Company’s Value Creation Via Customer Satisfaction and Environmental Sustainability Influence

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ABSTRACT

It is significant for organizational institutions to pay more attention to the needs of their client base because today’s competitive business environment challenges companies. In addition to this, people invest in the expectation that when they sell, the value of each investment will have grown by a sufficient amount above its cost to compensate them for the risk they took. Therefore, it is a strong argument for value creation. Hence, this current article is initiated on the value creation via two constructs: customer satisfaction and environmental sustainability. It could be noted that the present study is extensive in terms of displayed past models and other useful academic examples. It also should be noted that value of the company depends on the short term and long term performance. So, the decisions for managing the value drivers have to be made considering that they should bring long and short term benefit. Regarding this notion, it also puts forward an important background for future theory and practice investigations. So, the problem of the study is: How to create firm’s value via customer satisfaction and environmental sustainability? While, the aim of the study is: to emphasize customer satisfaction and environmental sustainability to its’ elements that could be incorporated in order to create firm’s value. The objectives of the study are: 1) to analyze the value drivers and investigate the constraints and uncertainties of valuation, 2) to examine basic requirements for valuations, 3) to analyze environmental sustainability, 4) to investigate the concept of customer satisfaction incorporating contemporary conceptual models.

INTRODUCTION

Investigations of released academic papers regarding company’s value creation in pioneering ways especially via two constructs: customer satisfaction and environmental sustainability have revealed that this field is highly unexplored. It is significant for organizational institutions to pay more attention to the needs of their client base because today’s competitive business environment challenges companies. In addition to this, people invest in the expectation that when they sell, the value of each investment will have grown by a sufficient amount above its cost to compensate them for the risk they took. Therefore, it is a strong argument for value cre-
It also should be noted that value of the company depends on the short term and long term performance. So, the decisions for managing the value drivers have to be made considering that they should bring long and short term benefit.

The novelty of the study: this study proves that the firm’s value creation can be reached via two elements: customer satisfaction and environmental sustainability. Customer satisfaction effects market share, while environmental sustainability has a positive impact on competitive advantage, so it is recommended to incorporate the idea of customer satisfaction and environmental sustainability management in firm’s value creation. Obviously, the present study can be and is offered to be extrapolated in both aspects: theory and practice. It is also believed that the study paper would be relevant for the advancement of firm’s strategy creation since customer satisfaction and environmental sustainability is the significant factor in the business field.

The object of this study is: firm’s value via customer satisfaction and environmental sustainability.

The problem of the study is: How to create firm’s value via customer satisfaction and environmental sustainability?

The aim of the study is: to emphasize customer satisfaction and environmental sustainability to its' elements that could be incorporated in order to create firm’s value.

The objectives of the study are:
- To analyze the value drivers and investigate the constraints and uncertainties of valuation
- To examine basic requirements for valuations.
- To analyze environmental sustainability.
- To investigate the concept of customer satisfaction incorporating contemporary conceptual models.

The methods of the study are:
- Logical and comparative analysis of literature;
- Synthesis and deduction;
- Graphical methods.

1. VALUATION APPROACH DEFINITION

According to Koller, Goedhart, Wessels (2010), “value is the defining dimensions of measurement in a market economy. People invest in the expectation that when they sell, the value of each investment will have grown by a sufficient amount above its cost to compensate them for the risk they took” (p.3). The main measure of the value of the assets, it does not matter if it is share, bond or bank account, is the value which is created to its shareholders.

Valuation is the process to define the value of the chosen object. Financial valuations could be done to evaluate the value of options, bonds, stocks, investments, patents, all in all for everything that could have value. Knowing the value is the key point in making the decision, does not matter if it is investing or accepting the investment. The main aim of the valuation is to define the real value and to evaluate the potential gain. According to Damodaran (2006), “[...] we buy financial assets for the cash flow we expect to receive from them. Consequently, perception of value have to be backed up by reality, which implies that the price we pay for any asset should reflect the cash flows it is expected to generate. [...] Asset price cannot be justified by merely using the argument that there will be other investor around who will pay the higher price in the future.” (p. 1)
1.1 Value Drivers

Value of the company depends on the short term and long term performance. So, the decisions for managing the value drivers have to be made considering that they should bring long and short term benefit, or at least not to damage long term health with short term performance (Koller et al, 2010). The importance of value drivers for separate company depends on its fundamentals, strategy, intangible and tangible assets, the employees of the company, management, objectives, company’s historical assets and debts. It also depends on the external constraints that are macroeconomic situation which can make the high influence on company’s performance and growth. Market situation is also one of the constraints that is important for current and future perspective of value improvements, where highly important are the features of customers and competitors.

1.2 Constraints and Uncertainties of Valuation

Valuation has methodology, ways and rules that have to be used when the company is valued. The methods of valuation have the inputs that are complex. Selection of the figures for the valuation inputs is the art that is influenced by many factors. Selection process and selected inputs depends on factors such as the current economic trends, future perspective, company’s announcements and reports. Also people who are making the analysis or are related with them could be called as the factor that makes influence to the valuation.

One of the parts of valuation is the selection of the correct inputs. These days the variety of reachable information is wide and the decision which information is relevant for one or other input becomes the main constrain of the valuation, however, at the same time, it brings much more opportunities and possibilities. Still, in some cases some information for inputs could be missing or could be no correct which make the difficulty for identifying and understanding the possible uncertainties and biases.

One of the sources where biases occur is the analyst who is responsible for valuation. This is one of the points that have to be carefully selected before starting the valuation (Damodaran, 2002). For instance, the analyst may be the employee of the company that is valuated and the valuation result has the influence to his/her salary or wellness. In the best case of valuation the analyst relation with a valuated company should be neutral to decrease the possibility of biases, though person, who is not related with valuating object, may already have the primary opinion, understanding or experience, which could distort the result.

According to Damodaran (2006), as well the biases exist after valuation is made. It occurs because after finishing the valuation analyst begins to evaluate if his/her analysis is made correctly. He/She starts to compare the valuation to other analysts’, compare her/his result with the market price, or analyze values and methods of similar valuations. He/She starts to consider if the method of valuation was chosen well, check which method and inputs are used by other people. All in all the analyst starts to doubt if the made analysis are correct and begin to make changes that influence the increase of possibility of biases.

However, even if biases are mitigated and reduced to minimum the uncertainty make the big influence to the valuation. The expectations of company’s performance, growth or the way it operates may change. Also the macroeconomic situation may shift into the unpredictable way that would switch the forecasts in totally different way. As an example for this kind of uncertainties, the current disaster in Japan in 2011.03.11 can be used. According to Schlesinger, (2011), “Economic and market impact the massive earthquake in Japan will impact the world’s third largest economy. The most direct impact is likely to be seen in Japanese exporters, like Honda, Toyota and Sony. Additionally, Japanese insurance companies are likely to see large losses as a result of the claims associated with the earthquake.” So, analysts who were valuat-
ing the companies that are impacted by that earthquake took totally different inputs, than they would be taking after this disaster. The situation comparing it before and after earthquake and the valuation result those are made before and after should be different. However, some valuations and decisions were made before this disaster and they cannot be turned back. As it is seen from this example the valuation method and the inputs could change in few days or even in few seconds, influencing the valuation result significantly.

2. BASIC REQUIREMENTS FOR VALUATION

According to Meitner (2006), for good valuation of the company, the certain requirements have to be maintained:

- The valuation must be oriented into the future. The benefits that will be earned in the future are those that have to be taken in to valuation. The past benefits are not important for the valuation. To sum up, importance is not what was earned or had value in the past but what is going to be earned or have value in the future.
- Everything should be taken into the account what could affect the utility of the company. Valuation is not only implementation of financial figures. It is important to take into the account everything what affect company’s performance, future gain, and also value.
- Possible uncertainties, that the company could face, have to be taken into the account of valuation. The possible future chances, possibilities, as well as dangers have to be evaluated and incorporated to the valuation process. The valuation result has to reflect these upside potentials and downside risks.

The valuation has to have the investor orientation. It is said that the valuation should be adapted to the certain situation. This opinion disagrees with Damodaran (2006) approach, however it depends what is the aim of the valuation. Considering taking this requirement into the account of valuation, it is important to understand if valuation aim is to support one or other related party of the valued object. If valuation is made to get the real value, this requirement should not be taken into the account.

3. ENVIRONMENTAL SUSTAINABILITY

According to Hofer et. al. (2012), companies are using environmental activities to obtain competitive advantage against competitors which increases the value of the company. The managers are analyzing the environment actions of their competitors, because understanding the environmental sustainability actions have the same importance as following competitors’ financial situation, marketing and development actions. In most of the cases the size of the company becomes a disadvantage for environmental activities. The larger companies become not flexible and slower, which is the big disadvantage against competitors and to maintain company’s value growth. The growing companies should put a lot of effort to decrease the bureaucracies and allow quick implementations for environmental initiatives.

To hold a position of industry leader in environmental activities is not easy, the company has to recognize and counter the strategic moves of their competitors. Hofer et. al. (2012) underlines that: “Industry leaders consistently have inferior environmental performance, which puts them at a strategic disadvantage. Closing this performance gap is vital, especially considering the growing emphasis put on the environment. Recognizing the importance of environmental management and following these simple recommendations allows managers to improve their competitive standing, value and the environment at the same time.”

Taking into consideration the practical implementation of sustainable activities in order to reach the competitive advantage and increase company’s value it is chosen to take carpet in-
industry example. In 2005 Rusinko et al. did the research in U.S. carpet industry which generates 12 billion of annual revenue. The goal of the research was to develop and empirically test a model to predict which environmentally sustainable practices lead to what competitive outcomes and value growth. The carpet industry was chosen because this is the industry that has been under increasing pressure to reduce the environmental impacts of their products and their processes for over 10 years. The initiative developed by U.S. Green Building Council influence the creation of new market drivers for sustainable practices and the carpet industry had considerable experience in combining sustainable practices and products with competitive success. The sustainable practice of U.S. carpet industry and the outcome of created competitive advantage which increased companies’ value is shown below (Figure 1).

**Figure 1.** Sustainable practices and competitive outcomes

![Sustainable practices and competitive outcomes](image)

Source: Rusinko et al. (2005)

The companies in U.S. industry started to use environmental sustainability practices such as nature friendly recycling, sustainable product design, employees training & education, resource reduction and sustainable process design. These actions increased the competitive advantage of industry players by decreasing their costs and lead time, increasing quality and performance, also the sustainable actions are the reason for increased sales and revenue.

Berns et al. (2009) developed a research on sustainability. The authors proved that these days the business is influenced by sustainability but not vice versa. Companies’ managers define sustainability differently, and are focused on environmental impacts, others on social or personal, or even looking from economics sight. Adding up, the forces that are having the greatest impact on companies — are government legislation, consumer concerns and employee interest in sustainability. And the potential impact of sustainability efforts are:

- A stronger brand and greater pricing power
- Greater operational efficiencies, more efficient use of resources, supply chain optimization, lower costs and taxes
- Enhanced ability to attract, retain and motivate employees, greater employee productivity
- Improved customer loyalty, lower rate of staff turnover.
- Enhanced ability to enter new markets, more potential sources of revenue
- Lower market, balance-sheet and operational risks
- Lower cost of capital, greater access to capital, financing and insurance

Paying attention on company’s sustainability by environmental responsibility actions increases the effect on internal synergy (Fernandez-Guadano, 2015; Vveinhatdt, Andriukaitiene, 2015).
2015; Sueldo, Streimikiene, 2016). Both environmental activities and synergy are increasing the value of the company. The scheme bellow shows the value creation matrix in the company which is influenced by potential impact of sustainability efforts.

**Figure 2. Value creation**

The chart above is divided into three value creation levels. The first one include pricing power, cost saving and employee recruitment and engagement, the second one include market share and new market entry possibilities, and the third one is covering the risk premiums and cost of capital. The mentioned value creation levels are making influence by improving margin, increasing revenue. This leads to increased profit, better free cash flow, higher valuation multiplier. And finally everything leads to a total increased shareholders return. Hence, to outperform other market players the firm has to incorporate value-creation strategy through delivering superior value for customers.

**4. THE CONCEPT OF CUSTOMER SATISFACTION**

After academic analysis regarding customer satisfaction it has been revealed that this particular concept has been examined extensively. Some authors like Oliver (1997) and Zeithalm and Bitner (2000) state that customer satisfaction is the client’s emotional reaction whether his or her expectations has been fulfilled or not. Moreover, Gilbert-Jamison(2005) customer satisfaction only create a customer base that likes your products or services. Angelova and Zekiri (2011) convince that customer satisfaction majorly depends on these factors: “friendly employees, courteous employees, knowledgeable employees, helpful employees, accuracy of billing, billing timeliness, competitive pricing, service quality, good value, billing clarity and quick service” (p.234).

For instance, Aldlaigan & Buttle (2005) say that customer satisfaction is the concept which displays the needs that should be obtained in order to get the positive judgment towards the product or service from the consumer. Taking into consideration the idea that satisfying customer is the profitable action (Fornell and Rust, 1997), the author Cochran (2003) says that satisfying customer is the action that company should do during the daily activities in order to stay in business.

For instance, the study of Kim and Lee (2013) validated a comprehensive model which could be stated as a mixture of two models and one of them is American Customer Satisfaction Index. The current model initiated on the analysis of factors that affect customer satisfaction. To be more precise, the study was aimed to examine the mobile environment. So, the designed research model was utilized as follows.
Moreover, Al-Wugayan & Pleshko (2011) used path analysis to examine the relationship among constructs. The model was proposed consisted of satisfaction, loyalty and market share in the banking sector of Kuwait (Figure 4). Sampling frame was comprised of bank 327 clients from 36 banks. The study firstly revealed the existence of positive relationship between customer satisfaction and loyalty, and secondly, it was supported a significant positive association between loyalty and market share.

What is interesting, the study below is devoted for O'Sullivan & McCallig (2012). The authors integrated the Ohlson model and also borrowed data from American Customer Satisfaction Index. But the most important thing they revealed, that customer satisfaction positively moderates the earnings and therefore, it could be assumed, that customer satisfaction has an influence on company’s augmentation of financial performance, also on firm’s value (Figure 5).
After a brief analysis of empirical studies it could be concluded that the inquiry of customer satisfaction bears on industry sector, type of the venture and scholars’ distinguishing variables, which have an impact on overall perception of this object.

The profound analysis of academic papers has proved that this particular element is mentioned in a plethora of works. Majorly, the authors describe customer satisfaction as an emotional reaction which highly depends on the fact whether the customer’s needs and expectations are realized or not. The advantages of this notion are distinguished these ones: profit enhancement, market share and firm’s value augmentation, possibility to predict client’s behavior.

CONCLUSION

Knowing the value is the key point in making the decision, does not matter if it is investing or accepting the investment. The main aim of the valuation is to define the real value and to evaluate the potential gain. According to the authors value of the company depends on the short term and long term performance. So, the decisions for managing the value drivers have to be made considering that they should bring long and short term benefit, or at least not to damage long term health with short term performance.

In order to reach a good valuation of the company, the certain requirements have to be maintained: the valuation must be oriented into the future, everything should be taken into the account what could affect the utility of the company, possible uncertainties, that the company could face, have to be taken into the account of valuation, the valuation has to have the investor orientation. It is said that the valuation should be adapted to the certain situation.

Companies are using environmental activities to obtain competitive advantage against competitors. The managers are analyzing the environment actions of their competitors, because understanding the sustainable environment actions have the same importance as following competitors’ financial situation, marketing and development actions. The potential impact of sustainability efforts are: stronger brand and greater pricing power, greater operational efficiencies, more efficient use of resources, improved customer loyalty, enhanced ability to enter new markets, more potential sources of revenue.
After academic analysis regarding customer satisfaction it has been revealed that this particular concept has been examined extensively. Majorly, the authors describe customer satisfaction as an emotional reaction which highly depends on the fact whether the customer’s needs and expectations are realized or not. The advantages of this notion are distinguished these ones: profit enhancement, market share and firm’s value augmentation, possibility to predict client’s behavior.

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