ACTA SCIENTIARUM POLONORUM Oeconomia 14 (2) 2015, 153–162

ISSN 1644-0757
www.acta.media.pl

THE THEORETICAL LINKS BETWEEN ENTERPRISE VALUE MIGRATION, CAPITAL MIGRATION, AND CAPITAL COMMITMENTS' MIGRATION

Dariusz Siudak
Lodz University of Technology

Abstract. The development of the economics theory of value migration is the main goal of this paper. The required advances of understanding of this phenomenon call for clarification and distinction of related conceptions. Thus, this paper explains and compares the notions of value migration, capital migration, and a novel term, introduced in this paper – capital commitments' migration – in order to provide a deeper understanding of migration processes happening on the related markets. This knowledge can be used to scan the lifecycle of business models to provide managerial guidance.

Key words: value migration, capital migration, capital commitments' migration, value inflow, value outflow, capital allocation

INTRODUCTION

A growing body of literature highlights the importance of value migration (Billington 1997, Donol 1997, Griffiths 1997, Slywotzky, Linthicum 1997, Baptista 1999, Brabazon 1999, Herman, Szablewski 1999, Siudak 2000, Strikwerda et al. 2000, Campbell 2001, Moster, Moukanas 2001, Sharma et al. 2001, Klincewicz 2005, Owen, Griffiths, 2006, Slywotzky et al. 2006, Wiatr 2006, Woodard 2006, Szablewski 2008, Szablewski 2009, Woźniak-Sobczak 2011, Jabłoński, Jabłoński 2013, Siudak 2013, Skowron 2014). Although value migration is the basic process on the capital market, the theory development related to it has received little attention, especially in the economics and management research. Exception to this is the prominent Slywotzky's book on managerial aspects of

Corresponding author: Dariusz Siudak, Lodz University of Technology, Faculty of Organization and Management, Department of Economics, Matejki 22/26, 90-237 Łódź, Poland, e-mail: dariusz.siudak@p.lodz.pl

value migration [Slywotzky 1996], which is believed to coin the term. However, the economics theory of value migration is still underdeveloped. The dearth of well-established literature and theory is encountered by scholars who wish to investigate value migration processes to evaluate the lifecycle of business models. So, more attention should be paid to formulate economics underpinnings of value migration processes. The current paper aims to fulfill this theoretical gap.

Using an economics lenses, value migration is the effect of investors' seeking for effective capital allocations maximizing the return rates of comparable risks. The value migration processes are the non-zero-sum game understood as "the amount won by all players does not equal the amount lost by all players" [Lawarence, Pasternack 2002, p. 367]. An outflow of some amount of value expressed in determined units from one enterprise does not entail the same amount of a value inflow to the other enterprise. Conversely, an outflow of value from the group of firms does not indicate a value inflow to the other companies from an analyzed set. One can imagine even conditions under which value exclusively flows into or flows from all enterprises in a specific country. In this case, we can talk about one-way value migration. This might occur due to events, such as downturn on the capital market, restrictive or liberal politics employment exercised by a central bank, country bankruptcy and so on.

In this article, it is proposed that value migration processes should be considered with regard to capital migration but still distinguished from it. The company value is usually understood as current value of invested capital financing both tangible assets incorporated into a firm' balance sheet as well as intangible assets, which are not reflected by traditional financial accounts. M. Górski [2005, p. 26] describes capital as the sum of unit's liabilities, which finances assets in order to multiply the capital. Building on the logic of above definitions, the important distinction between value and capital, it is well-understood that terms "value migration" and "capital migration" differ. The distinction between the terms is pivotal for a further understanding of value migration processes and their quantification. No studies and literature inquires to the best of my knowledge, despite of the upsurge of interest in value and capital migration, do demarcate clearly between the above notions. Surprisingly, often value migration is understood as capital migration [Szablewski 2008, p. 18, Mikołajek-Gocejna 2009, p. 86], which holds true only partly. Seeing this theoretical confusion, the paper aims at clarification and introduction of basic concepts, which shed new light on capital markets understanding. The important theoretical distinction between value migration and capital migration is coupled with the assertion that there exists a broader notion than capital migration. Such theorizing about migration processes on the financial markets contributes to the subject literature.

The paper is organized as follows. First, it is reviewed the notion of value migration. Next, it is described the capital migration in order to distinguish it from value migration. Then, it is proposed to incorporate to the literature a conception of capital commitments' migration. Thereafter, there are compared all three types of migration. There are discussed the major links between them. Significantly, in this paper migration processes are explicitly categorized from the financial perspective in order to provide further insight into capital market processes.

VALUE MIGRATION AND CAPITAL MIGRATION

The phenomenon of value migration is defined as "the shifting of value-creating forces" [Phillips 2012, p. 36] or as "the flow of profit and shareholder wealth across the business chessboard" [Slywotzky 1996, p. 21]. Notably, aforementioned definitions represent the management theory approach. With regard to the capital market value migration refers to alterations of value between enterprises, which is a part of capital migration. For example, if investors, as a result of a quest for optimal capital allocation, decide to sell out stocks of a definite enterprise and then they invest money from the transactions in shares of another enterprise (or a set of enterprises), then undoubtedly there will occur value migration from some enterprises to others. At the same time we can talk about capital migration, which is the consequence of looking for high return rates of comparable risks accepted by investors. Simultaneously, there might be another course of actions, when, due to the increase in market risk, invaluably assessed by each investor, investors will decide to sell enterprise or enterprises' shares and allocate cash in hand to other financial instruments, not related to the financing of enterprise capital, for example, into government bonds. In such circumstances, we wittiness an outflow of value from an enterprise or enterprises without at the same time a corresponding inflow to other companies listed on the stock exchange market. The value of enterprise flows out and/or flows into in the form of materialized capital (physical money) flow into other possibilities of capital allocations, which are offered by existing financial instruments to the owners of money as an investment option on capital market. In some sense, it is constrained (one-way) value migration and capital migration. Yet, it can happen an adverse situation, when the value migrates into enterprises as an outcome of liquidation of other financial instruments different than shares emitted by companies.

Scarce capital resources, possessed by both individual and institutional investors, are the subject of rivalry of enterprises, governments, institutions, non-governmental organizations and so on. With a wide spectrum of available on capital markets instruments, investors have a possibility to transfer owned capital resources between financial instruments unrelated to the financing of enterprise activities. This implies capital migration, which in this case, does not directly affect value migration processes.

Generalizing, capital migration is the conception broader than value migration. It signifies, that in the certain economy, or in the considered set of world economies, theoretically, in extreme case, we can envisage the occurrence of capital migration processes without encountering any value migration processes.

CAPITAL COMMITMENTS' MIGRATION

In the previous section it was delineated the distinction between value migration and capital migration. We can now consider the existence of even broader conception that these two. Having said that, a worthy note is that capital migration processes, which is a wider form of transferring capital resources with regard to enterprise value migration, realize as an effect of searching for possibilities of optimal allocation (higher return rates at the comparable risk) of financial means by its owners, which they can invest in the various financial instruments on the capital market (such as derivatives which are tailored to market value of the base unit to which they refer to).

A investor's entrance into the capital market and purchase of a particular financial instrument is limited only by possession of a minimal amount of money, which is determined by the present market value (concerning a secondary market), or nominal and emission price (applying to a primary market) of securities, alternatively a minimal value of a securing deposit in case of derivatives. An investor's exit from a financial market is not limited with formal constraints of financial system of a specific country either, expect for transactional costs associated with selling financial instrument (including also currency market) and a cost of transferring money within a bank system.

The exit from an investment on regional or international financial market is not attributed to formal system restrictions. Restrictions, if any, can pertain only to the distinct financial instrument features itself in its own right. For instance, commercial banks, which allow credits, only in very exceptional situations might require their return, although there exists the possibility to utilize the instrument of securitization. The sale of a security (a financial instrument) on a secondary market is depended on its liquidity, if there is an individual that demands a security of distinct price exposed to selling. Those constraints are related to the inherited features of an investment in particular securities, but not to system regulations.

Therefore, there is a free hand in possession of investment capital beyond a financial market. An investor, after investing on a financial market, can transfer his capital outside its area and might invest on a market of material goods and properties (e.g. property market, goods market, market of art, and so on) in pursuit for a higher return rate. In such a case, the processes of wider character than capital migration are observed. These processes are proposed to be designated as capital commitments' migration or embedded capital migration, which imply capital flows that can occur between all potential capital commitments investments opportunities, and as a result they change values of investments undertaken in quest of high return rats at an accepted risk. Capital allocation opportunities do not only refer to the financial market, but as well to all investment on markets of goods, properties or natural resources. Capital commitments' migration can occur in following types of situations: (1) when capital flows out of a financial market (capital migration) and migrates outside its scope – to markets of good and properties (capital commitments' migration), or (2) when the seller of goods or properties decides to invest on a financial market – capital arrives to this market. In a very particular case, when fluctuations of capitals concern a market for financing enterprises' activities, then the processes are related to value migration.

All three previously described notions of migration are tightly interconnected, although migration processes can take place within their area without crossing own borders. The graphical presentation of interdependence between three types of migration is depicted in Figure 1.

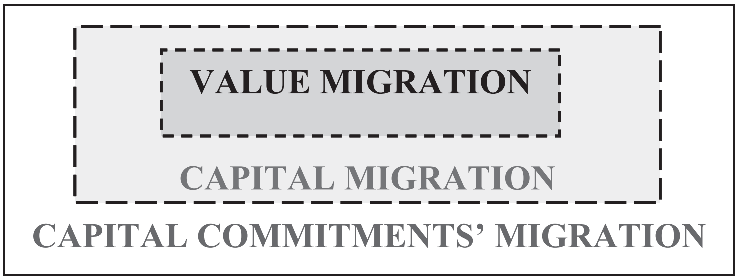


Fig. 1. Value migration, capital migration, and capital commitments' migration

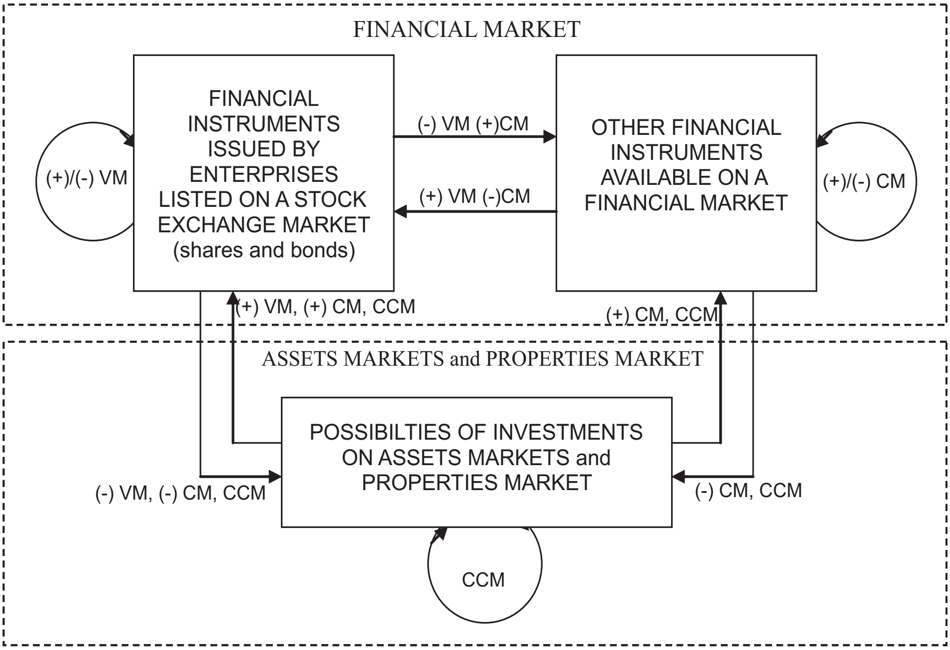
Source: Own elaboration.

LINKS BETWEEN THREE TYPES OF MIGRATIONS

As it was previously signaled capital commitments' migration is a broader conception than capital migration and accordingly value migration. The transactions on the market of goods and properties aimed at investments constitute the process of capital commitments' migration, in this case without influencing neither capital migration nor value migration. This claim is only valid when funds for real investments are acquired outside the financial market and when resources received by a seller from those assets will be located also outside the financial market. In practical terms, usually fluctuations of capital are related to all the other types of migrations with greater or lesser extent.

Relations between different types of migration are dependent on the area to which an investor brings his investments. If capital fluctuations cover only investments directly dedicated to financing enterprises, then we spot value migration – an inflow (+) or an outflow (–) of value from the considered pool of enterprises – which herein overlaps partly with capital migration and capital commitments' migration. When capital fluctuations encompass other than above mentioned financial instruments, still within the transactions on capital market (e.g. for example, selling of government bonds and depositing money in a commercial bank), then we discern capital migration, which falls too into the category of capital commitments' migration but not within scope of value migration. Generally, capital migration includes all fluctuations between financial instruments on the financial market. In addition to all above, capital commitment's migration might occur without interaction of value migration and capital migration. For example, selling of a land and purchase of another property (e.g. a flat or a house) for an investment purpose as the form of optimal allocation of one's capital. Above examined relations between three types of migration with respect to investment instruments are portrayed in Figure 2.

Often all three processes can influence each other, such as when a value inflow – (+) VM originates from a capital outflow – (–) CM from other financial instruments at hand on a market. And adversely, a source of capital inflow (+) CM – is an outflow of value – (–) VM – also as a result of looking for optimal capital allocation. The conveyance of



(+) – inflow, (–) – outflow, (VM) – value migration, (CM) – capital market, (CCM) – capital commitments' market

Fig. 2. Relations between different types of migration with regard to investments possibilies
Source: Own elaboration.

investments on a financial market from a market of goods and properties causes capital commitments' of migration and capital migration. When investments refer to financial instruments financing enterprises' activity, then flows affect also enterprise value migration.

As capital commitments' migration embodies capital migration and value migration, in such analyzed relations, formally its balance will remain zero, which is denoted by the lack of an inflow (+) and an outflow (–). A non-zero balance of capital commitments' migration can arise only when the process of capital creation (increase) in economies realizes (an inflow of financial resources for investments) or in case of destroying the wealth and prosperity of societies (an outflow of financial resources). When referring to the global structure of all economies, outflow/inflow of capital commitments happens in the processes of creation/destruction of value for all participants of the socio-economical system.

Taking this debate at the level of individual countries' economies, a balance of capital commitments' migration can alter as an aftermath of international fluctuations of capital resources. When international capital quoted in foreign currencies flows, in most of the cases it will affect a balance of capital migration considering transactions on the currency market, which is a part of the financial market.

In above discussion it has been neglected a possibility that individual investors might resign from investments on a capital market and decide to commit released money to current consumption. Though, after some time those financial resources can be again invested by other owners of cash. Noteworthy is that, when the goal concerning possessed investment capital changes, resources stop to multiply and are becoming sources of finances for households' consumption.

In this line we mention interesting points brought by the separation theorem developed by Irving Fisher [Fisher 1965], which specifically is a formal model of capital market. It assumes the substitution of current or postponed in time consumption (with regard to an investor), when decisions about current consumption or investment plans could be independent from each other (decision could be separated). Thus, investment and financial decisions are detached. If Fisher's assertion holds true, then we can talk about unanimity among all financing economic units – independent on different time preferences – pertaining to the real investment attractiveness undertaken by an enterprise with positive net present value. The condition for the Fisher separation theorem to apply is above the all not only the existence of a perfect capital market, a lack of information asymmetry, transaction costs or taxes, but also the same interest rate for both units (individuals) financing and being financed (a capital provider and a recipient). It should be highlighted that in the economic reality there is not such a thing as the same interest rate for providers and recipient of capital, which is the theory (model) limitation concerning simplification of reality. We can note that other models also contain simplification of observed reality, for instance Capital Assets Pricing Model, often employed in enterprise financial management, one of assumptions is that an investor can borrow or lend unlimited amounts at the risk-free rate of interest [Jajuga, Jajuga 1998, p. 168, Bailey 2005, p. 144].

Investors considering a particular investment on a capital market in shares take into account a current market interest rate for deposits (in a commercial bank of certain financial condition and good reputation or purchase of government bonds) as well as expectations with regard to their volatility in the future and the extent of risk coupled with an investment. Investments in stocks are always compared to other substitutive opportunities of capital allocation with account of that the substitute can be as well a plan of current consumption (which does fail into a category of capital deposit for the expected interest rate).

CONCLUSIONS AND IMPLICATIONS

Value migration is a direct effect of changes in allocation of investment capital on a capital market as a consequence of search for optimal investments with regard to a rate of return and an accompanied risk. As capital flows might occur within financial instruments not related with financing enterprises, capital migration are the boarder notion. Going further, financial flows, aimed at an investment outside a financial market, are comprising a wider scope than capital migration.

From a formal standpoint, both a balance of value migration and a balance of capital migration can be positive (inflow) or negative (outflow). Theoretically, taken to the extreme, these balances can equal zero, however, because of capital commitments' migration processes – and within them capital migration – seldom it can occur in economic reality. In other words, taking into consideration the set of analyzed enterprises, when value inflows to some enterprises based on value outflows from other enterprises, then a balance of value migration will equal zero.

To sum up, a relatively strong distinction between value migration and capital migration provided in this study is a necessary prerequisite for elaborating a measurement model of value migration fluctuations on a capital market. It is a base too for the one-way value migration model and its interpretations in further studies.

The proposed theoretical distinction of value migration, capital migration, and capital commitments' migration can be used by researchers and practitioners alike when describing migration processes on the financial market and assets market. So far they were captured indistinctly. Better precision in describing migration processes on the financial markets can result in theories development.

As far as limitations of the introduced distinction are concerned, it must be noted the concepts introduced in the paper are concerning the aggregated values, so they are not developed for micro-level of analysis, but rather to describe migration processes at the higher level.

REFERENCES

Bailey, R.E. (2005). The Economics of Financial Markets. Cambridge University Press, Cambridge.

Baptista, J.P.A. (1999). The New Profit Zones: Growing Shareholders Value in the Communications Industry. Commentary. Mercer Management Consulting.

Billington, J. (1997). Understanding Value Migration and Putting it to Work. Harvard Management Update, 2(6), 4–6.

Brabazon, T. (1999). Value Migration. Where is the Value in Your Industry Going? Accountancy Ireland, 31(3), 14–15.

Campbell, M.K. (2001). The Ascent of the Customer. IEEE Potentials, 20(2), 3–5.

Donol, J.P. (1997). The Great Value Migration. Chief Executive, 123, 64–73.

Fisher, I. (1965). The Theory of Interest. As Determined by Impatience to Spend Income and Opportunity to Invest it. Kelly, New York.

Górski, M. (2005). Architektura systemu finansowego gospodarki. Wyd. UW, Warszawa.

Griffiths, E.C. (1997). Where Does Your Profitability Reside? Equipment Leasing Today, 9(5).

Herman, A., Szablewski, A. (1999). Orientacja na wzrost wartości współczesnego przedsiębiorstwa. [In:] A. Herman, A. Szablewski (Eds). Zarządzanie wartością firmy. Wydawnictwo Poltext, Warszawa, 13–56.

Jabłoński, A., Jabłoński, M. (2013). Cykl życia wartości przedsiębiorstw wobec kondycji modelu biznesu. Kwartalnik Nauk o Przedsiębiorstwie, 4.

Jajuga, K., Jajuga, T. (1998). Inwestycje. PWN, Warszawa.

Klincewicz, K. (2005). Przemiany w branży high-tech i zjawisko migracji wartości. Studia i materiały 2. Wydział Zarządzania Uniwersytetu Warszawskiego, Warszawa.

Lawarence, J.A., Pasternack, B.A. (2002). Applied Management Science. Modeling, Spreadsheet Analysis, and Communication for Decision Making. John Wiley & Sons, Hoboken.

Mikołajek-Gocejna, A. (2009). Konkurowanie o kapitał. [In:] A. Szablewski (Ed.). Migracja kapitału w globalnej gospodarce. Difin, Warszawa, 74–102.

Moser, T., Moukanas, H. (2001). Finding the Right Drivers of Value Growth. With so Many Options, Which Initiatives Really Matter? The Value Growth Agenda. Mercer Management Journal, 13.
Owen, D., Griffiths, R. (2006). Mapping the Markets. A Guide to Stockmarket Analysis. Bloomberg Press, New York.
Phillips, P. (2012). Time to Revisit Value Migration. Business Corner. Strategies & Analysis. Rodman Publishing, July.
Sharma, A., Krishnan, R., Grewal, D. (2001). Value Creation In Markets. A Critical Area of Focus for Business-to-Business Markets. Industrial Marketing Management, 20, 391–402.
Siudak, D. (2013). Podstawy teoretyczne procesu migracji wartości w przedsiębiorstwie. Przegląd Organizacji, 6.
Siudak, M. (2000). Analiza migracji wartości w Polsce. [In:] R. Knosala (Ed.). Materiały konferencyjne: Komputerowo zintegrowane zarządzanie. WNT, Warszawa, 170–179.
Skowron, S. (2014). Migracja wartości w warunkach sieci organizacyjnych. [In:] S. Gregorczyk, A. Sopińska (Eds). Granice strukturalnej złożoności organizacji. Szkoła Główna Handlowa, Warszawa, 163–172.
Slywotzky, A. (1996). Value Migration. How to Think Several Moves Ahead of the Competition. Harvard Business School Press, Boston, Massachusetts.
Slywotzky, A.J., Baumgartner, P., Alberts, L., Moukanas, H. (2006). Are You Enjoying Globalization Yet? The Surprising implications for business. Journal of Business Strategy, 27(4), 23–32.
Slywotzky, A.J., Linthicum, F. (1997). Capturing Value in Five moves or Less: The New Game of Business. Strategy & Leadership, 25(1), 5–11.
Strikwerda, J., Amerongen, M. van, Wijck, M. van (2000). How Do Firms Adapt Their Organization to the New or Informational Economy? Research Memorandum #5, Nolan Norton Institute.
Szablewski, A. (Ed.) (2009). Migracja kapitału w globalnej gospodarce. Difin, Warszawa.
Szablewski, A. (2008). Migracje kapitału i wartości w warunkach globalnej niestabilności. Kwartalnik Nauk o Przedsiębiorstwie, 3(8).
Wiatr, M. (2006). Migracja wartości a procesy przedsiębiorczości. [In:] M. Strużycki (Ed.). Przedsiębiorczość w teorii i praktyce. Szkoła Główna Handlowa w Warszawie, Warszawa, 27–47.
Woodard, J.C. (2006). Architectural Control and Value Migration in Platform Industries, Academy of Management 2006 Annual Meeting, Atlanta, August.
Woźniak-Sobczak, B. (2011). Warunki współczesnego tworzenia wartości przedsiębiorstwa. Zeszyty Naukowe. Wyższa Szkoła Ekonomiczno-Społeczna w Ostrołęce, Ostrołęka.

TEORETYCZNE ZALEŻNOŚCI MIĘDZY MIGRACJĄ WARTOŚCI PRZEDSIĘBIORSTW, MIGRACJĄ KAPITAŁÓW I MIGRACJĄ ZAGAZOWAŃ KAPITAŁOWYCH

Streszczenie. W prezentowanym artykule podejmowana jest problematyka relacji między migracją wartości a migracją kapitałów. W finansach przedsiębiorstw zarządzanie przez wartość jest przyjętym paradygmatem. Migracja wartości pozostaje w bezpośrednim związku z koncepcją zarządzania wartością przedsiębiorstw. Nieustannie zachodzące procesy migracji wartości oraz ich jednoczesna akceleracja w ostatnim czasie urzeczywistniają potrzebę ich ilościowego pomiaru. Przeprowadzenie właściwego pomiaru fluktuacji wartości przedsiębiorstw wymaga rozgraniczenia pojęć migracji wartości i migracji kapitałów.

Słowa kluczowe: migracja wartości, migracja kapitałów, migracja zaangażowań kapitałowych, przypływ wartości, odpływ wartości, alokacja kapitału

Accepted for print: 01.04.2015

For citation: Siudak D. (2015). The theoretical links between enterprise value migration, capital migration, and capital commitments' migration. Acta Sci. Pol., Oeconomia, 14 (2), 153–162.