

VALUE ADDED IN THE BUSINESS SERVICES

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Abstract

It is fashionable habits to talk about value added in all segments of the economy. However, talking about the value added at any kind of level, for all stakeholders, it is a clearly expressed endeavor to do higher value added activities. This initiative is especially true in the field of business services, which is known in the advanced economies as one of the fastest-growing business area. However, this prompts the question what means the higher added value? How can you categorize your activities on the basis of added value? Why the economic policy makers think that high value added activity is a panacea today? Is there a precise methodology for measuring the value added at each level? These are less answers in the literature. The research goal is to walk around this issue primarily within the topic of business services.

1 Introduction

Today in business practices, but even in the everyday life, has become common to use the concept of value added. Economic policy sees it as a panacea, and waits improvement in the economic results. However the related value-added thinking and scientific discourse are multi-level. The concept approach and interpretation appears on the one hand macro level (i.e. national economy), mezzo level (i.e. regional level), micro level (i.e. non-profit or for-profit organization) and nano level (i.e. within the organization).

On the national economy level, the added value means a value increasing by the national economy or any part thereof (industry or sector) during a period. The added value is the difference between the production (or service) value and the purchased inputs, regardless of the term production value means all, final or lossless production since based on it changing the contents of the purchased inputs accordingly.

At regional level, the added value comes up with determining of regional economic power, primarily in the calculation of regional GDP per capita, which is essential for the assessment of economic development. In addition, the added value is important for the calculation of labor productivity as well. Labor productivity means gross added value per employee that is calculated at basic prices. The relatively high labor productivity may come from the effective labor-related use (without increasing the expense), but may come from a unique combination of economic activities. Since the productivity of some individual activities is higher than others. For example, the financial services industry, which is characterized by high productivity. For example, in the European Union London's financial center that is called "City" has a very high work productivity, but it is true in Luxembourg or Dublin, including the Southern and Eastern region of Ireland, where also the financial services are dominate. [1]

At the organizational level, or mostly at company level, added value means mainly corporate performance measurement of the assets that is an essential tool for corporate governance because every company produces value of its available resources into a marketable product or service in some markets. At this level, the added value from the revenues that must be subtracted from the amount of the expenses for material expenses, depreciation and interest paid on fixed assets. But the corporate level is also important that builds on the value added tax (VAT) concept as well. Those companies that are building on each other and are engaged in a related value chain

business pay VAT on the basis of added value because they reclaim the tax of goods, materials and services bought. [2]

A corporate performance measurement based on the value added may provide an opportunity to determine the value of the company. This is as important to the owners as potential investors. But it is especially important in the sales field of the company. This financial methodology deals with the so-called Value Based Management that includes multiple methodologies like the EVA (Economic Value Added) of the SVA (Shareholder Value Added) and MVA (Market Value Added) which are the most important added value financial indicators. In many companies, the performance-based salary will also appear based on added value. The sales activities does not based on corporate income, but also on the work of employees margin, collateral, or also known as value added.

The value-adding is also an enterprise management philosophy at the same time, because of the added value-centric or also known as lean management means that within the organization those ratio of activities and resources should be increased that produce added value for internal and external customers and acknowledged for which the customer is willing to pay. It is not just the production, but also for the service companies that may be applicable and significant savings, quality improvement, decreasing of turnaround time.

If we analyzed the production or service processes, activities and results of their organizations, the added value means the positive difference between the inputs used and outputs produced value at a particular step of the process." [2, p. 225] Actually the high is the added value of each activity and so their results, so does the organization and the region and the national economy as well. The reality of course is never so pure and ideal, since the company's performance influenced by several factors (e.g. state or local government funds, sector or on a particular location taxes, etc.) that distorts and diverts it. Also at regional and national economic utilization of high-value-added activities can significantly affect by a foreign-owned company or workers who commute from a larger distance (from abroad).

2 Aim and methodology of the research

No matter what level we are talking about added value for all concerned parties, it is clearly expressed aspiration to create high added value. According to [3] it is high when there is positive big difference between the inputs and outputs. But what is a "big difference"? What is the exact source of added value? Is there a precise methodology for measuring the value added at each level? There are less answer for it. The research goal is to walk around this issue primarily within the topic of business services. The level of this research presents the results of the research literature, and later it will be complemented by providing a business service company survey as well.

3 Business services

The services are becoming more significant in the flow of capital. More and more companies increase the ratio of core activities added the greatest value through their service portfolio. The companies are increasingly appearing with consumer-tailored goods on the market. These include a mix of bundled goods that includes products and services, but a perceptible trend that the service content is increasing. This process is called servitization. [3] Until in the '70s only 25% of the working capital investments were service, it is now the biggest share of the tertiary sector. [4] Within the sector of business services, finance, trade, transport and telecommunications are the largest segments. Among them is Hungary business services are the main target area of investments in accordance with the global trends. [5]

Business services defined by Rubalcaba as the following [6]: the business services are those that affect the quality and efficiency of the production activities of the service functions within the organization by adding or substituting.

The demand for business services is a consequence of organizational structure changes occurred in the goods-producing activities, product innovation and the strengthening of market differentiation. It is a general trend of externalization that means activities previously practiced corporate functions to transfer as an external specialized enterprise. Business services have

become essential for companies determining the competitiveness of productive activities. As a result of the growing need companies use internal service units or using external service providers. The internal production and outsourcing taking place in parallel, often the company intensively increases the amount produced and services purchased by its entities as well. Since a large corporation can produce much more services itself, but the small and medium-sized enterprises depend deeper on external providers. [7]

4 Typology of added value in business services

Within the business services sector often make a distinction between knowledge-based (high-value added) and less developed (low value added) business services. This distinction is based on the theory of the value chain, where the activities of the business practices distinguish service to which they contribute to the organization's business performance, create value. This means that the development of the value chain to improve the organization's performance. The question is how to measure the performance of the entire chain. This is probably the most strategic performance measurement models are the most appropriate. It was developed in the 1990s and the 2000s fine-tuned them. The best known of these models BSC (Kaplan and Norton, 1996) Skandia's "Navigator" (Edvinsson and Marlone, 1997) and the Performance Prism (Neely et al., 2002). Of these, the most popular and most widely used model is the BSC. These models had been envisaged to increase value along the entire value chain. [8]

The consumer-organizational point of view could distinguish value added and non-value added processes. Value-added activity improves the output received in the perception of the customer, while a non-value-added activity does not improve the output for customer and in addition consumes resources for which consumer cannot justify paying. Based on researches, when companies analyze their processes, they realized that only 10% are value-added. [9]

The simplest, but perhaps the most widespread group of business services distinguishes three categories:

- low value-added (usually called as transactional) activities: support activities of the organization, which usually are frequently repeated, include a large number of transactions, or which could be decomposed such. They could vary by organizations, but in general typically includes many financial and accounting processes, certain procurement activities, certain IT activities, some HR activities, etc.
- higher value added (closer to making profits) activities: usually part of the organizational core business process, or are very close to them. Also, they vary from one organization to another, but generally they include some typical design, analysis, research activities, etc.
- other sources [10] distinguished atypical activities: which most of the previously described driving processes linked. Usually typically it includes internal communications, internal bank operations, certain legal actions, etc.

Traditionally, business service activities are regulated by a contract between the provider and the customer. The aim is to reach a win-win situation where both parties enjoy the benefits. In outbound services it is called as Service Level Agreement (SLA) and services within the organization, we could speak about Operational Level Agreement (OLA). The SLA and OLA, however, is more focused on service activities to specify, as the results. They are rarely able to accurately measure the characteristics of the provision of services, does not accurately assess the added value which is for the particular service area (e.g. IT) specifically required. Service Value Agreement could be a solution for many organizations. It identifies high added value required by organizations. It sets out a framework that identifies and measures business added value. [11]

In the case of business service centers like the market (outsourcing) service providers and in corporate ownership, internal service centers (shared service centers) is a global trend of differentiation. In this case, the onshore or nearshore locations, higher value-added work is carried out, while on low-cost, offshore locations generally transaction-related tasks are operated by the global providers. While the former is relatively close to the markets they serve, so often doing work, which in the local language and / or in-depth knowledge of local regulations require, before the offshore centers instead they are processing transactions, rules-based processes, which requires

no cultural or geographical proximity to customers and a deeper understanding of the served area. [8]

5 Problems with measuring added value

The main objective of the business activity is to create value. The larger the business, the greater the expected benefit. The question is, what is the meaning and the content of the value. Here you have to turn back to how you define the service. Basically, two types of service logic can distinguish between the client and the service provider's perspective: (1) When using resources provided by a firm together with other resources and applying skills held by them, customers create value for themselves in their everyday practices (customer service logic). (2) When creating interactive contacts with customers during their use of goods and services, the firm develops opportunities to co-create value with them and for them (provider service logic). [12]

Determining the value approach has been up and goes back to Aristotle, who distinguished between two categories, a "use value" and the "exchange value". This categorization is a fundamental in the literature, although since then many researchers like Smith (1776), Alderson (1957), Beckman (1957) have dealt with this concept more thoroughly. For a long time the goods-dominant logic (G-D) prevailed in the case of researchers, as in the case of tangible goods companies also dominated. Then, service-dominant logic (S-D) was introduced by Vargo and Lusch (2004) who argues that the basis of any exchange is the service. Accordingly, the value cannot be created by a firm, it is ultimately determined by the customer through use. This approach opposed the long ruling, production-focused G-D logic, according to which the aim of an economic activity is to make and distribute things that can be sold and the value is created by the producer, embedded in products and determined by value-in-exchange. The S-D logic recognized that value creation requires the interaction and the sharing of resources that is service provision, with other economic actors and cannot be created alone or by any single actor. [13]

Bastiat emphasized that the essence of value is in the appraisal of the service and not the material commodity that is exchanged. He explained "value is in the service, in the intellectual and material effort made by one man for the benefit of another". Gummesson argued that "goods are distribution mechanisms for service provision". Grönroos reinforced this notion and describes the services as "processes consisting of a series of activities where a number of different types of resources are used in direct interaction with a customer, so that a solution is found to a customer's problem." Based on these approaches, S-D logic's viewpoint is that the service is used to refer to a process rather than a unit of output. [13]

The understanding of the value concept is important to know that the service itself is made up of three different approaches in the literature: (1) service as an activity; (2) service as a perspective on the customer's value creation; and (3) service as a perspective on the provider's activities (business logic).

Now the most interesting is the second and third approaches. The second starting from the customer service logic says that the service is value creation itself. The third is a bit of reversal to say the value is the service itself. It is presented in the ITIL that is IT service practices methodology like this a service is "a means of delivering value to customers by facilitating outcomes customers want to achieve, without the ownership of specific costs and risks". [14]

All definition of value includes some sort of tradeoff between economic resources surrendered and benefit extracted from the activity. As the price or cost of the service is available in profits grow, so does the value. Therefore, the popular approach than the value considered the ratio of benefit received to cost expended. The more benefit received at a lower price, the more value created. The question is, what we mean by profit. There are two approaches. According to the first benefit may define as an ability of the product/service to yield a positive response from customers ultimately determine the value of the product. So the value can be caught by customer satisfaction. The second approach comes from the product / service direction and says that the quality of services creates a value that does not necessarily appear immediately consumer satisfaction, but also to serve a latent demand in the long term and exert a positive impact. [9]

In creation of value added perhaps the most important factor is human capital. It proves HR fact that the amount of value added is proportional to the value of human resources, quality,'

preparedness and capabilities of workers. Much of the value added comes from the common knowledge held by the organization. But the value could be created by financial capital as well. It is enough to think about a machine for production. However, they usually occur in every company, and the proportion of them is different, so it is very difficult to tell whether these various factors contribute to the value creation of the companies. This analysis and measurement of the current literature do not provide an appropriate response.

In general, it is true that the value added need to be determined in views of either the internal or external customer (another department or even the manager), however, in measurement a number of errors could emerge. Often, the added value is not taken into account all factors between inputs, or the world of business services, government / municipal subsidies ignore the well-known so there may be a market for high value-added technology is another market has been at a loss. In addition, higher value-added services could be less well standardizable, so extending the activities of the business services sector at the same time, the problem of scale is also displayed.

The biggest problem of value-added is the value is always subjective, since the price of the service is subjective by persons, place and time, moreover, reflects its marginal value, the value as the market evaluated the last unit. The price and thus the amount of value added is determined by the specific market supply and demand together, so there is no absolute sense of "high value-added industries." [2] However, it is true that the value added growth is based on productivity growth and maintaining it only to maintain a highly skilled labor force potential, therefore, for Hungary it is key to invest here.

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