

**A THEORY OF VALUE DRIVERS: A GROUNDED THEORY STUDY**

by

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## Abstract

The purpose of this qualitative study was to explore the effect of business value drivers on the valuation of businesses in the United States and to propose a theory of value drivers. This study used two research methods – grounded theory and the Delphi method - to explore the effect of business value drivers on the valuation of businesses in the U.S. and to propose a theory of value drivers. In addition to a list of 72 individual value drivers, the theory of value drivers presents a comprehensive value driver *possibilities frontier* and *value driver chain*, both of which are part of and are used to explain the theory of value drivers. The theory of value drivers is comprised of 28 propositions that work in concert with the possibilities frontier, the value driver chain, and other elements that are described in the paper. This paper differs from other studies on value drivers in four important ways. First, this paper significantly extends the notions, ideas, and concepts from previous studies on value drivers. Second, this paper creates a comprehensive classification scheme for value drivers and has identified many more characteristics and properties of value drivers than previous studies. Third, this study has identified 72 specific value drivers through the literature review and the Delphi study. Fourth, this paper consolidates the material from the literature review and the result of the research conducted through the Delphi and grounded theory studies and codifies it into the theory of value drivers.

## **Dedication**

My parents, Dr. Paul W. Wendee and Maxine L. Wendee, who provided me early guidance and inspiration and recognized the importance of a good education; and who made so many sacrifices to ensure that I got the best education that they could provide. Although you are no longer with us, you will always be remembered in my heart.

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## Chapter 1: Introduction

A central focus for business enterprise leaders is the creation of value for the enterprise shareholders. The problem is that the discussion of business value drivers and their effect on business valuation in the scholarly literature is fragmented, and no unified approach exists for the identification and classification of such drivers (Kazlauskienė & Christauskas, 2008). An exhaustive review of the literature revealed no theory of value drivers. Accordingly, business managers and those who analyze businesses are operating in an environment whereby they are trying to create and/or analyze the creation of value; but there is no defined way in which to understand the creation of value. This leads to wasted or counterproductive efforts on the part of business managers and incorrect analysis on the part of those who analyze businesses. The wasted and counterproductive efforts of business managers can lead to the undesirable destruction of shareholder value.

The purpose of the qualitative study was to explore the effect of business value drivers on the valuation of businesses in the United States (U.S.) and to propose a theory of value drivers. The research design known as Delphi method was incorporated in the qualitative grounded theory method. According to Linstone and Turoff (2002), “Delphi may be characterized as a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem” (p. 3). The classic or Glaserian grounded theory approach was used to generate a theory of value drivers. The grounded theory method enables researchers to generate a theory from the data.

A review of the existing literature revealed the discussion of business value drivers and their effect on business valuation is fragmented, and no unified approach



exists for the identification and classification of such drivers. No theory of value drivers exists. The current study findings filled the void in the existing literature on value drivers through an examination of business issues pertaining to valuation and the development of a theory of value drivers. The results of the study contributed to the scholar-practitioner-leader paradigm by filling the void in the scholar and practitioner literature on (a) public and private company valuation, (b) business brokerage, (c) private company characteristics, (d) private capital markets theory, and (e) private company financing in relationship to value drivers and their effect on valuation.

### **Background**

A central focus for public and private business enterprise leaders is the creation of value for the company shareholders. There are many definitions of value. The definition of value that was used in this paper is what Buffett (1996) called intrinsic value. Intrinsic value is based on the discounted cash flow concept. As Buffett stated, “Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life” (p. 11). A discussion of the discounted cash flow model, which led to a fuller understanding of the concept of intrinsic value, is contained in a later section of this paper.

A value driver can be defined as any variable that influences the value [in this case, the intrinsic value] of an enterprise (Kazlauskienė & Christauskas, 2008). The use and presence of value drivers is what creates or destroys value in business enterprises. A review of the existing literature revealed the discussion of business value drivers and their effect on business valuation is fragmented, and no unified approach exists for the identification and classification of such drivers. No theory of value drivers exists. The

general subject of the study (i.e., value drivers for businesses) pertained to issues that are important in several emerging fields of study. To begin the discussion, a brief history of two emerging fields of study (i.e., business brokerage and business valuation) is necessary.

**Brief historical overview of business brokerage.** Hoesly, Johnson, Womack, and Barrere (2005) maintained evidence of business brokerage existing before 1900. The greatest growth in business brokerage began in the 1970s. In 1973, Hamel started the Institute of Certified Business Counselors (IBC). The Texas Association of Business Brokers (TABB) was formed in 1983 with chapters in Houston and Dallas.

In 1984, a group of business brokers from across the U.S. met to discuss the formation of an international business brokerage association. In 1985, The International Business Brokers Association (IBBA) was formed. The leaders of the IBBA developed guidelines for the profession as well as a code of ethics. The M&A Source was formed in 1991 to serve the specialized needs of IBBA members who regularly sell companies valued at over \$2 million. From such beginnings, business brokerage as a profession and as a field of scholarly inquiry has continued to grow (Hoesly et al., 2005).

**Brief historical overview of business valuation.** Slee (2004) stated, “Private business valuation has only recently been viewed as a unique body of knowledge” (p. 19). Business appraisal is a relatively new profession, but it has early roots. The oldest known business appraisal can be found in the *Book of Genesis* (23:15) “The land is worth 400 shekels” (as cited in Trugman, 2002, p. 1).

Trugman provided more detail on the history of the business valuation field. It was noted by Trugman (2002) that, in 1919, Arthur Stone Dewing published a book

titled, *Financial Policy of Corporations*. In the book, Dewing suggested rates ranging from 10% to 100% as a capitalization factor. In 1920, the U.S. Treasury Department issued Appeals & Review Memorandum ARM 34, providing a means to value lost intangible value for breweries and distilleries as a result of prohibition.

According to Trugman, J. B. Williams (1938) provided the foundation for the principle of future benefits on which the theories of business appraisal are built. In 1952, the American Society of Appraisers was formed. Revenue Ruling 59-60 was issued in 1959, providing the existing basis for valuing private companies. The Institute of Business Appraisers (IBA) was formed in 1978 and was the first professional organization in the U.S. dedicated exclusively to business valuation (Trugman, 2002).

Shannon Pratt published the landmark book on business valuation, *Valuing a Business*, in 1981. In 1984, Ray Miles, the Executive Director of the IBA, published another landmark book, *Basic Business Appraisal* (Burkholder, 2005; Trugman, 2002). According to Slee (2004), “During the 1990s private valuation became sophisticated to the point where it is now a career path for thousands of business appraisers” (p. 19).

**Private capital markets theory.** The brief historical discussion of the business brokerage and business valuation fields shows both fields of study and the related professions are relatively new. Professionals in the fields of business brokerage and business evaluation rely heavily on the use of value drivers and the business valuations that result. Private capital markets theory is a new and ongoing development that arose to fill the void in the body of knowledge pertaining to private capital markets. Trottier (2004) stated that private capital markets theory is an “integrated body of knowledge that applies to valuation, capitalization, and transfer of private companies” (p. xxiii).

**Importance of this study.** A review of the existing literature revealed the discussion of business value drivers and their effect on business valuation is fragmented, and no unified approach exists for the identification and classification of such drivers. The results of the current study added to the body of knowledge in the fields of (a) public and private company valuation, (b) private company characteristics, (c) private company financing, (d) business brokerage, and (e) private capital markets theory as it pertains to value drivers and their effect on business valuation. In filling the void in the existing literature, the current study findings made a significant contribution to informing practice.

The results of the study contributed to the scholar-practitioner-leader paradigm by filling the void in knowledge that exists in the scholar and practitioner literature on (a) public and private company valuation, (b) business brokerage, (c) private company characteristics, (d) private capital markets theory, and (e) private company financing as it pertains to value drivers and their effect on valuation. Proposing a theory of value drivers to leaders in the relevant fields helped leaders with an added resource and a conceptual framework to draw upon when valuing public and private businesses. The study integrated practice (i.e., the valuation of public and private companies) with scholarship (i.e., theories on valuation and value drivers). Such is the essence of the scholar-practitioner-leader model that is, at its core, a leadership model.

### **Problem Statement**

A central focus for business enterprise leaders is the creation of value for the company shareholders. There are many definitions of value. The definition of value that will be used in this paper is what Buffett (1996) calls intrinsic value. Intrinsic value is

based on the discounted cash flow concept. As Buffett stated, “Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life” (p. 11). A discussion of the discounted cash flow model, which led to a fuller understanding of the concept of intrinsic value, is contained in a later section of this paper.

A value driver can be defined as any variable that influences the value [in this case, the intrinsic value] of an enterprise (Kazlauskienė & Christauskas, 2008). The use and presence of value drivers is what creates or destroys value in business enterprises.

The problem is that the discussion of business value drivers and their effect on business valuation in the scholarly literature is fragmented, and no unified approach exists for the identification and classification of such drivers (Kazlauskienė & Christauskas, 2008). An exhaustive review of the literature revealed no theory of value drivers. Accordingly, business managers and those who analyze businesses are operating in an environment whereby they are trying to create and/or analyze the creation of value, but there is no defined way in which to understand the creation of value. This leads to wasted or counterproductive efforts on the part of business managers and incorrect analysis on the part of those who analyze businesses. The wasted and counterproductive efforts of business managers can lead to the undesirable destruction of shareholder value.

According to Creswell (2005), two conditions suggest a problem to be researched: “Study the problem if your study will fill a gap or void in the existing literature . . . . Study the problem if your study informs practice” (p. 64). A review of the literature revealed a lack of studies pertaining to value drivers for public and privately-held businesses. The current study results filled the void in the existing literature and made a

contribution to informing practice in the fields of (a) public and private company valuation, (b) private company characteristics, (c) private company financing, (d) private capital markets theory, and (e) business brokerage as it pertains to value drivers and their effect on valuation. The qualitative study included an exploration of the effect of business value drivers on the valuation of businesses in the U.S. and led to a theory of value drivers. The new theory of value drivers may help business managers and business analysts better understand what creates value in the business enterprises that are the subject of their study.

### **Purpose Statement**

The purpose of the current qualitative study, using the grounded theory and Delphi method research designs, was to explore the effect of business value drivers on the valuation of businesses in the U.S. and to propose a theory of value drivers. The Delphi method was the primary research design in the study. According to Linstone and Turoff (2002), “Delphi may be characterized as a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem” (p. 3). Linstone and Turoff further noted that a Delphi study, which is a “structured communication” (p. 3) process, provides feedback on individual contributions, assessment of the group judgment, an opportunity for revision of original views, and anonymity.

The grounded theory approach for developing theories was an additional approach used in the study. Grounded theory is a method that is useful for generating a theory from data (Glaser & Strauss, 1967, p. viii). In the current study, the grounded theory approach led to the development of a theory of value drivers. The coded results of the

literature review comprised the data used to generate the initial theory. The use of the Delphi method assisted in (a) adding to and modifying the theory and (b) confirming or refuting the initial theory based on the results of the literature review.

The central phenomenon of the current study was value drivers for businesses. The following was the central question for the study: What are the value drivers for businesses in the United States, and how do they affect business value? The study population consisted of business valuation experts, professional securities analysts, investment bankers, management consultants, and people with similar backgrounds. The participants formed a Delphi panel.

### **Significance of the Study**

**Significance of the study to future studies and thoughts.** According to Creswell (2005), two conditions suggest a problem should be researched: “Study the problem if your study will fill a gap or void in the existing literature . . . . Study the problem if your study informs practice” (p. 64). A review of the literature revealed the discussion of business value drivers and their effect on business valuation is fragmented, and no unified approach exists for the identification and classification of such drivers. No theory of value drivers exists. The study results helped fill the void in the existing literature and contributed to informing practice in the fields of (a) public and private company valuation, (b) private company characteristics, (c) private company financing, (d) private capital markets theory, and (e) business brokerage as it pertains to value drivers and their effect on valuation.

**Significance of the study to leadership.** According to Dr. Anthony Kortens (personal communication, May 9-14, 2008), a focus within the doctorate program at the

University of Phoenix is the scholar-practitioner-leader model. The scholar-practitioner-leader model represents the bridge between scholarly pursuit and real world practice. In the traditional model involving separate worlds of scholarship and practice, the scholar appears to reside in an ivory tower while the practitioner appears to cling to what Kofman (2005) called ontological arrogance. In Kofman's terms, ontological arrogance is "the belief that personal experience defines reality" (p. 1).

The foundational notion in the scholar-practitioner-leader model is that leaders are best able to lead their organizations when they have the tools and experience of their chosen profession (i.e., the practice) as well as the tools of the scholar. Scholar practitioners who are able to bridge the two worlds through leadership create real and lasting value in an organization. The scholar-practitioner-leader model helps leaders bridge the two worlds.

The scholar-practitioner-leader model ("School of Advanced Studies," 2008) is a construct of the University of Phoenix, but it originates from the work of two primary authors, Schon (1995a, 1995b) and Bennis and O'Toole (2005). Schon (1995b) suggested, "The epistemology appropriate to the new scholarship must make room for the practitioner's reflection in and on action" (p. 34). Bennis and O'Toole discussed how business professors have moved away from teaching what is most relevant and stated, "The problem is not that business schools have embraced scientific rigor but that they have forsaken other forms of knowledge" (p. 104).

The results of the current study contributed to the scholar-practitioner-leader paradigm by filling the void in knowledge that exists in the scholar and practitioner literature on (a) public and private company valuation, (b) business brokerage, (c) private



company characteristics, (d) private capital markets theory, and (e) private company financing as it pertains to value drivers and their effect on valuation. With a theory of value drivers, leaders in the relevant fields have an added resource and a conceptual framework to draw upon when assessing or making decisions that affect the value of public and private businesses. The study integrated practice (i.e., the valuation of public and private companies) with scholarship (i.e., theories on valuation). Such is the essence of the scholar-practitioner-leader model that is, at its core, a leadership model.

### **Nature of the Study**

The purpose of the current qualitative study was to explore the effect of business value drivers on the valuation of publicly and privately held businesses in the U.S. and to propose a theory of value drivers. The study population consisted of business valuation experts, professional securities analysts, investment bankers, management consultants, and people with similar backgrounds. The participants formed a Delphi panel. The central phenomenon of the study was value drivers for businesses. The following was the central question for the study: What are the value drivers for businesses in the United States, and how do they affect business value?

The Delphi method was an appropriate research design for the study. Linstone and Turoff (2002) noted, “Delphi may be characterized as a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem” (p. 3). The subject of value drivers for privately held businesses is a complex problem. The Delphi panel participants were business valuation experts who were members of the four main business valuation societies in the United States: The Institute of Business Appraisers (IBA), The National

Association of Certified Valuation Analysts (NACVA), The American Institute of Certified Public Accounts (AICPA), and The American Society of Appraisers (ASA).

The Delphi participants could also be members of the CFA Institute. Other members of the Delphi panel might be people with a minimum of 2 years of experience in management consulting or investment banking. People could be eligible to participate on the Delphi panel if they had similar experience and backgrounds to any of the aforementioned participants.

The Delphi method was an appropriate research design for the study. Linstone and Turoff (2002) noted, "Usually, one or more of the following properties of the application leads to the need for employing Delphi: The problem does not lend itself to precise analytical techniques but can benefit from subjective judgments on a collective basis" (p. 4). Linstone and Turoff further noted, "Those who seek to utilize Delphi usually recognize a need to structure a group communication process in order to obtain a useful result for their objective" (p. 5). The grounded theory approach was an appropriate research method for the current study because it enabled the generation of a theory from data. The purpose of the study was to generate a theory of value drivers from the reviewed literature using the grounded theory approach.

The qualitative research method was a better approach for use in the study than any of the quantitative research designs. Qualitative research designs are oriented toward exploration, understanding, and theory generation. Quantitative research designs are oriented toward description, explanation, and the study of the relationship between or among variables (Creswell, 2005). Researchers use quantitative methodologies to test

theories. The intent within the current study was to explore the nature of value drivers and to propose a theory that future researchers can test.

### **Central Phenomenon and Research Questions**

The central phenomenon of the study was value drivers for businesses. The following was the primary research question for the study: *What are the value drivers for businesses in the United States, and how do they affect business value?* Seven research questions guided the study.

RQ1: What are value drivers?

RQ2: What are the possible value drivers?

RQ3: What are the characteristics of value drivers?

RQ 4: What is the relative importance of each of the value drivers?

RQ 5: What effect do the drivers have on the value of a business?

RQ 6: Does an interrelationship exist between the value drivers and, if so, what is the interrelationship?

RQ 7: How should the value drivers be categorized?

### **Conceptual or Theoretical Framework**

**Overview.** The subject of value drivers is important in several areas of business analysis. Value drivers affect business value, and business value is an important business factor for shareholders, managers, and other stakeholders in a business enterprise.

Business researchers often discuss value drivers, but little research into the nature and classification of value drivers exists. As noted by Kazlauskienė and Christauskas (2008),

In scientific literature focusing on the issues of business valuation the aspect of the analysis of business value drivers is discussed very fragmentally. Though

researchers emphasize the importance of determining the impact of value drivers that influence the dimension of business value, there is no unified approach to the classification and investigation of these value drivers. (p. 23)

Understanding value drivers and their effect on valuation is crucial in business analysis. Kazlauskienė and Christauskas (2008) stated, “For the process of business valuation, it is very important to determine the drivers influencing business value since those drivers can either increase or reduce this value depending upon the tendencies of their changes” (p. 24). The following discussion provides a broad overview of some of the conceptual or theoretical areas directly impacted by or pertaining to value drivers.

**Private capital markets theory.** Private capital markets theory is a recent and ongoing development that arose to fill the void in the body of knowledge pertaining to private capital markets. Trottier (2004) stated that private capital markets theory is an “integrated body of knowledge that applies to valuation, capitalization, and transfer of private companies” (p. xxiii). The valuation component is one of the main themes in the current research.

Trottier (2004) pointed out that private capital market theory derives from meta-financial theories. Meta theories are broad, all-encompassing theories. Lower-level theories, methods, and tools are derived from Meta theories. In the case of the capital markets, corporate finance theory and private capital markets theory are siblings that derive from the same theoretical parent (i.e., meta-financial theories).

**Triangulation.** Valuation, capitalization, and concepts pertaining to the transfer of private companies are important elements in private capital markets theory. Slee (2004) suggested that the concept of triangulation is a useful way to integrate the

elements of private capital market theory. The private capital markets theory triangle has three sides: capitalization, transfer, and valuation. Borrowing from the concept of triangulation found in navigation and civil engineering, it is possible to deduce one side of a triangle through knowledge of the other two sides.

The same applies to private capital markets. If one knows two of the sides of the private capital markets triangle, the third side can be more fully understood. Slee (2004) related triangulation to triadic logic, “which describes private capital markets theory using a three-legged conceptual stool. In other words, private valuation can only be understood relative to capital/transfer, capitalization must be viewed relative to the impact of valuation/transfer, and transfer is influenced by capitalization/valuation” (p. 15).

**Definitions of value.** A discussion of value drivers requires an understanding of the several definitions of value. According to Trugman (2002), “The term value has many different meanings in the valuation field” (p. 57). The various definitions of value, or “standards of value” (p. 57) as they are known in the appraisal literature, include fair market value, fair value, investment value, and intrinsic value (Trugman, 2002).

Another important concept in business appraisal is the “premise of value” (Trugman, 2002, p. 57). The premise of value pertains to whether the business is being valued as a going concern or as an enterprise that is being liquidated (Trugman, 2002). The various definitions and concepts could be considered value drivers in and of themselves as they affect the value of a particular business enterprise.

**Value drivers.** The study focus was value drivers. Value drivers are a part of the valuation component of the private capital markets theory triangle. Pratt, Reilly, and

Schweihs (1998) stated that many factors exist that drive or impact value for private companies. Some of the more important value drivers include (a) buyer/seller motivations; (b) type of industry; (c) the circumstances of a particular transaction; (d) size of the business; (e) persistence of the customer, supplier, and employee base; (f) ease of entry into the business; (g) licenses, franchise agreements, and permits; and (h) competition.

**Value drivers specific to a sale.** Two other factors can have a significant impact on value, and they are of particular interest when selling a business. The two factors are (a) access to capital and (b) liquidity of the market. Both factors have a direct impact on the pricing of a company that is for sale and the time that the company is on the market. As Slee (2004) noted, “The availability of capital to finance private transactions is a driving force behind private acquisition multiples” (p. 189).

Marks, Robbins, Fernandez, and Funkhouser (2005) indicated that the availability of capital from a supply and demand perspective can affect private company valuations. Marks et al. suggested that a possible strategy in financing is to find ways to fund the enterprise on a short-term basis as a bridge to more permanent financing. Terms of the sale can have a significant impact on the price for which a business sells.

Desmond (as cited in Pratt et al., 1998) stated, “There is substantial evidence that the terms of sale of a small business have a significant impact on the price” (p. 490). Most small businesses are sold on terms other than cash. In such cases, the seller usually accepts an installment sale arrangement over some period in addition to a down payment (Pratt et al., 1998). Pratt et al. explained, “The cash equivalency value of a small business sale transaction may be substantially lower than the announced deal price” (p.

465). Such a situation can happen when (a) the terms are for restricted stock in the acquiring company or (b) the terms on an installment sale are for an interest rate that is below the market rate of interest as is often the case (Pratt et al., 1998). Miles (1993) concluded the following based on his study in which he used the IBA database:

It can be argued that, for a number of reasons, a business sold for all cash should bring a higher price than if it were sold for terms . . . . Empirical data seems to conflict with the conventional wisdom. One likely explanation is that, although there is a relationship between selling price and terms of payment for a business, the relationship is not a strong one, and is masked by other factors affecting selling price. (p. 8)

The impact of liquidity on the value of private businesses is outlined below in the discussion of discounts for lack of marketability.

**Discounts and premiums.** Business appraisers calculate and apply various discounts and premiums to private company valuations. Pratt (2001) explained that “the purpose of a discount or premium is to make an adjustment from some base value. The adjustment should reflect the differences between the characteristics of the subject interest (the interest being valued) and those of the base group” (p. 2). Pratt further explained that “these differences in characteristics create differences in risk, either to the entity or to its owners, whether the differences arise from contingent liabilities, lack of control, lack of marketability, or some other factor” (p. 2).

The two major types of discounts are (a) discount for lack of marketability and (b) discount for lack of control. Both types of discounts apply to private company valuations in many situations. According to Trugman (2002), “A lack of control discount is a

reduction in the control value of the appraisal subject that is intended to reflect the fact that a minority stockholder cannot control the daily activities or policy decisions of an enterprise” (p. 366). The discount for lack of marketability (DLOM) is the discount of particular interest in the current study and is discussed next.

**Discount for lack of marketability.** According to Pratt et al. (1998), “All other things being equal, an ownership interest in a small business or professional practice is worth more if it is readily marketable” (p. 446). Pratt et al. asserted that marketability has to do with “how quickly can the ownership interest be converted to cash at the business owner’s discretion” (p. 446). Trugman (2002) stated, “A discount for lack of marketability (DLOM) is used to compensate for the difficulty of selling shares of stock that are not traded on a stock exchange compared with those that can be traded publicly” (p. 370).

Cash equivalent values account for the difference between the face value of a transaction on terms and the equivalent cash value of the transaction. Cash equivalent values provide another clue as to the effect of the financing decision on the sale price of a company. Cash equivalent values reflect the time, costs, and risks attendant to achieving such a sale (Pratt et al., 1998, p. 463).

Pratt et al. (1998) further stated, “With respect to the ownership characteristics of assets, the terms marketability and liquidity are sometimes interchangeable” (p. 447). Investors in publicly traded companies are able to liquidate their investment (a) immediately, (b) with little cost, and (c) with a high degree of certainty of being able to obtain the bid price for the security. Such liquidity is an important feature of the U.S. securities markets. Pratt et al. cited empirical evidence that suggests that “investors are



willing to pay a high premium for this level of liquidity. Conversely, investors extract a high discount relative to actively traded securities for stocks or other investment interests that lack this high degree of liquidity” (p. 448).

Mercer (2001) made the same point pertaining to illiquidity, stating, “It is generally accepted that the markets exact a price (i.e., a price reduction) for illiquidity” (p. 181). The form of financing can be a factor in the eventual sale price of a private company. As suggested by Pratt et al. (1998), “The liquidity of small business ownership interests is further impaired by banks and other lending institutions’ unwillingness to accept them as loan collateral as they would accept public stock” (p. 448).

**Value drivers research is fragmented.** Ample literature exists supporting the notion that access to capital has an impact on the valuation of private firms. Many other factors also influence value. It is difficult to determine the other value drivers because the discussion of value drivers in the literature is fragmented.

As Kazlauskienė and Christauskas (2008) noted, “The aspect of establishing the impact of value drivers on business value is complex, little investigated and demands more detailed research” (p. 23). Pratt et al. (1998) commented on the general lack of empirically supported studies documenting the factors that affect private company valuations, stating, “It is not possible, with the data currently available, to completely explain the relative impact of the various influences that cause privately owned business acquisitions to trade at much lower price/earnings multiples than publicly traded company acquisitions” (p. 469). Pratt et al. suggested that the literature on value drivers is lacking by stating, “Additional research on this point [the lower price/earnings multiples] is clearly warranted” (p. 469). Commenting on the lack of a uniform system

of value driver classification, Kazlauskienė and Christauskas (2008) stated, “Taking into account value influencing drivers, mentioned by the authors analyzing business valuation issues, we miss a uniform approach towards these drivers as well as their classification” (p. 25).

**Categories of value drivers.** The review of the literature showed that researchers studying value drivers tend to place value drivers into several broad categories. One of the most often cited categorizations of value drivers is based on the shareholder value method of business valuation. The founder of the method is Rappaport (1998). According to Rappaport, “Business value depends on the seven financial value drivers that have been emphasized throughout this book: sales growth, operating profit margin, incremental fixed capital investment, incremental working capital investment, cash tax rate, cost of capital, and value growth duration” (p. 171).

Other authors including Mills and Print (1995), Akalu (2002), Tallau (2009), and Losbichler, Mahmoodi, and Rothboeck (2008) have used the shareholder value approach or other similar approaches in discussing value drivers. Some authors have discussed value drivers in operational terms. As discussed by Kazlauskienė and Christauskas (2008), Rappaport (1998) divided drivers into three separate groups: operational, investment, and financial. Scarlett (2001) added a fourth group called intangible drivers.

R. S. Kaplan and Norton (1996) divided value into the following categories: financial, purchasers, internal, and innovations. Ittner and Larcker (2001) divided value into the following groups: (a) financial, (b) purchasers, (c) employees, (d) operational, (e) quality, (f) alliances, (g) supply, (h) environment, (i) innovations, and (j) society. Damodaran (2002) developed a value creation model that describes idle money flow,

capital cost, and expected growth period influences as giving rise to an enterprise's value creation (i.e., such factors are the value drivers that create value).

Authors such as Lev (2001) showed that nonfinancial drivers can create value in business enterprises. Nonfinancial drivers include goodwill, patents, copyrights, and other forms of intellectual property. The current section incorporates several of the main categories of value drivers, but many other classifications exist.

**Differences from other studies.** The review of the literature revealed the discussion of business value drivers and their effect on business valuation in the scholarly literature is fragmented, and no unified approach exists for the identification and classification of such drivers. Substantial need exists for further study of drivers in the area of business and in other areas of public and private company valuation and finance. The current research on value drivers for publicly and privately held businesses was different in two important ways from other studies. The first difference was that the purpose of the study was to generate a theory of value drivers using a grounded theory approach. The second difference was that the study included the Delphi method research design to explore the nature of and establish a classification system for value drivers, using input from valuation experts in a structured communication process.

### **Assumptions**

The first set of assumptions pertained to value drivers. It was assumed that there are variables called value drivers, that these variables create value in business enterprises, and that it can be determined what these variables are. It was also assumed that the characteristics of value drivers can be determined and that value drivers can be put into

categories. It was further assumed that there are some value drivers that are more important than others and that the value drivers can be ranked by importance.

It was assumed that the Delphi panel would be composed of people capable of identifying value drivers, the characteristics of value drivers, and the other important factors relating to value drivers as discussed in the preceding paragraph. It was further assumed that the Delphi panel would understand the purpose of the study, understand the questionnaires and the Delphi process, and would be able to produce the intended outcomes of the study. Finally, it was assumed that a high enough percentage of the members of the Delphi panel would remain on the Delphi panel and participate in the study through the completion of the Delphi study.

It was assumed that the Delphi questionnaires would effectively collect information that pertained to the study. It was also assumed that the Delphi panel would respond to the questionnaires in an appropriate manner (e.g., they would give due consideration to the questions, would answer the questions in a manner reflecting their true beliefs, and would not be experiencing fatigue and trying to rush through the questions). Lastly, it was assumed that those people not participating on the panel (i.e., those that did not return the questionnaire when invited to participate on the panel) or who did not stay on the panel through completion of the study would not be critical to the outcome of the study.

It was assumed that the literature review would provide a sufficient basis to initially form the theory of value drivers. It was also assumed that the Delphi study would modify and enhance the theory of value drivers. Finally, it was assumed that the results of this study would fill the void in the existing literature and contribute to

informing practice in the fields of (a) public and private company valuation, (b) private company characteristics, (c) private company financing, (d) private capital markets theory, and (e) business brokerage as it pertains to value drivers and their effect on valuation.

### **Scope of the Study**

The purpose of the qualitative study was to explore the effect of business value drivers on the valuation of publicly and privately held businesses in the U.S. and to propose a theory of value drivers. Six areas of interest exist in the literature review: (a) value drivers, (b) private company financing, (c) public and private company valuation, (d) business brokerage, (e) the nature and characteristics of private companies, and (f) private capital markets theory. The study pertained to value drivers for businesses of all sizes. The study only pertained to companies that are domiciled in the U.S., but the results might apply to companies domiciled in other countries. Some of the literature reviewed applied to companies domiciled in countries other than the U.S.

### **Limitations and Delimitations**

The greatest anticipated externally imposed limitation on the study was the focus on companies domiciled in the U.S. Future studies should include consideration of companies domiciled in countries other than the U.S. The greatest anticipated researcher imposed delimitation was the time and cost involved in conducting the study. Access to industry organizations facilitated the collection of information.

### **Summary**

The purpose of the current qualitative study was to explore the effect of business value drivers on the valuation of businesses in the U.S. and to propose a theory of value

drivers. The Delphi method was the research design in the study. According to Linstone and Turoff (2002), “Delphi may be characterized as a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem” (p. 3).

The study included the use of the grounded theory approach in order to derive a theory of value drivers using the literature as the data source. A review of the literature revealed the discussion of business value drivers and their effect on business valuation is fragmented, and no unified approach exists for the identification and classification of such drivers. The study filled the void in the existing literature on value drivers through the proposal of a theory of value drivers.

The results of the study contributed to the scholar-practitioner-leader paradigm by filling the void in knowledge that exists in the scholar and practitioner literature on (a) public and private company valuation, (b) business brokerage, (c) private company characteristics, (d) private capital markets theory, and (e) private company financing as it pertains to value drivers and their effect on valuation. The next chapter includes a review of the literature on value drivers. Creswell (2005) argued that, “A literature review is a written summary of journal articles, books, and other documents that describes the past and current state of information, organizes the literature into topics, and documents a need for the proposed study” (p. 79).

## **Chapter 2: Review of the Literature**

A direct and important relationship exists between the value of a firm and the firm's value drivers. Value drivers create the value of the firm. As noted by Kazlauskienė and Christauskas (2008), "Since business value changes with the change of influencing drivers, the analysis of drivers that have impact on business value becomes urgent" (p. 23). Because of the direct and important relationship between value and value drivers, it is necessary to study both topics in order to fully understand the importance of value drivers. Chapter 2 includes a review of the literature on value drivers and a review of some important literature on valuation. The information in chapter 2 addresses three main questions:

1. What is value?
2. How is value measured?
3. What are the drivers of value?

The focus of chapter 2 is on the three questions as well as other topics pertaining to value, valuation, and value drivers.

There are a total of 338 references, with 107 of those references, or 32%, being written in the last 5 years (i.e., in 2007 or later). It was decided to include the earlier references because many of them are germinal works or provide other benefits to the scholarship of the study.

### **Interrelated Fields of Study**

As discussed in chapter 1, several fields of study have a bearing on and are affected by value drivers for businesses. The fields of study include (a) private company financing, (b) public and private company valuation, (c) business brokerage, (d) the

nature and characteristics of private companies, and (e) private capital markets theory.

The current chapter includes a discussion of these fields.

The fields of study that pertain to value drivers are interrelated. The interrelationship can be described by the concept of triangulation found in private capital markets theory (Slee, 2004). Under Slee's concept of triangulation that describes the relationship among capitalization, business transfer (i.e., business brokerage), and valuation, the following specific relationships apply:

1. Business value is directly affected by the company's access to capital and the transfer methods selected by or available to the owner.
2. Capitalization is dependent on the value world in which the company is viewed and the availability of transfer methods.
3. The ability to transfer a business interest is conditioned by its access to capital and the value world in which the transfer takes place. (Slee, 2004, p. 18)

Theories and methods developed for the public company arena have influenced (a) the development of theories and methods for private company valuation and (b) the theories leading to an understanding of the value drivers that affect private company valuation. Furthermore, the inverse relationship exists. The historical discussion that follows includes many of the significant historical events in the public and private arenas.

### **Historical Overview**

The historical overview of the literature includes some of the significant historical events and milestones of (a) value drivers, (b) private company financing, (c) public and private company valuation, (d) business brokerage, (e) the nature and characteristics of private companies, and (f) private capital markets theory. The discussion of the events



and milestones takes place in chronological order and is not separated by field of study. The material is presented chronologically to give a more complete overview of the historical context in which the development of the literature for the interrelated fields of study occurred. The discussion begins with the period before year 1920.

**Before 1920.** The oldest known valuation was a real estate appraisal, and it can be found in the *Book of Genesis* (23:15), “The land is worth 400 shekels” (Trugman, 2002, p. 1). In the first century BC, Publius Syrus, a Latin writer of maxims, wrote, “Everything is worth what its purchaser will pay for it” (Trugman, 2002, p. 1). In 1890, the economist Alfred Marshall established the concept of economic profit. According to Copeland, Koller, and Murrin (2000), Marshall wrote, “What remains of his [the owner or manager’s] profits after deducting interest on his capital at the current rate may be called his earnings of undertaking or management” (p. 143).

According to researchers at Columbia University, in the public securities markets in the early part of the last century, valuation of publicly traded securities was not a common practice. “In the early 20th century, investors were guided mostly by speculation and insider information” (“Value Investing History,” 2009, para. 2). Siegel (2002) noted, “Throughout the nineteenth century, stocks were deemed the province of speculators and insiders but certainly not conservative investors” (p. 73). In 1919, Arthur Stone Dewing published the first edition of his book, *Financial Policy of Corporations*. In the book, Dewing specified capitalization rates ranging from 10% to 100% for the valuation of corporate securities (Trugman, 2002). There were many important developments that occurred after the year 1920 as is discussed in the following sections.

**Between 1920 and 2007.** The United States Treasury Department issued Appeals & Review Memorandum ARM 34 in 1920. The release was issued as a means of valuing the intangible value of existing breweries and distilleries that was lost as a result of Prohibition (Trugman, 2002). In 1925, Ralph A. Badger wrote *Valuation of Industrial Securities*, a frequently quoted work on required rates of return classified by risk (Trugman, 2002).

Columbia Business School professors Benjamin Graham and David Dodd wrote *Security Analysis* in 1934. In the book, the authors laid the foundation for modern security analysis. The authors discussed financial analysis and common stock valuation. B. Graham began teaching his “reason-based approach” (para. 3) to investing detailed in the book, *Security Analysis*, at Columbia Business School in 1928 (“Value Investing History,” 2009). In 1937, James C. Bonbright wrote *Valuation of Property*. Passages from the book are often quoted in court opinions, and the book includes several chapters pertaining to businesses and securities (Trugman, 2002).

In his 1938 book, *The Theory of Investment Value*, John Burr Williams established the foundation for the principle of future benefits, one of the guiding principles of modern business valuation (Trugman, 2002). J. B. Williams set out to establish a new theory on investment value in *The Theory of Investment Value*. J. B. Williams stated the following in the book preface:

To outline a new sub-science that shall be known as the Theory of Investment Value and that shall comprise a coherent body of principles like the Theory of Monopoly, the Theory of Money, and the Theory of International Trade, all branches of the larger science of Economics, is the first aim of this book. (p. vii)

In laying the foundation for the principle of future benefits, J. B. Williams (1938) wrote, “Let us define the investment value of a stock as the present worth of all the dividends to be paid upon it” (p. 55). The practical significance for the investor of establishing the investment value of a security is to provide the investor a critical value above which one should not buy a security. The concept made J. B. Williams, in effect, one of the first value stock analysts. J. B. Williams wrote,

If a man buys a security *below* its investment value he need never lose, even if its price should fall at once, because he can still hold for income and get a return above normal on his cost price; but if he buys it above its investment value his only hope of avoiding a loss is to sell to someone else who must in turn take the loss in the form of insufficient income. (p. viii)

*The Intelligent Investor* (Graham, 1973), written by *Security Analysis* (Graham & Dodd, 1934) co-author Benjamin Graham, was first published in 1949. The landmark book has served as a guide for investors over many decades and through several editions and printings. In 1952, the American Society of Appraisers was formed. The American Society of Appraisers is a multidisciplinary professional organization that, when formed, provided accreditation in several appraisal disciplines including intangible property as well as stock and business ownership (Trugman, 2002).

In 1952, Markowitz presented the portfolio model that has served as the basis for investment portfolio management through the present time. In his portfolio model, Markowitz “derived the expected rate of return for a portfolio of assets and an expected risk measure” (Reilly, 1994, p. 242), the risk measure being the variance of a portfolio. The idea was important because, as Reilly noted, “this formula for the variance of a

portfolio not only indicated the importance of diversifying your investments to reduce the total risk of a portfolio, but also showed how to effectively diversify” (p. 242).

In 1958, Franco Modigliani and Merton Miller wrote their landmark article on capital structure entitled, “The Cost of Capital, Corporation Finance and the Theory of Investments.” In the article, Modigliani and Miller set out the Modigliani-Miller propositions on corporate finance that have been the source of much discussion and debate since their introduction. Revenue Ruling 59-60, an IRS guideline on valuing privately held stocks, was issued in 1959. Among other things, the revenue ruling established a definition of fair market value and set out the eight factors that should receive consideration when valuing a company (Trugman, 2002).

M. H. Miller and Modigliani published their germinal article on free cash flow, “Dividend Policy, Growth, and the Valuation of Shares,” in 1961. Members of the University of Chicago Center for Research in Security Prices (CRSP) first published data on the rates of return on the New York Stock Exchange in 1964. The data provided the empirical evidence for determining discount rates used in company valuations (Trugman, 2002).

William Sharpe (1964) wrote his landmark article, “Capital Asset Prices: A Theory of Market Equilibrium Under Conditions of Risk.” The paper provided a “compelling explanation of security pricing under the conditions of uncertainty [and] provided the crucial missing element” (Ellis & Vertin, 1989, p. 412) for the development of modern portfolio theory. Sharpe’s research became a foundational element in modern finance.

Revenue Ruling 68-609 was issued in 1968. Revenue Ruling 68-609 includes a detailed explanation of the excess earnings method for valuing intangibles (Trugman, 2002). The Institute of Certified Business Counselors (IBC) was formed in 1973 (Hoesly et al., 2005). In 1973, Malkiel wrote, *A Random Walk Down Wall Street*, in which he boldly stated, “The market prices stocks so efficiently that a blindfolded chimpanzee throwing darts at the *Wall Street Journal* can select a portfolio that performs as well as those managed by the experts” (Malkiel, 2003, p. 17).

In 1976, Roger Ibbotson and Rex Sinquefeld wrote “Stocks, Bonds, Bills, and Inflation: Year-by-Year Historical Returns (1926-74).” In the article, the authors “confirmed the superiority of stocks as long-term investments” (Siegel, 2002, p. 78). A later book written by Ibbotson Associates (2006) has been periodically updated and is frequently used in computing benchmark returns in the securities and money management industries.

The first professional organization in the U.S. for business valuation, The Institute of Business Appraisers (IBA), was formed in 1978. In 1981, the Business Valuation Committee of the American Society of Appraisers was formed upon recognition of business valuation as an appraisal specialty. In 1981, members of the American Institute of CPAs (AICPA) established the Management Advisory Services Division that is now known as the Consulting Services Division (Trugman, 2002).

In 1981, Shannon Pratt published the first edition of his landmark book on business valuation, *Valuing a Business*. In 1984, Ray Miles published his landmark book, *Basic Business Appraisal*. The Texas Association of Business Brokers (TABBB)

was formed in 1983, and in 1985, the International Business Brokers Association (IBBA) was formed (Hoesly et al., 2005).

Rappaport, who is considered the founder of shareholder value analysis (Kazlauskienė & Christauskas, 2008), wrote *Creating Shareholder Value: The New Standard for Business Performance* in 1986. In 1987, the Appraisal Foundation was formed. Members of the Appraisal Foundation created the *Uniform Standards of Professional Appraisal Practice (USPAP)* that includes standards pertaining to real estate and business valuation. In 1989, the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) was passed; among other provisions, it required all federally related real estate appraisals to be performed in accordance with USPAP (Trugman, 2002).

The M&A Source was formed in 1991 to serve the needs of IBBA business brokerage members involved in larger business brokerage transactions (Hoesly et al., 2005). In 1991, *The Quest for Value* (Stewart, 1991) was published. Stewart laid the foundation for economic value added (EVA) and other important concepts that financial analysts, corporate managers, business consultants, and others use widely.

In 1994, Jeremy Siegel wrote the first edition of *Stocks for the Long Run*. Siegel has contributed to the longstanding assertion that stocks are a superior investment to other financial assets. Siegel (2002) stated,

My research definitively showed that over long periods of time, the returns on equities not only surpassed those on all other financial assets but also that stock returns were far safer and more predictable than bond returns when measured in terms of purchasing power. (p. xix)

On December 5, 1996, in a speech to the American Enterprise Institute in Washington, District of Columbia (D.C.), Federal Reserve Chairman Alan Greenspan asked the question,

How do we know when irrational exuberance has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade? And how do we factor that assessment into monetary policy? (Greenspan, as cited in Siegel, 2002, p. 81)

Greenspan's speech gave rise to the term *irrational exuberance* that has become so common. The National Association of Certified Valuation Analysts (NACVA) was formed in 1991. In 1997, members of AICPA created a specialty designation known as Accredited in Business Valuation (ABV) (Trugman, 2002). Important developments have occurred in the early part of the twenty-first century as will be discussed in the following section.

**Post 2007.** According to Loud (2009), the fundamentals underlying some value drivers have changed since the Dow Jones Industrial Average (DJIA) hit its record high of more than 14,000 in October 2007. Loud (p. 35) believed that events in 2008 and 2009 such as the Lehman Brothers bankruptcy, gas prices reaching record-high levels, Fannie Mae and Freddie Mac being placed in government conservatorship, and politicians' fervently debating bailout plans have wreaked havoc on typical value drivers. The typical value drivers that he refers to include the costs of equity and debt capital, pricing multiples, transaction activity, and growth expectations.

In the late 20th and early 21st century, a shift occurred in the way business is conducted and the economy operates. One of the most profound changes is an overall

shift from the use of manual labor to the use of intellectual capital. Former Federal Reserve Chairman Alan Greenspan noted in a 2001 speech to the National Association for Business Economics, “Over time, and particularly during the last decade or two, an ever-increasing share of GDP has reflected the value of ideas more than material substance or manual labor input” (Greenspan, as cited in Kalafut & Low, 2001, p. 9).

Another major shift has been the increased globalization. Sussland (2007) called the new arena the “global village” and noted that the shift to globalization has presented management with “an unprecedented set of opportunities and problems” (p. 221). Gupta and Govindarajan (2004) observed, “Two intertwined considerations are driving managers to make such [global] decisions on an increasing basis: one, globalization is becoming increasingly feasible; two, globalization is becoming increasingly desirable” (p. 6).

A third major shift that has occurred is the move to a *new economy*. As Sweet (2001) observed, “Innovation in information technology (IT) and new business practices facilitated by IT are forging a ‘new’ economy” (p. 70). Sweet observed that given the decline of valuations and the increased rate of failures of ‘dot-com’ businesses, the microeconomic or firm-level workings of the new economy are not clear-cut, nor is their relation to the emerging macroeconomic landscape clear.

### **Private Capital Markets Theory**

Private capital markets theory is a new and ongoing development that arose to fill the void in the body of knowledge pertaining to private capital markets. According to Trottier (2004), “Although tens of thousands of individuals practice in the middle market, scant academic attention is paid to this area” (p. xxiii). Trottier stated that private capital



markets theory is an “integrated body of knowledge that applies to valuation, capitalization, and transfer of private companies” (p. xxiii). Slee (2004) commented, “Just what are the private capital markets? They are the venues where debt and private equity investment are made, and private business interests are exchanged. Valuation is a common language uniting the private capital markets” (p. 1). The effect that value drivers have on the valuation of both public and private enterprises is one of the main themes in the study.

Trottier (2004) pointed out that private capital market theory derives from meta-financial theories. Meta theories are broad, all-encompassing theories. Lower-level theories, methods, and tools are derived from meta theories. In the case of the capital markets, corporate finance theory and private capital markets theory are siblings that derive from the same theoretical parent, meta-financial theories. A contention of private capital markets theory supporters is that “corporate finance theory does not predict behavior in the private capital markets” (Slee, 2004, p. 449). According to Slee, “Corporate finance theories were created to predict and explain behavior in the public markets” (p. 5).

**Triangulation and the three-legged stool.** Valuation, capitalization, and concepts pertaining to the transfer of private companies are important elements in private capital markets theory. Slee (2004) suggested the concept of triangulation is a useful way to integrate the elements of private capital market theory. The private capital markets theory triangle has three sides: capitalization, transfer, and valuation. Borrowing from the concept of triangulation found in navigation and civil engineering, it is possible to determine one side of a triangle based on knowledge of the other two sides.

The same principle applies to private capital markets. Understanding two of the sides of the private capital markets triangle can lead to understanding the third side. Slee (2004) related triangulation to triadic logic, “which describes private capital markets theory using a three-legged conceptual stool. In other words, private valuation can only be understood relative to capital/transfer, capitalization must be viewed relative to the impact of valuation/transfer, and transfer is influenced by capitalization/valuation” (p. 15).

## **Valuation**

The current section contains a discussion on various aspects of valuation. Topics include the definitions of (a) value, (b) approaches to valuation, (c) benefit streams, (d) discount and capitalization rates, and (e) discounts and premiums. This begins the more detailed discussion of valuation necessary to understand its relation to value drivers.

**Definitions of value.** According to Trugman (2002), “The term value has many different meanings in the valuation field” (p. 57). The various definitions of value, or “standards of value” (p. 57) as they are known in the appraisal literature, include fair market value, fair value, investment value, and intrinsic value (Trugman, 2002). Pratt et

al. (1998, p. 21) explained that value differences arise partly because of differing expectations among different buyers and sellers. A more common reason, though, is that the legal definition of value being sought and the various courts' precedent-setting interpretations of that legal definition vary from one legal context to the next.

One common concept and term for value is intrinsic value (e.g., Buffett, 1996; Cottle, Murray, & Block, 1988; Hooke, 1998; Trugman, 2002; Wendee, 2000). Buffett stated, "Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life" (p. 11). Another important concept in business appraisal is the "premise of value" (Trugman, 2002, p. 57). The premise of value pertains to whether the business is being valued as a going concern or as an enterprise that is being liquidated (Trugman, 2002). The various definitions and concepts could be considered value drivers in and of themselves because they affect the value of a particular business enterprise.

**Economic and financial analysis.** As a part of the valuation process, business valuation analysts conduct a review of the economic and industry conditions affecting a business. The analysts review and make adjustments to the financial statements of the business. Pratt et al. (1998) asserted that various qualitative factors and characteristics of the business, industry, and economy exist. The factors affect the future of the company and whether organizational performance will be consistent with past results. A thorough analysis of the factors assists the analyst in assessing the company's ongoing earning power. Analysts normalize the financial statements of a business. As Pratt et al. noted, "The starting place . . . is to adjust the financial statements so that they reflect a best

estimate of economic reality. Making these adjustments is often referred to as ‘normalizing’ the financial statements” (p. 96).

**Three approaches to valuation.** Three approaches constitute standard practice in business valuation: (a) the market approach, (b) the asset-based approach, and (c) the income approach (Loud, 2009; Pratt et al., 1998; Trugman, 2002). Each approach has multiple techniques for valuing a business. The three approaches are usually used together in business valuations.

**Market approach.** The market approach is based on the principle of substitution, meaning that if two assets have identical attributes, the investor would favor the one with the lowest price (Trugman, 2002). The market approach is the most direct approach for establishing fair market value, and it most frequently involves use of (a) the guideline public company method, (b) the transaction method, and (c) the industry method (i.e., the “rule of thumb,” p. 158, method) (Trugman, 2002). The guideline public company method involves the use of market multiples (e.g., price-to-earnings and price-to-sales multiples) of publicly traded companies as a tool to value private companies (Trugman, 2002). When multiples of comparable public companies are obtained, they are applied to the private company to obtain a value.

The transaction (i.e., merger and acquisition) method is another of the techniques included in the market approach. “The transaction method allows the appraiser to locate sales of businesses in the same or similar industry for the purpose of applying the market approach” (Trugman, 2002, p. 221). With the transaction method, people can use public or private company data, and “the price is that of the entire company instead of a share of stock” (Trugman, 2002, p. 221) as is the case with the guideline public company method.

Finally, the industry method exists under the market approach and includes various “rules of thumb” (p. 255) in determining the value of a business (Trugman, 2002). Trugman cautioned that people should not rely solely on the industry method to determine the value of a business. Trugman further noted that the industry methods are an important part of the valuation process and that, if enough transactions take place using a particular method, the market data will support the use of the method. One popular source of rules of thumb is Tom West’s *Business Reference Guide* (2007), a guide business brokers often use to price businesses that they wish to sell or buy.

***Asset-based approach.*** In the asset-based approach (i.e., the “cost approach” or the “replacement-cost approach” (p. 257), each component of the business, including liabilities, is valued separately (Trugman, 2002). All of the assets and liabilities are totaled, and the total liabilities are subtracted from the total assets to determine the value of the business (Trugman, 2002). Three methods exist within the asset-based approach: (a) the adjusted book value method, (b) the liquidation value method, and (c) the cost to create method. In the adjusted book value method, all of the assets and liabilities are adjusted to reflect their fair market value (Trugman, 2002).

In the liquidation method, the costs of liquidation and the time value of money are considered. Costs of liquidation include commissions, legal and accounting costs, taxes, and administrative costs. Use of the liquidation method is most common when an actual liquidation is contemplated (Trugman, 2002). The third method in the asset-based approach is the cost to create method. The cost to create method is similar to the adjusted book value method, but it includes the values of intangibles (Trugman, 2002).

***Income approach.*** The income approach accounts for the earnings capacity of the business to be valued. Various definitions of earnings capacity (i.e., income) exist. Some examples include (a) net income after tax; (b) free cash flow; and (c) earnings before interest, taxes, depreciation, and amortization (EBITDA). Such income streams are sometimes known as “benefit streams” (Trugman, 2002, p. 281).

The capitalization method, or the discount method, facilitates the conversion of a business’ earnings or income streams into a value for the business. Trugman (2002) defined the capitalization method as “a single-period valuation model that converts a benefits stream into value by dividing the benefits stream by a rate of return that is adjusted for growth” (p. 281). Trugman noted that with the capitalization model, the income stream is assumed to be received into perpetuity.

According to Trugman (2002), the discounting model is “a multiple-period valuation model that converts a future series of benefit streams into value by discounting them to present value at a rate of return that reflects the risk inherent in the benefits stream” (p. 282). Unlike the capitalization model, the discounting model forecasts a stream of future income and then discounts that stream back to present value (Trugman, 2002). J. B. Williams (1938) established the foundation for the principle of future benefits that lies at the heart of the income approach.

The fundamental theory is that “the value of an investment is equal to the sum of the present values of the future benefits it is expected to produce for the owner of the interest” (Trugman, 2002, p. 282). It is not truly an income approach, but the excess earnings method is included here because it involves the capitalization of a benefit

stream. The excess earnings method is a method for valuing intangible assets (Taliento, 2006; Trugman, 2002).

**Benefit streams.** A benefit stream represents an income stream or some form of financial return to investors. No consensus exists on the appropriate benefit stream to use in the various valuation methodologies. Trugman (2002) suggested that many factors contribute to the use of a benefit stream, and the factors are somewhat similar to the factors used to determine pricing multiples. Trugman recommended paying particular attention to factors such as (a) the nature of the business and its capital structure, (b) the purpose and function of the appraisal, and (c) the subject of the valuation (i.e., whether one is valuing a controlling interest or a minority interest).

Stern, in writing the preface to the classic book on valuation, *The Quest for Value* (as cited in Stewart, 1991), emphasized the use of free cash flow (FCF) in valuation. Free cash flow is a concept that Stern claimed to have invented in the 1960s. Stern defined FCF as “distributable cash from operations over a firm’s life” (as cited in Stewart, 1991, pp. xxii-xxiii). Stern elaborated further on FCF,

FCF is cash from operations that is available or attributable to both lenders and shareholders. In other words, it is the cash that is ‘free’ for distribution to investors after *all* investments have been financed. Thus, when it is discounted to a present value at the firm’s cost of capital, FCF is the foundation of any firm’s market value. (As cited in Stewart, 1991, p. xviii)

M. H. Miller and Modigliani suggested that the market capitalizes (a) earnings, (b) cash flow, (c) dividends, and (d) investment opportunities in arriving at a firm’s market value (Stewart, 1991). Stewart suggested using net operating profits after taxes

(NOPAT) in the valuation of firms. Madden (1999) used a measure called “net cash receipt (NCR)” (pp. 14-15) in calculating the value of a firm.

Hooke (1998) supported the use of dividends in calculating the intrinsic value of a firm. Copeland et al. (2000) emphasized free cash flow and economic profit in the valuation of firms. Damodaran (1996) described several cash flows that represent benefit streams: (a) equity, (b) firm, (c) pretax, (d) posttax, (e) nominal, and (f) real.

**Discount and capitalization rates.** The current section contains a discussion of discount and capitalization rates. These are important tools used in the valuation of businesses. As will be seen, they are related to each other in a number of ways.

**Discount rate.** A discount rate is known in the financial literature as a required rate of return. According to Trugman (2002), a discount rate is “a yield rate used to convert expected future receipts into present value. The rate of return represents the total rate of return expected by the market, the rate necessary to attract capital to the subject investment” (p. 324).

Discount rates incorporate an assessment of the risk inherent in a particular investment. The components of the discount rate are (a) the risk-free rate, (b) an equity risk premium, and (c) a specific company risk premium (Trugman, 2002). Several techniques exist for deriving the discount rate. Three of the most common techniques are (a) the buildup method, (b) the capital asset pricing model, and (c) the weighted average cost of capital method (Trugman, 2002).

The buildup method leads to the development of the discount rate through use of the discount rate components (i.e., the risk-free rate, an equity risk premium, and a specific company risk premium) (Trugman, 2002). The use of the capital asset pricing



model is common in the valuation of larger companies. According to Trugman, “It has little, if any, applicability to small and medium-sized businesses” (p. 335). The capital asset pricing model derives a discount rate through the consideration of (a) the risk free rate, (b) the “systematic” (pp. 336-337) or market-related risk, and (c) the specific risk of the company as it pertains to the market (expressed by beta) (Trugman, 2002).

The weighted average cost of capital method (WACC) is “a combination of (1) the required rate of return on the equity of the company and (2) the required rate of return on the debt of the company” (Trugman, 2002, p. 341). The theoretical basis for the use of the WACC method is the following: The risks inherent in each element should receive consideration in the development of the discount rate because companies are financed with both debt and equity (Trugman, 2002).

***Capitalization rate.*** Subtracting the growth rate from the discount rate produces the capitalization rate. Trugman (2002, p. 344) explained that a capitalization rate is the rate which is used to convert a single period benefit stream into an indication of the fair market value of the property or asset. The capitalization rate is the required rate of return for an income-generating asset from which the anticipated growth rate has been subtracted.

**Discounts and premiums.** Business appraisers calculate and apply various discounts and premiums to apply to private company valuations. Pratt (2001) explained that the purpose of a discount or premium is to make an adjustment from some base value which reflects the differences between the characteristics of the interest being valued and those of the base group. The differences in characteristics create differences in risk. The

differences in risk may arise from contingent liabilities, lack of control, lack of marketability, or other factors.

It is important to understand the type of value estimate derived by the various valuation methods in order to know what type of discount or premium to apply. Trugman (2002) gave the example that if the guideline company method was used to value a controlling interest in a closely held company, the result from applying the guideline company method is a marketable, minority interest. Accordingly, a control premium would be added to bring the minority value to a control value. Next, a discount for lack of marketability would be applied to bring the value from a marketable control value to a nonmarketable control value.

Several different discounts and premiums exist in business valuation. Trugman (2002) gave the following examples: (a) control premium, (b) lack of control (i.e., minority) discount, (c) discount for lack of marketability, (d) small company discount, (e) discount from net asset value, and (f) key person discount. The two most common types of discounts are (a) the discount for lack of marketability, and (b) the discount for lack of control. Both types of discounts apply to private company valuations in many situations.

***Lack of control (minority) discount.*** A lack of control discount is applied to reflect the fact that a minority stockholder cannot control the daily activities or policy decisions of an enterprise (Trugman, 2002). Trugman observed, “A control premium is the opposite of the minority discount” (p. 359). Trugman further explained, “The pro rata value of a controlling interest in a closely held company is said to be worth more than the value of a minority interest because of the prerogatives of control that generally follow the controlling shares” (p. 359).

***Discount for lack of marketability (DLOM).*** According to Pratt et al. (1998), “All other things being equal, an ownership interest in a small business or professional practice is worth more if it is readily marketable” (p. 446). Pratt et al. said that marketability has to do with “how quickly can the ownership interest be converted to cash at the business owner’s discretion” (p. 446). Trugman (2002) stated, “A discount for lack of marketability (DLOM) is used to compensate for the difficulty of selling shares of stock that are not traded on a stock exchange compared with those that can be traded publicly” (p. 370). Researchers have conducted various studies to provide data for determining the DLOM. Trugman stated, “The most common sources of data for determining an appropriate level of a DLOM are studies involving restricted stock purchases or initial public offerings” (p. 370).

***Other discounts and premiums.*** Other discounts and premiums exist that are often applied in business valuation. Cash equivalent values, for example, can give rise to other discounts or premiums. Cash equivalent values account for the difference between the face value of a transaction on terms and the equivalent cash value of the transaction. Cash equivalent values provide an important clue as to the effect of the financing decision on the sale price of a company. Pratt et al. (1998) stated, “It seems reasonable to make an adjustment from the estimated (but uncertain) sale value of the subject controlling business interest at some undetermined time in the future to a cash equivalent value as of the valuation date” (p. 463).

Pratt et al. (1998) stated, “With respect to the ownership characteristics of assets, the terms marketability and liquidity are sometimes interchangeable” (p. 447). Investors in publicly traded companies are able to liquidate their investment (a) immediately, (b)

with little cost, and (c) with a high degree of certainty of being able to obtain the bid price for the security. Such liquidity is an important feature of the U.S. securities markets. Pratt et al. explained that “investors are willing to pay a high premium for this level of liquidity. Conversely, investors extract a high discount relative to actively traded securities for stocks or other investment interests that lack this high degree of liquidity” (p. 448). Mercer (2001) made the same point regarding illiquidity by stating, “It is generally accepted that the markets exact a price (i.e., a price reduction) for illiquidity” (p. 181).

The form of financing (e.g., debt or cash) to acquire a business is another example of a situation in which discounts or premiums can apply. In certain circumstances, the form of financing can be a factor in the eventual sale price and value of a private company. As suggested by Pratt et al. (1998), “The liquidity of small business ownership interests is further impaired by banks and other lending institutions’ unwillingness to accept them as loan collateral as they would accept public stock” (p. 448).

### **Framework for Value Drivers**

**Background.** A unified approach to value driver analysis does not exist. Kazlauskienė and Christauskas (2008) argued that, “Scientific literature which analyzes business valuation problems provides various approaches on factors that have influence on business value” (p. 25). One framework that researchers have used to analyze the effects of value drivers on business valuation is the discounted cash flow model framework (Arnold & James, 2000; Berkman & Bradbury, 1998; Bosch, Montllor-Serrats, & Tarrazon, 2007; Damodaran, 2002; Ganchev, 2000; Kazlauskienė &

Christauskas, 2008). In his book on valuation, Damodaran used the discounted cash flow framework “to explore the requirements for an action to be value creating” (p. 832).

The discounted cash flow framework is an appropriate framework to use because, according to Damodaran (2002), “the value of a firm is the present value of the expected cash flows from both assets in place and future growth, discounted at the cost of capital” (p. 832). Damodaran maintained that for an action to be value creating, it must do one or more of the following: (a) increase the cash flows generated by existing investments, (b) increase the expected growth rate in earnings, (c) increase the length of the high-growth period, and (d) reduce the cost of capital that is applied to discount the cash flows.

Damodaran (2002) argued that, “An action that does not affect cash flows, the expected growth rate, the length of the high growth period, or the cost of capital cannot affect value” (p. 832). Damodaran made the following important point: “While this might seem obvious, a number of value-neutral actions taken by firms receive disproportionate attention from both managers and analysts” (p. 832). A primary reason for the current research was to provide a better understanding of the value drivers that have the most significant effect on value so that managers, analysts, and others can better manage and analyze firms.

**The discounted cash flow model.** Before proceeding, it is necessary to describe the basic discounted cash flow model. Damodaran (2002) observed, “There are literally thousands of discounted cash flow models in existence” (p. 12). The focus of the current discussion is the basic discounted cash flow model that most finance textbook authors discuss. The study did not include any of the variations of the basic discounted cash flow model.

The purpose of using the discounted cash flow model is to try to estimate the intrinsic value of a business or other investment (Damodaran, 2002). The intrinsic value of a business or other investment can be defined, in both a theoretical and practical sense, as the present value of the future cash flows of the business or investment. To determine the intrinsic value, the expected future cash flows of a business or other investment are discounted back to the present at an appropriate discount rate (Wendee, 2000).

The formula for determining intrinsic value is shown below along with an example. The estimation of the factors that determine the intrinsic value is complex and requires an understanding of financial and investment theory as well as experience in analyzing businesses and in making the estimates and calculations. In practice, the intrinsic value of a business or investment is often estimated using other techniques and methodologies in addition to the discounted cash flow technique described (Wendee, 2000).

The general formula or model for the calculation of the intrinsic value of a business or investment is as follows (Reilly, 1994; Wendee, 2000):

$$V_j = \frac{C_1}{(1+k)} + \frac{C_2}{(1+k)^2} + \frac{C_3}{(1+k)^3} + \dots + \frac{C_\infty}{(1+k)^\infty} = \sum_{t=1}^{\infty} \frac{C_t}{(1+k)^t}$$

where:

$V_j$  = value of business  $j$  or investment  $j$   
 $C_t$  = cash flow during period  $t$   
 $k$  = required rate of return on business  $j$  or investment  $j$

The simple bank account can illustrate the concept of intrinsic value. If someone puts \$100 into a bank account that pays 5%, and the money is kept in the bank account for 1 year, the account would be worth \$105 at the end of the year. If the calculation is reversed, it is easy to see how the intrinsic value is calculated. If the bank promises to pay \$105 one year from now, and the interest rate on bank account is 5%, it is possible to determine the intrinsic value of the bank account is \$100 (Wendee, 2000).

In the bank account example, the number of periods ( $n$ ) is 1; the future value (FV) is \$105; the interest rate ( $i$ ), also known as the discount rate or required rate of return, is 5%; and the present value (PV), which is defined here as the intrinsic value, is \$100 (Wendee, 2000). Instead of calculating each cash flow and discounting it to its present value for an indefinite period of time, as shown above, analysts usually calculate a terminal value at some time in the future and discount the terminal value to its present value. The terminal value can be calculated as follows:

$$\text{Terminal value}_t = \text{Cash flow}_{t+1}/(k-g)$$

In such a case,  $g$  is equal to the stable growth rate of the business or other investment. Combining the two approaches for using the discounted cash flow model to estimate the value of a firm, the discounted cash flow model becomes the following (Damodaran, 2002):

$$V_j = \sum_{t=1}^{t=n} \frac{C_t}{(1+k)^t} + \frac{\text{Terminal Value}_n}{(1+k)^t}$$

The above formulation of the discounted cash flow model will be used when dealing with the decomposition of the discounted cash flow model.

### **Value Drivers**

The focus of the study was value drivers. Value drivers are a part of the valuation component of the private capital markets theory triangle. A discussion of private capital markets theory and the private capital markets theory triangle can be found in the section on private capital markets theory. Value drivers are a component of the valuation models used in public company valuation (Damodaran, 2002, 2006; Hooke, 1998).

Value drivers can be defined as any variable that influences the value of an enterprise (Kazlauskienė & Christauskas, 2008). Value drivers can be positive or negative (Damodaran, 2002; Groenendaal, as cited in Kazlauskienė & Christauskas, 2008; Maas & Graf, 2008). Some actions that enterprise leaders take are value neutral and have no effect on the organization's value (Damodaran, 2002).

Many scholars debate which value drivers are important and how the drivers should be classified (Kazlauskienė & Christauskas, 2008). A purpose of the current study was to bring the various schools of thought together into a unified classification system and to propose a theory of value drivers. The following section includes a discussion of some of the major schools of thought on value drivers.



**Value drivers research is fragmented.** Many factors influence value.

Determining the value drivers is difficult because the discussion of value drivers in the literature is fragmented. As Kazlauskienė and Christauskas (2008) noted, “The aspect of establishing the impact of value drivers on business value is complex, little investigated and demands more detailed research” (p. 23).

Few researchers have conducted empirically supported studies documenting the factors that affect private company valuations. Pratt et al. (1998) argued that, “It is not possible, with the data currently available, to completely explain the relative impact of the various influences that cause privately owned business acquisitions to trade at much lower price/earnings multiples than publicly traded company acquisitions” (p. 469). Pratt et al. suggested that the literature on value drivers is lacking and argued that, “Additional research on this point [the lower price/earnings multiples] is clearly warranted” (p. 469). Commenting on the lack of a uniform system of value driver classification, Kazlauskienė and Christauskas (2008) stated, “Taking into account value influencing drivers, mentioned by the authors analyzing business valuation issues, we miss a uniform approach towards these drivers as well as their classification” (p. 25). Pratt et al. (1998) asserted many factors drive or impact value for private companies. Some of the more important value drivers include (a) buyer/seller motivations; (b) type of industry; (c) the circumstances of a particular transaction; (d) size of the business; (e) persistence of the customer, supplier, and employee base; (f) ease of entry into the business; (g) licenses, franchise agreements, and permits; and (h) competition.

**Value drivers specific to a sale.** In addition to looking at the value drivers that influence a going concern which is remaining in control of its current owners, other

factors can have a great impact on value when selling a business. Two examples are (a) access to capital and (b) liquidity of the market. Both factors have a direct impact on the pricing of a company offered for sale and the timing of putting the company on the market. As Slee (2004) noted, “The availability of capital to finance private transactions is a driving force behind private acquisition multiples” (p. 189).

Marks et al. (2005) indicated the availability of capital from a supply and demand perspective can affect private company valuations. Marks et al. suggested that a possible strategy in financing is to find ways to fund the enterprise on a short-term basis as a bridge to more permanent financing. Terms of the sale can have a significant impact on the price at which a business sells.

Desmond (as cited in Pratt et al., 1998) argued that, “There is substantial evidence that the terms of sale of a small business have a significant impact on the price” (p. 490). Most small businesses are sold on terms other than cash. In such cases, the seller usually accepts an installment sale arrangement over some period in addition to a down payment (Pratt et al., 1998). According to Pratt et al., “The cash equivalency value of a small business sale transaction may be substantially lower than the announced deal price” (p. 465).

Such a situation can happen when (a) the terms are for restricted stock in the acquirer or (b) when the terms on an installment sale are for an interest rate that is below the market rate of interest as is often the case (Pratt et al., 1998). Miles (1993) conducted a study using the IBA database and stated,

It can be argued that, for a number of reasons, a business sold for all cash should bring a higher price than if it were sold for terms . . . . Empirical data seems to

conflict with the conventional wisdom. One likely explanation is that, although there is a relationship between selling price and terms of payment for a business, the relationship is not a strong one, and is masked by other factors affecting selling price. (p. 8)

The section on discounts for lack of marketability (DLOM) includes a discussion of the impact of liquidity on the value of private businesses.

**Categories of value drivers.** The review of the literature revealed that researchers studying value drivers generally placed value drivers into several broad categories. The current section includes a review of some of the major categories identified through the literature review. The objective of the current section is to begin to review and place value drivers into ex ante categories before (a) the Delphi study takes place and (b) the members of the Delphi panel consider the classification of value drivers (i.e., the ex post results). The results will lead to the formulation of the theory of value drivers in conjunction with using the grounded theory approach.

***Shareholder value method.*** One of the most often cited categorizations of value drivers (e.g., McCarthy, 2004; Mills, 1995; Mills & Print, 1995; Ratnatunga & Montali, 2008; Reimann, 1990; Schaltegger & Figge, 2000; Scribbins, 1994; Shukla, 2009) is based on the shareholder value method of business valuation. The founder of the method is Rappaport (1998). The shareholder value method is the first categorization to be discussed because it forms the basis for the theory of value drivers, along with the other discounted cash flow (DCF) models and methods proposed by Kazlauskienė and Christauskas (2008) and Damodaran (2002).

Because of its popularity and significance for enhancing the potential value of business enterprises, researchers have conducted extensive studies and discussions on the shareholder value approach (e.g., Walters, 1997). Other researchers have elaborated on components of the shareholder value model in their discussions (e.g., Kim, Lim, & Park, 2009). According to Rappaport (1998), “Business value depends on the seven financial value drivers that have been emphasized throughout this book: sales growth, operating profit margin, incremental fixed capital investment, incremental working capital investment, cash tax rate, cost of capital, and value growth duration” (p. 171).

Rappaport (1998) further noted, “The ‘shareholder value approach’ estimates the economic value of an investment by discounting forecasted cash flows by the cost of capital. These cash flows, in turn, serve as the foundation for shareholder returns from dividends and share-price appreciation” (p. 32). Other authors (e.g., Akalu, 2002; Losbichler et al., 2008; Mills & Print, 1995; Petty, 1993; Tallau, 2009) have used the shareholder value approach or other similar approaches in discussing value drivers. Akalu (2002), for example, stated, “The SV [shareholder value] approach is centered on a number of value drivers. The term value driver is coined for those economic variables that are critical to revenue and cost functions of a firm” (p. 2). Akalu (2002) also explained that, “Researchers vary as to the number of these value drivers; for instance, five (Ruhl and Cowen, 1990), six (Moskowitz, 1988), and seven (Rappaport, 1998; Mills & Print, 1995; Mills et al., 1992). Turner (1998) has identified eight value drivers” (p. 2).

Mills and Print (1995) contrasted shareholder value analysis (SVA) and EVA analysis and noted that “both SVA and EVA are approaches that can be used to measure

the potential financial benefit (or loss) to shareholders from pursuing strategic options like acquiring, divesting and/or restructuring” (p. 1).

**Value-based management.** Closely related to the concept of shareholder value is the concept of value-based management (VBM) that several authors have discussed (e.g., Cant, 2006; Karr, 1993; McTaggart, Kontes, & Mankins, 1994; Miller & Mathisen, 2004; Miller, Mathisen, & McAllister, 2004; Walters, 1997). Scarlett (2001) defined VBM as follows: “VBM is an approach to management whereby the company’s overall aspirations, analytical techniques, and management processes are aligned to help the company maximize its value by focusing management decision-making on the key drivers of shareholder value” (p. 2). The concepts of (a) SVA, (b) EVA, (c) business process re-engineering, (d) the use of the balanced scorecard, (e) activity-based costing and activity-based management, (f) total quality management, (g) just-in-time production systems, (h) benchmarking, and (i) supply chain management are all parts of value-based management (Scarlett, 2001).

**Operational drivers.** Some authors have discussed value drivers in operational terms (e.g., Reidenbach & Goeke, 2006b; Tracy & Knight, 2008). As discussed by Kazlauskienė and Christauskas (2008), Rappaport divided drivers into three separate groups: (a) operational, (b) investment, and (c) financial. Scarlett (2001) added the fourth group of intangible drivers. R. S. Kaplan and Norton (1996) divided value drivers into the following categories: (a) financial, (b) purchasers, (c) internal, and (d) innovations. Ittner and Larcker (2001) divided value drivers into the following groups: (a) financial, (b) purchasers, (c) employees, (d) operational, (e) quality, (f) alliances, (g) supply, (h) environment, (i) innovations, and (j) society. Damodaran (2002) developed a value

creation model that describes (a) idle money flow, (b) capital cost, and (c) expected growth period influences as giving rise to an enterprise's value creation (i.e., the value drivers that create value).

***Financial and non-financial drivers.*** Some authors (e.g., Bartov, Mohanram, & Seethamraju, 2002; Berger, 2002; Darrough & Ye, 2007; Demers & Lev, 2001; Graham, Cannice, & Sayre, 2002; Kelly, 2007; Krauter, 2007; Laitinen, 2004; Lev, 2001; Thompson, 2005; Zambon & Bello, 2005) demonstrated the existence of nonfinancial drivers that can create value in business enterprises. Nonfinancial drivers include goodwill, patents, copyrights, and other forms of intellectual property.

O. Tcheremnich (as cited in Kazlauskienė & Christauskas, 2008) defined financial drivers as drivers that are “given in monetary expression” and nonfinancial drivers as drivers “not having financial expression” (p. 25). O. Tcheremnich suggested dividing drivers into the categories of (a) internal (i.e., pertaining to a particular enterprise) and external (i.e., pertaining to the external environment) and (b) quantitative (i.e., measured in figures) and qualitative (i.e., not measured in figures). The measurement of financial drivers often includes the use of ratio analysis (e.g., Altman, 1967, 1968a, 1968b, 1993; Altman & Spivack, 1983; Burns, Sale, & Stephan, 2008).

***Intangibles.*** The study of intangibles has gained extensive interest in the last few years (see Lieberman & Anderson, 2008). According to Lev (2001), “An intangible asset is a claim to future benefits that does not have a physical or financial (a stock or a bond) embodiment” (p. 5). Lev noted that intangible assets can be “a patent, a brand, and a unique organizational structure (for example, an Internet-based supply chain) that generate cost savings are intangible assets” (p. 5).

Because of the extensive interest in the study of intangibles, numerous authors have discussed intangibles from many different perspectives (e.g., Fris & Gonnet, 2006; Lin & Tang, 2009; Moeller, 2009). Some authors have combined the analysis of value drivers with other approaches (e.g., Jhunjhunwala, 2009; Linzalone, 2008). One area pertaining to the study of intangible assets is the area of knowledge assets; many researchers have studied and written about knowledge assets (Andreou, Green, & Stankosky, 2007; Green, 2006a, 2006b, 2006c, 2007a, 2007b, 2008; Marr, Schiuma, & Neely, 2004a). Green and Ryan (2005) evaluated the integration of intangible assets and business strategy.

Several scholars have studied and written about measuring and benchmarking intangible assets (e.g., Canibano, Garcia-Ayuso, & Sanchez, 2000; Hussein & Seow, 2002; Kalafut & Low, 2001; Lieberman, 2003; Marr, 2007; Millman, 2002; Tsai & Hua, 2009). Several researchers have attempted to categorize intangible assets into a framework (e.g., Diefenbach, 2006). Some researchers have studied intangible assets as they pertain to companies outside the U.S. (e.g., Chareonsuk & Chansa-ngavej, 2008; Moeller, 2009; Watters, Jackson, & Russell, 2006).

Other investigators have studied the valuation of initial public offerings (IPOs) that are full of intangible assets (e.g., Guo, Lev, & Zhou, 2005). Pike, Roos, and Marr (2005) reviewed the role of intangible assets in value creation in research and development (R&D) organizations, further representing the diversity of studies in the field of intangible assets. Intangible assets have been the source of a great deal of controversy (e.g., Basu & Waymire, 2008; Ittner, 2008; Lev, 2008; Wyatt, 2008).

***Intellectual capital.*** Some authors argued that intellectual capital and intangibles are one and the same. In his book on intangibles, Lev (2001) used the terms (a) intangibles, (b) knowledge assets and (c) intellectual capital interchangeably. Lev observed, “All three are widely used—intangibles in the accounting literature, knowledge assets by economists, and intellectual capital in the management and legal literature—but they refer essentially to the same thing: a nonphysical claim to future benefits” (p. 5). Lev noted, “When the claim is legally secured (protected), such as in the case of patents, trademarks, or copyrights, the asset is generally referred to as intellectual property” (p. 5).

Many authors have focused on the notion of intellectual capital as a separate concept from intangible assets (e.g., Bukh, Nielsen, Gormsen, & Mouritsen, 2005; Cheng, Lin, Hsiao, & Lin, 2008; Mouritsen, Bukh, & Marr, 2004; Pyszka, Zollakau, & Wolff, 2002). Some authors have focused their attention on using intangibles and intellectual capital to improve company performance (e.g., Andreou & Bontis, 2007; Choong, 2008; Kim & Kumar, 2009; Nazari & Herremans, 2007; Schiuma & Lerro, 2008; Vergauwen, Bollen, & Oirbans, 2007). Others have focused on the value creation aspects of intellectual capital (e.g., Ashton, 2005; Boedker, Guthrie, & Cuganesan, 2005; Bose & Oh, 2004; Housel & Nelson, 2005; Liang & Lin, 2008).

Some scholars have focused on the valuation of the intellectual capital asset (e.g., Bose & Thomas, 2007). One author (Schneider, 2007) examined the possibility of transferring the intellectual capital approach from the corporate level to the national level. Another group of researchers (Young, McManus, & Canale, 2005) examined the measurement of human capital in the hospitality industry. Measuring and benchmarking



intangible assets is another common topic that Marr (2004, 2008) has covered extensively. Marr et al. (2004a, 2004b) explored the importance of mapping intellectual value drivers and pointed out flaws in the balanced scorecard approach.

***Competitive advantage.*** Competitive advantage is a value driver that business researchers mention often in the literature (e.g., Calandro & Lane, 2007; Enders, König, Hungenberg, & Engelbertz, 2009; Matthyssens & Vandenbempt, 1998; Mauboussin & Johnson, 1997; Pan & Chen, 2004; Porter, 1983, 1996, 1998a, 1998b; Samavi, Yu, & Topaloglou, 2009; Stuckey, 2008). Porter (1980) is one of the best known proponents of the competitive advantage approach. The approach pertains to the various ways that enterprise leaders can gain a competitive advantage for their organization.

Porter (1985) stated,

Competitive advantage cannot be understood by looking at a firm as a whole. It stems from the many discrete activities a firm performs in designing, producing, marketing, delivering, and supporting its product. Each of these activities can contribute to a firm's relative cost position and create a basis for differentiation.  
(p. 33)

***Value chain.*** Some authors (e.g., McPhee & Wheeler, 2006; Porter, 1985; Ruggles, 2006; Samavi et al., 2009) discussed value drivers in the context of the value chain. Porter described the value chain as follows: "The value chain disaggregates a firm into its strategically relevant activities in order to understand the behavior of costs and the existing and potential sources of differentiation. A firm gains competitive advantage by performing these strategically important activities..." (pp. 33-34).

***Business strategy.*** The review of the literature revealed a number of differing discussions and perspectives on business strategy as it pertains to value drivers. One line of discussion includes strategic reasoning about business models. Samavi et al. (2009) believed that businesses have to be able to recognize and respond strategically to disruptive change and answer questions about their business model such as

1. What are the threats and opportunities in emerging technologies and innovations?
2. How should they target customer groups?
3. Who are their real competitors?
4. How will competitive battles take shape?

Other researchers (e.g., Calandro, 2009; D’Andrea, Lopez-Aleman, & Stengel, 2006; Frolick & Ariyachandra, 2006; Grundy & Brown, 2005; Jackson, 2007; Miller & Galeaz, 2007; Sweet, 2001; “The Benefits of Managing for Value,” 2004) have examined business strategy as a value driver in more general terms.

***Human resources and human capital.*** An important category of value drivers comprises human resources and human capital management. Pfau and Cohen (2003) showed the importance of human capital to an organization and proposed a value driver model. Pfau and Cohen observed that, “Despite strong evidence that human capital significantly affects shareholder returns, many organizations are not maximizing employees’ contributions to the bottom line” (p. 177).

The value driver model that Pfau and Cohen proposed provides a “framework for identifying the potential contributions each position can make to the organization. By doing so, the model helps managers and employees better align their work with the business objectives of the organization—a critical need for every company” (p. 177).

Namasivayam and Denizci (2006) considered human capital from an intellectual capital perspective. Gebauer (2003) created a system of human resources accounting. Various other authors have examined human resources and human capital from a number of other perspectives (e.g., Hiles, 2009; Lorber, 2009a, 2009b; MacDonald & Colombo, 2001; Welpe, Lutz, & Barthel, 2007; White, 2009; Young et al., 2005).

***Customer relation management and value creation.*** Creating customer value is a value driver. Maas and Graf (2008) stated, “Delivery of customer value (CV) is considered the fundamental basis of marketing activities and an effective source of competitive advantage in promoting profit growth and ensuring long-term success” (p. 107).

Many authors have shown the importance of customer value analysis and creation (e.g., Blanchard & Bowles, 1993; Child et al., 1995; Foehn, 2004; Heimers, Kupp, & Reitz, 2006; Johnson, 2003; Kennedy, 2004; Kothari & Lackner, 2006; Lapierre, 2000; Marriott & Brown, 1997; Morgan, 2008; Pan & Chen, 2004; Rusoff, 2007; Sanborn, 2004; Tallau, 2009; Todd, 2009; Verma & Plaschka, 2003). Desarbo, Jedidi, and Sinha (2001) created a statistical approach for performing customer value analysis. Lawer and Knox (2006, 2007) discussed a concept known as customer advocacy. According to Lawer and Knox (2006), “By assisting consumers to find and execute their optimum solution in a given market, it will be easier for an organisation to earn their long-term trust, purchases and loyalty” (p. 121).

***Economic value added.*** The concepts of value added (EVA) (Stern, Stewart, & Chu, 2001; Stewart, 1991) and cash flow return on investment (CFROI) (Madden, 1999) are measurement systems designed to assess a manager’s level of performance and the

overall performance of a firm. Having such systems in place within an enterprise is an important value driver. According to Stewart,

The one performance measure to account properly for all of the ways in which corporate value may be added or lost is economic value added (EVA). EVA is a residual income measure that subtracts the cost of capital from the operating profits generated in the business. (p. 118)

Many authors have written about EVA from many different perspectives. Some works are entire books or parts of books on EVA (e.g., Fabozzi & Grant, 2000; Grant, 1997; Stern & Hutchinson, 2004; Stewart, 1991; Young & O'Byrne, 2001). Some authors focused their articles on different approaches to EVA (e.g., Adsera & Vinolis, 2003a, 2003b; Krauter, Basso, & Kimura, 2004). One author, Jung (2008, p. 700), took the concept of economic value added into two different tiers of a business organization – operations and top management. By doing so, operations and management can be evaluated from two different business dimensions – ROS and asset turnover.

**Cash flow return on investment (CFROI).** A competing metric to EVA is cash flow return on investment (CFROI). The Boston Consulting Group and HOLT Value Associates promote CFROI (Scarlett, 2001). Madden (1999) described the CFROI method of valuation in detail. According to Scarlett, “CFROI: Compares inflation-adjusted cash flows to inflation-adjusted gross investments to find cash flow return on investment” (p. 4).

**Balanced scorecard.** The balanced scorecard (Kaplan & Norton, 1992, 1996, 2004, 2007, 2008; Ratnatunga & Montali, 2008) is a value creation tool or value driver. According to Huang, Chu, and Wang (2007), “The balanced scorecard helps managers

understand the interrelationships and causal effects among the various aspects. This understanding further enables managers to remove the functional barriers and ultimately improves their capabilities in decision making and problem solving” (p. 1113). The balanced scorecard has become a popular management tool. In addition to R. S. Kaplan and Norton, numerous authors have written on the practical uses and implementation of the balanced scorecard (e.g., Decoene & Bruggeman, 2006; Pettus, 2006).

**Management science.** Some authors (e.g., Chang, Yen, Huang, & Hung, 2008; Samavi et al., 2009; Van Mieghem, 2004) discussed value drivers in the context of management science. According to Monahan (2000), management science is important because “management is decision making” (p. 1), and management science helps in decision making. Anderson, Sweeney, and Williams (1979) explained, “Management science is a broad discipline which includes all rational approaches to managerial decision making that are based upon an application of scientific methodology” (p. 1).

**Six sigma.** Some authors (e.g., Axtman, 2006; Reidenbach & Goeke, 2006a, 2006b) have argued that Six Sigma is a value driver. Pyzdek and Keller (2009) stated, Six Sigma is a rigorous, focused, and highly effective implementation of proven quality principles and techniques. Incorporating elements from the work of many quality pioneers, Six Sigma aims for virtually error-free business performance. Sigma,  $\sigma$ , is a letter in the Greek alphabet used by statisticians to measure the variability in any process. A company’s performance is measured by the sigma level of their business processes. Traditionally companies accepted three or four sigma performance levels as the norm, despite the fact that these processes created between 6,200 and 67,000 problems per million opportunities! (p. 3)

Pyzdek and Keller noted that “the Six Sigma standard of 3.4 problems-per-million opportunities is a response to the increasing expectations of customers and the increased complexity of modern products and processes” (p. 3).

***Supply chain, purchasing, suppliers, and buyers.*** According to Scarlett (2001), “Supply chain management (SCM) . . . is a broad concept that seeks to unify the planning and control of materials, services, production and technologies along a whole supply chain from material source to end customer” (p. 123). Several authors identified in the literature review discussed SCM (e.g., Crichton & Gallery, 2004; Losbichler et al., 2008; Samavi et al., 2009; Scribbins, 1994; Yang, Kwon, Rho, & Ha, 2003). Supply chain management has both inter-company and intra-company aspects (Scarlett, 2001, p. 123).

***Business alliances.*** Vergauwen, Roberts, and Vandemaele (2009) discussed the importance of business alliances. Vergauwen et al. asserted, “Partnerships and alliances have become an important strategic choice in today’s business environment . . . . However, the high popularity of alliances is connected to an equally high failure rate” (p. 239). Vergauwen et al. found that the relationship between behavioral attributes and alliance performance is important as follows: “The managerial implications resulting from these findings are that, if managers want to fully exploit the potential of business partnerships, they will have to consider intangible performance in terms of human, customer, and structural capital” (p. 251).

***Information technology (IT).*** Many researchers view information technology as an important value driver. One aspect of information technology is a concept known as virtual worlds (VW). Cagnina and Poian (2009) discussed the implications of VW, stating, “VWs appear to create new opportunities for integrating the business of the firm

with information technology . . . VVs are platforms that make it possible to identify non-monetary sources of value” (p. 68).

Wagner and Weitzel (2007) conducted a study “to identify core IT value drivers in firms and to model them as an IT production function to help disclose and measure the IT value creation process and to guide managers in seeking adequate ways of employing the IT resource” (p. 380). McIvor, O’Reilly, and Ponsonby (2003) conducted a study to examine “the impact of Internet technologies on value creation in the airline industry” (p. 31). According to McIvor et al., “Four notable value drivers in the aviation context are identified, namely, efficiency, complementarities, lock-in and novelty” (p. 31).

***E-business.*** E-business is a critical value driver. In discussing the results of their study, Rapp, Rapp, and Schillewaert (2008) stated, “The results also clearly suggest that value creation is associated with service firms’ implementation of e-business technologies” (p. 36). Rapp et al. also stated that their “findings provide empirical evidence that e-business implementation is indeed associated with the four pillars of value creation (i.e., novelty, lock-in, complementarities, and efficiency)” (p. 36). A basic concept of e-business is to have the customer participate in part of the service delivery through electronic means. J.-S. C. Lin, Jang, and Chen (2007) stated, “Rising operation costs encourage service firms to consider service delivery options that allow customers to perform part of the service themselves electronically” (p. 224).

***Strategic business units.*** Some researchers believe thinking in terms of strategic business units is an important value driver. McKinsey & Company developed an analytical tool called the “market-activated corporate strategy (MACS) framework” (Gluck, Kaufman, Walleck, McLeod, & Stuckey, 2000, p. 17). According to Gluck et al.,

“Like the old nine-box matrix, MACS includes a measure of each business unit’s stand-alone value within the corporation, but it adds a measure of a business unit’s fitness for sale to other companies” (p. 17).

One of the earlier models for strategy and strategic business units is the nine-box matrix developed at McKinsey. According to Coyne (2008),

The nine-box matrix offers a systematic approach for the decentralized corporation to determine where best to invest its cash. Rather than rely on each business unit's projections of its future prospects, the company can judge a unit by two factors that will determine whether it's going to do well in the future: the attractiveness of the relevant industry and the unit’s competitive strength within that industry. (p. 1)

**Miscellaneous categories of value drivers.** Several categories of value drivers received limited attention in the literature. Such categories are discussed in the following sections. While they received only limited attention in the literature, they might actually be quite important as value drivers. They were included in the Delphi study for the expert panel to consider.

***Corporate real estate ownership.*** Brounen, Colliander, and Eichholtz (2005) conducted a study to assess the effects of corporate real estate ownership on the stock performance of firms. The firms studied were active in the international retail sector. According to Brounen et al., “In general, corporate real estate ownership for retail companies is associated with a strong relative performance, which contrasts markedly with the negative performance effects found for other industrial sectors” (p. 287).



***Risk in R&D projects.*** Patrick (2005) took a portfolio approach to risk in R&D projects and argued that the risk in any one R&D project should be considered in light of (a) what the project contributes in value to the corporation and (b) how its unique risk is diversified through other R&D projects that might be underway in the corporation. Investors know that some projects will succeed and others will fail. Investors are concerned with the overall value of the corporation, not the value and risk inherent in any one project.

***Sustainability and social responsibility.*** Several authors have shown how corporate social responsibility (CSR) has been gaining importance as a topic of study (e.g., Baron, Harjoto, & Jo, 2009; Blake, 2006; Keane, 2009; Parisi & Hockerts, 2008; Zambon & Bello, 2005; Zweig, 2009). Weber (2005) assessed the sustainability policies (i.e., policies pertaining to environmental impact) of European banks and financial service organizations. Weber found that firms with sustainability policies performed as well or better than their peer organizations with no such policies. Zambon and Bello stressed that social and environmental policies including sustainability and corporate governance are important value drivers.

***Licensing deals.*** K. Arnold et al. (2002) conducted a study to assess the value of licensing technologies. The authors examined the value of the negotiator in licensing deals. Licensing deals, in general, and the role of the negotiator, in particular, were found to have positive value.

***Risk management and enterprise risk management.*** Risk management and enterprise risk management are sometimes considered to be sources of value creation. Segal (2006) defined enterprise risk management (ERM) as “the process by which

organizations assess, control, exploit, finance, and monitor risks from all sources for the purpose of increasing short-and long-term value for stakeholders” (p. 16). K. Williams (2001) noted, “Many companies still don’t realize that how they approach risk management can create and sustain or destroy shareholder value” (p. 19).

***Tax structuring in mergers and acquisitions (M&A) deals.*** The way in which mergers and acquisitions (M&A) deals are structured can be a source of value creation. Neuhaus and Brauchli (1999) noted that an acquisition or a merger “can only be successful if it is carefully planned. The planning has to include commercial, financial, legal and tax considerations. It is too often the case that the tax advisors are involved only at a very late stage” (p. 63). Neuhaus and Brauchli believed that “this should be changed because taxes can be deal breakers. If tax problems are being recognized at an early stage and then solved, the tax structuring may be a real value driver” (p. 63).

***Firm credibility.*** Zhang and Rezaee (2009) noted, “Prior research suggests that corporate credibility is associated with firm financial performance in developed countries” (p. 221). Zhang and Rezaee conducted a study to examine the relationship between corporate credibility and firm performance in emerging markets. The authors observed, “Results confirm that firms with high credibility exhibit better financial and market performance at least in the following 3 years” (p. 221). Dowling (2006) presented a paper on how corporate reputations can enhance the intrinsic value of a firm.

***Brand equity.*** It can be argued that brand equity is an important value driver and should be included in an earlier section rather than in the current section on miscellaneous value drivers. Brand equity is included in the current section because only two specific references to brand equity were found in the literature review. Costa and

Evangelista (2008) stated that a “company’s brand is an intangible activity of recognized value, which must be carefully managed. Excellent brands are characterized by the ability to involve their own consumers in a lasting relationship, based on trust and rich of symbolic and emotional value” (p. 69). More (2008) noted the importance of branding along with other benefits that can be offered by rights holders in observing that there is a “widespread perception that sponsorship is simply placing a logo on an athlete’s clothing or on the outside of a stadium. Rights holders need to look beyond branding to determine all the other benefits that they can offer to sponsors” (p. 68).

**Franchise value.** Leibowitz (2004) stated, “A firm’s growth derives from new projects having returns that provide a positive franchise spread above the COC [cost of capital]” (p. 5). In his works on sales-driven franchise value, Leibowitz (1997, 2000) detailed how price, not cost, is the ultimate driver of a superior margin. Leibowitz (1997) summarized the approach as follows:

In a global environment, any one company's cost advantage from geographical locale, cheaper labor, or more-efficient production sites can always be replicated, in time, by a sufficiently strong competitor with access to today's free-flowing financial markets. Thus, the ultimate key to a superior margin will be price, not cost. High-value firms will be those that can develop and/or sustain a sales-driven franchise with premium pricing across a range of product markets. The incremental pricing margin beyond that available to a "new commodity competitor"- one who would be content to earn only the cost of capital - is the "franchise margin." (p. 43)

***Social capital.*** Smedlund (2008) stated, “The term social capital is a concept introduced by social economists. The concept tries to connect inter-personal social relationships to the creation of economic value” (p. 65). Smedlund argued that knowledge has different value creation logics, with each different value creation logic needing a different kind of social infrastructure in order to be converted into value. Codified explicit knowledge assets (e.g., customer databases) can be turned into value by implementing them in production. Tacit knowledge assets (e.g., professional knowledge) can be turned into value by transferring them and sharing them with others within the organization. Potential knowledge assets (e.g., the reception of a new technology) can be converted into value by creating the right infrastructures to utilize this knowledge (p. 64).

***Knowledge sharing.*** According to Sveiby (2007), “In 1992 James B. Quinn identified the sharing of knowledge as a crucial value-driver in organisations because of its unique characteristic compared to other assets of a firm: it grows most – and usually exponentially – when shared” (p. 1636). Serenko, Bontis, and Hardie (2007) concurred with such a notion by stating, “The importance of knowledge sharing in organizations is without question and clearly evident in the academic and practitioner literature” (p. 611). This view would be shared by Senge (2004, 2006). Senge (2004) stated, “there is a kind of collective thinking and acting that goes on when any organization is really at its best” (p. 22).

***Strategic market position.*** Jackson (2007) stated, “Increase the overall Strategic Market Position (SMP) for your business unit or company and you will increase your ability to achieve higher profitability and growth, and unlock hidden value” (p. 1). Jackson further asserted that SMP is a “proven and highly effective tool for creating

value. It is founded on the assumption that not all growth is good - in fact, that some growth actually destroys value. SMP helps companies identify the difference and respond accordingly” (p. 1).

***Corporate communications and relationships.*** Corporate communications and relationships are regarded by many as key value drivers. Phillips (2006b) maintained, “Relations with social groups, including shareholders, customers, employees and vendors among other stakeholders are pivotal to generating wealth and optimizing long-term shareholder value” (p. 34). Other authors (e.g., Argenti, 2006; Kordha & Elmazi, 2009; Phillips, 2006a; Zweig, 2009) have explored the importance of corporate communications and have reached similar conclusions.

***Financial strategy.*** Mallette (2006) regarded financial strategy, which is the set of policies that determines such things as capitalization, the sourcing of funds, and distributions to shareholders, as a significant value driver. Mallette stated that financial strategy “has a significant impact on a company’s ability to invest for value creation, provides important signals to the investment community, and can capture for shareholders the value created in the company” (p. 11). Anonymous (2000) discussed the importance of reducing capital costs, another financial strategy, to create value.

***Business architecture.*** Business architecture can be an important value driver. According to Jones (2004), “Value creation takes place at three stages: input, conversion, and output. Each stage is affected by the environment in which the organization operates. Inputs include human resources, information and knowledge, raw materials, and money and capital” (p. 2). Jones (2004) further explained that “the way an organization chooses and obtains from its environment the inputs it needs to produce goods and services

determines how much value the organization creates at the input stage” (p. 3). As to conversion and outputs, Jones (2004) explained, “The way the organization uses human resources and technology to transform inputs into outputs determines how much value is created at the conversion stage” (p. 4). In summary, Jones (2004) stated, “The amount of value the organization creates is a function of the quality of its skills, including its ability to learn from and respond to the environment” (p. 4). What Jones (2004) described is, in essence, the result of business architecture.

Versteeg and Bouwman (2006) provided another view of business architecture as follows:

We use the concept of 'Business Architecture' to structure the responsibility over business activities prior to any further effort to structure individual aspects (processes, data, functions, organization, etc.). The business architecture arranges the responsibilities around the most important business activities (for instance production, distribution, marketing, et cetera) and/or economic activities (for instance manufacturing, assembly, transport, wholesale, et cetera) into domains. (p. 92)

***Business performance management.*** Several authors have discussed business performance management (BPM) as a value driver (e.g., Buytendijk, 2007; Frolick & Ariyachandra, 2006; Olsen et al., 2007; Paladino, 2007; Thompson, 2006). Frolick and Ariyachandra explained that business performance management is a consolidation of concepts such as data warehousing, business intelligence, and total quality management. Frolick and Ariyachandra stated, “This single integrated concept is focused on enhancing

corporate performance. BPM provides an opportunity to align operations to organizational strategy and evaluates its progress over time to goal attainment” (p. 47).

Buytendijk (2007) took a somewhat different approach to business performance measurement and observed that “measurement drives behavior. Unfortunately, most performance measurement initiatives overlook this fact. Implementations are performed top-down with strategy as the starting-point” (p. 20). Buytendijk (2007) took the view that, “There needs to be a better understanding of the cultural context of the metrics (What is driving the behaviors?) and a better understanding of what metrics are to define (How do we drive the right behaviors through measurement?)” (p. 20).

***Product development and commercialization (PD&C).*** McKinsey & Company has been a major developer of models and tools used in business. In yet another example of their ability to create tools of lasting value, McKinsey consultants Emptage, Walsh, Georgiadis, and Summa (1995) developed a “diagnostic tool that enables management to link PD&C value drivers with shareholder value creation for any specific project or portfolio of projects” (p. 180). Emptage et al. stated, “By linking potential shareholder value and PD&C, our diagnostic provides senior management with sound fact-based analysis to fuel the conviction they will need to drive a powerful change program” (p. 181).

***Real options theory.*** Some researchers and authors (e.g., Copeland et al., 2000; Damodaran, 2001; Jensen & Warren, 2001; Koller, Goedhart, & Wessels, 2005; Morin & Jarrell, 2001; Woolley & Cannizzo, 2005) have examined the use of real options theory in creating value for a firm. Real options theory can be a tool that gives value to an enterprise in and of itself as well as a tool used in valuing projects. As an example of

using real options theory, Jensen and Warren (2001) observed, “The early insight that Options Theory could be applied to non-financial, or real options...coupled with the realization that the real value of investing in research is the equivalent to the purchase of a real option...” (p. 173) led them and others to use Options Theory to value research.

***Executive decision making.*** A plethora of literature exists in the leadership studies field on the benefits and pitfalls of executive decision making. There is also a plethora of literature on how decision making can add or subtract value from a firm. Finkelstein, Whitehead, and Campbell (2008) addressed the subject of executive decision making in their book titled, *Think Again: Why Good Leaders Make Bad Decisions and How to Keep it From Happening to You*.

**Value drivers that negatively affect value.** From the literature review, it appears that some value drivers can have a negative effect on value. Most value drivers can have either positive or negative effects on value depending on the situation. Kazlauskienė and Christauskas (2008) noted, “When analyzing literature, it can be observed that majority of authors investigate value drivers in the aspect of their impact on the increase of value, however more interesting are the drivers that might negatively affect value” (Groenendaal, as cited in Kazlauskienė & Christauskas, 2008, p. 24).

Figge (2005) wrote about how value drivers can be impacted both negatively and positively, using investments in energy-efficient equipment as an example. “In most cases there will be conflicting impacts on the value drivers. A company that invests in energy-efficient equipment will have to invest first, resulting in a cash out-flow, to receive cash in-flows at a later stage” (Figge, 2005, p. 21).



Knittel and Stango (2009) detailed an example of how a previously positive value driver (i.e., the endorsement of a company's products by Tiger Woods) turned negative (i.e., the Tiger Woods scandal) and destroyed shareholder value. The researchers studied the effects of the Tiger Woods scandal on the shareholder value of the companies that Tiger Woods endorsed. Knittel and Stango stated, "We estimate that in the days beginning with Tiger Woods' recent car accident and ending with his announced 'indefinite leave' from golf, shareholders of companies that Mr. Woods endorses lost \$5-12 billion in wealth" (Abstract).

**Actions that have no effect on value (value neutral actions).** Some actions have no effect on value. Damodaran (2002) argued that, "An action that does not affect cash flows, the expected growth rate, the length of the high growth period, or the cost of capital cannot affect value" (p. 832). Damodaran gave four examples of such actions:

1. Stock splits and stock dividend, which change the number of units of equity but do not affect cash flows, growth, or value.
2. Accounting changes in inventory valuation and depreciation methods that are restricted to reporting statements do not affect tax calculations and so have no effect on cash flows, growth, or value.
3. In acquisitions, whether a firm adopts purchase or pooling accounting and the length of time to write off the goodwill, does not affect cash flows and should have no effect on value.
4. Firms that issue tracking stocks on high-growth divisions, but retain control of the division, have not created value. (pp. 832-833)

**Luck (randomness) as a value driver.** Some might argue that luck (i.e., randomness) is a value driver. Mlodinow (2008) and Taleb (2001) offered some insights into the phenomenon of luck as a value driver. In his book, *Fooled By Randomness: The Hidden Role of Chance in the Markets and in Life*, Taleb wrote,

This book is about luck disguised and perceived as non-luck (that is, skills) and, more generally, randomness disguised and perceived as non-randomness (that is, determination). It manifests itself in the shape of the *lucky fool*, defined as a person who benefited from a disproportionate share of luck but attributes his success to some other, generally very precise, reason. (p. 1)

Mlodinow observed the following:

When we look at extraordinary accomplishments in sports – or elsewhere – we should keep in mind that extraordinary events can happen without extraordinary causes. Random events often look like nonrandom events, and in interpreting human affairs we must take care not to confuse the two. Though it has taken many centuries, scientists have learned to look beyond apparent order and recognize the hidden randomness in both nature and everyday life. (p. 20)

Mlodinow noted,

Deciding just how much of an outcome is due to skill and how much to luck is not a no-brainer. Random events often come like the raisins in a box of cereal – in groups, streaks, and clusters. And although Fortune is fair in potentialities, she is not fair in outcomes. (p. 13)

The role of luck will be incorporated into the theory of value drivers in the current study because, as Mlodinow observed, “People systematically fail to see the role of chance in the success of ventures and in the success of people” (p. 199).

**Further reading.** Other readings of interest on topics pertaining to value drivers and valuation exist, but they are beyond the scope of the current study. Some of the readings include information on the following topics: (a) the use of expert systems with value drivers (Magni, Malagoli, & Mastroleo, 2006; Malagoli, Magni, Buttignon, & Mastroleo, 2009; Malagoli, Magni, & Mastroleo, 2007); (b) key performance indicators (KPIs) and strategic value drivers (Bauer, 2004); (c) business transformation projects (Abe et al., 2007); (d) the search for organic growth (Hess, 2007); (e) equity valuation using multiples (Liu, Nissim, & Thomas, 2002); (f) the role and nature of uncertainty in valuation (Mallinson & French, 2000); (g) whether fundamental values are reflected in stock prices (Gentry, Jones, & Mayer, 2004); (h) the role of macroeconomic factors in stock prices (Flannery & Protopapadakis, 2002); (i) the valuation of illiquid common stock (Dyl & Jiang, 2008); (j) a comprehensive approach to business valuation (Palepu, Healy, & Bernard, 2004); (k) a different approach and more intuitive approach to value drivers (Scott, 1998a, 1998b); (l) real estate valuation (Roubi & Litteljohn, 2004; Ventolo & Williams, 2001); (m) using financial theory to solve practical problems in corporate finance (Vernimmen, Quiry, Dallochio, Fur, & Salvi, 2009); and (n) an extensive discussion on the cost of capital (Pratt, 2002).

## **Summary**

The purpose of chapter 2 was to review the literature on important topics pertaining to value drivers. The chapter began with an historical review of significant

milestones and events in (a) private company financing, (b) public and private company valuation, (c) business brokerage, (d) corporate finance, (e) the nature and characteristics of private companies, (f) private capital markets theory, and (g) the study of value drivers. Another purpose of chapter 2 was to review the subject of valuation. Valuation is the science and art of determining a value for business enterprises. The topics covered under valuation included (a) the definitions of value, (b) the methods of valuation, (c) discount and capitalization rates, (d) discounts and premiums, and (e) benefit streams.

Chapter 2 included a review of a framework for value drivers, the discounted cash flow model (DCF), value drivers as they are discussed in the literature, and the beginnings of a classification scheme for value drivers. The goal of chapter 3 is to review the research methods used in the study. Chapter 3 begins with a general discussion on theory building followed by a review of the grounded theory research approach that was used to generate the theory of value drivers. Finally, the chapter contains a review of the Delphi method as the research design that was used to enhance the theory of value drivers and to confirm or modify the theoretical model of value drivers derived from the review of the literature.

### Chapter 3: Research Methods

The purpose of the current qualitative study was to use both the grounded theory approach and the Delphi method research design to explore the effect of business value drivers on the valuation of businesses in the United States (U.S.) and to propose a theory of value drivers. The central phenomenon to be investigated was value drivers for businesses. The central or primary research question for the study was as follows: *What are the value drivers for businesses in the United States, and how do they affect business value?*

Members of the study population formed a Delphi panel. The participants came from seven sources in a purposive sampling selection. The participants were business valuation experts who were members of the four main business valuation societies in the U.S.: The Institute of Business Appraisers (IBA), The National Association of Certified Valuation Analysts (NACVA), The American Institute of Certified Public Accounts (AICPA), and The American Society of Appraisers (ASA). The Delphi participants could also be professional securities analysts who were members of the CFA Institute. Other members of the Delphi panel had to have a minimum of 2 years of experience in management consulting or investment banking. Delphi panel members could be eligible to participate if they had similar experience and backgrounds as the potential participants described.

The purpose of the current chapter is to review the methods that guided research in the study. The chapter begins with a general discussion on theory building and is followed by a review of the grounded theory research approach that assisted in generating the theory of value drivers. Finally, the chapter contains a review of the Delphi method

that was used to enhance the theory of value drivers and to confirm or modify the theoretical model of value drivers derived from the review of the literature.

### **Research Method and Design Appropriateness**

The purpose of the study was to explore the effect of business value drivers on the valuation of public and private businesses in the U.S. and to propose a theory of value drivers. The study population consisted of (a) business valuation experts, (b) professional securities analysts, (c) investment bankers, (d) management consultants, and (e) people with similar backgrounds. It was estimated that there are several hundred thousand people in this population (there are over 100,000 members of the CFA Institute alone).

The participants were chosen from the population to form a Delphi panel. The target number of participants chosen for the Delphi study was 50, with a minimum threshold of 30 participants. The criteria for selection are discussed in the section of this paper entitled, "Population - study participants". The Delphi method is one of the research designs used in the study, and it was an appropriate research design for the study because, as noted by Linstone and Turoff (2002), "Delphi may be characterized as a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem" (p. 3). The subject of value drivers for businesses is complex.

The Delphi method was an appropriate research design for the study. Linstone and Turoff (2002) noted, "Usually, one or more of the following properties of the application leads to the need for employing Delphi: The problem does not lend itself to precise analytical techniques but can benefit from subjective judgments on a collective basis" (p. 4). Linstone and Turoff further noted, "Those who seek to utilize Delphi

usually recognize a need to structure a group communication process in order to obtain a useful result for their objective” (p. 5).

The grounded theory approach was an appropriate research approach for the study because grounded theory is a method that assists in generating a theory from data. The purpose of the study was to generate a theory of value drivers, and the grounded theory approach assisted in generating a theory, using data from the literature review.

Therefore, the qualitative research method was a better approach for the proposed study than any of the quantitative research designs.

Qualitative research designs are oriented toward exploration, understanding, and theory generation. Quantitative research designs are oriented toward description, explanation, and the study of the relationship between or among variables (Creswell, 2005). Researchers use quantitative methodologies to test theories. The intent of the current study was to explore the nature of value drivers and to propose a theory that future researchers can test.

**Theory-general.** The study involved the use of the grounded theory approach to generate a theory of value drivers. Reviewing the general perspective on the characteristics and formulation of theories is important. The following section provides a general overview of theories. The next section pertains specifically to theories generated from the grounded theory approach.

**Theories and theorists.** Theories are products of the minds of theorists. Dubin (1978) stated, “The locus of theory is the human mind” (p. 5). Dubin described a theorist as “someone who observes a portion of the world around him and seeks to find order in

the booming, bustling confusion that is the realm of experience” (p. 5). A. Kaplan (1998) stated,

A theory is a symbolic construction . . . theories are a human creation even though if sound they must somehow answer to what is in God’s world. At any rate, that theories are symbolic means that they do not share the ineluctability of fact. (p. 296)

According to Dubin (1978), “Theories of social and human behavior address themselves to two distinct goals of science: (1) prediction and (2) understanding” (p. 18). Whetten (1989) made the important observation that “most organizational scholars are not going to generate a new theory from scratch. Instead, they generally work on improving what already exists” (p. 492).

***The theory-research cycle.*** Theory building and research (i.e., the testing of theories) are parts of a continuum. Dubin (1978) noted, “A theory is a model of some segment of the observable world . . . . One major function of empirical research is to test the propositions of theoretical models” (p. 216). Dubin elaborated on the connection between theoretical model building and research as follows:

A theoretical model provides for the researcher one or more predictions that may be tested by marshalling data. The researcher provides the theorist with constant tests of the correspondence between his models and the portions of the world they purport to portray. Neither is complete without the other. Nor are the distinctive operations of theory building and researching necessarily segregated among separate classes of individuals. Most scientists know a theoretical model when they meet it... (pp. 216-217)



Dubin (1978) further observed that,

It is also true that any scientific discipline has its armchair paper-and-pencil theorists and its corps of hardware-statistics-laboratory researchers, each group of which has tended to specialize respectively in theory building and empirical investigation. That such a division of labor exists scarcely warrants the conclusion that either can ignore the other with impunity. (pp. 216-217)

Whetten (1989) suggested theorists should recognize that “over time their ideas will be refined” (p. 490). Whetten noted, “By definition, all the relationships in the [theoretical] model have not been tested. If all links have been empirically verified, the model is ready for the classroom and is of little value in the laboratory” (p. 491).

***Components of a theoretical model.*** According to Dubin (1978), seven components of a theoretical model exist. The seven components are described below.

1. *Units.* Dubin (1978) described units as variables that interact to become the subject matter of attention.
2. *The laws of interaction.* According to Dubin (1978), the theoretical model specifies the manner in which the units interact with each other.
3. *Boundaries.* Theoretical models typically pertain to limited portions of the world, so the model must specify the boundaries within which the model holds (Dubin, 1978).
4. *System states.* According to Dubin (1978), the concept of system states pertains to the fact that “all regions within the boundary of a system are not homogenous with each other” (p. 143). Dubin noted the following three features describe the state of a system: (a) all units of the system have characteristic values, (b) the

characteristic values of all units are determinant, and (c) the constellation of unit values persists through time. Dubin further observed,

The essential notion of a system state is that the system *as a whole* has distinctive features when it is in a state of the system. The manner, however, in which we are able to designate a system state is through the recognition of the characteristic values of the units when the system is in that particular state. Thus, a system state is apprehended only by knowing the characteristic values of all the units of the system. These values, in turn, must be determinant. If any of the values of any units are indeterminate, then an analytical problem arises as to where the system as a whole is in a system state or whether the system is in transition between system states. Should the system be in transition, then the values of one or more units may vary so widely that the practical outcome is to declare that the values are indeterminate. (p. 144)

Not every theoretical model must have a built-in system state component. Dubin (1978) observed the following:

It should be clear that not all models specify system states. It is possible to build models in which system states are overlooked or models that have only one system state, for which, therefore, the notion of system state may be properly ignored. (p. 149)

Dubin added, “Not all models specify multiple system states, but this does not disqualify them from meeting the full requirements of a theoretical model” (p. 157). The theory of value drivers model in the study will not specify system states.

5. *Propositions*. According to Dubin (1978), propositions are “conclusions that represent logical and true deductions about the model in operation” (p. 8).
6. *Empirical indicators*. Dubin (1978) said that the next step in the theory-research cycle is to convert each term in each proposition to an empirical indicator in order to test whether the model represents the real world.
7. *Hypotheses*. Empirical indicators are used to generate a testable hypothesis. According to Dubin (1978), “The research operation consists of measuring the values on the empirical indicators of the hypothesis to determine whether the theoretically predicted values are achieved or approximated in the research tests” (p. 8).

**Four essential elements of theory building.** Similar to Dubin (1978), Whetten (1989) maintained that a complete theory must have four essential elements as follows:

1. *What*. According to Whetten, *what* pertains to factors such as variables, constructs, and concepts that should logically be included in the explanation of the social or individual phenomena of interest.
2. *How*. The *how* pertains to how the factors are related (Whetten, 1989). Whetten believed that boxes and arrows should be used to show how the factors are related.
3. *Why*. Whetten suggested it is the logic of a theory that will convince others of the soundness of the propositions. The *why* is the explanation of the theory. Whetten stated, “Combining the Hows and the Whats produces the typical model, from which testable propositions can be derived” (p. 491). Whetten explained, “The primary difference between propositions and hypotheses is

that propositions involve concepts, whereas hypotheses require measures” (p. 491).

4. *Who, where, when.* The concepts of who, where, and when impose limitations on the propositions generated from a theoretical model (Whetten, 1989).

According to Whetten, “These temporal and contextual factors set the boundaries of generalizability, and as such constitute the range of the theory” (p. 492). Serenko et al. (2007) provided a good example of the application of Whetten’s four elements in their study.

**Theory acceptance.** Dubin (1978) attempted to explain what causes one theory to be accepted while another is rejected. Dubin provided one possible answer in saying, “Broadly speaking, the preference for one theoretical model over another is a matter of consensus” (p. 13). Dubin stated, “What is meant by consensus is that a group of people sharing an interest in some set of observations come to agree that one theoretical model best provides understanding or permits accurate predictions about the observational set” (p. 13). Dubin asked and answered the important question, “But can the consensus be wrong? The answer is ‘yes’” (p. 13).

**Testing of theories.** Theories can never stand alone, unchallenged. Researchers must continuously evaluate, test, and modify theories. Dubin (1978) described, “A theoretical model is a scientific model if, and only if, its creator is willing to subject it to an empirical test. Otherwise it falls in the realm of philosophy or theology” (p. 12).

**Empirical versus theoretical.** In theory building, it is useful to distinguish between empirical and theoretical systems. Dubin (1978) observed, “The former [empirical] is what we apprehend, through human senses, in the environment of man.

The latter [theoretical] is what we construct in our mind's eye to model the empirical system" (p. 18).

### **Grounded Theory**

Grounded theory is a method researchers use to generate a theory from data. Creswell (2005) stated, "Grounded theory enables you to generate a broad theory about your qualitative central phenomenon 'grounded' in the data" (p. 395). The grounded theory approach is particularly useful because, as Creswell noted,

'Grounded' in the data, it provides a better explanation than a theory borrowed 'off-the-shelf' because it fits the situation, actually works in practice, is sensitive to individuals in a setting, and may represent all of the complexities actually found in the process. (Creswell, 2005, p. 396)

**Background.** Two sociologists, Glaser and Strauss, developed grounded theory in the late 1960s (Creswell, 2005). Glaser and Strauss wrote a book about their methodology, *The Discovery of Grounded Theory* (Glaser & Strauss, 1967). Grounded theory reflects the unique combination of skills that Glaser and Strauss brought to their research. Glaser was trained in quantitative research methods at Columbia University, and Strauss was trained in qualitative research methods at the University of Chicago (Creswell, 2005). The interaction of differing backgrounds led to their development of grounded theory.

Glaser and Strauss (1967) maintained that "an embarrassing gap between theory and empirical research" (p. vii) existed. Glaser and Strauss noted, "Attempts to close the gap between theory and research have concentrated principally on the improvement of methods for testing theory" (Glaser & Strauss, 1967, p. vii). Accordingly, the

information in their book was directed at improving the ability of social scientists to generate theory.

**Three schools of thought on grounded theory.** Over time, Glaser and Strauss grew apart in their approach to grounded theory. Three main schools of thought on the approach to grounded theory have arisen from the divide. The three schools are described below.

1. *The systematic design.* Strauss partnered with a community nursing health researcher, Juliet Corbin, to develop a method of grounded theory that is more structured than the original design (Creswell, 2005). According to Creswell, “A systematic design in grounded theory emphasizes the use of data analysis steps of open, axial, and selective coding, and the development of a logic paradigm or a visual picture of the theory generated” (p. 397). This is in direct contrast to the emergent design.
2. *The emerging design.* Glaser adhered more closely to the original design of grounded theory. According to Creswell (2005), Glaser believed that Strauss and Corbin “overly emphasized rules and procedures, a preconceived framework for categories, and theory verification rather than theory generation” (p. 401). In contrast, Glaser, according to Creswell, “stresses the importance of letting a theory emerge from the data rather than using specific, preset categories” (p. 401).
3. *The constructivist design.* Kathy Charmaz developed the constructivist design that represents the third major school of thought on grounded theory. The constructivist design explains the feelings of individuals as they experience a phenomenon or process, and the design incorporates the beliefs and values of the

researcher. Like the emergent design, the constructivist design avoids the development of predetermined categories (Creswell, 2005).

Charmaz (2003) further explained the constructivist position as follows:

A constructivist grounded theory recognizes that the viewer creates the data and ensuing analysis through interaction with the viewed. Data do not provide a window on reality. Rather, the “discovered” reality arises from the interactive process and its temporal, cultural, and structural contexts. Researcher and subjects frame that interaction and confer meaning upon it. The viewer then is part of what is viewed rather than separate from it. What a viewer sees shapes what he or she will define, measure, and analyze. (p. 273)

**Classic (Glaserian) grounded theory—More on the emergent design.** The grounded theory approach to be used in the study is mostly based on *classic* or *Glaserian* grounded theory. The design is known as the emergent design advocated by Glaser (Creswell, 2005). The current study included the use of procedures suggested by Creswell for conducting grounded theory research.

In discussing the *classic* grounded theory position, Rhine (2010) stated, All research is "grounded" in data, but few studies produce a "grounded theory." Grounded Theory is an inductive methodology. Although many call Grounded Theory a qualitative method, it is not. It is a general method. It is the systematic generation of theory from systematic research. It is a set of rigorous research procedures leading to the emergence of conceptual categories. (para. 1)

Rhine further noted that “these concepts/categories are related to each other as a theoretical explanation of the action(s) that continually resolves the main concern of the

participants in a substantive area. Grounded Theory can be used with either qualitative or quantitative data” (para. 1).

The original work by Glaser and Strauss (1967), *The Discovery of Grounded Theory*, remains one of the best overall representations of grounded theory as practiced in the *classic* tradition espoused by Glaser. According to Glaser (1992),

The average researcher wanting to get on with the show should just use this book, but while also reading *Discovery of Grounded Theory*, *Theoretical Sensitivity*, and many of the footnoted monographs, in order to be capturing fundamentals of the grounded theory methodology. (p. 7)

The major steps in conducting grounded theory research as outlined in *Theoretical Sensitivity* (Glaser, 1978) formed the basis for conducting the current grounded theory research. References to Creswell (2005) and other writings by Glaser augmented the information for each step (e.g., Glaser, 1978, 1992, 1993, 1994, 1996, 1998; Glaser & Strauss, 1967). The steps were as follows:

***Collection of research data.*** Grounded theorists use many forms of data (e.g., interviews, observations, notes, and the literature). Controversy exists over the use of literature as a source for data. Classic grounded theorists generally contend the literature should not be introduced into the grounded theory process until later in the study. Grounded theorists’ reasoning is so as not to “contaminate, be constrained by, inhibit, stifle or otherwise impede the researcher’s effort to generate categories” (Glaser, 1992, p. 31). Sometimes, it is necessary or desirable to use the literature earlier in the study. In such cases, Glaser (1998) suggested the following:



In order to prevent the preconceiving, grabbing effects of the literature search the researcher should turn his review into data collection to be constantly compared as the review is done. The attitude is data collection, not reverence for the authenticity and authority of the printed word and the published author. After all, that is all the literature is, just more data. (p. 72)

It was not the researcher's original intent to conduct a grounded theory study, but it became apparent in conducting the literature review that a theory was emerging from the data in the literature itself. Once this became apparent, the focus of the dissertation shifted from simply providing a listing of various value drivers to proposing a theory of value drivers. As the study progressed, the various elements of conducting grounded theory research were incorporated into the study.

***Open coding.*** The next step in the process is open coding. According to Glaser (1978), "open coding . . . is coding the data in every way possible . . . . Open coding is diametrically contrasted with a preconceived code for which the data may be coded" (p. 56). Open coding of the literature was used in the study to develop initial categories of value drivers as well as elements and relationships of the theory of value drivers.

***Theoretical sampling.*** Theoretical sampling is a foundation of the grounded theory approach. According to Glaser (1978), in order to develop the emerging theory, "Theoretical sampling is the process of data collection for generating theory whereby the analyst jointly collects, codes, and analyzes his data and decides what data to collect next and where to find them..." (p. 36). Glaser (1978) further notes that "this process of data collection is *controlled* by the emerging theory, whether substantive or formal" (p. 36).

The process of theoretical sampling was used in the current study while reviewing the literature to develop initial categories of value drivers as well as elements and relationships of the theory of value drivers.

***Saturation.*** Saturation occurs when “the researcher makes the subjective determination that the analysis of new data will not provide new information or insights for developing categories” (Creswell, 2005, p. 406). Saturation in the study was reached after reviewing nearly 600 references during the literature review. Over 300 of the references were incorporated into the study.

***Theoretical memos.*** Writing memos to oneself is another of the true foundations of grounded theory. Memos are important because, as Glaser (1998) stated, “Writing memos is the vehicle by which concepts and ideas pours out, are saved and grow” (p. 178). Glaser (1978) stated that “memos are the theorizing write-up of ideas about codes and their relationships as they strike the analyst while coding . . . . A memo can be a sentence, a paragraph or a few pages” (pp. 83-84).

Glaser (1998) further elaborated on memo writing by saying that “memos vary from being a ‘jot’ of a few words or a jot to write a memo later on an idea all the way through theory bits to a 5 to 10 page paper” (p. 178). Memo writing occurred throughout the literature review and remained part of the research process. The memos took the form of extensive outlines and numerous notes periodically reviewed, sorted, and analyzed.

***Emergence of a core category.*** Creswell (2005) stated, “From among the major categories derived from the data, the grounded theorist selects a core category as the

central phenomenon for the theory” (p. 407). In the current study, value drivers were the core category or the central phenomenon. Glaser (1978) stated,

The generation of theory occurs around a core category. Without a core category an effort of grounded theory will drift in relevancy and workability. Since a core category accounts for most of the variation in a pattern of behavior, this has several important functions for generating theory. It is relevant and works. Most other categories and their properties are related to it, which makes it subject to much qualification and modification because it is so dependent on what is going on in the action. In addition, through these relations between categories and their properties it has the prime function of integrating the theory and rendering the theory *dense* and *saturated* as the relationships increase. (p. 93)

***Theoretical sorting.*** Sorting is the next step in the process. According to Glaser (1978), “Sorting begins to put the fractured data back together. It consists of setting up the memos in a theoretical outline in preparation for the writing stage” (p. 116). Glaser elaborated on the outline,

The theoretical integration of a paper, talk or book, comes in the form of an outline generated by theoretical sorting. The analyst does not need a ‘ready made’ outline to sort into. Rather the reverse is required in grounded theory. (p. 117)

In the current study, the memos and notes that were a continuing process of memo writing were sorted and reassembled into outline form to develop the theory of value drivers.

**Theoretical writing.** The final stage is to write the theory that emerges from the data. The theory of value drivers was written after further development. The theory will be presented in Chapter 5.

**Constant comparative analysis.** Another of the foundations of grounded theory research is constant comparative data analysis. According to Creswell (2005),

Constant comparison is an inductive (from specific to broad) data analysis procedure in grounded theory research of generating and connecting categories by comparing incidents in the data to other incidents, incidents to categories, and categories to other categories. The overall intent is to “ground” the categories in the data. (p. 406)

The types of theories generated by the constant comparative method of grounded theory research fall between minor working hypotheses and grand theories. According to Glaser and Strauss (1967),

Comparative analysis can be used to generate two basic kinds of theory: substantive and formal. By substantive, we mean that developed for a substantive, or empirical, area of sociological inquiry, such as patient care, race relations, professional education, delinquency, or research organizations. By formal theory, we mean that developed for a formal, or conceptual, area of sociological inquiry, such as stigma, deviant behavior, formal organization, socialization, status congruency, authority and power, reward systems, or social mobility. Both types of theory may be considered as “middle-range.” That is, they fall between the “minor working hypotheses” of everyday life and the “all-inclusive” grand theories. (pp. 32-33)

The author attended the Grounded Theory Seminar in Mill Valley, California on June 22-24, 2010 hosted by Dr. Glaser and the Grounded Theory Institute. In discussing the author's paper, it was suggested that the theory generated in this paper should be referred to only as a theory. However, if it had to be categorized as either a substantive theory or a formal theory, it is a substantive theory; but one that comes closer to being a formal theory than many substantive theories because it crosses disciplines within the business literature. It should be noted that there are only four known formal theories that have been generated by classic grounded theory – and those were all generated by Dr. Glaser (Glaser, B., Holton, J. McCallin, A., personal communication, June 23-24, 2010).

**Theoretical propositions.** In grounded theory research, theoretical propositions have a purpose similar to the propositions that are developed through other methods of theory generation. In grounded theory research, theoretical propositions are statements that indicate the relationship among categories (Creswell, 2005). Creswell (2005, p. 409) also notes that propositions are similar to hypotheses in quantitative research.

**Fit, work, relevance, and modifiability.** Glaser (1992) maintained that grounded theories must meet certain criteria to be considered well constructed theories. According to Glaser,

A well constructed grounded theory will meet its four most central criteria: fit, work, relevance, and modifiability. If a grounded theory is carefully induced from the substantive area its categories and their properties will fit the realities under study in the eyes of subjects, practitioners, and researchers in the area. If a grounded theory works it will explain the major variations in behavior in the area with respect to the processing of the main concerns of the subjects. (p. 15)

Glaser (1992) further explained that,

If it fits and works the grounded theory has achieved relevance. The theory itself should not be written in stone or as a 'pet', it should be readily modifiable when new data present variations in emergent properties and categories. The theory is neither verified nor thrown out, it is modified to accommodate by integration the new concepts. (p. 15)

### **The Theory of Value Drivers**

**Background.** The theory of value drivers was initially developed using a grounded theory approach. The study began with the intent of identifying and classifying value drivers using the method of a Delphi study. In conducting the literature review, an identification and classification scheme of (a) value drivers, (b) relationships among the value drivers, and (c) other elements that constitute a theory began emerging. It was at such a juncture that consideration was given to using the grounded theory method to develop a theory of value drivers. After extensive research of theory development in general and grounded theory in particular, the decision was made to use the grounded theory method to generate a theory of value drivers.

One of the tenets of grounded theory research, particularly classic grounded theory research as advocated by Glaser (Glaser, 1998; Rhine, 2010), is to let the theory emerge before conducting a literature review. The reason for this is that Glaser believes firmly that it is very easy for researchers to become swayed in their opinions if they read the theories already postulated in the existing literature. Glaser believed that the literature should be reviewed, but he believes that the literature review should come after the grounded theory has been developed. As Glaser argued,

Grounded theory's very strong dicta are a) do not do a literature review in the substantive area and related areas where the research is to be done, and b) when the grounded theory is nearly completed during sorting and writing up, then the literature search in the substantive area can be accomplished and woven into the theory as more data for constant comparison. (p. 67)

Glaser (1998) recognized that it is sometimes necessary or desirable to conduct a literature review early in the grounded theory process. Glaser noted that a preresearch literature review might be necessary when required by a dissertation committee and when applying for grants. In such cases, Glaser suggested the following:

In order to prevent the preconceiving, grabbing effects of the literature search the researcher should turn his review into data collection to be constantly compared as the review is done. The attitude is data collection, not reverence for the authenticity and authority of the printed word and the published author. After all, that is all the literature is, just more data. (p. 72)

In some instances, it might be desirable to conduct a literature review early in the study because, as Glaser (1998) noted, "all is data" (p. 8). The early literature review that was a part of the current study was desirable because it yielded the initial data that became the basis for the theory of value drivers. A Delphi study took place after the proposal was approved in order to (a) generate additional concepts for the theory, (b) modify the theory, and (c) confirm or refute the initial development of the theory generated from the analysis of the literature.

**The theory.** A theory of value drivers was the subject of the study. The discussion included some but not all the components of a theoretical model proposed by

Dubin (1978) and discussed in the theory building sections of the current paper. The components were the units, the laws of interaction, the boundaries, and the propositions. The other three components (i.e., system states, empirical indicators, and hypotheses) proposed by Dubin (1978) as components of a well-developed theory were not included in the current research for the following reasons: (a) system states do not apply in the development of the theory, (b) the conversion of propositions to empirical indicators is done in a later stage of the theory-research cycle and is beyond the scope of the research, and (c) hypotheses are generated in a later stage of the theory-research cycle and such generation is beyond the scope of the current study.

**Units.** As Dubin (1978) described, variables that interact to become the subject matter of attention were the value drivers in this study. The variables were discussed in the research. Value drivers can be defined as any variable that influences an enterprise's value (Kazlauskienė & Christauskas, 2008).

**Laws of interaction.** According to Dubin (1978), the theoretical model specifies the manner in which the units interact with each other. The grounded theory study led to the development of the laws of interaction for the theory of value drivers. These were discussed as part of the theory of value drivers.

**Boundaries.** As Dubin (1978) noted, the theoretical model must specify the boundaries within which the model holds. Part of the current study included deriving the boundaries for the theory of value drivers. The boundaries were discussed as part of the theory of value drivers.

**Propositions.** According to Dubin (1978), propositions are “conclusions that represent logical and true deductions about the model in operation” (p. 8). The grounded



theory study led to the propositions for the theory of value drivers. These were discussed as part of the theory of value drivers.

### **Delphi Method**

The Delphi method facilitated an enhancement of the theory of value drivers. It also assisted in confirming or modifying the theoretical model of value drivers derived from the review of the literature using the grounded theory approach. This section provides a discussion of the Delphi method.

**Background.** The Delphi method was developed at the Rand Corporation in the 1950s and 1960s. Olaf Helmer and Norman Dalkey were the founders of the method. One of the first applications of the Delphi method was to assess the direction of long-range trends in areas such as (a) science and technology, (b) the space program, (c) population control, and (d) war prevention (Adler & Ziglio, 1996). Researchers have used the Delphi method extensively since its development and in a variety of fields. Examples of the wide array of uses are found in medical research, public policy, education, and urban planning (Adler & Ziglio, 1996).

In the 1970s, two germinal books were published on the Delphi method (Delbecq, Ven, & Gustafson, 1975; Linstone & Turoff, 1975). The books included extensive discussions on how to do a Delphi study and the many considerations and ramifications involved in the Delphi method. About the same time that the books were published, Sackman (1974) wrote a book critiquing the Delphi method. In an article appearing in the journal, *Technological Forecasting and Social Change*, Goldschmidt (1975) gave a strong and convincing rebuttal to the Sackman critique. In recognition of the importance of the Delphi method as a research design, the entire issue of *Technological Forecasting*

*and Social Change* that contained the Goldschmidt article was devoted to the Delphi method.

**The objectives and characteristics of Delphi studies.** Ziglio (1996) described the Delphi process as a method to reliably and creatively explore ideas for decision making. The Delphi method is a structured communication process designed to collect and distill knowledge from a group of experts by means of a series of questionnaires and controlled opinion feedback. According to Linstone and Turoff (2002), “Delphi may be characterized as a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem” (p. 3).

Delbecq et al. (1975) described the Delphi process in the following way:

We are concerned with judgmental decision making. Colloquially, we are talking about creative decision making. The central element of this situation is the lack of agreement or incomplete state of knowledge concerning either the nature of the problem or the components which must be included in a successful solution. As a result, heterogeneous group members must pool their judgments to invent or discover a satisfactory course of action. (p. 5)

According to Ziglio (1996), “The Delphi Method is an exercise in group communication among a panel of geographically dispersed experts. The technique allows experts to deal systematically with a complex problem” (p. 9).

**The basics of the Delphi method.** Ziglio (1996) summarized the steps in the Delphi method as beginning with the first questionnaire. The first questionnaire indicates the problem in broad terms and prompts input and comments. The second questionnaire

summarizes the responses to the first questionnaire. In the second questionnaire, Delphi panelists have the opportunity to reevaluate their positions in light of the responses from the first questionnaire. The steps can be repeated through several iterations.

Ziglio (1996) noted that Delphi studies usually involve two phases. The first phase is called the exploration phase. The exploration phase usually comprises the first two questionnaires and includes (a) the exploration of issues and (b) the gathering of additional information. The second phase (i.e., the evaluation phase) usually occurs in the third and any subsequent questionnaires. The evaluation phase includes experts providing their views on issues and ways of addressing the issues.

**Benefits of a group process.** Group decision making can often provide results superior to the efforts of any one individual. Rotondi and Gustafson (1996) maintained that group processes create synergy. Rotondi and Gustafson stated, “When the perspectives of two or more members of a group combine to yield a third, synergistic perspective, the new perspective invariably yields insights which are advances over what either of the individual perspectives provided on their own” (p. 35). Not only can synergy result from group interactions but groups also can develop a beneficial life and thinking of their own. Rotondi and Gustafson stated that, when a group’s thinking develops a life of its own, it “is able to take a group in directions outside any single member’s perspective, and beyond what any member’s perspective could have anticipated” (p. 35).

**Population-study participants.** The participants who comprised the Delphi panel came from seven sources. They were members of the four main business valuation societies in the U.S.: the IBA, the NACVA, the AICPA, and the ASA. The Delphi

participants could also be professional securities analysts who are members of the CFA Institute. Other members of the Delphi panel could consist of people with a minimum of 2 years of experience in management consulting or investment banking. Other people who had similar experience and backgrounds to any of the potential participants mentioned were eligible for participation.

**Sampling.** The target number of participants chosen for the Delphi study was 50, with a minimum threshold of 30 participants. The number was chosen to balance (a) the need for an adequate sample to achieve reliable results and (b) the need to prevent having such a large group of participants that analysis becomes overwhelming. Adler and Ziglio (1996) noted, “In most cases, the criterion for deciding on sample size for constructing a Delphi panel is not (and cannot be) as statistical one. The size of the expert panel will be variable” (p. 14).

Delbecq et al. (1975) agreed with Adler and Ziglio’s point about the sample size and elaborated as follows:

The size of the respondent panel is variable. With a homogeneous group of people, ten to fifteen participants might be enough. However, in cases where various reference groups are involved, several hundred people might participate. Our experience indicates that few new ideas are generated within a homogeneous group once the size exceeds thirty well-chosen participants. (p. 89)

Delbecq et al. offered the following practical suggestion:

Remember, however: the more people that are involved, the more effort is needed for analysis. Therefore, staff would do well to hold the number of participants in

the Delphi study to a minimally sufficient number of respondents and seek verification of results through follow-up survey research. (p. 89)

The current study included the use of a purposive sampling method. Trochim and Donnelly (2008) stated, “In purposive sampling, you sample with a *purpose* in mind. Usually you would be seeking one or more specific predefined groups” (p. 49). Trochim and Donnelly considered expert sampling (i.e., the sampling method used in Delphi studies) to be a subcategory of purposive sampling. In order to obtain an expert panel for the Delphi study, individuals who held professional certifications in business valuation and security analysis were contacted and invited to be on the panel. Other individuals that were invited to become members of the Delphi panel were people with extensive experience in investment banking, management consulting, and business management.

***Instrument.*** The design of the Delphi questionnaires facilitated an exploration of the issues involved in the current study. An example of the first Delphi questionnaire is contained in Appendix C. The actual Questionnaire 1 used in the study is included in Appendix I. The questionnaires for the subsequent rounds of the study were based on the responses from the first questionnaire. It was expected that there would be three to four rounds of questionnaires. Delphi studies generally consist of three rounds but “if there is significant disagreement, then this can be explored further (e.g., in Q4) to bring out the underlying reasons for the differences among experts and possibly to evaluate them” (Adler & Ziglio, 1996, p. 9).

As to the reliability of Delphi outcomes, Adler and Ziglio (1996) stated that, for studies where the best available information is the judgment of experts, the Delphi method has many advantages over other forms of group communication and group

processes. The Delphi questionnaires used in the current study were each validated through pilot studies. The pilot studies are discussed next.

**Pilot study.** A pilot study took place to test the Delphi method portion of the overall study of value drivers. Three individuals were selected at random from the pool of identified participants in the Delphi study. The pilot study members received the Delphi questionnaires at each round of the Delphi study before the members of the actual Delphi study panel received the questionnaires.

The pilot study members received requests to provide feedback on the clarity of the questions and the study in general. A sample questionnaire for the pilot study is contained in Appendix E. The pilot study facilitated triangulation of the Delphi study results through a comparison of the results of the pilot study group with the results of the main Delphi study group.

### **Data Analysis**

The results of the rounds of Delphi study were analyzed by coding and sorting the questionnaire responses. Design of the subsequent questionnaires was based on the responses to all preceding questionnaires. Delbecq et al. (1975) provided an example of such a sorting and coding procedure as well as sample questionnaires. At the conclusion of the last round of the Delphi study, the results were combined and summarized. As Delbecq et al. noted, “A final report should summarize the goals and the process as well as the results” (p. 105). Such a final report was prepared for this study.

## **Validity**

The current section includes a discussion on the internal and external validity of the study. As noted below, internal validity does not apply to this study. External validity does apply and will be discussed.

**Internal validity.** According to Trochim and Donnelly (2008), internal validity only applies to studies in which a cause-effect or causal relationship exists. Trochim and Donnelly noted, “Internal validity is relevant only in studies that try to establish a causal relationship” (p. 158). The current study did not include an attempt to establish a causal or cause-effect relationship, so internal validity did not apply to the study.

**External validity.** Trochim and Donnelly (2008) stated, “External validity is the degree to which the conclusions in your study would hold for other persons in other places and at other times” (p. 34). In an attempt to ensure a greater degree of external validity, study participants came from several different professional organizations and professional backgrounds. The target sample size of 50, with a minimum threshold of 30 participants, was sufficiently large so as to better approximate the results of the entire population.

To help ensure continued participation in the study, Delphi panelists received in-person contact several times throughout the study. With regard to the generation of a theory of value drivers using the grounded theory approach, a large sample of literature was reviewed. A thorough review helped to ensure that general ideas pertaining to value drivers and the list of value drivers constructed would be representative of the universe of specific value drivers and the universe of ideas pertaining to value drivers.

Triangulation of the qualitative data occurred in several ways. First, an initial theory of value drivers was developed from the literature review using a grounded theory approach. The Delphi study added to, modified, and confirmed or refuted portions of the initial theory developed through analysis of the literature. Second, Delphi studies are designed to gain consensus among a group of experts on a particular subject. Through successive iterations of the Delphi rounds, participants are shown the results from the previous rounds with the goal of achieving a tighter consensus. The achieving of a consensus was part of the triangulation process. Third, the use of experts from several different professional backgrounds helped to ensure a diversity of professional opinion. Fourth, the sample size was sufficiently large so as to better approximate the results of the entire population. And finally, a large sample of the literature was reviewed to construct the initial theory.

### **Informed Consent**

The members of the Delphi panel received requests to sign the informed consent and confidentiality letter (see Appendix B). The members of the Delphi panel were (a) members of the four main business valuation organizations, (b) members of the CFA Institute, (c) business management consultants or investment bankers, and (d) people chosen by the researcher who have similar experience and backgrounds to any of the aforementioned potential participants. The format of the letter was in accordance with University of Phoenix guidelines (see Appendix B). The study was approved by the University of Phoenix's Institutional Review Board (IRB) on October 26, 2010.



**Confidentiality**

In the informed consent and confidentiality letter (see Appendix B), members of the Delphi panel were told that their identities would be kept confidential. Also, panel members were told that their names would not be disclosed to any outside parties. In the current study, the identities of the panel members have been kept confidential and their names have not been disclosed to any outside parties. The members of the Delphi panel also do not know the identities of each other. This is in keeping with best practices for Delphi studies to prevent domination by other group members on the panel (Delbecq et al., 1975, p. 83). In order to ensure confidentiality, the identities of the participants and other sensitive data pertaining to the study is stored in a secure and locked area.

**Geographic Location**

While predominately based in the U.S., study participants could have resided or worked in countries other than the U.S. Several people residing and/or working outside of the U.S. were invited to participate in the study, but declined. Accordingly, the three Delphi panels consisted of individuals residing in and/or working in the U.S.

**Summary**

The purpose of Chapter 3 was to review the research methodologies pertaining to the study. The research methodologies were (a) the grounded theory approach to theory formulation and (b) the Delphi method research design. The purpose of the current qualitative study was to explore the effect of business value drivers on the valuation of businesses in the U.S. and to propose a theory of value drivers. Because it was a study goal to propose a theory of value drivers, the grounded theory approach was an appropriate research design. The grounded theory approach assists in generating theories

from the data collected. In the current study, the data for the initial theory were the literature collected and reviewed.

The use of the Delphi method enhanced the theory developed from the grounded theory approach. The Delphi method assisted in confirming and modifying the initial theory. Chapter 3 included a review of the theory formulation in general. The chapter included a discussion of (a) the role of theorists in theory formulation, (b) the theory-research cycle, (c) components of a theoretical model, (d) theory acceptance, (e) testing of theories, and (f) the differences between empirical and theoretical research. Chapter 4 will discuss the findings of the qualitative study which used the grounded theory and Delphi method research designs.

## Chapter 4: Results

The purpose of the current qualitative study was to explore the effect of business value drivers on the valuation of businesses in the United States and to propose a theory of value drivers. The study involved the use of two research methods, the grounded theory design and the Delphi method. The coded results of the literature review facilitated generating the initial theory for the grounded theory portion of the study. The Delphi method was used to (a) add to and modify the theory and (b) confirm or refute the initial theory based on the results of the literature review.

Chapter 4 includes the detailed analysis of the Delphi and grounded theory data. A pilot study was conducted to test the questions and form the basis of the Delphi questionnaires. The pilot study helped triangulate the results of the Delphi study by comparing the results of the pilot study group with the results of the main Delphi study group.

Data analysis led to the identification of emerging themes on the subject of business value drivers. Chapter 4 includes a discussion of the method of data analysis. The results of the analysis were related to the central phenomenon and all research questions.

The primary research question for the current study was follows: *What are the value drivers for businesses in the United States, and how do they affect business value?* The question provided the structure for the research process and presentation of the results. The focus of the study was themes obtained through analysis.

## **Purpose Statement**

The purpose of the qualitative study, using the grounded theory and Delphi method research designs, was to explore the effect of business value drivers on the valuation of businesses in the United States and to propose a theory of value drivers. The Delphi method was the primary research design. According to Linstone and Turoff (2002), “Delphi may be characterized as a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem” (p. 3). Linstone and Turoff further explained that a Delphi study, which is a “structured communication” (p. 3) process, provides feedback on individual contributions, assessment of the group judgment, an opportunity for revision of original views, and anonymity.

The grounded theory qualitative design was added to the Delphi method to complete the study. Grounded theory is a useful method for generating new theories from data. In the current study, the grounded theory approach led to the development of a theory of value drivers. The coded results of the literature review comprised the data used to generate the initial theory. The Delphi method was used to (a) add to and modify the theory and (b) confirm or refute the initial theory based on the results of the literature review.

The central phenomenon of the study was value drivers for businesses. The following was the primary research question for the study: *What are the value drivers for businesses in the United States, and how do they affect business value?* The study population consisted of business valuation experts, professional securities analysts,

investment bankers, management consultants, and people with similar backgrounds. The participants formed a Delphi panel.

### **Organization of the Chapter**

Chapter 4 begins with a review of the data collection procedures for the grounded theory and the Delphi parts of the study. The review includes a discussion of the development of the Delphi questionnaires and of the pilot study. The second section of the chapter includes details of the analysis of the research data.

Three computer and online software tools were used in the study: (a) NVivo 9, (b) Survey Monkey, and (c) Microsoft Excel. A discussion of the integrated use of these three tools is included in the current chapter. Chapter 4 further includes a discussion of the special training the researcher undertook to complete the study and of the demographics and characteristics of the Delphi study sample and population. The chapter concludes with the process of data analysis of the major themes associated with the research questions and the 72 value drivers identified in the study.

### **Review of Data Collection Procedures**

The study involved the grounded theory qualitative design and the Delphi method to explore the effect of business value drivers on the valuation of businesses in the United States and to propose a theory of value drivers. The coded results of the literature review comprised the data used to generate the initial theory. The Delphi method was used to (a) add to and modify the theory and (b) confirm or refute the initial theory based on the results of the literature review.

**Delphi method.** The study population consisted of (a) business valuation experts, (b) professional securities analysts, (c) investment bankers, (d) management consultants,

and (e) people with similar backgrounds. The participants were chosen from the population to form a Delphi panel. The target number of participants for the Delphi study was 50, with a minimum threshold of 30 participants.

Delbecq et al. (1975) stated, “Our experience indicates that few new ideas are generated within a homogeneous group once the size exceeds thirty well-chosen participants” (p. 89). For the first Delphi round, 43 participants were selected. The second Delphi round involved 39 participants, and the third Delphi round involved 37 participants. The criteria for selection are discussed in the section entitled, *Population-Study Participants*.

**Grounded theory.** The grounded theory approach helped generate a theory of value drivers, using data from the literature review and other sources. As a method that assists in generating a theory from data, the grounded theory was appropriate for the current study. Creswell (2005) noted,

‘Grounded’ in the data, it provides a better explanation than a theory borrowed ‘off-the-shelf’ because it fits the situation, actually works in practice, is sensitive to individuals in a setting, and may represent all of the complexities actually found in the process. (p. 396)

**Collection of grounded theory research data.** Grounded theorists use many forms of data (e.g., interviews, observations, notes, literature). Controversy exists over the use of literature as a source of data. Classic grounded theorists generally contend the literature should not be introduced into the grounded theory process until late in the study in order to not “contaminate, be constrained by, inhibit, stifle or otherwise impede the researcher’s effort to generate categories” (Glaser, 1992, p. 31). Sometimes, it is

necessary or desirable to use the literature early in the study. In such cases, Glaser (1998) suggested,

In order to prevent the preconceiving, grabbing effects of the literature search the researcher should turn his review into data collection to be constantly compared as the review is done. The attitude is data collection, not reverence for the authenticity and authority of the printed word and the published author. After all, that is all the literature is, just more data. (p. 72)

Including the grounded theory design in the current study was not part of the original plan, but a theory emerged from the data in the literature during the review of literature. The focus of the dissertation shifted from providing a listing of various value drivers to proposing a theory of value drivers. As the study progressed, the various elements of conducting grounded theory research were incorporated in the research process.

**Development of the Delphi questionnaires.** The design of the Delphi questionnaires facilitated an exploration of the issues involved in the current study. Examples of Delphi questions are contained in Appendix C. The design of the first questionnaire was based on Delbecq et al.'s (1975) guidelines. The questionnaires for the subsequent two Delphi rounds also followed Delbecq et al.'s guidelines and were based on the responses from the previous questionnaire. The current study included three rounds of questionnaires.

The first questionnaire consisted of a series of unstructured response format (Trochim & Donnelly, 2008) questions designed to allow the respondents to be unconstrained in their responses. The second method was a series of Likert-type scale

items on each of 44 possible value drivers identified through the literature review. The third method was a ranking of the 44 possible value drivers by the Delphi panel. The second and third questionnaires were structured like the first questionnaire but did not contain the Likert-type scale items.

**Pilot study.** A pilot study was conducted to test the Delphi method portion of the study of value drivers. Three individuals were selected at random from the pool of identified participants in the Delphi study. The pilot study members received the Delphi questionnaires at each round of the Delphi study before the members of the actual Delphi study panel received the questionnaires.

The pilot study members received requests to provide feedback on the clarity of the questions and the study in general. A sample questionnaire for the pilot study is contained in Appendix E. The pilot study facilitated triangulation of the Delphi study results through a comparison of the results of the pilot study group with the results of the main Delphi study group.

**Processing and analysis of the research data.** The current section includes details of the processing and analysis of the research data. The study consisted of (a) a grounded theory study of the literature and other research data and (b) a Delphi study. The section discussion is divided in two parts, one for the grounded theory data and one for the Delphi data.

**Grounded theory study.** The theory of value drivers was developed with a grounded theory approach added to the original Delphi study. In conducting the literature review, an identification and classification scheme of (a) value drivers, (b) relationships among the value drivers, and (c) other elements that constitute a theory began emerging.



The discovery led to the decision to use the grounded theory method to develop a theory of value drivers. After extensive research of theory development in general and grounded theory in particular, the grounded theory design was selected to generate a theory of value drivers.

Glaser (1998) recognized the occasional necessity or desirability to conduct a literature review early in the grounded theory process. Glaser noted that a preresearch literature review might be necessary when required by a dissertation committee and when applying for grants. In such cases, Glaser suggested,

In order to prevent the preconceiving, grabbing effects of the literature search the researcher should turn his review into data collection to be constantly compared as the review is done. The attitude is data collection, not reverence for the authenticity and authority of the printed word and the published author. After all, that is all the literature is, just more data. (p. 72)

In some instances, it might be desirable to conduct a literature review early in the study because, as Glaser (1998) noted, “all is data” (p. 8). The early literature review for the current study yielded the initial data that became the basis for the theory of value drivers. The constant comparative method of analysis, which is germane to grounded theory, was used throughout the review of the literature and the subsequent Delphi study to generate the theory.

**Delphi study.** Ziglio (1996) summarized the steps in the Delphi method as beginning with the first questionnaire. The first questionnaire includes a description of the problem in broad terms and prompts input and comments. The second questionnaire includes a summary of the responses to the first questionnaire, and the Delphi panelists

have the opportunity to reevaluate their positions in light of the responses from the first questionnaire.

The steps can be repeated through several iterations. The present study involved three questionnaires. The data from the three questionnaires were processed and analyzed with NVivo 9 software. The results from each questionnaire were coded, sorted, and analyzed to find recurring patterns and themes. The coding, sorting, and analysis procedure was used in the Delphi process and in the grounded theory portion of the study.

Ziglio (1996) noted that Delphi studies usually involve two phases. The first phase is called the exploration phase and usually comprises the first two questionnaires for the purpose of (a) presenting the exploration of issues and (b) gathering additional information. The second phase (i.e., the evaluation phase) usually occurs in the third and any subsequent rounds. The evaluation phase includes experts providing their views on issues and ways of addressing the issues. In the present study, the evaluation phase occurred throughout the three rounds of questionnaires.

The design of the Delphi questionnaires facilitated an exploration of the issues involved in the study. An example of all three Delphi questionnaires used in the current study is contained in Appendix C. The process of analysis included coding and sorting the questionnaire responses from the three rounds of the Delphi study.

Questionnaires 2 and 3 were developed from the responses to all preceding questionnaires. Delbecq et al. (1975) provided an example of such a sorting and coding procedure as well as sample questionnaires. At the conclusion of each of the rounds and at the conclusion of the last round of the Delphi study, the results were combined and

summarized. As Delbecq et al. noted, “A final report should summarize the goals and the process as well as the results” (p. 105). The current study included a final report.

**Computer and online software tools.** The study involved the integrated use of three computer and online software tools: (a) NVivo 9, (b) Survey Monkey, and (c) Microsoft Excel. Survey Monkey was used to collect the Delphi survey data. The NVivo 9 software package and Microsoft Excel were used to analyze the Delphi survey data, combine the results of the Delphi study with the grounded theory study data, and construct the theory of value drivers. The NVivo 9 software was particularly helpful in constructing many of the figures used in this paper.

The researcher engaged in special training in grounded theory and in the use of NVivo 9. The researcher attended and completed the NVIVO 8 Workshop–Orientation to NVivo Software for Qualitative Analysis provided for the School of Advanced Studies students at the University of Phoenix on June 7 to 9, 2011. While the workshop was designated as an NVivo 8 workshop, instruction was based on NVivo 9. The researcher also attended and completed a workshop sponsored by the Grounded Theory Institute, the 2010 Summer North American Grounded Theory Seminar held in Mill Valley, California, on June 22 to 24, 2010. The course presenter was Dr. Barney Glaser, co-founder of grounded theory.

**Survey Monkey.** Survey Monkey is a leading provider of web-based survey solutions. Survey Monkey provides customer satisfaction surveys, performance reviews, market research, and other types of surveys to help researchers gain the insights they need to make more informed decisions. Customers include 100% of the Fortune 100 as well as a variety of other large and small businesses, academic institutions, and

organizations. Customers use Survey Monkey to gather all types of feedback, including customer satisfaction, course evaluations, event scheduling, and employee performance reviews (Survey Monkey, 2011).

*NVivo 9.* The NVivo 9 data analysis software is designed to help researchers access, organize, and analyze unstructured information in documents, pictures, audio, video, spreadsheets, and database tables. The NVivo software is different from statistical or quantitative software used to analyze numerical data (QSR International, 2011). Academics, social scientists, students, healthcare professionals, and researchers use NVivo 9 to explore information and make discoveries that help make better decisions (QSR International, 2011).

*Microsoft Excel.* Microsoft Excel is a popular spreadsheet program. Multiple uses include analysis of many types of numerical, statistical, and other data. In the current study, the powerful features of Microsoft Excel 2010 were used.

### **Demographics and Characteristics of the Delphi Study Sample and Population**

The participants who comprised the Delphi panel came from seven primary sources. The participants were members of the four main business valuation societies in the United States: the Institute of Business Appraisers (IBA), the National Association of Certified Valuators and Analysts (NACVA), the American Institute of Certified Public Accountants (AICPA), and the American Society of Appraisers (ASA). The Delphi participants were also professional securities analysts, several of whom were members of the CFA Institute. Other members of the Delphi panel were individuals with a minimum of 2 years of experience in management consulting or investment banking. A few other

individuals who were included on the panel had similar experience and backgrounds to that of the other panel members.

A cross-section of professionals and non-professional entrepreneurs supported obtaining a broad spectrum of viewpoints on the subject of value drivers. The original Delphi panel included 5 business managers (including one investor relations professional and one sales executive), 4 business valuation practitioners, 5 business brokers; 6 securities analysts; 2 entrepreneurs; 4 business school professors; 4 investment bankers, private equity managers, and/or investment fund managers; 4 private investors/angel investors; 2 securities attorneys; and 7 management consultants.

The target number of participants for the Delphi study was 50, with a minimum threshold of 30 participants. A sample of 30 participants is the minimum threshold, according to Delbecq et al. (1975) who stated, “Our experience indicates that few new ideas are generated within a homogeneous group once the size exceeds thirty well-chosen participants” (p. 89). The overall number of participants helped balance (a) the need for an adequate sample to achieve reliable results and (b) the need to prevent having such a large group of participants that analysis would become overwhelming. The actual numbers of participants were 43 in the first round, 39 in the second round, and 37 in the third round. The number of participants in each round was different because some participants dropped out to meet other commitments.

### **Data Analysis of Major Themes and Research Questions**

The grounded theory method assists in generating a theory from data. The purpose of the study was to generate a theory of value drivers, and the basis for the new

theory was the literature reviewed. The study began with the intent of identifying and classifying value drivers using a Delphi study.

In conducting the literature review, an identification and classification scheme of (a) value drivers, (b) relationships among value drivers, and (c) other elements that constitute a theory began emerging. At such a juncture, consideration was given to using the grounded theory method to develop a theory of value drivers. After extensive research of theory development in general and grounded theory in particular, the decision was made to use the grounded theory method to generate a theory of value drivers.

The identification and classification scheme of (a) value drivers, (b) relationships among the value drivers, and (c) other elements that emerged from the literature review as part of the grounded theory study was analyzed. Extensive memo writing was conducted during and after the literature review to capture the essential elements that would be used in constructing the theory of value drivers. The memo writing and analysis of the results of the literature review resulted in the first development of the theory of value drivers, which was the focus of the current paper.

The Delphi method facilitated enhancing the theory of value drivers as well as confirming and modifying the theoretical model of value drivers derived from the review of the literature and the grounded theory approach. The Delphi study generated several specific themes. The next subsections include a discussion of the themes and the results from the Delphi study as they apply to each of the themes.

**What are value drivers?** A review of the responses to the first question in the first questionnaire (i.e., How would you define value drivers?) revealed that all panelists, except one who did not answer the question, focused on the effect of value drivers on the

value of an enterprise. For example, one respondent said, “Value drivers are anything that increase the value of your company or product/service. They can be in the tangible form of intellectual property, proprietary equipment, management team etc, and they can also be intangible like brand awareness or ‘going viral’.” Another panelist wrote, “Those things that create ongoing value in a business greater than its fundamental financials.”

The literature includes a wide range of descriptions of value drivers. Rappaport (1998), Copeland et al. (2000), and Scarlet (2001) described value drivers as any variable influencing the value of an enterprise. Woodcock (1992) defined value drivers as all internal and external drivers that can enable the creation or destruction of the enterprise in question (Kazlauskienė & Christauskas, 2008).

Five Delphi panelists mentioned the contribution that value drivers make to the competitive advantage of a firm. Six panelists emphasized that value drivers can be tangible or intangible. Twenty-three panelists mentioned the ability of value drivers to create value.

Three panelists emphasized the role of value drivers in making a business more attractive for sale. One panelist talked about financial and nonfinancial characteristics of value drivers. Three panelists talked about qualitative and quantitative value drivers.

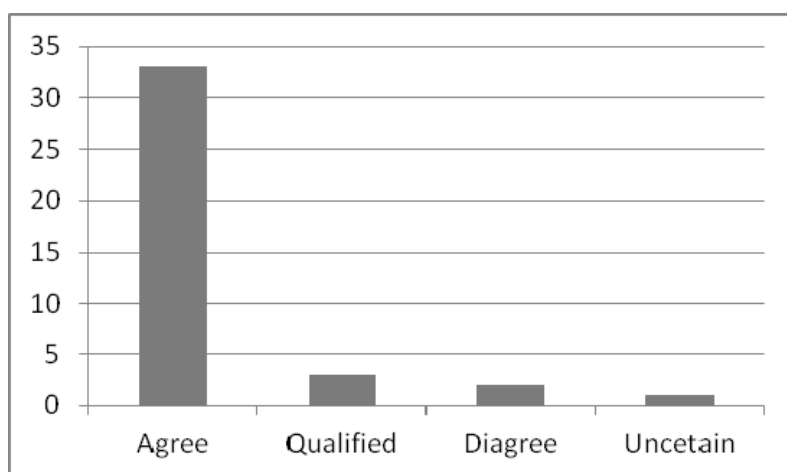
As a result of the responses in the first round, the first question in the second questionnaire was stated as follows: *A value driver is any variable that influences an enterprise’s value.* The Delphi panelists were asked to agree, disagree, or ask for clarification. Thirty-three respondents agreed. Three respondents agreed with some qualification (i.e., they agreed with the definition but had some qualifying comments).

Two panelists disagreed, and one gave no definitive answer either because of ignorance or uncertainty about the definition. The results of the second questionnaire are displayed in Table 1 and Figure 1. Because the respondents were nearly unanimous in their agreement with the definition in the second round, the question of the definition of value drivers was not included in the third questionnaire.

Table 1

*What Are Value Drivers?*

	Agree	Qualified	Disagree	Uncertain	Total
Questionnaire 2	33	3	2	1	39



*Figure 1.* What are value drivers?

**How do value drivers exert an effect on business value?** The Delphi panelists had varied responses to this question. Twenty-two responses did not fit into any special distinguishable category of responses. Eight respondents discussed the possible effects of value drivers on business value as related to various valuation methodologies.

One panelist specifically mentioned the Gordon Growth Model valuation methodology as being the value transmission mechanism. Five panelists discussed the



influence of value drivers on such business elements as acquiring new customers, corporate sustainability, revenues, and cash flows. Seven panelists did not answer the question.

As a result of the responses to the question pertaining to the effect of value drivers on business value, the second question of the second questionnaire was oriented toward the discounted cash flow model, which is a predominant valuation model used in business valuations. The question was stated as follows:

Value drivers exert their influence on the value of an enterprise by operating, directly or indirectly, through the discounted cash flow model (DCF model). The DCF model derives the value of an enterprise's operations, and with some modifications, derives the total value of the enterprise.

Twenty respondents agreed with the statement, 15 respondents disagreed, and four gave no definitive response. The majority of the respondents agreed that value drivers exert their influence on the value of an enterprise by operating, directly or indirectly, through the discounted cash flow model (DCF model). Some of the respondents who did not agree suggested that some value drivers do not operate through the DCF model. For example, one respondent said, "Value drivers may exert their influence in a number of ways, not just the DCF." Some respondents objected on the basis that not all value drivers can be quantified. For example, one respondent wrote, "Not all value drivers can be quantified. Competitive advantage of a company cannot be quantified. Barriers to entry cannot be quantified."

Examples of value drivers that might not operate through the DCF model are value drivers that cannot be easily quantified, such as competitive advantage, social

capital, barriers to entry, public relations, intangibles, prestige, and non-financial drivers. Accordingly, the question dealing with how value drivers exert their influence on value was revised in the third questionnaire to include a statement specifically addressing this issue. The question in the third questionnaire was revised to include the following statement:

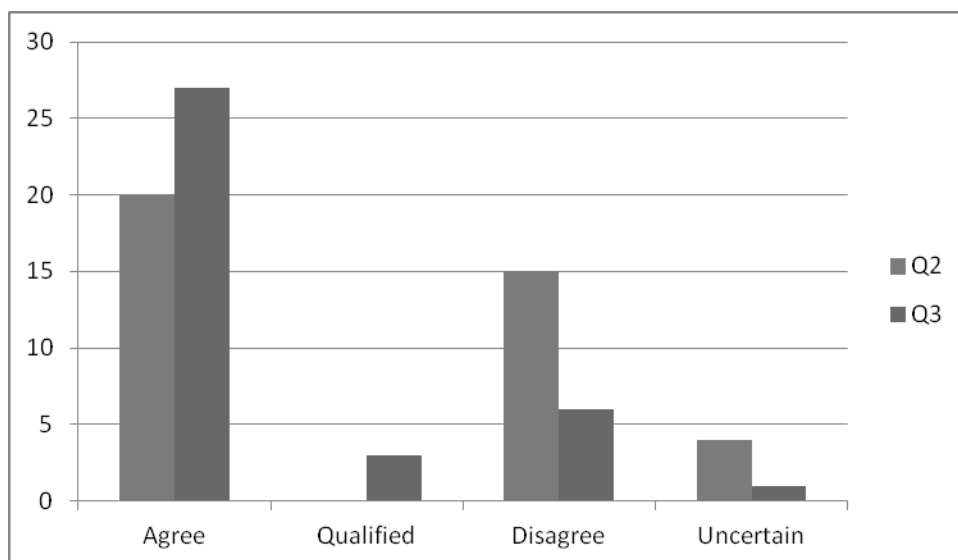
Value drivers exert their influence on the value of an enterprise by operating, directly or indirectly, through the discounted cash flow model (DCF model). The DCF model derives the value of an enterprise's operations, and with some modifications, derives the total value of the enterprise. It is recognized that the DCF model is one of the fundamental approaches to valuing assets. While it may not always be possible to estimate cash flows and other components of the DCF model for some value drivers, value drivers are nonetheless exerting their influence on value through the DCF model. In other words, for a value driver to create value, it must ultimately produce cash flows that are incorporated into the DCF model on a discounted cash flow basis. If a value driver does not produce cash flows, there is no value created. Accordingly, at least in a theoretical context, the DCF model is an appropriate method to consider the effects of all value drivers, whether they are measurable or not.

In the results from the third questionnaire, 27 respondents agreed with the statement, three respondents agreed with some qualification, six respondents disagreed, and one respondent gave no definitive answer. As was intended, the third questionnaire achieved a higher consensus in the affirmative on this topic. The results for the second and third questionnaires are displayed in Table 2 and Figure 2.

Table 2

*How Do Value Drivers Exert an Effect on Business Value?*

	Agree	Qualified	Disagree	Uncertain	Total
Questionnaire 2	20	0	15	4	39
Questionnaire 3	27	3	6	1	37

*Figure 2.* How do value drivers exert an effect on business value?

**Interrelationship among value drivers.** The Delphi panelists indicated that value drivers are interrelated in many ways. Twenty-nine panelists agreed that value drivers are interrelated. Only two panelists qualified their opinion that value drivers are interrelated by noting that value drivers may be interrelated in some cases. Two panelists stated that value drivers can stand alone. Ten panelists did not answer the question. One panelist summed up the interrelationship among value drivers as follows:

Yes, the value drivers rarely stand alone. Efficient management can lead to efficient use of capital and human resources creating a profitable company with a good name that is great to work for. Or you may have brand equity (Apple) which leads to a loyal customer base and a product that many smart phone users can't

live without. To me it would almost be impossible to have one value driver stand alone and if there was a case of that it would be short lived with the company soon failing.

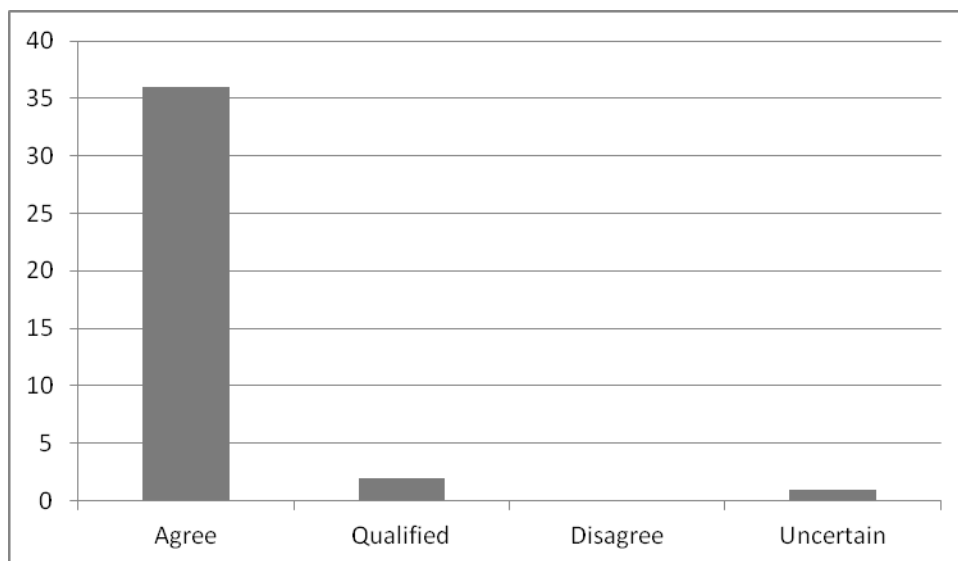
Accordingly, the third question of the second questionnaire was the following statement: *Value drivers are interrelated in a myriad of ways. They rarely, or never, stand alone. They do influence each other.*

Thirty-six respondents in the second questionnaire agreed, two agreed with some qualifications, none disagreed, and one gave no definitive answer. The results of the second questionnaire are displayed in Table 3 and Figure 3. Because the respondents were nearly unanimous in their agreement on the second questionnaire that value drivers are interrelated, the question of the interrelatedness was not included on the third questionnaire.

Table 3

*Interrelationship Among Value Drivers*

	Agree	Qualified	Disagree	Uncertain	Total
Questionnaire 2	36	2	0	1	39



*Figure 3.* Interrelationship among value drivers.

**Categorization of value drivers.** In the first questionnaire, no consensus occurred on how value drivers should be categorized. Such result was consistent with the results regarding categorization in the literature reviewed. The Delphi panel participants suggested categorization schemes such as (a) financial and operational, (b) quantitative and qualitative, (c) internal and external, (d) current and future, and (e) tangible and intangible. The panelists made many other suggestions for categorizations.

One scheme that seemed particularly useful was stated as (a) endogenous drivers with primary drivers and secondary drivers, and (b) exogenous drivers with primary drivers and secondary drivers. The scheme was consistent with useful categorizations in previous literature and with the theory of value drivers that had emerged at this point in the current study. Accordingly, the fourth question in the second questionnaire was stated as follows:

The major categories that will be used in this study to categorize all value drivers are as follows: Value drivers are endogenous (originating internally) and are

primary or secondary; or they are exogenous (originating externally) and are primary or secondary.

Twenty-seven respondents agreed with this classification, three agreed with some qualification, three disagreed, and six gave no definitive answer. The results of the second questionnaire are displayed in Table 4 and Figure 4. Because the respondents were nearly unanimous in their agreement on the second questionnaire regarding the classification scheme, the question of the classification scheme was not included on the third questionnaire.

Table 4

*Categorization of Value Drivers*

	Agree	Qualified	Disagree	Uncertain	Total
Questionnaire 2	27	3	3	6	39

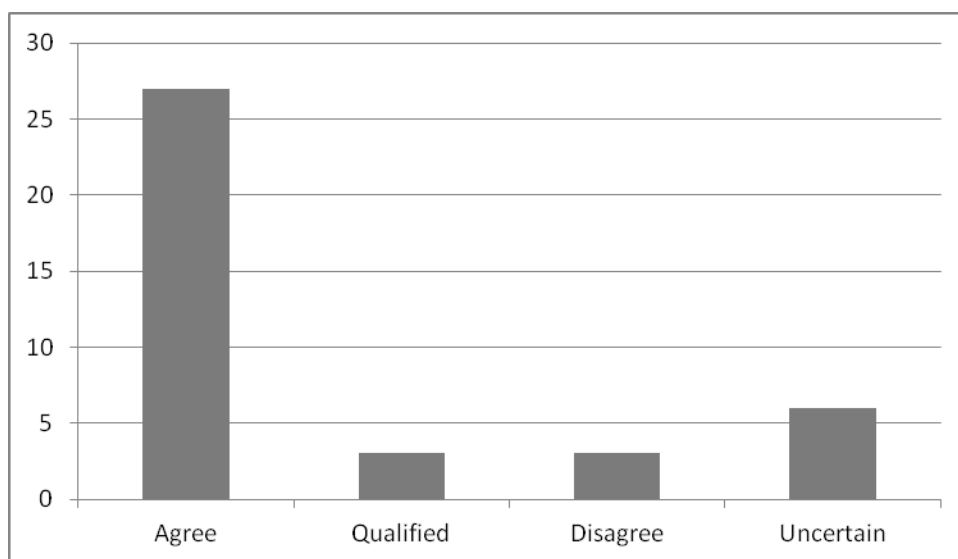


Figure 4. Categorization of value drivers.

**Value drivers can be positive, negative, or both.** The Delphi panelists were asked whether value drivers can have a negative effect on value or whether they can have

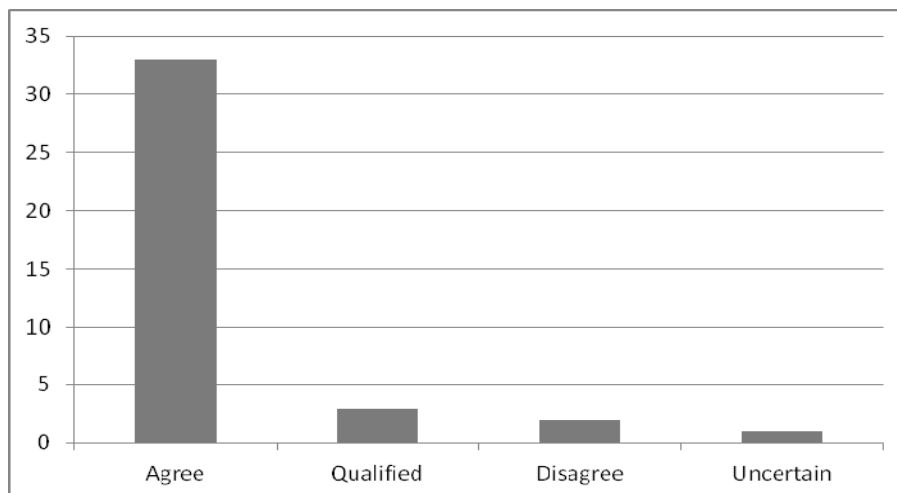
both a positive and negative effect on value. Thirty-two panelists responded that value drivers can have a negative, positive, or both effect on value. Two panelists said that value drivers cannot have positive and negative effects on value at the same time. Two panelists said that value drivers cannot have a negative effect on value. Nine panelists did not answer the question. In an example of how value drivers can be both positive and negative, one respondent wrote, “Just as anything can be positive it can be negative. Example: You could patent something and it could create a meaningful barrier to entry. You could patent something and you end up very distracted and spending millions of dollars defending it.

Accordingly, the fifth question of the second questionnaire stated, *Most value drivers can have a positive or negative effect on value; or can have both a positive and negative effect on value.* In the second round, thirty-three respondents agreed that value drivers can have positive, negative, or positive and negative effects, three agreed with some qualification, two disagreed, and one gave no definitive answer. The results of the second questionnaire are displayed in Table 5 and Figure 5. Because the respondents were nearly unanimous in their agreement on the second questionnaire that value drivers can have positive, negative, or both positive and negative effects, the question was not included in the third questionnaire.

Table 5

*Value Drivers can be Positive, Negative, or Both*

	Agree	Qualified	Disagree	Uncertain	Total
Questionnaire 2	33	3	2	1	39



*Figure 5.* Value drivers can be positive, negative, or both.

**Luck (randomness) as a value driver.** The topic of luck produced an interesting array of responses. In general, many of the Delphi panelists had difficulty accepting luck as a factor in the success or failure of an enterprise. Six respondents expressed the firm conviction that luck is not a value driver. Thirty respondents concurred with the notion that luck influences value and that the influence of luck can at times be substantial. Eleven panelists acknowledged that luck is a factor in valuation but that luck cannot be controlled, quantified as a factor influencing value, or transferred to other enterprises.

One respondent suggested using risk management techniques to control for bad luck. Ten respondents advanced the idea that people make their own luck. Seven panelists did not answer the question. In separate interviews outside of the Delphi study, two very successful real estate entrepreneurs stated that they felt luck contributed to a significant extent to their success. Accordingly, the sixth question of the second questionnaire stated,

Luck is a value driver and should be considered in the analysis of value drivers. It may not be quantifiable or controllable, but it does have some influence on the



determination of the value of a firm and should at least be considered in one's analysis.

Twenty-five panelists agreed that luck is a value driver, one agreed with some qualification, and 13 disagreed.

Most of the respondents expressed the belief that luck plays a role in determining value. The main difference of opinion between the individuals who agreed and those who did not agree was whether to include luck in an analysis of or as a consideration of value drivers. For the new theory in the current study, the inclusion of luck as a factor in driving value seemed appropriate as supported by Leonard Mlodinow, a professor at Caltech. Mlodinow (2008) observed,

When we look at extraordinary accomplishments in sports – or elsewhere – we should keep in mind that extraordinary events can happen without extraordinary causes. Random events often look like nonrandom events, and in interpreting human affairs we must take care not to confuse the two. Though it has taken many centuries, scientists have learned to look beyond apparent order and recognize the hidden randomness in both nature and everyday life. (p. 20)

It may not always be possible to quantify the effect of luck on value determination or to control for luck, but luck plays a role that, no matter how uncertain, should be recognized.

Some of the respondents suggested that success or failure is solely based on preparedness or lack of preparedness, so people make their own luck. A popular notion is that good luck comes when opportunity meets preparedness. Such notion is not

inconsistent with the ideas on luck presented in the question and implicitly recognizes the existence of luck in the form of opportunity.

Given these results, the question about luck in the third questionnaire was left as originally presented in the second questionnaire, but the question included a discussion. In the third questionnaire, 22 respondents agreed that luck is a value driver, six agreed with some qualification, and nine disagreed. As was intended, the third questionnaire achieved a higher overall consensus on the topic of luck, but it came in the form of three less absolute agreements and five more conditional agreements. The results for the second and third questionnaires are displayed in Table 6 and Figure 6.

Table 6

*Luck (Randomness) as a Value Driver*

	Agree	Qualified	Disagree	Uncertain	Total
Questionnaire 2	25	1	13	0	39
Questionnaire 3	22	6	9	0	37

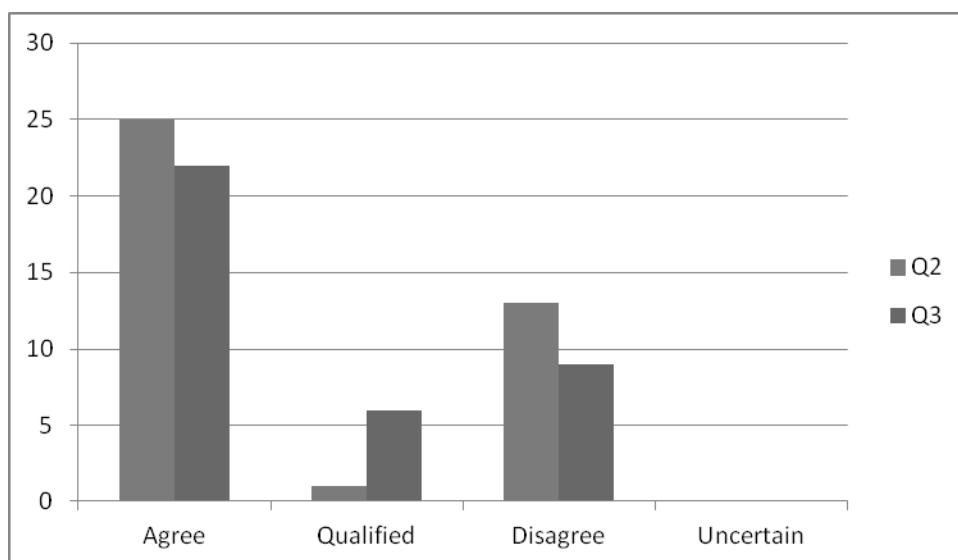


Figure 6. Luck (randomness) as a value driver.

**Value-neutral actions.** Most of the respondents did not appear to understand that a few very specific actions, such as stock splits, are considered by most finance scholars to be value neutral. Eighteen panelists acknowledged that some actions do not affect value. The examples given in these cases were such things as business planning and an overabundance of business meetings.

Thirteen Delphi respondents said that all actions affect business value. Three panelists said that all actions affect value but that some actions might not affect value significantly. Twelve panelists did not answer the question. Accordingly, the seventh question of the second questionnaire stated,

There are some actions that managers of a business can take which have no effect on value (i.e. these actions would be considered to be value-neutral). Actions that do not affect cash flows, the expected growth rate, the length of the high growth period, or the cost of capital do not affect value (Damodaran, 2002). An example would be a stock split, which would not affect the value of the firm although it might affect the price of the stock.

In the second questionnaire, 25 respondents agreed that some value actions are neutral, six agreed with some qualification, and eight disagreed.

Most of the respondents agreed with the notion that some actions by business managers have no effect on value. The participants also generally agreed with the stock split example given, but they recognized that, even if a stock split has no direct effect on value, a stock split can have an indirect effect on value by affecting the stock price. Accordingly, the question on value-neutral actions for the third questionnaire was modified as follows:

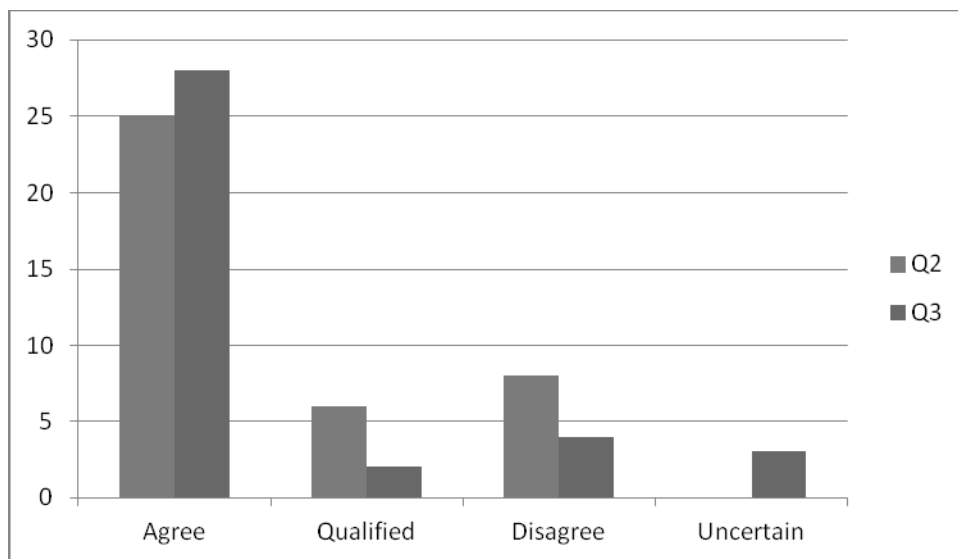
There are some actions that managers of a business can take which have no effect on value (i.e., these actions would be considered to be value-neutral). Actions that do not affect cash flows, the expected growth rate, the length of the high growth period, or the cost of capital do not affect value (Damodaran, 2002). An example would be a stock split, which would not affect the value of the firm (although it might affect the price of the stock). Because of the effect on the stock price and other possible indirect effects of any action that a manager might take- while there may technically be a few value-neutral actions-most, if not all of the actions taken by a manager, will probably have some effect on value, either directly or indirectly.

Twenty-eight respondents in the third round agreed with the revised statement regarding value-neutral actions, two agreed with qualifications, four disagreed, and three gave no definitive answer. As intended, the third questionnaire achieved a greater consensus on this topic. The results for the second and third questionnaires are displayed in Table 7 and Figure 7.

Table 7

*Value-Neutral Actions*

	Agree	Qualified	Disagree	Uncertain	Total
Questionnaire 2	25	6	8	0	39
Questionnaire 3	28	2	4	3	37



*Figure 7.* Value-neutral actions.

**The 10 most important value drivers.** A major theme of the study was the identification of specific value drivers and a ranking of the value drivers. Each of the three rounds of questionnaires included a question asking the Delphi panel to rank order what they believed to be the 10 most important value drivers. Panelists were also asked in each of the questionnaires to list any value driver that had not been discussed in any of the rounds that they believed should be included in the ranking.

In the second and third questionnaires, the new value drivers that panelists listed were included in the 10 most important value drivers. The final list of value drivers, from the results of the third and final questionnaire, rank-ordered from the most important to the least important, is shown in Table 8 of Chapter 5 and in Appendix G.

In the first questionnaire, the original 44 value drivers that had been identified in the literature review were listed separately for the panelists to review and rank on a 5-point Likert-type scale. The results of the first ranking were combined with the results of

the 10 most important value drivers ranking to derive the initial list of rank-ordered value drivers shown to the Delphi panel in the second questionnaire.

### **Summary**

The purpose of the qualitative study, using the grounded theory and Delphi method research designs, was to explore the effect of business value drivers on the valuation of businesses in the United States and to propose a theory of value drivers. A Delphi study was conducted using an initial panel of 43 participants. The grounded theory approach for developing theories was an additional approach used in the study. Chapter 4 included a detailed analysis of the Delphi and grounded theory study. A pilot study conducted to test the questions provided the basis for the Delphi questionnaires and facilitated triangulation of the results of the Delphi study by comparing the results of the pilot study group with the results of the main Delphi study group.

Data analysis led to the identification of emerging themes on the topic of business value drivers. The presentation and analysis in Chapter 4 included details about the method of data analysis to identify themes pertaining to the central phenomenon and the research questions. The following was the primary research question for the study: *What are the value drivers for businesses in the United States, and how do they affect business value?* The question provided the structure for the study, the research, and the results. The study results included several themes addressing the research questions and facilitating the development of a new theory of value drivers.

Chapter 5 includes interpretations of the results of the study carried out with the Delphi method and the grounded theory design. The chapter further includes details about the theory of value drivers derived from the grounded theory and Delphi research.

Chapter 5 concludes with purposes and uses of the new theory of value drivers and with recommendations for future research.

## **Chapter 5: Conclusions, Implications, and Recommendations**

The purpose of the qualitative study, using the grounded theory and Delphi method research designs, was to explore the effect of business value drivers on the valuation of businesses in the United States and to develop a theory of value drivers. The following was the primary research question for the study: *What are the value drivers for businesses in the United States, and how do they affect business value?* A Delphi study was conducted using an initial panel of 43 participants. The grounded theory design for developing theories was added to complete the study. Chapter 5 includes interpretations of the results of the current research, details of the theory of value drivers, and recommendations for future research.

The present chapter includes a comparison of the theory of investment value (Williams, 1938) and the theory of value drivers developed in the current study. A brief history of present value concepts and of the discounted cash flow approach to valuation serves as background information. In Chapter 5, the importance is highlighted of positioning the new theory of value drivers in the contexts of history, theory, and practice in the field of finance. The development of the theory of value drivers was a process of discovery.

### **Problem Statement**

A central focus for business enterprise leaders is the creation of value for the company shareholders. Many definitions of value exist. The definition of value used in the current study was Buffett's (1996) intrinsic value based on the discounted cash flow concept.



Buffett (1996) stated, “Intrinsic value can be defined simply: It is the discounted value of the cash that can be taken out of a business during its remaining life” (p. 11). A value driver can be defined as any variable that influences the value (i.e., the intrinsic value) of an enterprise (Kazlauskienė & Christauskas, 2008). The presence and use of value drivers is what creates or destroys value in business enterprises.

The problem was that the discussion of business value drivers and their effect on business valuation in the scholarly literature is fragmented, and no unified approach exists for the identification and classification of such drivers (Kazlauskienė & Christauskas, 2008). An exhaustive review of the literature revealed no theory of value drivers. Business managers and analysts operate in an environment where they try to create and analyze the creation of value, but they have no defined way in which to understand the creation of value. Without such framework, business managers waste efforts or become counterproductive, and analysts produce incorrect analysis. The wasted and counterproductive efforts of business managers can lead to the undesirable destruction of shareholder value.

According to Creswell (2005), two conditions indicate a problem should be researched: “Study the problem if your study will fill a gap or void in the existing literature . . . . Study the problem if your study informs practice” (p. 64). A review of the literature revealed a lack of studies pertaining to value drivers for public and privately-held businesses. The current study results help fill the void in the existing literature and make a contribution to informing practice in the fields of (a) public and private company valuation, (b) private company characteristics, (c) private company financing, (d) private capital markets theory, and (e) business brokerage as it pertains to value drivers and their

effect on valuation. The current qualitative study involved exploring the effect of business value drivers on the valuation of businesses in the United States and resulted in the development of a theory of value drivers. The new theory might help business managers and business analysts to better understand what creates value in their business enterprises.

### **Purpose Statement**

The purpose of the qualitative study, using the grounded theory and Delphi method research designs, was to explore the effect of business value drivers on the valuation of businesses in the United States and to propose a theory of value drivers. The Delphi method was the primary research design in the current study. According to Linstone and Turoff (2002), “Delphi may be characterized as a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem” (p. 3). Linstone and Turoff further noted that a Delphi study, which is a “structured communication” (p. 3) process, provides feedback on individual contributions, assessment of the group judgment, an opportunity for revision of original views, and anonymity.

### **Methods**

The grounded theory approach for developing theories was added to the general design of the study. Grounded theory is a useful method for generating a theory from data and was used to develop the initial theory of value drivers. The coded results of the literature review comprised the data used to generate the initial theory. The use of the Delphi method assisted in (a) adding to and modifying the theory and (b) confirming the initial theory based on the results of the literature review.

The central phenomenon of the study was value drivers for businesses. The following was the primary research question for the study: *What are the value drivers for businesses in the United States, and how do they affect business value?* The study population consisted of business valuation experts, professional securities analysts, investment bankers, management consultants, entrepreneurs, and people with similar backgrounds. The participants formed a Delphi panel.

### **Limitations and Delimitations**

The greatest externally imposed limitation on the current study was the focus on companies domiciled in the United States. Future researchers should consider including companies domiciled in countries other than the United States. The greatest researcher imposed delimitation was the time and cost involved in conducting the study.

The research part of the study took 11 months to complete. Access to industry organizations facilitated the collection of information. The relatively large Delphi panel consisted of geographically dispersed and busy professionals who were asked to complete three lengthy questionnaires.

### **Ethical Dimensions**

The study involved research on value drivers for businesses and did not include collecting data about human subjects. The questionnaires included general topics pertaining to value drivers and did not review the value drivers applicable to any specific enterprise. No known ethical dimensions applied to the current research.

### **Central Phenomenon and Research Questions**

The central phenomenon of the study was value drivers for businesses. The following was the primary research question for the study: *What are the value drivers for*

*businesses in the United States, and how do they affect business value?* The following other research questions guided the study:

RQ1: What are value drivers?

RQ2: What are the possible value drivers?

RQ3: What are the characteristics of value drivers?

RQ 4: What is the relative importance of each of the value drivers?

RQ 5: What effect do the drivers have on the value of a business?

RQ 6: Does an interrelationship exist between the value drivers and, if so, what is the interrelationship?

RQ 7: How should the value drivers be categorized?

From these research questions, and using the research generated by the literature review and the Delphi study, the theory of value drivers was developed. There are several parts to the theory of value drives, as will be explained in the following sections. The next section describes where the theory of value drivers fits in an historical context and relative to the theory of investment value.

### **The Theory of Value Drivers**

In 1938, J. B. Williams wrote his Ph.D. thesis on the subject of investment valuation while at Harvard University. The thesis was entitled, *The Theory of Investment Value*. Williams' main intent in writing his thesis was “codifying the Theory of Investment Value and making it into a department of Economics as a whole” (p. vii). Williams’ thesis popularized the dividend valuation model (Rutterford, 2004), which is one of the many discounted cash flow approaches to business valuation. Williams' work

was perhaps the first book to link the present value concept to dividends (Damodaran, 2006).

In defining investment value, Williams (1938) specified that

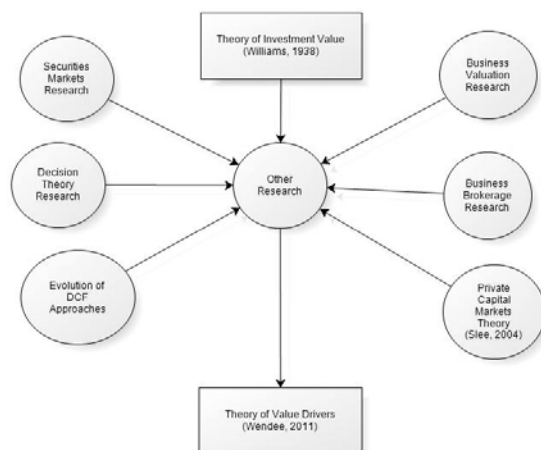
To appraise the investment value, then, it is necessary to estimate the future payments. The annuity of payments, adjusted for changes in the value of money itself, may then be discounted at the pure interest rate demanded by the investor.

(p. 55)

While Williams (1938) made a strong case for the present value concept being an appropriate methodology for valuing investments, he produced little discussion of the factors that create the dividends or other cash flows upon which value is based.

Discussions of those factors, termed value drivers, have been generally lacking and inadequate. After 73 years since Williams' thesis, the objective of the current paper was to address the important subject of value drivers and included a theory of value drivers.

Although it has taken 73 years, the current paper is the next logical step in a natural progression from the theory of investment value proposed by Williams (1938) to the theory of value drivers in the current paper. The rationale for having a theory of value drivers is that, if an investment or asset is to have value, there must be factors that give rise to that value. Those factors are known as value drivers, and the identification, analysis, and understanding of value drivers was the focus of this paper and the theory of value drivers. Enterprise managers continuously attempt to identify and implement the value drivers that give rise to valuation in their organizations. Until now, managers have had no formal theory of value drivers and little discussion of the nature and characteristics of value drivers.



*Figure 8.* Evolution from the theory of investment value to the theory of value drivers.

**Difference from other studies and theoretical positioning.** The current study differs from other studies in four important ways. First, the few other studies on value drivers were limited to one or a few value drivers. In the cases where several value drivers have been discussed (e.g., Damodaran, 2002; Prat et al., 1998; Rappaport, 1998), the discussions of the characteristics and properties of the value drivers have been limited. Many such studies were included in the literature review in Chapter 2. The current paper greatly extends the notions, ideas, and concepts from previous studies.

Second, the current paper includes a comprehensive classification scheme for value drivers. As Kazlauskienė and Christauskas (2008) discuss, only a few previous researchers presented classification schemes. The classification scheme in the current paper is quite different from the schemes presented in other studies. In addition to a comprehensive classification scheme, the current study includes many more characteristics and properties of value drivers than previous studies.

Third, the current study includes 72 specific value drivers identified through the literature review and the Delphi study. The 72 value drivers have been ranked in the order of importance that the Delphi panel felt was appropriate and grouped into quintiles

for easier review and understanding. The 72 value drivers are part of the theory of value drivers, but individually identified value drivers can be used along with the other elements of the theory to identify and understand the value drivers that are important to a particular enterprise.

Fourth, the current paper consolidates the material from the literature reviewed and the results of the research conducted through the Delphi panel and grounded theory study. The data were consolidated into the theory of value drivers. Similar to the work done by Williams (1938) in creating the theory of investment value, the theory of value drivers should be considered a finance theory. As finance is a branch of economics, the theory of value drivers should also be considered a part of the economics literature. All of this has been a process of discovery as will be explained next.

**A process of discovery.** Glaser and Strauss (1967) placed emphasis on “the discovery of theory from data systematically obtained from social research” (p. 2). The theory of value drivers was discovered and generated with the grounded theory method suggested by Glaser and Strauss. The current study became a process of discovery in two crucial ways.

The relationships, characteristics, and properties of the theory of value drivers have always existed. They have perhaps evolved in certain ways over time, but as long as humans have been involved in some form of commerce, value drivers have been in the foreground and background exerting their influence. The characteristics, properties, and relationships of value drivers discovered in the current study began emerging during the review of literature.

Once it became apparent that a theory was emerging from the literature review (Glaser, 1998; Glaser & Strauss, 1967), the decision was made to pursue a grounded theory approach. From this point forward, the discovery of the theory of value drivers began taking place. The present paper codifies the results of the literature review and the Delphi study that generated the theory of value drivers.

Much later in the study, it was discovered that the theory of value drivers might be the next logical step in a progression of ideas on investment valuation that started with the generation of a theory linking present value concepts with investment value, codified by Williams (1938), and called the theory of investment value. Williams' theory codified how investment value is determined, and the theory of value drivers codifies how investment value is created. Once this discovery was made, it was decided to explicitly discuss that the new theory is perhaps the next logical step in a natural progression of ideas on valuation. This relationship is illustrated in Figure 8. In order to better understand how Williams' theory relates to the theory of value drivers through the concepts of present value and discounted cash flow, the next section will present a brief history of present value and discounted cash flow valuation.

#### **A brief history of present value and discounted cash flow valuation.**

Valuation methodologies using present value concepts and discounted cash flow have existed for several hundred years but have changed and evolved considerably over time. According to Parker (as cited in Damodaran, 2006), the first interest rate tables date back to 1340. Simon Stevin, a Flemish mathematician published in 1582 one of the first textbooks on financial mathematics that established an early foundation for present value (Damodaran, 2006). In the late 19th and early 20th centuries, A. M. Wellington, a civil



engineer, and Walter O. Pennell, an engineer at Southwestern Bell, developed and used present value concepts in their work in the railway and telephone industries (Damodaran, 2006).

In the United Kingdom, in the late 1800s, Armstrong, a mining engineer, used discounted cash flow to value mine leases (Rutterford, 2004). An even earlier use of discounted cash flow analysis arose in 1801 in the Tyneside coal industry in the United Kingdom for valuing coal mining interests (Brackenborough, McLean, & Oldroyd, 2001). In the United States, in 1932, G. Preinreich argued for using discounted cash flow techniques for valuing growth firms (Rutterford, 2004). Many other individuals contributed on both sides of the Atlantic to the development of concepts in present value, discounted cash flow, and valuation using these methodologies, but Irving Fisher (1906, 1907, 1930) and J. B. Williams (1938) are generally credited with formalizing the concepts of present value and discounted cash flow analysis and codifying them in economic terms and in economic theory (Damodaran, 2006; Rutterford, 2004; Stone, 2008). The next section will discuss the elements of the theory of value drivers.

**The propositions of the theory of value drivers.** The present section includes a discussion of the elements of the theory of value drivers. These elements follow from the research conducted in the study and included in the discussion of the results in Chapter 4. The elements are presented and discussed as a series of propositions. Figures 9 through 12 graphically depict the relationships and properties of the theory of value drivers. The discussion of the propositions refers to Figures 9 through 12 as appropriate.

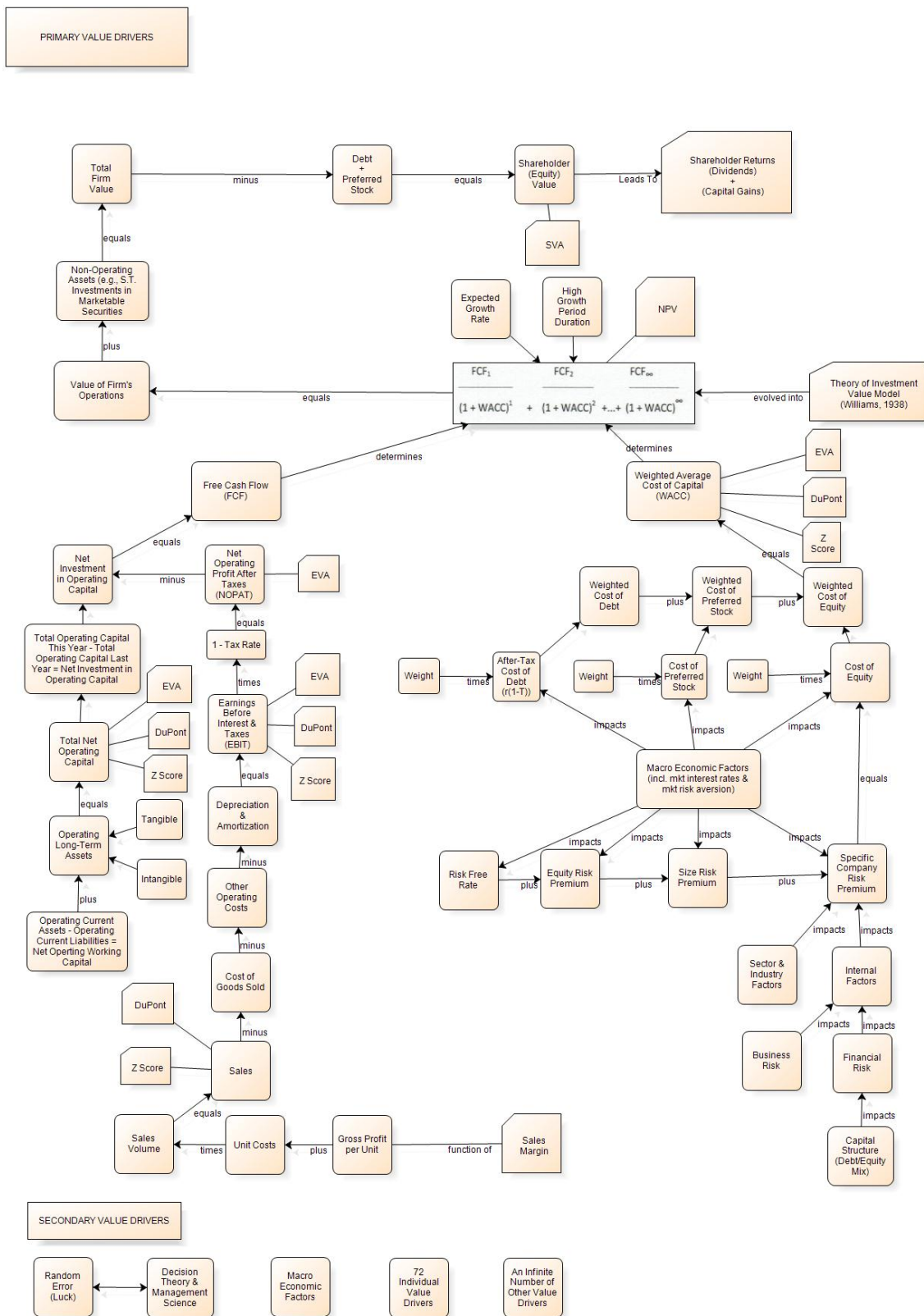


Figure 9. The theory of value drivers possibilities frontier and value driver chain.

Figure 9 was developed from the theory of value drivers and the following sources: Brigham and Ehrhardt (2011), Damodaran (2002), Kazlauskienė and Christauskas (2008), and Rappaport (1998).

**Proposition 1-Definition.** A value driver is any variable that influences the value of an enterprise (Kazlauskienė & Christauskas, 2008). The proposition is illustrated in Figures 9 and 10 as the primary and secondary, endogenous and exogenous, value drivers.

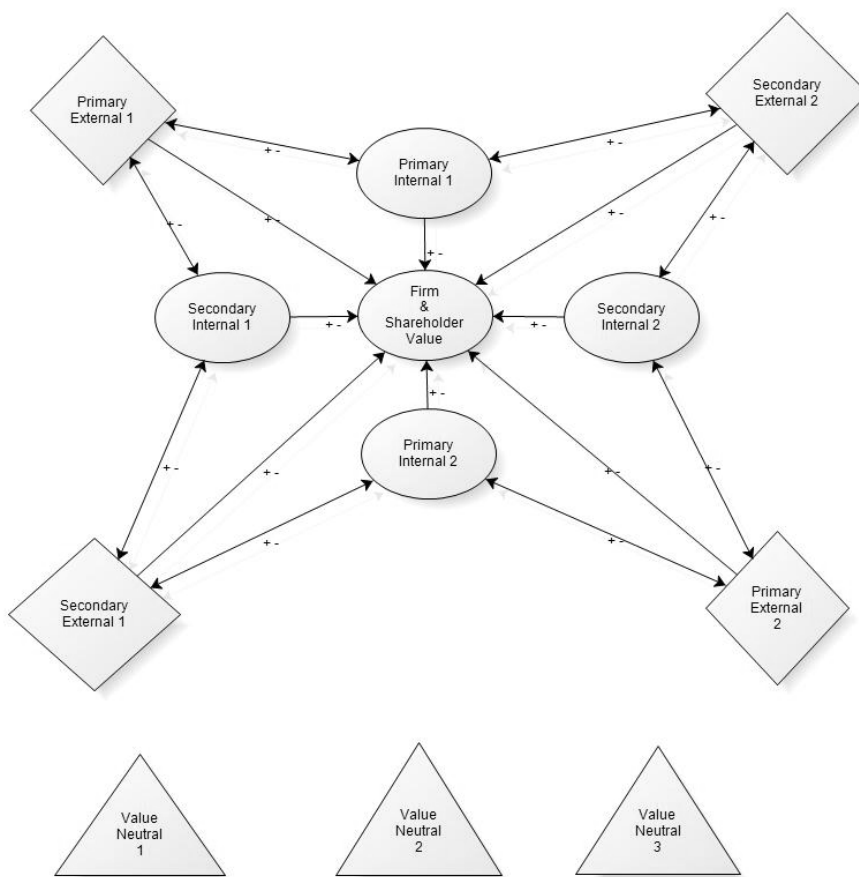


Figure 10. Value drivers effect on shareholder value.

**Proposition 2–Discounted Cash Flow (DCF) model.** Value drivers exert their influence on the value of an enterprise by operating, directly or indirectly, through the discounted cash flow model (DCF model) (for a discussion of the DCF model, see

Brigham & Ehrhardt, 2011; Damodaran, 2002, 2006; Rappaport, 1998). The DCF model derives the value of an enterprise's operations, and with some modifications, derives the total value of the enterprise (Brigham & Ehrhardt, 2011). The proposition is illustrated in Figure 9 with the DCF model being at the center (in the un-shaded box) of the relationships shown in Figure 9.

**Proposition 3–Value drivers always in operation.** All value drivers that affect a particular enterprise are at all times operating on the value of the enterprise through the DCF model. If the managers of an enterprise are explicitly considering the effects of a particular value driver on the enterprise's value, that value driver is operating in the foreground. If the managers of an enterprise do not recognize a particular value driver or are not at the present time considering the effect of a particular value driver on value, that value driver is operating in the background but is still affecting the value of the enterprise, whether recognized or not.

It is recognized that the DCF model is one of the fundamental approaches to valuing assets (Brigham & Ehrhardt, 2011; Damodaran, 2002, 2006; Rappaport, 1998). While it may not always be possible to estimate cash flows and other components of the DCF model for some value drivers, value drivers are nonetheless exerting their influence on value through the DCF model. For a value driver to create value, it must ultimately produce cash flows that are incorporated into the DCF model on a discounted cash flow basis.

If a value driver does not produce cash flows, there is no value created. At least in a theoretical context, the DCF model is an appropriate method to consider the effects of all value drivers, whether they are measurable or not. In Figure 9, the DCF model is at

the center of the chart (in the un-shaded box) and is disaggregated to show how the primary value drivers influence value through the DCF model.

**Proposition 4–Estimation of value driver inputs.** The effect on the value of an enterprise by any value driver, whether exogenous or endogenous, or a primary or secondary value driver, can be *estimated* using the DCF model. Because the theory of value drivers treats the assessment and undertaking of any value driver the same as the assessment and undertaking of any investment project for an enterprise, any value driver can be treated as a project for the enterprise. This approach is similar to the approaches suggested for the assessment of projects and business strategies suggested by Brigham and Ehrhardt (2011) and Rappaport (1998). The cash flows for any value driver can be estimated as one would estimate the cash flows for any other investment project for the enterprise. The cash flows for an individual value driver can then be evaluated for their effect on the overall cash flows of the firm.

**Proposition 5–Net present value.** Alternatively, individual value drivers can be evaluated using the Net Present Value (NPV) method of financial analysis. In such cases, the corporate finance rules of accepting the value driver project that has the highest positive NPV for mutually exclusive projects and accepting all positive NPV projects if independent projects are involved would apply as the value drivers are adding value to the firm (Brigham & Ehrhardt, 2011).

**Proposition 6-Interrelatedness.** Value drivers are interrelated in a myriad of ways. They rarely, or never, stand alone. They do influence each other. This is illustrated in Figure 10.

**Proposition 7-Classification.** Many classification schemes are possible (Kazlauskienė & Christauskas, 2008), but the major categories used in the theory of value

drivers to categorize all value drivers are (a) value drivers are endogenous (originating internally) and are primary or secondary or (b) value drivers are exogenous (originating externally) and are primary or secondary. This categorization is shown in Figures 9 and 10.

The primary value drivers consist of two parts and flow directly from the DCF model (for a discussion off the DCF model, see Brigham & Ehrhardt, 2011; Damodaran, 2002, 2006; Rappaport, 1998). The first part of the primary value drivers is shown as the disaggregated value drivers that flow into the Free Cash Flow (FCF) component of Figure 9. The second part of the primary value drivers is the disaggregated value drivers that flow into the Weighted Average Cost of Capital (WACC) component of Figure 9. The primary value drivers are directly traceable to value creation for the firm, given their direct relationship to the DCF model and the fact that they are part of the decompositions. While there may be a few individual differences, for the most part, the primary value drivers are the same for all business enterprises.

The secondary value drivers are all other value drivers not categorized as primary value drivers. Secondary value drivers are not as directly traceable to value creation for the firm because they do not have the direct relationship that the primary value drivers have to value creation. They may impact value creation directly or through the primary value drivers, but they operate through the DCF model like all value drivers. Theoretically, an infinite number of secondary value drivers exist, but some of the more important value drivers identified in the current study are shown in the list of 72 value drivers that are a part of Proposition 13 (see Table 8). Studying the primary value drivers may assist managers and analysts in identifying the secondary value drivers.

Table 8

*72 Most Important Value Drivers*

Quintile 1	Quintile 2
Competitive Advantage	Passion
Management	Business Model
Brand Equity	Leadership
Business Strategy	Intangibles
Customer Relations Management	Product Development & Commercialization
Human Resources and Human Capital	Competitive Environment
Intellectual Capital	Invention & Innovation
Vision, Purpose, & Mission	Customer Diversity
Executive Decision Making	Use of Technology
Cash Flow Return on Investment (CFROI)	Supply Chain, Purchasing, Suppliers, & Buyers
Strategic Market Position	Trust
Core Competencies	Luck
Financial Strategy & Management	Creativity and "Out-of-the-Box Thinking"
Quintile 3	Quintile 4
Scalability	Licensing Deals
Risk Management & Enterprise Risk Management	Value-Based Management
Functional Expertise	Sustainability & Social Responsibility
Discounted Cash Flow (DCF) Framework	E-Business
Operational Drivers	Blue Ocean Strategic Thinking
Shareholder Value Method	Value Drivers Specific to a Sale
Social Capital	Six Sigma
Financial Drivers	Firm Credibility
Patents & Copyrights	Non-Financial Drivers
Business Ethics	Management Science
Government & Political Relations & Connections	Agency Costs
Legal & Regulatory	Information Technology
Business Alliances	Tax Structuring in M&A Deals
Quintile 5	Unranked
Knowledge Sharing	Power
Corporate Communications & Relationships	First Mover Advantage
Franchise Value	Length of Time in Business
Strategic Business Units	Transformational Leadership
Corporate Real Estate Ownership	Thinking
Value Chain	Long-Term Orientation
Business Performance Management	Consumer Monopoly vs. Commodity-type
Business Architecture	Businesses
Economic Value Added (EVA)	
Balanced Scorecard	
Management Information Systems	
Risk in R&D Projects	
Real Options Theory	

**Proposition 8–Value driver effects can be positive, negative, or both.** Most value drivers can have a positive or negative effect on value, or they can have both a positive and negative effect on value (see also Kazlauskienė & Christauskas, 2008). These attributes are shown in Figure 10.

**Proposition 9–Luck is a value driver.** Luck is a value driver and should be considered in the analysis of value drivers. For a discussion of luck’s role in everyday affairs and business matters, see Mlodinow (2008) and Taleb (2011). Luck might not be quantifiable or controllable in all cases, but in nearly all situations luck has some influence on the determination of the value of a firm and should at least be considered in one's analysis. Luck is shown as a secondary value driver in Figure 9.

**Proposition 10–Luck can be quantifiable and controllable.** In many situations, luck is quantifiable and controllable. The fields of inferential statistics, stochastic modeling, and techniques such as Monte Carlo simulation, are designed to quantify and control for luck (also variously defined as uncertainty, randomness, and risk). In the current paper, luck was generally defined as randomness, based on Taleb’s (2001) suggestion who stated, “This book is about luck disguised and perceived as non-luck (that is skills) and, more generally, randomness disguised and perceived as non-randomness (that is, determinism)” (p. 1).

Another way to view luck is to think about luck as characterized by uncertainty. The management literature refers to decision theory as a means to deal with uncertainty. Monahan (2000) stated, “Decision theory is the study of decision making under uncertainty using mathematical models” (p. 421). Monahan noted, “Many decision problems are complicated by uncertainty” (p. 1).



Monahan (2000) further suggested, “When uncertainties . . . are present, we can use two different ways to reach a good decision. One is to *simulate*, on the computer, different combinations. . . . The other method is to use mathematical and statistical methods” (p. 2). Figure 11, which is adapted from Anderson et al. (1979), shows how quantitative decision making can be used to make decisions with both controllable and uncontrollable inputs.

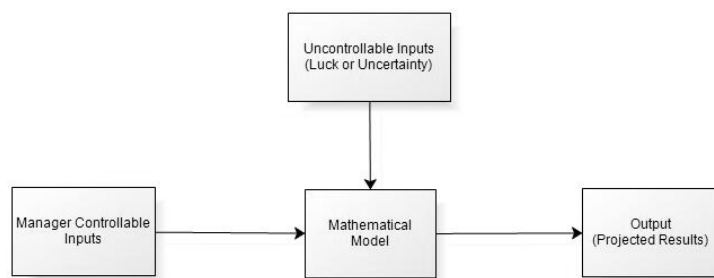


Figure 11. Decision theory and management science.

**Proposition 11–Value neutral actions.** Some actions that managers of a business can take have no effect on value (i.e., these actions are considered value neutral). Actions that do not affect cash flows, the expected growth rate, the length of the high growth period, or the cost of capital do not affect value (Damodaran, 2002). An example is a stock split that does not affect the value of the firm although it might affect the price of the stock. Figure 9 shows how cash flows, the expected growth rate, the length of the high growth period, and the cost of capital are related to value creation. Value neutral actions are illustrated conceptually in Figure 10.

**Proposition 12–All actions may have some effect on value.** A few actions might be technically value neutral, but most, if not all of the actions taken by a manager, will probably have some effect on value, either directly or indirectly, because of the

effect on the stock price and other possible indirect effects of any action that a manager might take. Damodaran (2002) acknowledged such notion.

**Proposition 13–The most important individual value drivers.** As stated in Proposition 1, a value driver is any variable that influences the value of an enterprise (Kazlauskienė & Christauskas, 2008). The statement implies a seemingly endless list of possible value drivers. As determined through the literature review and the Delphi study, some value drivers are more important than others.

The list of 72 value drivers in Table 8 includes the drivers considered to be the most important drivers for most business enterprises. Some of these value drivers originated from the literature review for the current study. The Delphi panel members added to the list as they completed the three Delphi questionnaires.

All of the value drivers, with the exception of the seven value drivers identified at the end of the third Delphi round, are ranked in the order of importance that the Delphi panel determined through the three questionnaires. The definitions for the original 44 individual value drivers identified through the literature review are contained in the discussions of the 44 value drivers in Chapter 3. Appendix H contains the definitions for the other 28 value drivers identified through the Delphi study.

**Proposition 14–Possibilities frontier.** Figure 9 depicts a construct of the theory of value drivers called the *possibilities frontier*. The possibilities frontier consists of the primary and secondary, exogenous and endogenous, value drivers. Business managers can add value to their enterprises with the possibilities frontier.

**Proposition 15–Value driver chain.** The *value driver chain* is depicted in Figure 9 as the sequence of primary and secondary value drivers that create value in the

enterprise. As depicted in Figure 9, the value driver chain starts at the top of the chain with the secondary value drivers. Next in the chain are the two branches of the primary value drivers—the free cash flow (FCF) branch and the weighted average cost of capital (WACC) branch.

The chain continues down through the discounted cash flow (DCF) model to the creation of the firm's value of operations. The chain ends at the creation of shareholder value. Managers of business enterprises and analysts should work through the value driver chain to see where value is being created or destroyed in the enterprise.

**Proposition 16—Entry points.** Each separate value driver represents an *entry point* for potentially value adding actions. Managers and analysts considering strategies for creating value in the enterprise should study each of the entry points contained in Figure 9 for possible value creation. Each of the primary and secondary, endogenous and exogenous, value drivers is an entry point where value can be created.

**Proposition 17—Value of enterprise operations.** The value of the firm's operations is derived from the DCF model (Brigham & Ehrhardt, 2011) as shown in Figure 9.

**Proposition 18—Firm value.** Adding non-operating assets such as short-term investments in marketable securities to the value of operations gives the total value of the firm (Brigham & Ehrhardt, 2011). This is shown in Figure 9.

**Proposition 19 – Shareholder value.** Subtracting debt and preferred stock from firm value gives shareholder value (Brigham & Ehrhardt, 2011). This is shown in Figure 9. Propositions 16, 17, and 18 show relationships that are well established in finance theory (e.g., Brigham & Ehrhardt, 2011). The relationships are shown as propositions of

the theory of value drivers and depicted in Figure 9 for the purpose of completing the theoretical model established under the theory of value drivers. The relationships are an important component of the theoretical model.

**Proposition 20–Measurement tools.** Many of the well-known measurement tools used in finance can be used with the theory of value drivers. Four of the tools that bear a direct relationship to the model are economic value added (EVA) (Stewart, 1991), shareholder value added (SVA) (Rappaport, 1998), the DuPont system (Bodie et al., 2010), and the Altman z score (Altman, 1967, 1968a, 1968b, 1993). The relationships of these measurement tools to the theory of value drivers are depicted in Figure 9 with labels that show where the measurement tools intersect with the theory of value drivers model. A brief description of each of these measurement tools, along with the specific relationships to the model, is shown in Appendix F.

**Proposition 21–The tools of the theory of value drivers.** A set of tools emerged during the discovery process of the theory of value drivers. The tools are discussed in the section of this paper entitled, *Purposes and Uses of the Theory of Value Drivers*.

**Proposition 22–Expected growth rate.** The expected growth rate is a value driver. According to Damodaran (2002), “The most critical input in valuation, especially for high-growth firms, is the growth rate to use to forecast future revenues and earnings” (p. 268). The expected growth rate is shown in Figure 9.

**Proposition 23–High growth period duration.** The high growth period duration is a value driver. The high growth rate period duration, or what Rappaport (1998) called the value growth duration, is “management’s best estimate of the number of years that

investments can be expected to yield rates of return greater than the cost of capital” (p. 56). The high growth period duration is shown in Figure 9.

**Proposition 24–Shareholder returns.** Shareholder returns come from dividends and capital gains (Rappaport, 1998). See Figure 9.

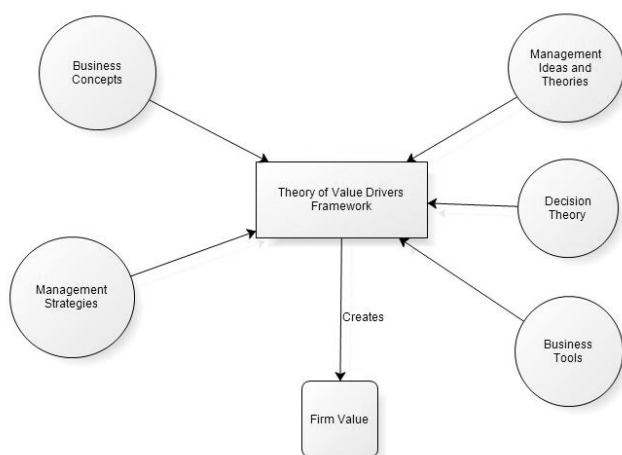
**Proposition 25–Shareholder wealth.** The terms *value creation*, a major subject in the present paper, and *wealth creation* are often used interchangeably, but a subtle difference exists between the two. According to Scarlett (2001), “The value perspective is based on measuring value directly from accounting-based information with some adjustments, while the wealth perspective relies mainly on stock market information” (p. 7). Wealth creation is applicable to publicly-traded firms where changes in shareholder wealth come mainly from changes in stock prices, dividends paid, and equity capital raises. For publicly-traded firms, where management provides all pertinent information to the capital markets and where the markets believe in and have confidence in management, value creation and wealth creation should be the identical (Scarlett, 2001).

**Proposition 26–A new finance theory.** The theory of value drivers is the next logical step in a natural progression from the theory of investment value proposed by Williams (1938). The rationale for developing the theory of value drivers is that there must be factors that give rise to value if an investment or asset is to have value. The factors are known as value drivers and the identification, analysis, and understanding of value drivers was the focus of the current study and the theory of value drivers. The evolution of these theories is depicted in Figure 8.

**Proposition 27–Comprehensive and integrated framework.** Because value drivers are the source of value creation for business enterprises, the theory of value

drivers stands as the framework upon which most, if not all, of the other management strategies, tools, techniques, theories, and methodologies can be placed. Managers and analysts often use strategies or tools such as SWOT analysis (Ghazinoory, Abdi, & Azadegan-Mehr, 2011; Wehrich, 1982), without explicitly analyzing how such a tool or strategy will affect value. In such cases, a disconnection occurs between a good strategy or management tool and the intended consequence, the creation of value.

The theory of value drivers and its methodology serve to close this gap and reconnect the strategy with its desirable result. As the results of the current study indicate, many of the other management strategies, tools, techniques, theories, and methodologies are, in reality, themselves value drivers. By using the theory of value drivers as a framework, one can see where each management idea or strategy fits within the overall context of value creation. In this context, the theory of value drivers becomes the focal point in the use of other strategies and management ideas. The framework is depicted in Figure 12.



*Figure 12.* The theory of value drivers framework.

**Proposition 28—Organized and systematic approach.** The theory of value drivers and the methodology derived from it is intended to be an organized and systematic approach to the understanding and analysis of value drivers in enterprises and the design of appropriate strategies to effectively create value within enterprises. The goal of the managers of any enterprise is, and should be, to create value for their shareholders. The most direct way to create value for the enterprise is to focus on value drivers as the source of value creation. The theory of value drivers is at the center of value creation and provides not only a framework upon which most, or all, other management strategies, tools, techniques, theories, and methodologies can be placed but also an organized and systematic approach for using the other management tools and strategies.

## Implications and Recommendations

**Recommendations for business/practice - Purposes and uses of the theory of value drivers.** A principal purpose of the theory of value drivers is to motivate business executives, entrepreneurs, business analysts, securities analysts, and others to focus on value drivers as the source of value creation, and more generally to enable them to understand how value is created. The theory of value drivers is another step in the development of a better understanding of what constitutes value creation. While there have been many significant undertakings in this regard, perhaps the first important step in modern times was taken by J. B. Williams (1938) in *The Theory of Investment Value*. In this book, Williams codified the use of present value and the discounted cash flow approach to determine the value of an enterprise.

A. Rappaport (1986), in *Creating Shareholder Value*, took the next important step. Rappaport (1986) re-established present value and the discounted cash flow approach as an appropriate methodology for determining the value of an enterprise and influenced managers of business enterprises to focus on the importance of value creation. In the intervening years since the original publication of *Creating Shareholder Value* in 1986 and the revised edition of *Creating Shareholder Value* in 1998 (Rappaport, 1998), many managers have lost focus on the importance of creating long-term shareholder value (Koller, Dobbs, & Huyett, 2011; Rappaport, 2006).

Others, particularly the younger generation of MBAs and managers, perhaps never learned the importance of creating shareholder value in the first place. The theory of value drivers is another step toward a better understanding of what creates value and serves as a reminder of the importance of value creation, lessons that were taught well by



Williams, Rappaport, and others but might have been forgotten or never learned. The goal of the current study and the resulting theory was to take the understanding of value creation to a much higher level while preserving the foundation laid by the earlier scholars.

By centering the business strategy analysis and formulation process on the theory of value drivers, business managers, strategists, and analysts should be able to make more intelligent and informed decisions regarding value creation in the enterprises they study and manage. Use of the theory of value drivers can provide insight into the range of value creation possibilities and foster dialogue and analysis within organizations by providing a systematic and organized approach to value creation and by providing 72 value drivers that can be used as a starting point for value driver analysis. The key is to understand which value drivers are affecting a particular organization.

Many of the value drivers in the list of 72 value drivers might affect an organization and other value drivers that are not part of the list of 72 value drivers might also affect an organization. Use of the theory of value drivers and its methodology might help managers and analysts to find other value drivers. Understanding that value drivers are the source of value creation encourages managers and analysts to focus on the source rather than being distracted by activities that are not value creating or that provide little in the way of value creation.

The theory of value drivers is also designed to provide a comprehensive and integrated framework upon which other forms of business analysis and strategy formulation approaches can rest. Many books on business strategy and tools for value creation are available. Such books are popular for a time and eventually fade into

obscurity, only to be replaced by the next management fad espoused and written about by another management theorist.

Many management books are good and deserve more careful attention. Because value drivers are the source of value creation for business enterprises, the theory of value drivers stands as the framework upon which most, if not all, of the management ideas and strategies can be placed. The theory helps identify where each management idea or strategy fits within the overall context of value creation, and the theory of value drivers becomes the focal point in the use of other strategies and management ideas.

Many business tools exist that have been developed for use by business analysts, strategists, and managers. Tools such as the DuPont system, economic value added (EVA), and SWOT analysis can be used within the framework of the theory of value drivers. Managers and analysts often use strategies or tools such as SWOT analysis without explicitly analyzing how such a tool or strategy will affect value.

In cases such as this, there is a disconnection between a good strategy or management tool and the intended consequence, the creation of value. The theory of value drivers and its methodology serve to close this gap and reconnect the strategy with its desirable result. The theory of value drivers can also be used to make better use of the tools through more meaningful inputs into these models.

The theory of value drivers includes its own set of tools that emerged during the theory discovery process. First, the theory of value drivers is itself a tool for the analysis of the value drivers that affect a business, and it is a long-range planning and strategy tool for developing ways to create value for an enterprise. Second, it has been shown how all value drivers affect value through the discounted cash flow (DCF) model and how an

alternative methodology for evaluating primary and secondary value drivers using the net present value model can be used.

Third, the theory of value drivers has provided 72 value drivers, ranked in order of importance, for use by business managers and analysts in understanding which value drivers may hold the greatest promise for increasing value for an enterprise. Fourth, luck has been shown to be a value driver that does not have to be accepted as an inevitable part of business life. Luck, to some extent, can be quantified and controlled.

Finally, another tool developed by Paul M. Wendee & Associates, LLC and used with the theory of value drivers incorporates the 72 value drivers into a scenario approach for value driver analysis and strategy formulation (see Appendix G). Richard Houlihan, cofounder of the international mergers and acquisition firm, Houlihan Lokey, maintained that scenario analysis is an established form of enterprise analysis (Houlihan, R., personal communication, 1995). Some of the original value drivers suggested by Houlihan are incorporated into the theory of value drivers developed in the current study.

The theory of value drivers is more than an exhaustive list of 72 value drivers and a set of characteristics and properties of value drivers. The theory is a way of thinking about and analyzing value creation within the business enterprise. The theory of value drivers provides a solid foundation for enterprise analysis and strategy formulation. Managers and analysts who use the theory of value drivers and its methodologies will learn which value drivers are operating within their business enterprises, and perhaps more importantly, which ones should be operating. Managers and analysts will gain a much better understanding of how their organizations work and what drives value within their organizations.

The understanding and effective implementation of value driver analysis and strategy development is important in any economic environment. In the greatly troubled economic environment at the beginning of the 21st century, understanding what creates value in an enterprise and effectively designing and implementing strategies to sustain and create value are vitally important activities. Failing to understand value creation can lead to the demise of the enterprise. Effective use of the theory of value drivers and its methodologies can help ensure the success of the enterprise and its future growth.

**Recommendations for higher education.** The current study is the first step in establishing a new theory of value drivers. The intent of this study has been to provide a focus and a framework for understanding the value creation process. There is much more that can be done in researching this important field of study and in refining the theory of value drivers. Accordingly, it is recommended that scholarly research be undertaken at academic institutions around the world in furthering the study that has begun with this paper. In keeping with this initiative, it is suggested that academic institutions and others establish centers for the study of value drivers.

The curriculum at academic institutions should include a study of value drivers. Business school students at both the undergraduate and graduate levels should be taught that value drivers are an integral part of the value creation process. They should learn how to use tools such as SWOT analysis to better understand how value is created in business enterprises.

**Future research.** In future studies of value drivers, shorter questionnaires than the ones used in the current study might be preferable. The first questionnaire in the Delphi study took an average of 90 minutes to 2 hours to complete, with some

respondents reporting that they had spent as long as 3 to 4 hours to complete. While much shorter, the second and third questionnaires each took an average of 20 to 40 minutes to complete. The first questionnaire was too long, and the second and third questionnaires also taxed the respondents' patience. Short and perhaps more questionnaires should be used in the future to obtain the required information without overwhelming the respondents.

The two areas of the Delphi study that produced the most disagreement were the questions about (a) the discounted cash flow (DCF) model being the means by which value drivers affect the valuation of enterprises and (b) luck as a value driver. In the second questionnaire, the majority of the respondents agreed that the DCF model was an appropriate model to use in the theory and that luck played at least some role in determining the valuation of companies, but a significant number of respondents disagreed. In the third questionnaire, a greater consensus was reached, but some disagreement remained. These two areas could lead to significant modifications of the theory of value drivers. Future studies could be conducted to explore DCF and luck in more depth to reach a greater consensus and gain new insights.

A conclusion of the current study is that, theoretically, an infinite number of value drivers exists. An infinite number of value drivers is not practical. The study generated 72 value drivers that the Delphi panel members believed are some of the more important value drivers. Future researchers could explore the possibility of using the Pareto's 80/20 Principle (e.g., Koch, 2008) to find and use the most important value drivers.

The current study involved exploring the effect of value drivers on the valuation of businesses in the United States. Future research should extend the study of the effects

of value drivers on the valuation of businesses to global companies. The extension of the research on a global basis would lead to modifications of the theory of value drivers to include global companies.

Finally, the current study has considered the application of value driver theory to enterprises that operate in the for-profit sector of the economy. The current study has discussed at length the potential benefits that may accrue to profit-oriented business enterprises that focus on value drivers. It is possible that value driver theory may have significant benefits for non-profit enterprises, as well. Accordingly, it is suggested that future research also be directed toward the application of value driver theory to the non-profit sector of the economy.

Theories can never stand alone, unchallenged. Researchers must continuously evaluate, test, and modify theories. Dubin (1978) stated, "A theoretical model is a scientific model if, and only if, its creator is willing to subject it to an empirical test. Otherwise it falls in the realm of philosophy or theology" (p. 12). The theory of value drivers must be tested and modified over time.

The theory of value drivers is a new theory and has been presented, in part, as a series of propositions. Propositions are "conclusions that represent logical and true deductions about the model in operation" (Dubin, 1978, p. 8). The next step in the theory-research cycle is to convert each term in each proposition to an empirical indicator to generate a testable hypothesis and test whether the model represents the real world.

According to Dubin (1978), "The research operation consists of measuring the values on the empirical indicators of the hypothesis to determine whether the theoretically predicted values are achieved or approximated in the research tests" (p. 8).

The theory of value drivers will be modified and improved through this process. Further research in the field of value driver analysis will lead to the development of new tools, techniques, and insights and further integration of existing tools, techniques, and insights into the theory of value drivers framework. Further developments will serve to make the theory of value drivers a more useful model of value creation.

### **Summary**

The purpose of the current qualitative study, using the grounded theory and Delphi method research designs, was to explore the effect of business value drivers on the valuation of businesses in the United States and to develop a theory of value drivers. The following was the primary question for the study: *What are the value drivers for businesses in the United States, and how do they affect business value?* A Delphi study was conducted using an initial panel of 43 participants. The grounded theory approach for developing theories was added to the overall design of the study.

Chapter 5 included insights and interpretations of the results of the Delphi and grounded theory study described in Chapter 4. The theory of value drivers, derived from the grounded theory and Delphi research, was presented in detail in Chapter 5. The chapter included a review of the theory of investment value (Williams, 1938) and how the theory of value drivers relates to Williams' theory.

A brief history of present value concepts and the discounted cash flow approach to valuation were presented as background for the building of the theory of investment value and the theory of value drivers. Chapter 5 included many details of the historical context for the theory of value drivers and its relation to other theories and practices within the field of finance. The development of the theory of value drivers was a process

of discovery. The chapter concluded with a review of purposes and uses of the theory of value drivers and recommendations for future research.



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**Appendix A: Delphi Panel Introductory Letter**

Dear Prospective Panelist,

A study is being conducted of value drivers for businesses in the United States. This study is being conducted as part of a dissertation study in fulfillment of the requirements for a Doctor of Business Administration degree that I am completing at the University of Phoenix.

Because of your expertise in the business valuation, securities analysis, management consulting, or similar fields, you are being asked to help in this study by sharing your views through a series of short questionnaires. It is anticipated that there will be three to four rounds of questionnaires over the next six to eight weeks. Your time spent in completing the questionnaires should be quite minimal.

The method being used to conduct this survey of value drivers is known as the Delphi method. The Delphi method for this study sets out to provide an organized method for correlating views and information pertaining to value drivers for businesses in the United States.

This is the first of a series of Delphi Questionnaires. The aim of this Delphi exercise is to explore and assess the nature and characteristics of value drivers for businesses in the United States. Value drivers can be defined as any variable that influences an enterprise's value (Kazlauskienė & Christauskas, 2008). The central question for this study is as follows: What are the value drivers for businesses in the United States and how do they affect business value?

While there are unfortunately no funds available to compensate you for your time in participating in this survey, your time is appreciated and it is expected that the results of this study will contribute significantly to the fields of business valuation, securities

analysis, investment banking, and management consulting by increasing the knowledge base and understanding of business value drivers, which is at the present time quite limited. The results of this survey will be made available to you at the conclusion of the study and may prove to be helpful to you in your own professional work. In any case, please be assured that your participation in this study is very greatly appreciated.

In order to conduct the survey in the easiest and most time efficient manner, this survey will be conducted online using a service called Survey Monkey. To begin the survey, please go to the following link:

[Link to Survey Monkey]

Please read and sign the attached Informed Consent and Confidentiality Letter and return to me at your earliest convenience to P.O. Box 3632, Dana Point, CA 92629. The Informed Consent and Confidentiality Letter must be signed and returned before the Delphi study is completed.

Thank you in advance for your participation in this survey. If you should have any questions, please feel free to contact me at [pwendee@yahoo.com](mailto:pwendee@yahoo.com) or on my cell phone at 949-246-1694.

Regards,

Paul M. Wendee

Reference (cited above): Kazlauskienė, V., & Christauskas, C. (2008). Business valuation model based on the analysis of business value drivers. *Engineering Economics*, 57(2), 23-31.

**Appendix B: Informed Consent and Confidentiality Letter**

## UNIVERSITY OF PHOENIX

### Informed Consent: Participants 18 years of age and older

Dear Study Participant,

My name is Paul Wendee and I am a student at the University of Phoenix working on a Doctor of Business Administration degree. I am conducting a research study entitled, A Theory of Value Drivers. The purpose of the research study is to explore the effect of business value drivers on the valuation of businesses in the United States and to propose a theory of value drivers.

Your participation will involve serving on a Delphi panel. It is estimated that there will be three to four Delphi rounds over a two to three month period of time. Each round of questionnaires should only take an hour or less to complete. Your participation in this study is voluntary. If you choose not to participate or to withdraw from the study at any time, you can do so without penalty or loss of benefit to yourself. If you wish to withdraw from the study, you may call Paul Wendee at 949-246-1694 or email him at [pwendee@yahoo.com](mailto:pwendee@yahoo.com). The results of the research study may be published but your identity will remain confidential and your name will not be disclosed to any outside party.

In this research, there are no foreseeable risks to you. Although there may be no direct benefit to you, a possible benefit to you is participating in a study which may contribute significantly to the body of knowledge in business valuation, securities analysis, investment banking, and business management.

If you have any questions concerning the research study, please call me at 949-246-1694 or email me at [pwendee@yahoo.com](mailto:pwendee@yahoo.com).

As a participant in this study, you should understand the following:

1. You may decline to participate or withdraw from participation at any time without consequences.
2. Your identity will be kept confidential.
3. Paul Wendee, the researcher, has thoroughly explained the parameters of the research study and all of your questions and concerns have been addressed.
4. If the interviews are recorded, you must grant permission for the researcher, Paul Wendee, to digitally record the interview. You understand that the information from the recorded interviews may be transcribed. The researcher will structure a coding process to assure that anonymity of your name is protected.
5. Data will be stored in a secure and locked area.
6. The research results will be used for publication.

“By signing this form you acknowledge that you understand the nature of the study, the potential risks to you as a participant, and the means by which your identity will be kept confidential. Your signature on this form also indicates that you are 18 years



old or older and that you give your permission to voluntarily serve as a participant in the study described.”

Thank you in advance for your participation.

Sincerely,

Paul M. Wendee  
Doctoral Student  
University of Phoenix

Signature of the interviewee \_\_\_\_\_ Date \_\_\_\_\_

Printed name of the interviewee \_\_\_\_\_

Signature of the researcher \_\_\_\_\_ Date \_\_\_\_\_

Printed name of the researcher \_\_\_\_\_

**Appendix C: Questionnaire 1**

## Instructions for Questionnaire 1

Dear Panelist,

This is the first of a series of Delphi Questionnaires. The aim of this Delphi exercise is to explore and assess the nature and characteristics of value drivers for businesses in the United States. Value drivers can be defined as any variable that influences an enterprise's value (Kazlauskienė & Christauskas, 2008). The central question for this study is as follows: What are the value drivers for businesses in the United States and how do they affect business value?

The Delphi exercise sets out to provide an organized method for correlating views and information pertaining to value drivers for businesses in the United States.

---

In this first Delphi questionnaire you are asked to do 6 things:

1. READ and MAKE COMMENTS to the questions in Part I of the questionnaire.
2. REVIEW all the value drivers listed in Part II of the questionnaire.
3. MAKE COMMENTS on any of the value drivers. Feel free to suggest clarifications, add other value drivers, argue in favor of or against specific value drivers, ask questions.
4. RATE the level of *importance* you would attach to each of the value drivers according to the rating scale herewith enclosed.
5. SELECT the 10 value drivers you feel are the most important in providing value to a business enterprise. Assign a value of '10' to the most important. Assign a value of '9' to the next most important and so on, until the tenth value driver (the least important of the ten) is assigned a value of '1'.

(Note that this is merely a preliminary vote. You will have the opportunity to vote again in subsequent questionnaires.)

6. COMPLETE your response by \_\_\_\_\_. (date).

---

Source: Adapted from Adler, M., & Ziglio, E. (Eds.). (1996). *Gazing into the Oracle: The Delphi Method and its application to social policy and public health*. London, England: Jessica Kingsley Publishers.

Reference (cited above): Kazlauskienė, V., & Christauskas, C. (2008). Business valuation model based on the analysis of business value drivers. *Engineering Economics*, 57(2), 23-31.

## Questionnaire 1

### Part I - General Questions Regarding Value Drivers

Note to ARB Reviewer: Survey Monkey, which is the web-based survey tool that will be used to conduct the Delphi study, has comment boxes for the questions below. The lines shown here are only to illustrate that a comment is expected after each question.

Please provide your comments and opinions on the following general questions:

1. How would you define value drivers? \_\_\_\_\_
2. Please list what you believe are the most important value drivers that affect business value (your list may include value drivers from the list below):  
\_\_\_\_\_
3. How do value drivers exert an effect on business value (mechanisms, etc.)?  
\_\_\_\_\_
4. Is there an interrelationship between value drivers and if so, what is the interrelationship? \_\_\_\_\_
5. What major categories would you use to categorize all value drivers?  
\_\_\_\_\_
6. Can value drivers have a negative effect on value? Can they have both a positive and negative effect on value? Please explain. \_\_\_\_\_
7. Are there actions that managers of a business can take which have no effect on value (i.e., these actions would be considered to be value-neutral)? Please explain.  
\_\_\_\_\_
8. Is luck a value driver? Please explain. \_\_\_\_\_

## Part II – Specific Value Drivers

Listed below are the value drivers that were identified in an earlier part of the dissertation study. Attached to this survey is a supplement [note: the supplement will be an edited version of the pages in the literature review that cover these specific value drivers] that explains each of the value drivers listed below, which you may refer to if you aren't familiar with a particular value driver. Please note that there may be overlapping value drivers or value drivers that have similar definitions to other value drivers on the list. One of the purposes for this study is to better categorize value drivers and eliminate or reduce the amount of overlapping categories and definitions. **MAKE COMMENTS** on any of the value drivers. Feel free to suggest clarifications, add other value drivers, argue in favor of or against specific value drivers, ask questions. **RATE** (vote on) the level of *importance* you would attach to each of the value drivers according to the following rating scale: 5 = Very important; 4 = Important; 3 = May or may not be important; 2 = Not very important; and 1 = Not important at all.

Value Driver	Comments <b>Please insert your Comments here</b>	Vote <b>Your vote here</b>
<b>Balanced Scorecard</b> Tool used for planning and performance measurement in firms		(1) (2) (3) (4) (5)
<b>Brand Equity</b> Achieving a recognized brand that enhances customer loyalty		(1) (2) (3) (4) (5)

<b>Business Alliances</b> Exploiting the potential of business alliances		(1) (2) (3) (4) (5)
<b>Business Architecture</b> Arranging business activities around the most important business functions; organizational structure		(1) (2) (3) (4) (5)
<b>Business Performance Management</b> The consolidation of concepts such as data warehousing, business intelligence, and total quality management to enhance corporate performance		(1) (2) (3) (4) (5)  (1) (2) (3) (4) (5)
<b>Business Strategy</b> Assessment and planning for threats to and opportunities for the firm; targeting customer groups; addressing competition		(1) (2) (3) (4) (5)
<b>Cash Flow Return on Investment (CFROI)</b> Performance systems designed to create economic profit within firms		(1) (2) (3) (4) (5)
<b>Competitive Advantage</b> Activities that a firm takes to gain a cost advantage or create a basis for differentiation		(1) (2) (3) (4) (5)
<b>Corporate Communications and Relationships</b> The communications and relationships that an organization has with its stakeholders		(1) (2) (3) (4) (5)
<b>Corporate Real Estate Ownership</b> The effect of corporate real estate ownership on the performance of a firm		(1) (2) (3) (4) (5)

<b>Customer Relation Management</b> Creating customer value		(1) (2) (3) (4) (5)
<b>Discounted Cash Flow Framework</b> Use of the discounted cash flow model for planning and analysis		(1) (2) (3) (4) (5)
<b>E-Business</b> Implementation of e-business technologies		(1) (2) (3) (4) (5)
<b>Economic Value Added (EVA)</b> Performance systems designed to create economic profit within firms		(1) (2) (3) (4) (5)
<b>Executive Decision Making</b> Consideration of the role of executive decision making in corporate performance		(1) (2) (3) (4) (5)
<b>Financial Drivers</b> Value drivers that are stated in monetary terms and are often measured using ratio analysis		(1) (2) (3) (4) (5)
<b>Financial Strategy</b> The firm's strategy for capitalization, funding, and shareholder distributions		(1) (2) (3) (4) (5)
<b>Firm Credibility</b> Assessing and planning for firm credibility		(1) (2) (3) (4) (5)
<b>Franchise Value</b> Developing a sales-driven franchise with premium pricing across a range of product markets		(1) (2) (3) (4) (5)
<b>Human Resources and Human Capital</b> Maximizing employee contributions to the firm		(1) (2) (3) (4) (5)
<b>Information Technology</b> Employing information technology resources		(1) (2) (3) (4) (5)



<b>Intangibles</b> Patents, brands, intellectual property		(1) (2) (3) (4) (5)
<b>Intellectual Capital</b> Patents, trademarks, copyrights		(1) (2) (3) (4) (5)
<b>Knowledge Sharing</b> The sharing of knowledge within organizations		(1) (2) (3) (4) (5)
<b>Licensing Deals</b> Considers the value added by licensing deals and the role of the negotiator		(1) (2) (3) (4) (5)
<b>Luck (Randomness)</b> The role that luck, or random events, have on corporate performance		(1) (2) (3) (4) (5)
<b>Management Science</b> Rational approaches to managerial decision making based on scientific methodology		(1) (2) (3) (4) (5)
<b>Non-Financial Drivers</b> Goodwill, patents, copyrights, and other forms of intellectual property		(1) (2) (3) (4) (5)
<b>Operational Drivers</b> Product mix, pricing, advertising and other operational decisions		(1) (2) (3) (4) (5)
<b>Product Development and Commercialization</b> Establishing programs to enhance product development and commercialization		(1) (2) (3) (4) (5)
<b>Real Options Theory</b> A tool that can be used to evaluate research and other investment projects for a firm		(1) (2) (3) (4) (5)
<b>Risk in R&amp;D Projects</b> Assessing the risk in R&D projects on a stand-alone versus a portfolio approach		(1) (2) (3) (4) (5)

<p><b>Risk Management and Enterprise Risk Management</b> The process whereby organizations assess, finance, monitor, exploit, and control risks from all sources</p>		(1) (2) (3) (4) (5)
<p><b>Shareholder Value Method</b> Uses a discounted cash flow approach and focuses on sales growth, operating profit margin, incremental fixed capital investment, incremental working capital investment, cash tax rate, cost of capital, value growth duration</p>		(1) (2) (3) (4) (5)
<p><b>Six Sigma</b> System aimed at achieving virtually error free business performance</p>		(1) (2) (3) (4) (5)
<p><b>Social Capital</b> The role of inter-personal social relationships in creating economic value for a firm</p>		(1) (2) (3) (4) (5)
<p><b>Strategic Business Units</b> Thinking in terms of strategic business units and measuring each business unit's stand-alone value</p>		(1) (2) (3) (4) (5)
<p><b>Strategic Market Position</b> Identifying and achieving the market position that is just right for the organization</p>		(1) (2) (3) (4) (5)
<p><b>Supply Chain, Purchasing, Suppliers, and Buyers</b> Managing the supply chain</p>		(1) (2) (3) (4) (5)
<p><b>Sustainability and Social Responsibility</b> The effect on corporate performance by having sustainability and social responsibility policies in place</p>		(1) (2) (3) (4) (5)

<p><b>Tax Structuring in M&amp;A Deals</b> Structuring M&amp;A deals to minimize tax consequences</p>		(1) (2) (3) (4) (5)
<p><b>Value-Based Management</b> Focuses on key drivers of shareholder value and includes economic value added, use of the balanced scorecard, total quality management, and other management tools and techniques</p>		(1) (2) (3) (4) (5)
<p><b>Value Chain</b> Strategic activities that a firm takes to gain a cost advantage or achieve differentiation</p>		(1) (2) (3) (4) (5)
<p><b>Value Drivers Specific to a Sale</b> Factors that have an effect on the sales price of a firm (e.g., buyer/seller motivations, type of industry, size of the business, access to capital, and terms of the offering)</p>		(1) (2) (3) (4) (5)

---

SELECT the 10 value drivers you feel are the most important in providing value to a business enterprise. List these 10 value drivers in the space provided (Note that Survey Monkey has a separate section of the online survey for this selection). Assign a value of '10' to the most important. Assign a value of '9' to the next most important and so on, until the tenth value driver (the least important of the ten) is assigned a value of '1'.

Value Driver	Value (1 – 10)
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____
_____	_____

**Appendix D: Example Instructions for Questionnaire 2 and Subsequent  
Questionnaires**

Dear Panelist,

This is the second Delphi questionnaire. The aim of this Delphi exercise is to explore and assess the nature and characteristics of value drivers for businesses in the United States. Value drivers can be defined as any variable that influences an enterprise's value (Kazlauskienė & Christauskas, 2008). The primary research question for this study is as follows: What are the value drivers for businesses in the United States and how do they affect business value?

This questionnaire is based on the responses (review, comments, priority vote, etc.) obtained in the first questionnaire.

The Delphi exercise sets out to provide an organized method for correlating views and information pertaining to value drivers for businesses in the United States.

---

In this second Delphi questionnaire you are asked to do 6 things:

1. READ and MAKE COMMENTS to the questions in Part I of the questionnaire.
2. REVIEW all the value drivers listed in Part II of the questionnaire.
3. MAKE COMMENTS on any of the value drivers. Feel free to suggest clarifications, add other value drivers, argue in favor of or against specific value drivers, ask questions.
4. RATE the level of *importance* you would attach to each of the value drivers according to the rating scale herewith enclosed.

5. SELECT the 10 value drivers you feel are the most important in providing value to a business enterprise. Assign a value of '10' to the most important. Assign a value of '9' to the next most important and so on, until the tenth value driver (the least important of the ten) is assigned a value of '1'.

(Note that this is merely a preliminary vote. You will have the opportunity to vote again in subsequent questionnaires.)

6. COMPLETE your response by \_\_\_\_\_. (date).

---

Source: Adapted from Adler, M., & Ziglio, E. (Eds.). (1996). *Gazing into the Oracle: The Delphi Method and its application to social policy and public health*. London, England: Jessica Kingsley Publishers.

Reference (cited above): Kazlauskienė, V., & Christauskas, C. (2008). Business valuation model based on the analysis of business value drivers. *Engineering Economics*, 57(2), 23-31.

**Appendix E: Pilot Study Questionnaire**



Dear Pilot Study Participant,

Thank you for participating in the pilot study of the questionnaires for the Delphi study on value drivers. Now that you have completed the pilot study, we would like to ask you a few questions. Please provide comments to help us understand how we might improve the questionnaires.

1. Were the instructions for the questionnaires clear and easy to follow?

Yes \_\_\_ No \_\_\_

Comments: \_\_\_\_\_

2. Were the questionnaires clear and easy to follow? Yes \_\_\_ No \_\_\_

Comments: \_\_\_\_\_

3. Are there specific questions or value drivers that should be changed, modified, added, deleted, or otherwise addressed to make the Delphi process better?

Please explain and list specific examples.

Comments: \_\_\_\_\_

4. Was the time spent on the Delphi study: Too Long \_\_\_ Too Short \_\_\_

Just About Right \_\_\_?

Comments: \_\_\_\_\_

5. Please comment on anything else that you believe would help make the Delphi study better.

Comments: \_\_\_\_\_

## **Appendix F: Financial Measurement Tools**

### **Economic Value Added**

The concept of economic value added (EVA) (Stern, Stewart, & Chu, 2001; Stewart, 1991) is to provide a measurement system designed to assess a manager's level of performance and the overall performance of a firm. According to Stewart,

The one performance measure to account properly for all of the ways in which corporate value may be added or lost is economic value added (EVA). EVA is a residual income measure that subtracts the cost of capital from the operating profits generated in the business. (p. 118)

Economic Value Added intersects the determination of Free Cash Flow (FCF) in Figure 9 at the Earnings before Interest & Taxes (EBIT), Net Operating Profit after Taxes (NOPAT) and the Total Net Operating Capital boxes. EVA also intersects the Weighted Average Cost of Capital (WACC) box at several entry points.

### **Shareholder Value Added**

According to Rappaport (1998), shareholder value is “the economic value of the equity of a business based on forecast data...SVA [shareholder value added] addresses the *change* in value over the forecast period” (p. 49). SVA is shown in Figure 9 as being a function of shareholder value.

### **DuPont System**

The DuPont System is a way of decomposing the return of equity (ROE) ratio. There are several ways to decompose ROE using the DuPont System. One way is as follows:

$$\text{ROE} = \frac{\text{Net Profit}}{\text{Pretax profit}} \times \frac{\text{Pretax profit}}{\text{EBIT}} \times \frac{\text{EBIT}}{\text{Sales}} \times \frac{\text{Sales}}{\text{Assets}} \times \frac{\text{Assets}}{\text{Equity}}$$

For a discussion of this particular decomposition, see Bodie, Kane, & Marcus (2010, pp. 443-445). This ROE decomposition intersects the determination of Free Cash Flow (FCF) in Figure 9 at the Earnings before Interest & Taxes (EBIT) and the Sales boxes. It also partially intersects the determination of Free Cash Flow (FCF) through the Total Net Operating Capital box. Additionally, it intersects the Weighted Average Cost of Capital (WACC) box at several entry points.

### **Altman Z-Score**

In a 1968 paper, *Financial Ratios, Discriminant Analysis and the Prediction of Corporate Bankruptcy*, Altman (1968) proposed a discriminant function for the prediction of corporate bankruptcy. The variables in the model were classified into five standard ratio categories: (1) liquidity; (2) profitability; (3) leverage; (4) solvency; and (5) activity. The specification of the model is as follows:

$$Z = .012X_1 + 0.14X_2 + 0.33X_3 + .006X_4 + .999X_5$$

Where,

$X_1$  = Working capital/Total assets

$X_2$  = Retained earnings/Total assets

$X_3$  = Earnings before interest and taxes/Total assets

$X_4$  = Market value equity/Book value of total debt

$X_5$  = Sales/Total assets

Z = Overall Index

The model has undergone many modifications since its original publication. Nevertheless, it has been widely used in its many forms by securities analysts, investment

and commercial bankers, and others for the analysis of business enterprises. The Z-Score model intersects the determination of Free Cash Flow (FCF) in Figure 9 at the Earnings before Interest & Taxes (EBIT) and the Sales boxes. It also intersects the determination of Free Cash Flow (FCF) partially through the Total Net Operating Capital box. Additionally, it intersects the Weighted Average Cost of Capital (WACC) boxes at several entry points.

**Appendix G: Value Driver Evaluation Model**

### Value Driver Evaluation Model

**Company:**

	<b>Evaluation Category</b>	<b>Weight</b>	<b>Score (1-10)</b>	<b>Weighted Score</b>
Quintile 1	Competitive Advantage	0.00%		0.00
	Management	0.00%		0.00
	Brand Equity	0.00%		0.00
	Business Strategy	0.00%		0.00
	Customer Relations Management	0.00%		0.00
	Human Resources and Human Capital	0.00%		0.00
	Intellectual Capital	0.00%		0.00
	Vision, Purpose, & Mission	0.00%		0.00
	Executive Decision Making	0.00%		0.00
	Cash Flow Return on Investment (CFROI)	0.00%		0.00
	Strategic Market Position	0.00%		0.00
	Core Competencies	0.00%		0.00
	Financial Strategy & Management	0.00%		0.00
	Quintile 2	Passion	0.00%	
Business Model		0.00%		0.00
Leadership		0.00%		0.00
Intangibles		0.00%		0.00
Product Development & Commercialization		0.00%		0.00
Competitive Environment		0.00%		0.00
Invention & Innovation		0.00%		0.00
Customer Diversity		0.00%		0.00
Use of Technology		0.00%		0.00
Supply Chain, Purchasing, Suppliers, & Buyers		0.00%		0.00
Trust		0.00%		0.00
Luck		0.00%		0.00
Creativity and "Out-of-the-Box Thinking"		0.00%		0.00
Quintile 3		Scalability	0.00%	
	Risk Management & Enterprise Risk Management	0.00%		0.00
	Functional Expertise	0.00%		0.00
	Discounted Cash Flow (DCF) Framework	0.00%		0.00
	Operational Drivers	0.00%		0.00
	Shareholder Value Method	0.00%		0.00
	Social Capital	0.00%		0.00
	Financial Drivers	0.00%		0.00
	Patents & Copyrights	0.00%		0.00
	Business Ethics	0.00%		0.00
	Government & Political Relations & Connections	0.00%		0.00
	Legal & Regulatory	0.00%		0.00
	Business Alliances	0.00%		0.00

Quintile 4	Licensing Deals	0.00%	0.00
	Value-Based Management	0.00%	0.00
	Sustainability & Social Responsibility	0.00%	0.00
	E-Business	0.00%	0.00
	Blue Ocean Strategic Thinking	0.00%	0.00
	Value Drivers Specific to a Sale	0.00%	0.00
	Six Sigma	0.00%	0.00
	Firm Credibility	0.00%	0.00
	Non-Financial Drivers	0.00%	0.00
	Management Science	0.00%	0.00
	Agency Costs	0.00%	0.00
	Information Technology	0.00%	0.00
	Tax Structuring in M&A Deals	0.00%	0.00
Quintile 5	Knowledge Sharing	0.00%	0.00
	Corporate Communications & Relationships	0.00%	0.00
	Franchise Value	0.00%	0.00
	Strategic Business Units	0.00%	0.00
	Corporate Real Estate Ownership	0.00%	0.00
	Value Chain	0.00%	0.00
	Business Performance Management	0.00%	0.00
	Business Architecture	0.00%	0.00
	Economic Value Added (EVA)	0.00%	0.00
	Balanced Scorecard	0.00%	0.00
	Management Information Systems	0.00%	0.00
	Risk in R&D Projects	0.00%	0.00
	Real Options Theory	0.00%	0.00
Unranked	Power	0.00%	0.00
Unranked	First Mover Advantage	0.00%	0.00
Unranked	Length of Time in Business	0.00%	0.00
Unranked	Transformational Leadership	0.00%	0.00
Unranked	Thinking	0.00%	0.00
Unranked	Long-Term Orientation	0.00%	0.00
Unranked	Consumer Monopoly vs. Commodity-type Businesses	0.00%	0.00
	Total Weighted Score		0.00
	<b>Value Driver Evaluation Score</b>	<b>0.00%</b>	<b>0.00%</b>

*Note:* The Value Driver Evaluation Model™ was developed by Paul M. Wendee & Associates, LLC to assess the value drivers in business ventures. The evaluation categories chosen can be tailored to a particular enterprise and may be quite different for a software firm, for example, versus a real estate company. Likewise, the weights are tailored to the enterprise and probably will be different from company to company. The weights are chosen based on the relative importance of a value driver to a particular enterprise. The scores are chosen by the analyst and/or investment committee based on their perception of the amount of positive influence the value driver has on the enterprise. Note that not all categories need to be used and scores can be negative. The higher the overall weighted Value Driver Evaluation Score, the more positive the influence that value drivers are having on the enterprise. Enterprises with scores above 70% are generally considered to have a very high level of positive value driver influence.



**Appendix H: Glossary for 28 New Value Drivers**

### **New Value Driver Glossary and Discussion**

1. Leadership – the ability to effectively lead an organization.
2. Business Model – a business model is the way that an organization creates and delivers value.
3. Management – the persons responsible for managing the affairs of a business enterprise.
4. Competitive Environment – Michael Porter suggests that there are five competitive forces that determine the intensity of competition in an industry and consequently the ability of business enterprises to sustain above-average rates of return.
5. Vision, Purpose, and Mission - a clearly defined vision, purpose and mission which is communicated throughout the organization.
6. Creativity and "Out-of-the-Box" Thinking – the ability to exercise creativity and “think outside the box.”
7. Core competencies - core competencies are the specific factors and strengths that an enterprise possesses and that are central to the way that enterprise operates.
8. Use of Technology – the effective use of technology to accomplish and enhance the way that an enterprise operates.
9. Invention and Innovation – the ability to (1) create something new; (2) improve on something; and/or (3) Finance an Innovation.
10. Functional Expertise – expertise in the major functional areas of an enterprise including administration, operations, sales/marketing, finance, and HR.
11. Management Information Systems – systems in place that provide the information and feedback necessary to enable managers to manage an enterprise effectively.
12. Scalability – systems in place and a business model that allow for growth in the enterprise.
13. Business Ethics – a system or code of morals of a business.
14. Agency Costs – the costs borne by shareholders when the managers of the enterprise to whom the shareholders have delegated authority act in their own self-interest over the interests of the shareholders.
15. Trust – Trust in the enterprise by its stakeholders.
16. Government & Political Relations and Connections – The ability of an enterprise to foster favorable government and political relations and connections.
17. Blue Ocean Strategic Thinking – Creating uncontested market space instead of battling competition head-on.
18. Patents and Copyrights – Strong and defensible patents and copyrights.
19. Passion – Extreme and compelling drive and enthusiasm for success exhibited by an enterprise’s managers. A related concept is a passion for excellence (Peters & Austin, 1985)
20. Legal and Regulatory – Ability to successfully operate within the enterprise’s legal and regulatory environment.
21. Customer Diversity – Ensuring that an enterprise is not dependent on one or a few customers.

22. Power – Michael Korda, author of *Power!* (Korda, 1991), suggests that there are different power bases that people and institutions can build and use. Formal and informal power bases are two examples.
23. First Mover Advantage – Being the first to the market with a new idea, technology, product, or service.
24. Length of Time in Business – How long the enterprise has been in business in general and how long in this particular business.
25. Transformational Leadership – Transformational leadership is perhaps best described by Bass (1999) as follows: “The interests of the organization and its members need to be aligned. Such is a task for the transformational leader. In contrast to the transactional leader who practices contingent reinforcement of followers, the transformational leader inspires, intellectually stimulates, and is individually considerate of them” (p. 9).
26. Thinking – Thinking deeply about the enterprise’s strategy and other facets of its business. This encompasses both the ability to think and taking the time to do so.
27. Long-Term Orientation – Planning, focusing, and acting on the long-term as opposed to the short-term.
28. Consumer Monopoly vs. Commodity-type businesses – Consumer monopoly businesses have an effective monopoly in their particular niche. This gives them the freedom to set the price, which translates into greater profits (Buffett & Clark, 1997).

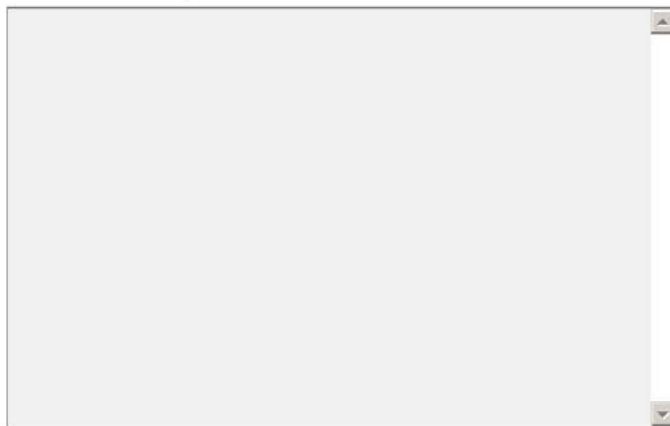
**Appendix I: Actual Questionnaire 1**

## Value Drivers for Businesses

### Part I - General Questions Regarding Value Drivers

Please provide your comments and opinions on the following general questions:

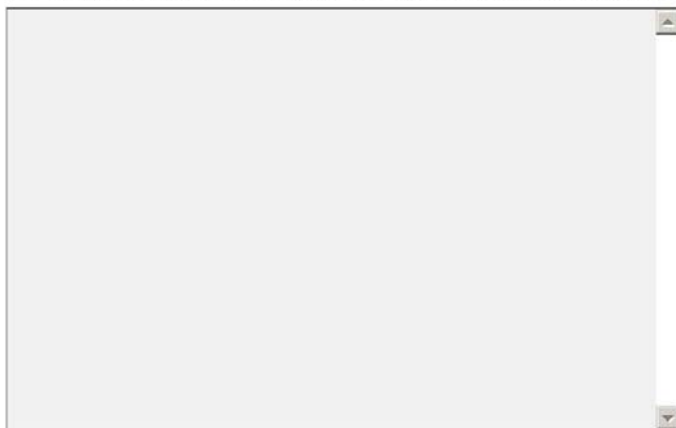
#### 1. How would you define value drivers?



Page 39 Page 40 Page 41 Page 42 Page 43 Page 44 Page 45 Page 46 Page 47  
Page 48 Page 49 Page 50 Page 51 Page 52 Page 53 Page 54 Page 55 Page 56  
Page 57 Page 58 Page 59 Page 60

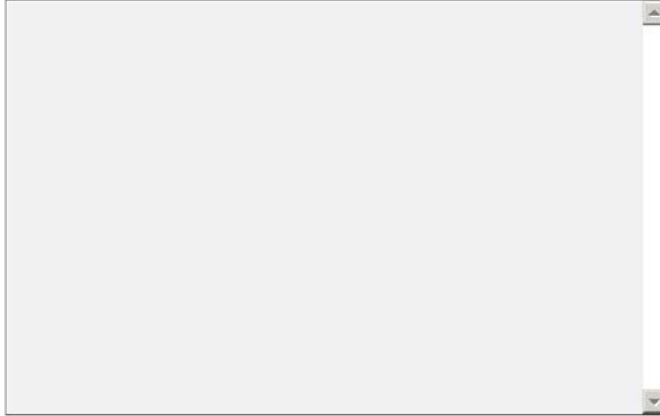
## Value Drivers for Businesses

**2. Please list what you believe are the most important value drivers that affect business value (your list may include value drivers from the list in Part II below):**



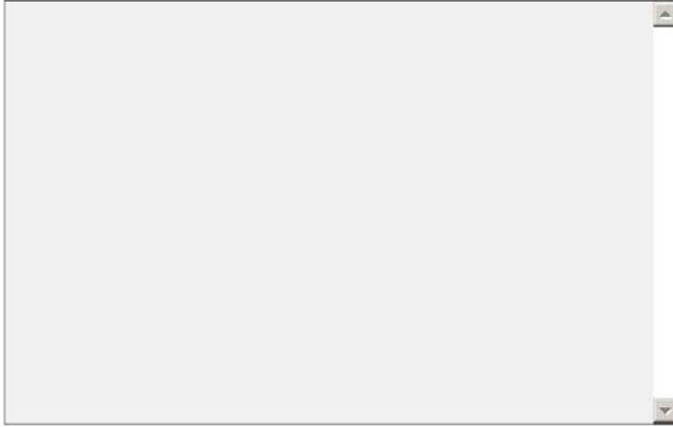
## Value Drivers for Businesses

### 3. How do value drivers exert an effect on business value (mechanisms, etc.)?



## Value Drivers for Businesses

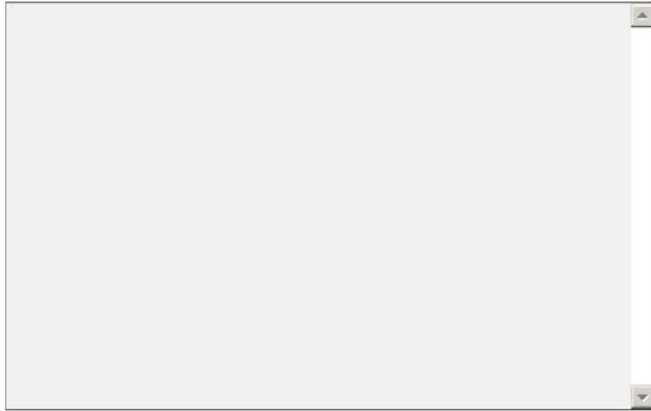
**4. Is there an interrelationship between value drivers and if so, what is the interrelationship?**





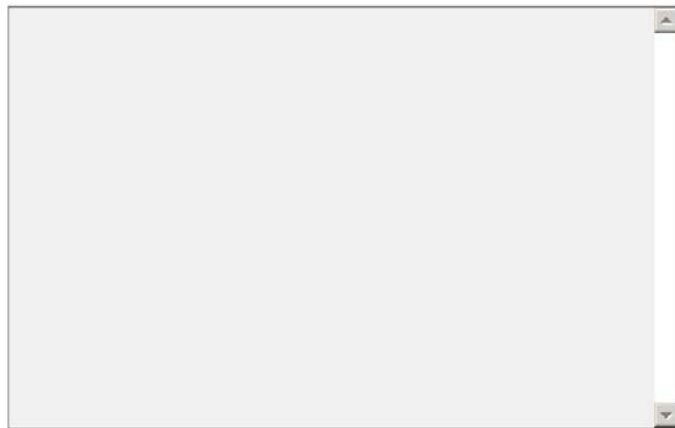
## Value Drivers for Businesses

**5. What major categories would you use to categorize all value drivers?**



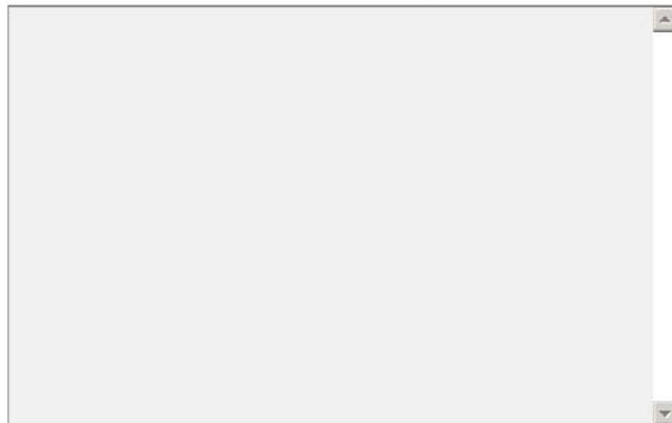
## Value Drivers for Businesses

**6. Can value drivers have a negative effect on value? Can they have both a positive and negative effect on value? Please explain.**



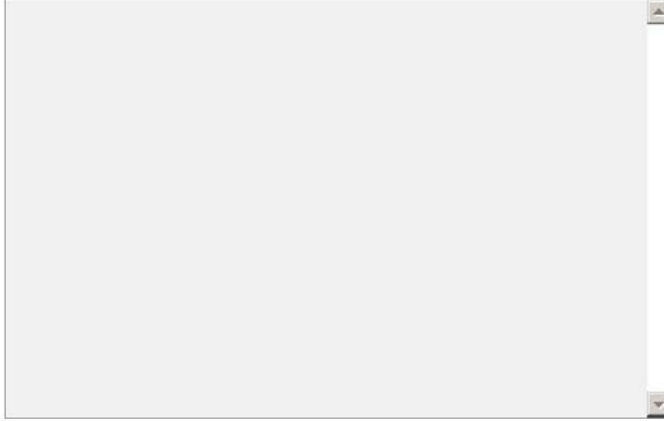
## Value Drivers for Businesses

**7. Is luck a value driver? Please explain.**



## Value Drivers for Businesses

**8. Are there actions that managers of a business can take which have no effect on value (i.e., these actions would be considered to be value-neutral)? Please explain.**



## Value Drivers for Businesses

### Part II - Specific Value Drivers

Listed below are the value drivers that were identified in an earlier part of the dissertation study. A supplement that explains each of the value drivers listed below, which you may refer to if you are not familiar with a particular value driver, was sent to you as an attachment to an earlier email. You may contact Paul Wendee at [pwendee@yahoo.com](mailto:pwendee@yahoo.com) to obtain another copy of the supplement if you need to.

Please note that there may be overlapping value drivers or value drivers that have similar definitions to other value drivers on the list. One of the purposes for this study is to better categorize value drivers and eliminate or reduce the amount of overlapping categories and definitions.

Please **MAKE COMMENTS** on any of the value drivers. Feel free to suggest clarifications, add other value drivers, argue in favor of or against specific value drivers, ask questions. There are additional comment boxes at the end of the survey if you need more space for comments and/or to add value drivers that haven't been discussed in this survey if you would like to do so. If you still need additional space, please email Paul Wendee with your comments at [pwendee@yahoo.com](mailto:pwendee@yahoo.com). **RATE** (vote on) the level of importance you would attach to each of the value drivers according to the following rating scale: 5 = Very important; 4 = Important; 3 = May or may not be important; 2 = Not very important; and 1 = Not important at all.

## Value Drivers for Businesses

### 9. Balanced Scorecard

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Tool used for planning and performance measurement in firms.

Please insert your comments here

## Value Drivers for Businesses

### 10. Brand Equity

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Achieving a recognized brand that enhances customer loyalty.

Please insert your comments here

## Value Drivers for Businesses

### 11. Business Alliances

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Exploiting the potential of business alliances.

Please insert your comments here



## Value Drivers for Businesses

### 12. Business Architecture

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Arranging business activities around the most important business functions; organizational structure.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
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Please insert your comments here

# Value Drivers for Businesses

## 13. Business Performance Management

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

The consolidation of concepts such as data warehousing, business intelligence, and total quality management to enhance corporate performance.

Please insert your comments here

## Value Drivers for Businesses

### 14. Business Strategy

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Assessment and planning for threats to and opportunities for the firm; targeting customer groups; addressing competition.

Please insert your comments here

## Value Drivers for Businesses

### 15. Cash Flow Return on Investment (CFROI)

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Performance systems designed to create economic profit within firms.

Please insert your comments here

## Value Drivers for Businesses

### 16. Competitive Advantage

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Activities that a firm takes to gain a cost advantage or create a basis for differentiation.

Please insert your comments here

# Value Drivers for Businesses

## 17. Corporate Communications and Relationships

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

The communications and relationships that an organization has with its stakeholders.

Please insert your comments here

## Value Drivers for Businesses

### 18. Corporate Real Estate Ownership

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

The effect of corporate real estate ownership on the performance of a firm.

Please insert your comments here

## Value Drivers for Businesses

### 19. Customer Relation Management

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Creating customer value.

Please insert your comments here



## Value Drivers for Businesses

### 20. Discounted Cash Flow Framework

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Use of the discounted cash flow model for planning and analysis.

Please insert your comments here

## Value Drivers for Businesses

### 21. E-Business

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Implementation of e-business technologies.

Please insert your comments here

## Value Drivers for Businesses

### 22. Economic Value Added (EVA)

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Performance systems designed to create economic profit within firms.

Please insert your comments here

## Value Drivers for Businesses

### 23. Executive Decision Making

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Consideration of the role of executive decision making in corporate performance.

Please insert your comments here

## Value Drivers for Businesses

### 24. Financial Drivers

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Value drivers that are stated in monetary terms and are often measured using ratio analysis.

Please insert your comments here

## Value Drivers for Businesses

### 25. Financial Strategy

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

The firm's strategy for capitalization, funding, and shareholder distributions.

Please insert your comments here

## Value Drivers for Businesses

### 26. Firm Credibility

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Assessing and planning for firm credibility.              

Please insert your comments here

## Value Drivers for Businesses

### 27. Franchise Value

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Developing a sales-driven franchise with premium pricing across a range of product markets.

Please insert your comments here



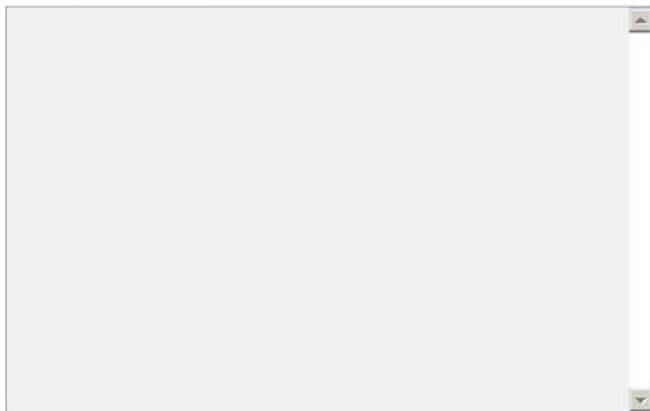
## Value Drivers for Businesses

### 28. Human Resources and Human Capital

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Maximizing employee contributions to the firm.

Please insert your comments here



# Value Drivers for Businesses

## 29. Information Technology

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Employing information technology resources.              

Please insert your comments here

## Value Drivers for Businesses

### 30. Intangibles

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Patents, brands,  
intellectual property.

Please insert your comments here

## Value Drivers for Businesses

### 31. Intellectual Capital

	1. Not important at all	2. Not very important	3. May or may not be important	4. Important	5. Very Important
Patents, trademarks, copyrights.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please insert your comments here

## Value Drivers for Businesses

### 32. Knowledge Sharing

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

The sharing of knowledge within organizations.

Please insert your comments here

## Value Drivers for Businesses

### 33. Licensing Deals

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Considers the value added by licensing deals and the role of the negotiator.

Please insert your comments here

## Value Drivers for Businesses

### 34. Luck (Randomness)

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

The role that luck, or random events, have on corporate performance.

Please insert your comments here

## Value Drivers for Businesses

### 35. Management Science

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Rational approaches to managerial decision making based on scientific methodology.

Please insert your comments here



# Value Drivers for Businesses

## 36. Non-Financial Drivers

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Goodwill, patents, copyrights, and other forms of intellectual property.              

Please insert your comments here

## Value Drivers for Businesses

### 37. Operational Drivers

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Product mix, pricing, advertising and other operational decisions.

Please insert your comments here

## Value Drivers for Businesses

### 38. Product Development and Commercialization

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Establishing programs to enhance product development and commercialization.

Please insert your comments here

## Value Drivers for Businesses

### 39. Real Options Theory

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

A tool that can be used to evaluate research and other investment projects for a firm.

Please insert your comments here

## Value Drivers for Businesses

### 40. Risk in R&D Projects

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Assessing the risk in R&D projects on a stand-alone versus a portfolio approach.

Please insert your comments here

## Value Drivers for Businesses

### 41. Risk Management and Enterprise Risk Management

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

The process whereby organizations assess, finance, monitor, exploit, and control risks from all sources.

Please insert your comments here

## Value Drivers for Businesses

### 42. Shareholder Value Method

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Uses a discounted cash flow approach and focuses on sales growth, operating profit margin, incremental fixed capital investment, incremental working capital investment, cash tax rate, cost of capital, value growth duration.

Please insert your comments here

## Value Drivers for Businesses

### 43. Six Sigma

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

System aimed at achieving virtually error free business performance.              

Please insert your comments here



## Value Drivers for Businesses

### 44. Social Capital

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

The role of inter-personal social relationships in creating economic value for a firm.

Please insert your comments here

## Value Drivers for Businesses

### 45. Strategic Business Units

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Thinking in terms of strategic business units and measuring each business unit's stand-alone value.

Please insert your comments here

## Value Drivers for Businesses

### 46. Strategic Market Position

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Identifying and achieving the market position that is just right for the organization.

Please insert your comments here

## Value Drivers for Businesses

### 47. Supply Chain, Purchasing, Suppliers, and Buyers

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Managing the supply chain.

Please insert your comments here

## Value Drivers for Businesses

### 48. Sustainability and Social Responsibility

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

The effect on corporate performance by having sustainability and social responsibility policies in place.

Please insert your comments here

## Value Drivers for Businesses

### 49. Tax Structuring in M&A Deals

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Structuring M&A deals to minimize tax consequences.

Please insert your comments here

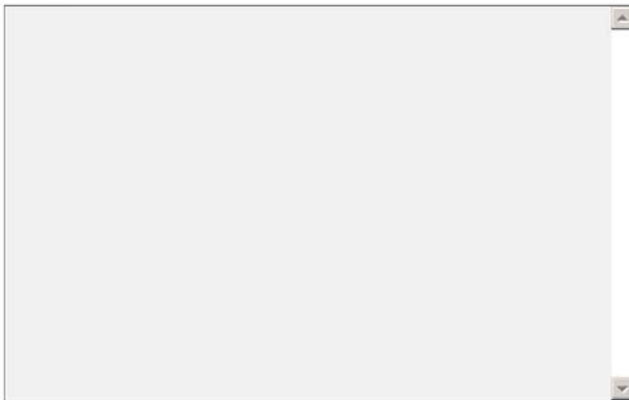
## Value Drivers for Businesses

### 50. Value-Based Management

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Focuses on key drivers of shareholder value and includes economic value added, use of the balanced scorecard, total quality management, and other management tools and techniques.

Please insert your comments here



## Value Drivers for Businesses

### 51. Value Chain

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Strategic activities that a firm takes to gain a cost advantage or achieve differentiation.

Please insert your comments here



## Value Drivers for Businesses

### 52. Value Drivers Specific to a Sale

1. Not important at all   2. Not very important   3. May or may not be important   4. Important   5. Very Important

Factors that have an effect on the sales price of a firm (e.g., buyer/seller motivations, type of industry, size of the business, access to capital, and terms of the offering).

Please insert your comments here

## Value Drivers for Businesses

### Additional Value Drivers

**53. In the space provided below, please list any value drivers that have not been discussed in this survey but that you believe should be included in the survey. Please provide a short description of each value driver that you add.**

## Value Drivers for Businesses

### The 10 Most Important Value Drivers

**54. Below is a list of the value drivers that have been discussed in the survey. SELECT the 10 value drivers you feel are the most important in providing value to a business enterprise. Assign a value of '10' to the most important. Assign a value of '9' to the next most important and so on, until the tenth value driver (the least important of the ten) is assigned a value of '1'.**

Balanced Scorecard - Tool used for planning and performance measurement in firms

Brand Equity - Achieving a recognized brand that enhances customer loyalty

Business Alliances - Exploiting the potential of business alliances

Business Architecture - Arranging business activities around the most important business functions; organizational structure

Business Performance Management - The consolidation of concepts such as data warehousing, business intelligence, and total quality management to enhance corporate performance

Business Strategy - Assessment and planning for threats to and opportunities for the firm; targeting customer groups; addressing competition

Cash Flow Return on Investment (CFROI)- Performance systems designed to create economic profit within firms

Competitive Advantage - Activities that a firm takes to gain a cost advantage or create a basis for differentiation

Corporate Communications and Relationships - The communications and

## Value Drivers for Businesses

relationships that an organization has with its stakeholders

Corporate Real Estate

Ownership - The effect of corporate real estate ownership on the performance of a firm

Customer Relation

Management - Creating customer value

Discounted Cash Flow

Framework - Use of the discounted cash flow model for planning and analysis

E-Business -

Implementation of e-business technologies

Economic Value Added

(EVA)- Performance systems designed to create economic profit within firms

Executive Decision Making

- Consideration of the role of executive decision making in corporate performance

Financial Drivers - Value

drivers that are stated in monetary terms and are often measured using ratio analysis

Financial Strategy - The

firm's strategy for capitalization, funding, and shareholder distributions

Firm Credibility - Assessing

and planning for firm credibility

Franchise Value -

Developing a sales-driven franchise with premium pricing across a range of product markets

Human Resources and

Human Capital - Maximizing employee contributions to the firm

Information Technology -

Employing information technology resources

Intangibles - Patents,

## Value Drivers for Businesses

brands, intellectual property

Intellectual Capital - Patents, trademarks, copyrights

Knowledge Sharing - The sharing of knowledge within organizations

Licensing Deals - Considers the value added by licensing deals and the role of the negotiator

Luck (Randomness) - The role that luck, or random events, have on corporate performance

Management Science - Rational approaches to managerial decision making based on scientific methodology

Non-Financial Drivers - Goodwill, patents, copyrights, and other forms of intellectual property

Operational Drivers - Product mix, pricing, advertising and other operational decisions

Product Development and Commercialization - Establishing programs to enhance product development and commercialization

Real Options Theory - A tool that can be used to evaluate research and other investment projects for a firm

Risk in R&D Projects - Assessing the risk in R&D projects on a stand-alone versus a portfolio approach

Risk Management and Enterprise Risk Management - The process whereby organizations assess, finance, monitor, exploit, and control risks from all sources

Shareholder Value Method - Uses a discounted cash

## Value Drivers for Businesses

flow approach and focuses on sales growth, operating profit margin, incremental fixed capital investment, incremental working capital investment, cash tax rate, cost of capital, value growth duration

Six Sigma - System aimed at achieving virtually error free business performance

Social Capital - The role of inter-personal social relationships in creating economic value for a firm

Strategic Business Units - Thinking in terms of strategic business units and measuring each business unit's stand-alone value

Strategic Market Position - Identifying and achieving the market position that is just right for the organization

Supply Chain, Purchasing, Suppliers, and Buyers - Managing the supply chain

Sustainability and Social Responsibility - The effect on corporate performance by having sustainability and social responsibility policies in place

Tax Structuring in M&A Deals - Structuring M&A deals to minimize tax consequences

Value-Based Management - Focuses on key drivers of shareholder value and includes economic value added, use of the balanced scorecard, total quality management, and other management tools and techniques

Value Chain - Strategic activities that a firm takes to gain a cost advantage or achieve differentiation

Value Drivers Specific to a Sale - Factors that have an

## Value Drivers for Businesses

effect on the sales price of  
a firm (e.g., buyer/seller  
motivations, type of  
industry, size of the  
business, access to capital,  
and terms of the offering)