows attributable to the company's owners (Moir *et al.,* 2007; Fabozzi & Drake 2009). In this case SHV is driven by the sales growth rate, operating profit margin, incremental capital investment, income tax and cost of capital (Rappaport, 1986). Financials representing company's economic performance will be always mentioned among the factors affecting the value of a company.

However, sustainable financial results are achieved, implementing different corporate strategies that require indroduction of additional value drivers, such as customer loyalty management, financial gearing, corporate control, innovation capacity etc. (Walters, 1997).

In addition to the financial drivers, the importance of intangible value factors, such as customer relationship, product innovation, customized products, employee skills, is highlighted in the literature. Creators of the Balanced Scorecard assert that intangible assets amount to about 75 percent of the company's value (Kaplan & Norton, 2003). A number of quality- and customer-oriented models was proposed to supporting value-based management: Deming Management Method (Deming, 1986), Baldrige Quality Award Criteria (Gale, 1994), Service-Profit Chain (Heskett *et al*., 1994) and others. All these models include value drivers in three fundamental categories – people, processes and relationships – that are viewed as sources of company's value capacity.

The term „shareholder value" is frequently used together with the terms „corporate sustainability", „sustainable development" etc. (Pojasek, 2007; Burnett, 2011; Kocmanova *et al*., 2011). Corporate sustainability is a business approach to create long-term shareholder value by embracing the opportunities and managing the risks derived from economic, environmental and social developments. Besides, the commitment to the sustainable development means paying attention to all of the company's stakeholders. Thus, the concept of "sustainable shareholder value" aligns ideas of the stakeholder theory and the relationship value management with the elements of corporate social responsibility.

According to the relationship value management concept, there are three main stakeholder groups, which need to be managed to improve value creation and delivery processes: employees, customers and shareholders (Payne & Holt, 2000). The role of customers and employees in sustainable value creation is emphasized by the various researchers (Coveney *et al*., 2003; El-Bannany, 2008; Storbacka *et al.,* 1994; Hallowell, 1996; Jamal & Anastasiadou, 2009). However, stakeholder groups include not only customers and employees, but also suppliers, community, governments, and environment (Moir *et al*., 2007). Nowadays, public interests are focused on the social and environmental issues. This is the reason why sustainability reports become an integral part of the corporate reporting. Sustainability reporting can contribute to the shareholder value creation by maintaining a reputation of a company, as a socially and environmentally responsible organization.

Apart from the already mentioned value factors, corporate governance, which aims to solve the agency problem, is considered to be a contributor to the company's shareholder value in the long term (Moradi, 2012; Stančic *et al*., 2012). A number of studies state that the corporate governance has strong influence on the stock market returns: in Germany the monthly difference in performance of well and poorly governed firms is 1.73% (Drobetz *et al.*, 2003), in USA the difference of 8.5% is even more evident (Gompers *et al.*, 2003). In pan-Europe research Dutch scientists Bauer, Guenster and Otten (2004) also showed an evidence of positive correlation between the firm value and the quality of corporate governance. The research indicates that the separate elements of the corporate governance system such as board independence, stock ownership of board members, CEO and Chairman separation may have a significant influence on the equity performance, and, thus, on shareholder value maximization (Hermalin & Weisbach, 1998, 2003; Bhagat & Black, 2002; Bhagat *et al.*, 1999, Brickley *et al.*, 1997).

Though the corporate governance is already related to the ethics, still the authors consider that the problems of the managers' opportunistic behavior and earnings quality should be explored separately. The importance of this factor is prompted by the 2000s corporate scandals, recent failures of a number of Chinese companies due to the unethical corporate behavior, which caused poor financial result plausibility. Creative accounting practices and frauds deteriorate the plausibility of financial results as it was described by Howard Schilit (2002). Besides, high accruals reduce the plausibility of earnings and negatively affect equity performance (Dechow & Dichev, 2001; Mahedy, 2005; Sloan, 1996). Usually one sees a significant equity price drop at the moment of accounting mispractice discovery. Therefore, to achieve shareholder value sustainability, the factor of the earnings quality should not be neglected.

Research goal and hypotheses

The goal of the research was to determine the critical factors, which have an impact on the long-term value maximization for the company's shareholders. Several hypotheses were formulated by the authors:

H1: Corporate governance, earnings quality and capital management are the major factors, which can sustain maximum shareholder return in the long term.

H2: Sustainable shareholder value is a long-term concept.

H3: Scholars and practitioners from the developed and emerging markets have different understanding of the meaning of the notion of "shareholder value" and the factors influencing it.

H4: The meaning of the notion of "shareholder value" and the factors influencing it experienced alterations provoked by the historical events, which occurred in the financial markets.

The current research expands the horizon of understanding the concept of shareholder value in a sustainable perspective. Although the traditional view of the shareholder value usually contradicts with the ideas of the stakeholder theory proponents, the shareholder value model, which can be developed based on the obtained results satisfies the postulates of both theories (Bistrova, Lace, 2011).

2. Method

To understand the notion of the sustainable shareholder value, the authors suggest collecting definitions of the notion and text segments related to the term provided by the different authors. In total, 100 abstracts of the published scientific papers from Scopus, EBSCO, Thomson Reuters Web of Knowledge and other scientific databases were collected. Publishing period covers 40 years (1972-2012). The relevant abstracts for the research purposes were selected based on the criterion of mentioning the notions of 'shareholder value creation', 'shareholder value maximization', 'shareholder value sustainability' and similar word combinations.

Data processing was done with the help of text statistical software programs AQUAD 6.0 and Hamlet II 3.0.

Using the software AQUAD for data processing, the procedures of both of classical and interpretative content analysis were applied. To prepare the data for the analysis, the entire database was divided into five blocks according to the qualitative characteristic of the source of literature: (1) the publishing year of the analyzed paper, and (2) research origin (classified based on the author's affiliate location).

For the developed countries two "breaking" points were chosen: (1) the year of 2001 due to the huge number of the corporate collapses, and (2) the year of 2008 that is considered to be the years of the worst financial crisis since the Great Depression. For the developing countries – only the year of 2008 was used as a dividing point, because the financial year of 2001 as a dividing point appears to be relevant only for corporate America and other countries, which are regarded as mature markets.

The main purpose of this allocation was to test the hypotheses about the difference in approaches to shareholder value definitions from the viewpoint of different researchers based on their regional location. Besides, the concept has been transformed during the last decades, and it is important to detect recently emerged new elements and factors.

The process of reduction of the overwhelming amount of data was performed by identifying the content of data segments. The method of data categorization was used, i.e., the authors examined all text segments and extracted the so called "units of meaning" that were replaced by the codes.

Based on Huber (Huber & Gürtler, 2008), there are two strategies of coding, which can be used in the process of data coding in AQUAD: strategy of differentiation and strategy of generalization. The first strategy moves from general to particular considerations, while the second strategy starts with the particular aspects and leads to the general insights. The authors used both of them in the current research, starting with the strategy of differentiation to form the initial list of codes with the purpose to merge them further and to establish the list of theory-based categories. To choose the proper candidates from the initial list of codes to become the category codes, the analysis of frequencies was performed, and on its basis the authors made the relevant conclusions on the shareholder value drivers.

To support the evidence provided by the AQUAD software, the authors confirmed the results by means of the analysis done with the help of text analysis software Hamlet II 3.0. For the research purposes the wordlist was created based on the code categories prepared for AQUAD analysis. The wordlist consisted of the main entries and the related concepts/synonyms, which were assigned to each main entry. The following outputs on the shareholder value drivers were received: joint frequency analysis, cluster analysis, hierarchical dendogram, which are interpreted in the results and the discussion sections.

3. Results

Although the strategy of differentiation was used at the first stage of the research, not all elements were determined as units of meaning. For instance, code 'CSR' (corporate social responsibility) was used for replacing all data segments containing such informational elements, as eco-efficiency, attention to the community and natural environment, social and environmental concerns, etc. Abstracts containing the information related to such value drivers, as investment decisions and project profitability, were coded as 'capital investment'. If the researchers emphasized the role of the relational capital in value creation process, such text segments were coded as 'stakeholder management'. Factors related to the marketing decisions, strategic decisions and acquisitions plans were grouped into the code "corporate strategy". The code "performance" combines all the financial results that can be described as the sales growth rate, operating profit margin, profitability indices etc. Such deviation from the principles of the differentiation strategy was necessary as it excludes the situation of obtaining incomputable number of codes (Friese, 2012). In the current research the first stage of coding ended with 32 codes (see Figure 1 in Appendixes). The term 'shareholder value' replaced by the code 'SHV' was used for all the abstracts in order to test the research hypotheses. The results are grouped into five columns according to the initial data allocation: (A) developing_before 2008, (B) developing_since2009, (C) developed_before2001, (D) developed_2001-2009, (E) developed_since2009.

Some of the codes were merged based on the theoretical propositions, as, for instance, in case of the corporate governance. Several codes, such as 'CSR' and 'performance' (financial results), that occurred most frequently, were used as independent categories (see Figure 2 below).

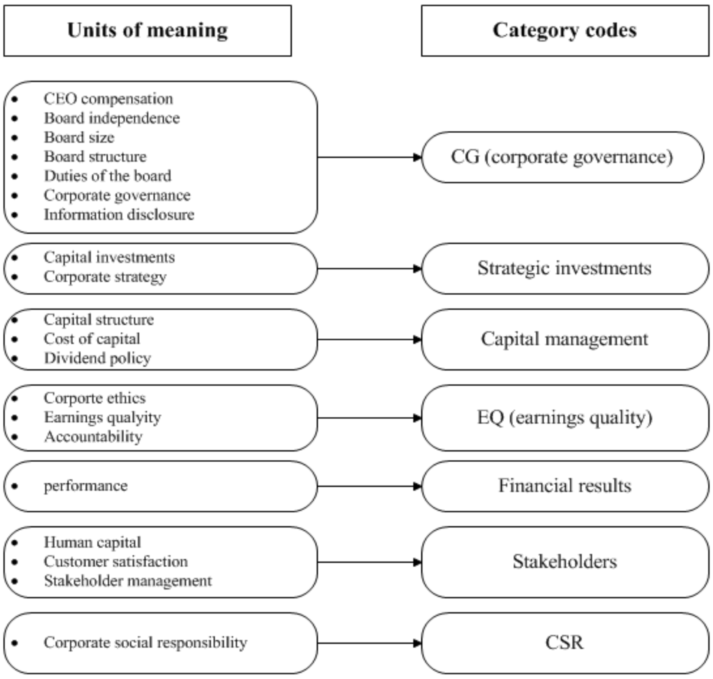

Figure 2. List of category codes

At the second stage of coding the pre-determined coding system was used. Additional codes (‘ownership’, ‘competitive advantage’, ‘long-term’) could not be included into any of the categories, but they appear to be meaningful or frequently occurring codes – thus, could not be omitted (see Figure 3 in Appendixes).

Apart from the frequency analysis, AQUAD offers the opportunity to test hypotheses by identifying the linkages between the determined codes. The authors checked the frequency of the simultaneous occurrence of the certain codes in the data segments. There are several pre-formulated types of linkages within AQUAD. The authors used two codes (‘SHV’ and ‘long-term’) occurrence in the same data document within a specified distance of each other. Figure 4 (in Appendixes) results demonstrate that there were 19 confirmations out of 100 cases, which was rather robust result and allowed authors to make a conclusion that shareholder value should be a long-term notion.

Confirmation of the obtain results in AQUAD was conducted with the analytical tools provided by the text statistical software Hamlet II 3.0. The word list for the analytical purposes was created on the basis of AQUAD analysis results and contained 10 main entries (see Figure 5 in Appendixes) and 41 synonym/related concepts.

The significant weight of the vocabulary list is attributed to the ‘shareholoder value‘, ‘corporate governance‘ and ‘long-term‘ notions, while the least mentioned and, thus, least important are the following notions: ‘CSR’, ‘ownership’, ‘strategic investments’, the weight of which in the vocabulary list is in 2.6-3.3% range.

Figure 6 (in Appendixes) reflects joint frequencies of the main entries analyzed, showing the precentage of cases of joint occurrence of the notions. It is obvious that there is a link among the shareholder value and the ‘corporate governance’, ‘long-term’, ‘stakeholder’, ‘ownership’, ‘financial results’ and ‘stakeholder’ as in these cases Jaccard coefficient is equal to or exceeds 10%.

Relatively significant joint frequency is observed between the following pairs: corporate governance - stakeholder, financial results – capital management, corporate governance – long-term.

The hierarchal cluster dendogram (Figure 7 in Appendixes) demonstrates the cluster analysis offered by the Hamlet II. It appears that all the notions are connected at relatively high level of inclusion (approx. 0.3). ‘Ownership’ and ‘strategic investments’ seem to be the runts at a higher level of inclusion. Clearly obvious cluster is formed by the traditional shareholder value determinants: ‘capital management’ and ‘financial results’. Another obvious cluster is seen with the shareholder-stakeholder concepts, which involves the following entries: ‘long-term’, ‘shareholder value', 'corporate governance', 'stakeholder'.

The obtained results and possible implications are discussed and summarized in the discussion section.

4. Discussion

Current research has a sequentially-parallel mixed design. It started as a qualitative research, as the authors collected non-numerical data (definitions and text segments). Data processing was performed, using AQUAD 6.0 and Hamlet II 3.0. However, there were two stages of data analysis within AQUAD: (1) based on the initial coding system, using differentiation strategy, and (2) based on the pre-determined categories, using generalization strategy. Outcomes of the 1st stage coding were used for the data processing with Hamlet II. Thus, the authors triangulated the received results.

H1: Corporate governance, earnings quality and capital management are the major factors, which can sustain maximum shareholder return in the long term.

The hypothesis was proved, supported by the obtained results from AQUAD and Hamlet II. All of the mentioned factors have a significant influence on the shareholder value based on the word frequencies with the highest weight assigned to the corporate governance. Overall the authors were able to distinguish seven factors, which have an influence on the shareholder value sustainability: corporate governance, capital management, financial results, strategic investments, earnings quality, CSR, stakeholders. Besides, the ownership factor might be also picked out as a separate influencing indicator. Recognition of the mentioned factors, which succeed the long-term value maximization, provides the investor with the knowledge of how to perform fundamental analysis to be able to choose the long-term winners to the investment portfolio.

H2: Sustainable shareholder value is a long-term concept.

The results from both text analysis software programs provided the proof to the H2. Cluster analysis (Figure 7) demonstrates that the shareholder value and the long-term notions form a clear cluster. A very high joint occurrence (0.34) of these concepts is reflected in the joint frequencies analysis. The relation of these concepts is also proved by the linkages analysis (Figures 4). So, the shareholder value is the long-term concept and this meaning tends to gain importance in the last decade (Figures 1, 3).

H3: Scholars and practitioners from the developed and emerging markets have different understanding of the meaning of the notion of "shareholder value" and the factors influencing it.

Certain differences exist in understanding of the shareholder value concept in the developed and the emerging markets. The emerging markets researchers devote more attention to the financial results and capital management policies (in the developed markets 'capital management' factor was important before 2001). Higher value in the developed market is ascribed to the earnings quality, CSR, ethics, CEO compensation, stakeholder factors, which is especially evident after the financial crisis. Corporate governance is equally important in emerging and in the developed markets.

H4: The meaning of the notion of "shareholder value" and the factors influencing it experienced alterations provoked by the historical events, which occurred in the financial markets.

Figures 1 and 3 make it possible to follow the historical developments of the concept of shareholder value. It is obvious that after the corporate scandals and the financial crisis the corporate governance became a very important factor to sustain the shareholder value. CSR and stakeholder (e.g. customer capital) factors have also got much more attention in the recently. The traditional shareholder value drivers such as competitive advantage, financial results, capital management, on the contrary, have been considered to have lesser importance in the value creation in the recent years. Therefore, it is true that the notion of the shareholder value was affected by the historical events, which is expressed by the diminishing importance of the traditional value drivers and increasing importance of relatively novel determinants, which include corporate governance, stakeholders (primarily customers) and CSR as the value creators.

To summarize, the research results provide a thorough insight into the shareholder value concept, its influencing factors, differences in its meaning depending on the historical period and the economy development stage. Based on the results obtained in the study process, the model of the shareholder value sustainability can be developed to facilitate the long-term investor choice of the companies, which are able to deliver consistent returns. Awareness of the shareholder value influencing factors can also provide corporate executives with the advantage to know the 'receipe' how to increase the company's investment attractiveness and, therefore, be able to further deliver returns and satisfy the long-term interests of the shareholders and stakeholders.

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Appendixes

Table analysis (Project: SHW5) Frequencies

	A	B	C	D	E
board independence	0	2	0	0	1
board size	1	0	0	0	0
board structure	0	1	0	1	0
brand	0	0	0	1	2
capital investment	1	0	4	2	0
capital structure	0	2	2	1	0
CEO compensation	0	1	0	2	6
competitive advantage	0	0	1	1	0
corporate ethics	0	2	4	0	1
corporate governance	1	7	1	3	4
corporate strategy	0	2	2	2	1
cost of capital	2	0	4	1	0
CSR	0	3	1	5	4
customer satisfaction	1	1	0	0	1
diversification	0	0	0	1	0
dividend policy	1	3	0	1	0
duties of board	0	0	0	1	0
earnings quality	0	2	0	2	2
human capital	0	0	0	1	0
information disclosure	0	3	1	0	1
innovation capacity	1	1	0	1	0
intellectual property	0	0	0	1	0
long-term	0	5	3	11	7
market share	1	0	0	0	0
ownership	0	3	0	3	2
performance	2	3	2	0	1
reputation	0	0	0	1	3
risk management	1	0	0	1	0
SHV	11	24	19	26	20
specialization	0	0	1	0	0
stakeholder management	0	2	0	5	5
sustainability	0	4	5	3	3

Figure 1. Frequency table generated by AQUAD (1st stage of coding)

Table analysis (Project: SW3) Frequencies

	A	B	C	D	E
capital management	3	4	6	1	0
competitive advantage	1	0	2	2	0
corporate governance	1	10	3	9	9
CSR	0	4	1	3	4
earnings quality	0	4	4	2	4
financial results	3	3	1	0	0
long term	0	5	2	7	6
ownership	0	1	1	1	1
SHW	13	23	18	21	22
stakeholder	2	3	0	8	3
strategic investments	1	2	3	3	1
A: /DEVELOPING before2008					
B: /DEVELOPING since2009					
C: /DEVELOPED before2001					
D: /DEVELOPED 2001-2008					
E: /DEVELOPED since2009					

Figure 3. Frequency table generated by AQUAD (2nd stage of coding)

LINKAGE ANALYSIS : Data in SW3.nam
--> File: adeveloping 2008_11.rtf--
0 confirmation(s)
--> File: developed2001.rtf--
2 confirmation(s)
--> File: developed2002.rtf--
6 confirmation(s)
--> File: developed2009.rtf--
5 confirmation(s)
--> File: developing 2009_24.rtf--
6 confirmation(s)

Figure 4. Linkage Analysis between Shareholder Value and Long-term Concept

VOC.LST.	FREQUENCY	% VOC.LST.	% TEXT	CONTEXT UNITS
capital management	57	9.88	0.31	21
corporate governance	119	20.62	0.64	59
CSR	19	3.29	0.10	18
earnings management	29	5.03	0.16	16
financial results	36	6.24	0.19	25
long-term	95	16.46	0.51	52
ownership	16	2.77	0.09	12
shareholder value	139	24.09	0.75	75
stakeholder	52	9.01	0.28	33
strategic investments	15	2.60	0.08	13

Figure 5. Vocabulary List Statistics

Jaccard coefficient - ignores joint non-occurrence

	i	1	2	3	4	5	6	7	8	9
capital management	1									
corporate governance	2	0.05								
CSR	3	0.03	0.10							
earnings management	4	0.03	0.06	0.00						
financial results	5	0.21	0.14	0.05	0.11					
long-term	6	0.04	0.25	0.04	0.13	0.12				
ownership	7	0.10	0.09	0.07	0.00	0.06	0.05			
shareholder value	8	0.07	0.34	0.07	0.08	0.11	0.32	0.10		
stakeholder	9	0.06	0.21	0.13	0.07	0.12	0.12	0.07	0.19	
strategic investments	10	0.03	0.09	0.07	0.00	0.03	0.08	0.00	0.11	0.05

Figure 6. Joint Frequency Analysis

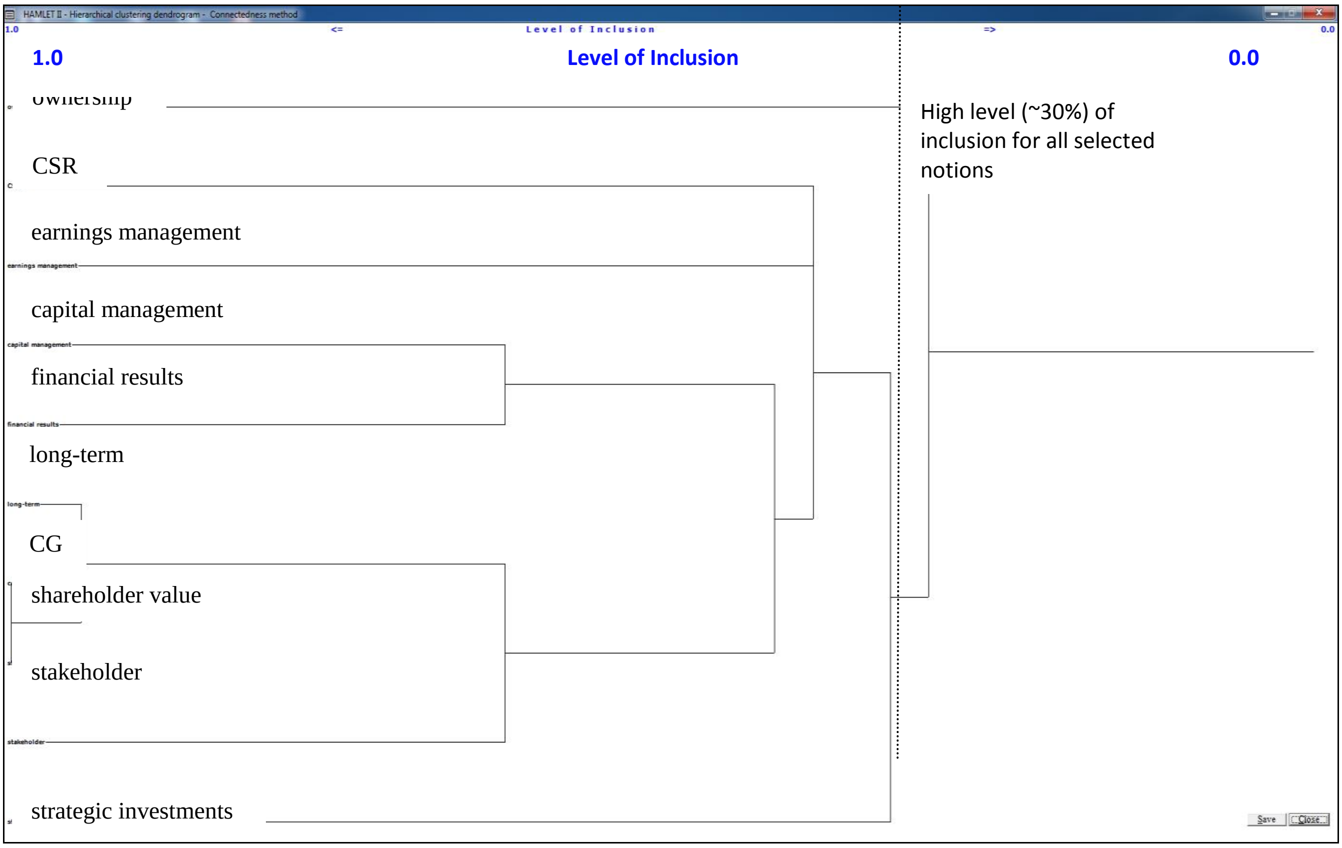

Figure 7. Hierarchal cluster dendogram (connectedness method)