*Emerging trends in value-creating processes: co-creation through corporate finance and S-D Logic*

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**Abstract**

Service-Dominant Logic suggests the co-creation of value by abandoning a mere profit maximization approach and fostering behavior capable of involving clients and other partners as active players in service delivery[1].

Financial performance is not considered an objective, but a relevant form of feedback from the market. In particular, financial performance could also be interpreted as evidence that value propositions have been fulfilled. Considering this, this paper will first introduce the existing relationship between S-D Logic and Ethical Finance. The proposed paradigm interpreted within corporate finance, in fact, presents a radical change in the analysis of inter-systemic relationships for the growing importance of the financial system and for the accredited role to both the customer and other monitoring entities. This seems perfectly consistent with the major events taking place in financial markets nowadays, which definitively force a great cultural change on the identification and management of relationships with financial stakeholders, surpassing the traditional approach which is profit and determined asset-sensitive and qualifying it with a wider range of service attribute combinations.

We will then make a theoretical proposal focused on the identification of a set of financial performance indicators that, despite their indirect relation to financial value, are very effective

[1] Even thought this paper was written in cooperation of both authors, par. *Introduction, Corporate finance and S-D Logic, The finance function as a relative form of feedback in terms of the value proposition, Conclusion*, can be accredited to Carmelo Intrisano and par. *Ethical Finance as a result of S-D Logic* to Andrea Moretta Tartaglione.

identifiers, also in terms of identifying eventual corrective actions that may be carried out in the continuous and dynamic process of value propositions. Among these indicators, particular attention is dedicated to capital cost, given the implications that service-dominant logic can exert on firm risk. It seems evident, in fact, that the cost of capital is also the result of the degree of cash flow stability, in addition to a greater level of consonance with the customer that the S-D logic approach must ensure, given the continuous correlation of the firm's value within the market.

*Keywords*: Service-Dominant Logic, value proposition, financial performance indicators, cost of capital, feedback, cash flow.

## Introduction

Extending the Service-Dominant Logic (S-D logic) approach to company finance is actually quite topical, especially today when we are beginning to feel the dramatic consequences of the recent financial crisis. By now this crisis is irrefutably and unanimously ascribed to the progressively degenerative process that has included the financial world, beginning with the confirmation of value for shareholders and finally arriving at the well-known phenomenon of subprime loans and derivative finance, directed more towards the accepted meaning of virtual value instead of real value in the economy.

S-D logic is based on the vision of a consumer-oriented company where the consumer is considered the co-creator of value and suggests an alternative concept of corporate finance to the one diffused in the stock market, which places more emphasis on the expectations of the shareholders regardless of the common interests of other company stakeholders.

Numerous contributions have been provided by researchers, many of which represent theoretical approaches such as *the cognitive theory of the firm* and *the firm as a living system* (Vicari, 1991), *the firm as a viable system* (Golinelli 2005), *total quality management* (Deming 1989) and the *stakeholder theory* (Freeman 1984) based on a firm's ethical behavior and on corporate social responsibility in the creation of pluridimensional value, which thus is extended to all stakeholders.

In particular, with regards to the relationship between ethics and the firm, Sciarelli (2002), who acknowledges the role ethics plays in creating value and broadening the purposes of the firm, confirms the *enlarged value concept* for stakeholders as the firm's real objective and not just an instrument for achieving economic results.

With regards to the role of finance and value, instead, some literature is dedicated to demonstrating the grounding of Rappaport's well-known model (1986), according to which value creation for stakeholders is the true purpose of finance management and just as many researchers, deeply rooted in Coase's *contractual vision* of the firm (1937), have committed themselves to affirming the idea that the objective of corporate finance cannot simply be reduced to stock value, but to the satisfaction of other stakeholders.

Cornell and Shapiro (1987) believed that not only investors, but also other stakeholders play an important role in financial policy, representing the link between strategy and corporate finance. A series of authors also assert that the stakeholder approach is crucial for a company's competitive profile and for reaching the company's bottom line (e.g. Atkinson et al 1997; Brooks, 2000; Szwajkowski, 2000; Odgen & Watson, 1999).

Still other researchers, who maintain that value for stakeholders requires financial resources that are free from profit maximization constraints, recognize the need for ethical finance to compete with traditional finance systems. Such is the case, for example, with Dobson (1993) who asserts that the true role of ethics in finance is to be found in the acceptance of the "internal good", considering a "good" as a "right" rather than a "physical product", considering that the attainment of internal goods, in that sense, were to become generally accepted as the ultimate objective of all human endeavors, both personal and professional. Dembsey's position (1993) can be interpreted similarly. Contrary to those who believe ethical finance will eventually cause firms to exclude profit as their main objective, Dembsey asserts that profit remains as the bottom line, given that *corporate and financial ethics do not exist "to do good", but to act reflexively in order to consolidate and sanction internal activity. Consequently, the employee is called to be ethical not on the individuals own terms, but on the profit-motivated terms of the institution.*

Among more recent contributions we recall the thought of Colombi (2003) in the work *Conditioned Finance and value theory: about credit and method.* The Author brings back the balance between finance and ethic to the substitution of the mere creation of richness with the creation of value, starting from the statement of fact that a distorted research of profit, to put under stress in the short term and to the detriment of future generations, risk to bring the world to the drift.

In finance the formula of the creation of value, that emphasizes an increased immaterial desire of goods and services, is preferred to the creation of richness, which recalls to mind the material goods production and, therefore, an idea of well being linked to ownership rather than to the clever use of economic resources.

It follows that the creation of richness, intended as a more elevated potential of the equity, remains as a rule shareholder property, while the creation of value can easily be shares, under the form of remuneration and on the base of correct involvement to the economic- financial risk of the company.

Thus, on the basis of several pieces of literature available on this topic, this paper is organized in the following way:

- The first section covers the general implications regarding company finance in view of the S-D logic approach, not only from the functional point of view, as corporate finance is understood as a method to verify and control the degree in which the consumer accepts the value proposition, but more importantly, for the effects this new mindset may have in some value drivers, such as capital cost;

- The second section demonstrates the need for heightened sensitivity towards ethical finance. The affirmation and diffusion of ethical finance in stock markets may be the solution in overcoming eventual limitations connected to the S-D logic approach in terms of acquiring financial resources for firms within a context that places more importance on stakeholder value;

- The third and last section of this paper examines the development of a method whereby corporate finance becomes a relative form of feedback with regards to the value proposition by suggesting a modified version of the original balance scorecard, based on the unidirectional acceptance of value (from the firm to its several stakeholders), to a new approach based on the bi-directional acceptance of value which provides for continuous interaction between the firm and the stakeholder, who is indispensable in the value co-creation strategy.

**Corporate Finance and S-D Logic**

The position the firm takes is different from that of the shareholders. The firm is called to create value for all its stakeholders, ensuring the long-term survival of the firm, while shareholders are naturally attracted to the idea of maximizing capital stock.

The interests of the shareholders must not prevail, however. If a firm's behavior and decisions are exclusively focused on creating value for shareholders, they may end up jeopardizing the firm's equilibrium and, consequently, the interests of the stakeholders[2].

The financial system most focused on creating value for shareholders is the Anglo-Saxon model, which urges the firm to promptly and continuously satisfy the shareholder and pushes management towards achieving short-term results. This is contrary to the European-Continental model which, given the criticality of *symbolic capital*[3] and trust resources, emphasizes the capacity to interweave stable relationships between the firm and its stakeholders[4].

According to the S-D logic approach, company results, including company cash flow, are also important in that they provide descriptive content that indicates the degree in which the customer accepted the value proposition. Negative performance indicates that customer needs were not completely satisfied by the service offered and, consequently, the firm has the opportunity to redefine the proposition to make it more coherent to the customer's needs. Conversely, positive performance demonstrates that the service proposed was accepted by the customer precisely for how it satisfied his needs.

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[2] The Stakeholder Theory has always opposed the Shareholder Value Approach (Rappaport, 1986; Stewart, 1991, Guatri, 1991) since it was first created. According to the stakeholder theory, without denying shareholders ownership rights, efficient management does not maximize one objective function, but tries to incorporate many objectives (Freeman and McVea, 2001).

[3] Symbolic capital is based on the reputation and image the firm has with respect to the different categories of stakeholders (over-systems) it has relationships with. For more information on the various forms of company capital, refer to, among others, Cfr. Bourdieu P., "The Forms of Capital", in Richardson J.G. (eds), Handbook of Theory and Research for the Sociology of Education, Greenwood Press, 1986, pgs. 241-258;

[4] Loyalty is of fundamental significance in the firm-stakeholder relationship. The majority of economic decisions are based on the reputation and image of the subject a deal must be closed with. This is even more evident in the modern net economy which introduces new rules based on a level of cooperation between suppliers and customers like never before. For further information on this topic, refer to Perrini F., *E-valuation: valutare le imprese Internet*, McGraw-Hill, 2000.

On the other hand, the idea of value co-creation addresses feedback as a control/assessment method that can be used in the firm's continual improvement process, contrary to the traditional way in which value is accepted by the shareholder, focusing more attention on final results in a period.

S-D logic does not undermine a firm's market value, the relevance of financial variables, or, in particular, monetary flows that continue to represent critical resources. Vargo and Lusch (2006), in affirming that value is only created through a process of co-creation and interaction with the customer, recognize both the greater power of market value over accounting value, which does not consider off-balance-sheet assets such as customer, brand and network equity, as well as the importance of company cash flows that the different service options the firm offers depend on.

The sole difference is in financial performance responsibility, which concentrates more on the role of marketing[5].

This difference tends to accentuate the dichotomy between the Anglo-Saxon conception of value, which tends to highlight profit maximization with its strong focus on shareholders, and the European model, which focuses more on spreading wealth and attaining progress than on returns for shareholders.

In this sense, it can be asserted that S-D logic facilitates the affirmation of good ethics in corporate finance and in other company functions, overcoming the "profit above all" notion that is typical of the shareholder approach as several stakeholders contribute equally to the complex value co-creation process[6].

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[5] Vargo and Lusch's perspective refers mostly to marketing, yet it does not overlook possible application in other fields. For more details, refer to Polese and Carrubo (2008) on applying S-D logic to the tourism phenomenon. In addition to the authors cited, other researchers have studied the firm-customer relationship phenomenon in terms of value co-creation (Ramanswamy, 2000, 2003 e 2004; Prahalad, Day, 2003), placing emphasis on the unitary and systemic customer value co-creation process. Golinelli (2002 and 2005) already highlighted how the same suppliers and customers can be considered internal components of a firm's system. The suppliers are linked to the firm by particularly intense and high quality relationships while customers play an active role in implementing products, services and components, contributing to the firm's value creation process.

[6] The traditional approach whereby the ethical sphere is external to the economic sphere, interacting with each other only through decision makers, seems to have been radically changed as indicated by recent studies on Business Ethics. According to these studies, ethics can play a positive role in favor of a firm's economic performance. Given the

The result is, thus, a more ethical type of corporate finance that focuses more on its own responsibility and customer worth, formulating specific value propositions that the customer is called to dynamically share and correct.

At first glance, it may seem that S-D logic and value co-creation oppose bringing value for shareholders by negating profit as the firm's sole objective. In reality, however, it can be demonstrated that this new logic generates advantages for the shareholder as well, whose objective should not be represented by a short-term return, but by fair compensation with respect to risk and which keeps accruing over time[7]. On the other hand, acceptance of the value proposition (separating it from the short-term which is typical in traditional managerial approaches) is what offers more long-term advantages.

Conversely, S-D logic allows us to avoid degenerative value tendencies for shareholders that arise from the conviction that the firm's main objective is to maximize value for the shareholder, maintaining that the consumers' well-being and the interests of other stakeholders do not comply with the firm's corporate structure.

However, it is widely demonstrated that a fundamental value component for shareholders is risk and, more generally, uncertainty, characterizing monetary flows that are highly influenced by the firm's capacity to maintain consonant relationships with the other systems that it interacts continuously with. In fact, perceived value for shareholders is equivalent to the difference between beneficial monetary flows and opportunity cost, which corresponds to the yield on assets, having the same  risky nature as the firm, that it sacrifices by having decided to invest in the firm. In particular, a firm that does not take into account customer needs by affirming unidirectionally created value, heightens the uncertainty of corporate flows, compromises capital cost and forces the realization of even greater economic results that are only attainable through further unfairness with

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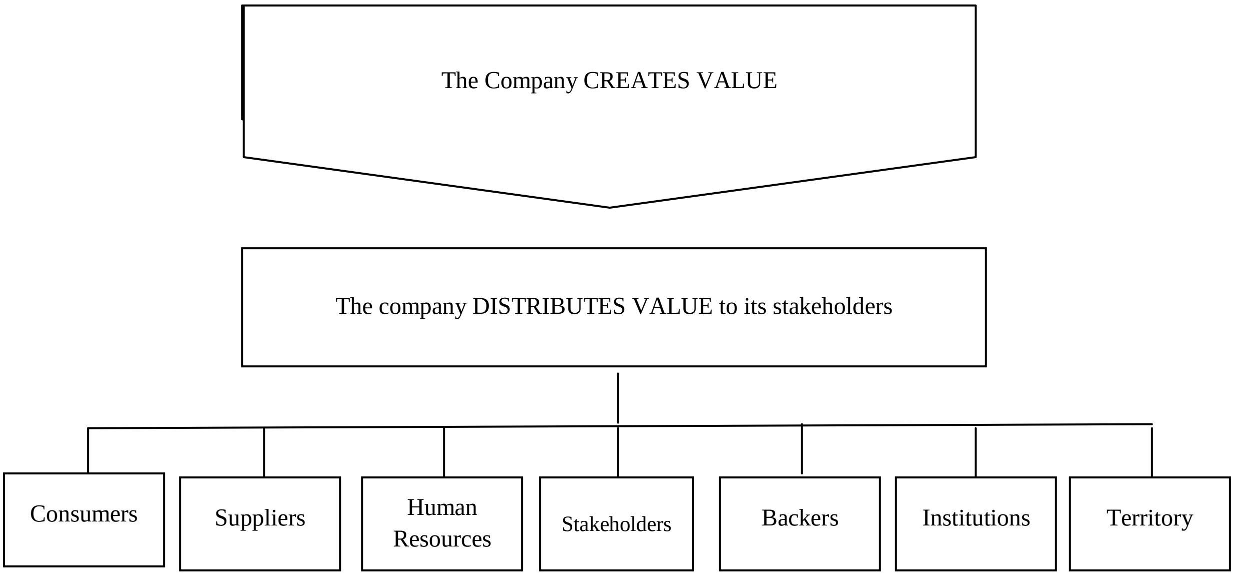
existence of this positive correlation, ethics can be considered a resource like any other resource made available to the firm.

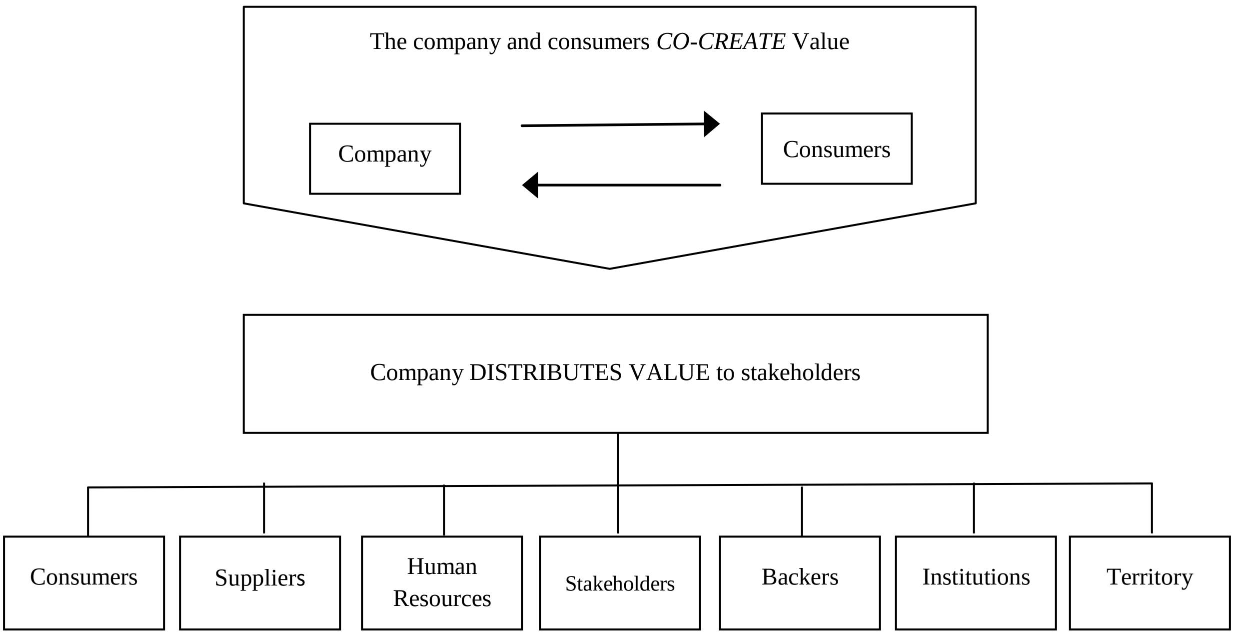
[7] The new S-D Logic approach seems congruent with more recent interpretations regarding the purposes of a firm, relating the firm to a widely-accepted concept in which profit, earnings and cash flow seem to only represent success indicators (which are equally important) jointly created with the other actors the firm has relationships with. Thus, profit maximization must not be interpreted as an end in itself, but as a sustainable long-term success factor that is useful in understanding the real degree/level of affirmation.

regards to customer value, which degenerates capital cost, setting off a vicious circle that repeats itself.

TRADITIONAL MODEL OF SOCIAL RESPONSABILITY




S-D- LOGIC MODEL OF SOCIAL RESPONSABILITY



The value co-creation model implies a degree of social responsibility and a need to create concrete initiatives aimed at establishing continuous dialogue with stakeholders on the basis of defined and shared principles, acknowledging that a firm's responsible behavior towards its stakeholders also improves the firm's social reputation. With regards to the customer, making choices aimed at value co-creation increases the firm's competitive advantage by bringing about an increase in earnings through greater customer loyalty in the firm's products[8].

Nevertheless, in contrast to traditional strategies, according to S-D logic a firm's social responsibility does not concern the simple distribution of added value obtained unidirectionally by the firm, but involves the same value creation process that the firm and the customer actively participate in. The firm formulates the value proposition and the customer accepts, corrects or declines the same proposition.

S-D logic, as an approach based on the systematic interaction of services between an entity who proposes a service on one hand and a recipient of this same service on the other, can be generalized by the simple relationship that links the firm to the customer to the complex relationships the firm is involved in. Thus the same strategy can be repeated in the relationship that links a company to its own financial backers, considering subjects that bring in capital (in the form of equity or debt) as entities that interact with the firm in the dynamic value creation process and prevent one or the other from changing produced value without contributing, in one way or another, to the process. Thus, the firm, for example, views a credit institution that provides financing as a value co-creator rather than a critical resource supplier who it passively accepts conditions from that are often detrimental to the value sought out by the firm. Likewise, in the shareholder/firm relationship. Instead of viewing the shareholder merely as a recipient of value, S-D logic separates the shareholder from the firm, viewing them both as actors that systematically and dynamically contribute to reaching the same value objective in an interactive way.

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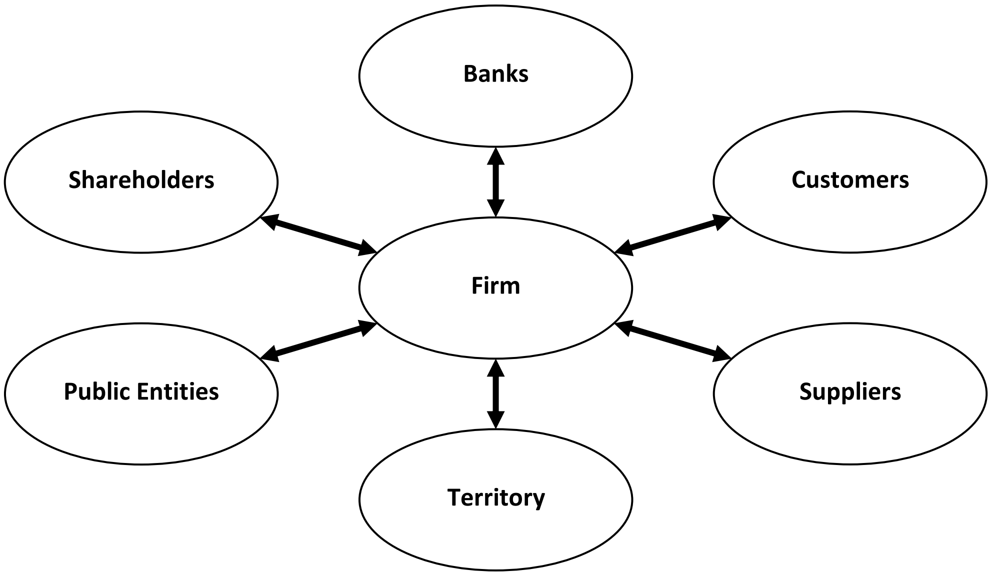
[8] In addition, the convergence between the financial perspective and the economic-management perspective of the firm, implicit in the concept of pluridimensional value, re-introduces the importance and role of CSR (Corporate Social Responsibility) in the life of the firm. CSR includes behavior patterns and voluntary corporate decisions that focus on the management of relationships between the firm and its stakeholders and, thus, in the final analysis, contribute to value creation. The destiny of the firm is linked to the stakeholders in a relationship of dynamic interdependence for which the firm, if it is not able to involve the stakeholders in its own management and services it offers through a motivating strategic project, won't be able to obtain the necessary resources for its survival either.

All of this presumes a shift to symmetric information that is only possible when the firm and the customer, the firm and financial backers, or, less specifically, the firm and the stakeholder share a knowledge network, causing information to become a common wealth for all stakeholders (who are all directed towards the same objective of creating value for the firm) instead of representing an element capable of egoistically increasing attainable value at another's loss. Thus, banks, suppliers, customers and other stakeholders bring about and receive services and knowledge from the firm.

**S-D logic Firm/Stakeholder Network**




In that regard, Normann and Ramirez, by substituting the concept of the value chain with that of the *value constellation*, in which value is created (co-produced) simultaneously by several actors through various types of relationships, affirm that value is not attained, but produced, or better, co-produced, through a complex network of relationships that are continuously changing[9]. Thus the

[9] The term co-production refers to a collection of reciprocal relationships between value creation actors that are not created in sequential chains, but in complex constellations. In fact, within a constellation, the customer actively participates in value creation through a complex network of relationships that economic actors interact with, allocating activities in a way that brings about a comparative advantage for each one (Normann, Ramirez, 1995). Thus, the

systemic theory, and in particular the theory of the firm as a viable system recently proposed by established doctrine, emphasizes the need to establish principles which govern the relationships most appropriate for increasing the firm's chances of survival, thus focusing attention on initiating and fostering relationships with the customer and all stakeholders (operators of Over-systems) who, as such, become collaborative partners in the firm since they bring fundamental resources for its survival.

In turn, an exchange of services represents value that is transferred from one subject to another and confirms whether or not the value proposition formulated by the firm has been accepted[10]. However, intersystemic relationships, characterized by an exchange of resources, are continuously pressured to satisfy the mutual needs and expectations of each system. Thus, these relationships are mainly based on exchanges that a firm has with Over-systems that offer resources depending on the benefits to be obtained[11]. Consequently, these are exchanges characterized by mutual utility and satisfaction in order to establish a condition of consonance and, subsequently, one of resonance[12].

In any case, the existence of mechanisms which, being linked to power distribution in the relationship, may generate a different reaction than the one desired or intended by top decision-makers.

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difference between a chain and a constellation is found in its fundamental approach, with relationships no longer based on strength and power, but on interactive and collaborative mechanisms.

[10] Given the importance S-D logic places on non-material resources, predominantly knowledge as a competitive factor, the approach gives a different interpretation to the purpose of economic exchange, asserting that its intrinsic nature is exclusively linked to service, not as a marginal or merely functional element, but as something inherent to all forms and aspects connected to transactions (Vargo, Lusch; 2004b).

[11] Over-systems represent entities that top decision makers identify in the specific contexts because of their use in creating exchange relationships aimed at acquiring resources for the benefits they generate (value creation). Thus, at the same time, supersystems are holders and suppliers of resources, or rather, the firm’s suppliers and customers.

[12] For more information of the meaning of consonance and resonance, refer to Golinelli (2005, 2008). Consonance identifies the cognitive affinity that allows two entities to establish a strong communication channel while resonance allows the parties involved to find a satisfying balance of interests and, as such, effectively carry out a common goal.

This takes us back to contractual power which, as seen, is strictly connected to the value perceived respectively by each party, or rather, to the value incorporated within the resources exchanged and, consequently, to the relevance these resources attribute to the fundamental interaction.

Therefore, exchange, as with dialogue, is facilitated only when there is a dynamic balance of power, in that dynamically balanced contractual power should foster a greater amount of trust between the entities involved in such interaction. From this point of view, for example, the information and knowledge flows that a firm ensures by interacting with the bank it either has already received a line of credit from, or at least intends to, allows the credit institution to better assess the amount of risk involved in order to optimize its own risk-revenue profile and the knowledge and information transferred by the firm's bank allows for the firm to make use of the bank's greater capacity to understand and analyze financial variables and, more generally, the dynamics of the financial market that, as a last resort, the cost of capital obtained at full or limited risk depends on.

**Ethical Finance as a result of S-D Logic**

On the basis of that examined thus far, it can be established that S-D Logic contributes in making corporate finance more ethical and, more generally, the entire decision-making structure of the firm more ethical. The new consumer is no longer represented as a passive subject with a need, but as a true agent with decision-making power who is able to alter the value proposition offered by the firm and, thus, helps to create goods and services with acute characteristics, not only with regards to quality, but to justice and solidarity as well.

The stakeholder view has important ethical/normative implications firstly because of the manager's moral obligation to, during decision-making processes, take the interests of the stakeholders into account and because the firm is evaluated not only from the owner's point of view, but from the many and diverse views of the other stakeholders. This is the reason for which stakeholders who share legitimate interests bring about a greater moral sense within the organization, as they are treated as moral subjects that have specific rights[13].

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[13] More generally speaking, the expectations of stakeholders and the needs of effective and efficient management require appropriate methods to evaluate and report economic, social and environmental performance. Thus, the firm adopts the triple bottom line approach, which is consistent with the goal of sustainability and evaluates the firm's complexive performance on the basis of its combined contribution to economic prosperity, social capital and

At the same time, a firm's readiness to identify objectives that differ from mere value maximization for shareholders, causes the organization to progressively transform its economic activities, assigning the firm a role in society that is not purely economic, but also ethical due to production actors that are particularly careful about and interested in fueling a virtuous mechanism that increases the level of trust associated with the firm through newer management forms and decision-making channels that the different stakeholders actively participate in.

Nevertheless, in order to affirm the S-D logic concept and promote its idea of a more ethical firm, the financial resources that a firm requires to cover needs arising from new production methods, particularly those directed towards a consumer service, must flow into firms who have other objectives than a mere return in the short-term, as is typical of most financial intermediaries.

In other words, one hopes for a greater amount of banks and other intermediaries which are receptive to the ethical demand springing from the entrepreneurial system and, in particular, to the demand for financial resources from firms that produce high-quality goods and a vast amount of services as these firms are moving away from the traditional approach of a linear firm-market process and reject the concept that managers must be solely responsible towards their shareholders.

On the other hand, the choice for these same financial intermediaries to invest in entrepreneurial activities that are more focused on ethics leads to greater returns on invested capital.

In fact, a firm capable of satisfying the expectations of all stakeholders and, more generally, the expectations of the context in which it operates, shows greater long-term stability with respect to a firm managed solely through a profit maximization point of view for the shareholders. A firm that is receptive to service demands made by customers, for example, reduces, thanks to an elevated degree of customer satisfaction, the variability of sales and thus, the uncertainly of its own economic performance[14], just as a firm that has reached a level of consonance with its financial

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environmental quality. For more information on the triple bottom line concept introduced by Elkington, refer to Elkington, Fennell, 1998, Elkington, Kreander and Stibbard, 1999.

[14] There is much debate on the study of firm-customer relationships (among others: Dwyer, Schurr, Oh, 1987; Morgan, Hunt 1994; Gummesson, 1999), in particular with reference to the role that these relationships acquire in improving competitive performance in the markets these same firms operate (among others: Dyer, Sing, 1998; Morgan, Hunt,

system can count on a more consistent reserve of elasticity and, as such, promptly provide for needs that emerge from its own financial management, reducing financial risk. Thus, the cost of capital is reduced as a result of a general decline in both operative and financial risk due to the stability of corporate cash flows.

**The finance function as a relative form of feedback in terms of the value proposition**

Traditionally, the role of the finance function deals with treasury management and financial control and is specifically responsible for relationships with financial stakeholders, in that it complies with financing decisions, and with other corporate areas in that it also concerns investment decisions.

This approach is destined to undergo a radical change with S-D logic, whose creation and implementation requires the involvement of all company roles, from Marketing to Finance, Production, Logistics and Research and Development in a way that ensures that each and every decision made is coherent with the fundamental principles of the new approach.

In fact, with corporate finance, this new logic requires a radical reassessment of the function, which must gradually become a form of feedback in the value co-creation process, shifting its focus from the shareholder approach to the stakeholder approach, considering long-term satisfaction of economic interests on the whole, as demonstrated by the subjects the firm interacts with, especially consumers, as the firm's ultimate purpose.  Thus, the main objective of the finance function is to contribute to Enterprise value, or rather, value creation for the firm as a whole, while at the same time keeping economic, patrimonial and financial stability.

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1999; Vicari, Bertoli, Busacca, 2000). In reality, the concept of customer value co-creation is based on the firm's capacity to create and manage "the competitive space that forms around a customer's personalized experiences through active interactions between the consumer and the firm" (Prahalad, Ramanswamy, 2004). This concept derives from analyzing the new role taken on by the consumer in modern competition in which the forms of interaction with the firm are increasingly greater and more profound. The consumer becomes the co-creator and co-producer of the service system that the same benefits from (among others: Prahalad, Ramanswamy, 2000; Bendapudi, Leone, 2003; Vargo, Lusch, 2004, 2006, 2008):

In particular, according to the pioneers of S-D logic, the role of the finance function is to perform a systematic check of whether or not the value proposition is shared by consumers, causing performance indicators and other corporate cash flow ratios to assess the degree of consumer acceptance and indicate corrections to be made to the same proposition.

However, considering the strategic need to unite all of this with the satisfaction of the other stakeholders, corporate finance, along with other company functions, abandons approaches based exclusively on measurement methods, such as Economic Value Added (EVA) for example, and shifts towards *balanced scorecard systems*, which guarantee that all company areas are directed towards the same objective in the same manner, adequately maintaining stability between actions in order to prevent having some stakeholders obtain benefits at the loss of others.

The balance scorecard system, developed by Kaplan and Norton (2004)[15], was created with the intention of improving performance measurement systems by providing an alternative framework more in line with the strategic design of the firm based on four perspectives.

The value of a firm is determined by the *competitive performance* generated in the markets the firm operates in through the financial perspective, the customer perspective, the internal process perspective and the innovative and learning perspective.

In the *financial perspective*, performance is measured through normal financial indicators such as turnover, profit, cash flow, returns, etc. In the customer perspective, instead, competitive performance is measured by indicators such as customer satisfaction, current and future loyalty, market share, percentage of customers, etc.

Financial performance is naturally derived from competitive performance, the same as it is determined in the customer perspective. In fact, competitive performance generates a firm's economic capital on one hand, according to a direct sequence, and represents the result of stable relationships with customers and the value created for customers on the other.

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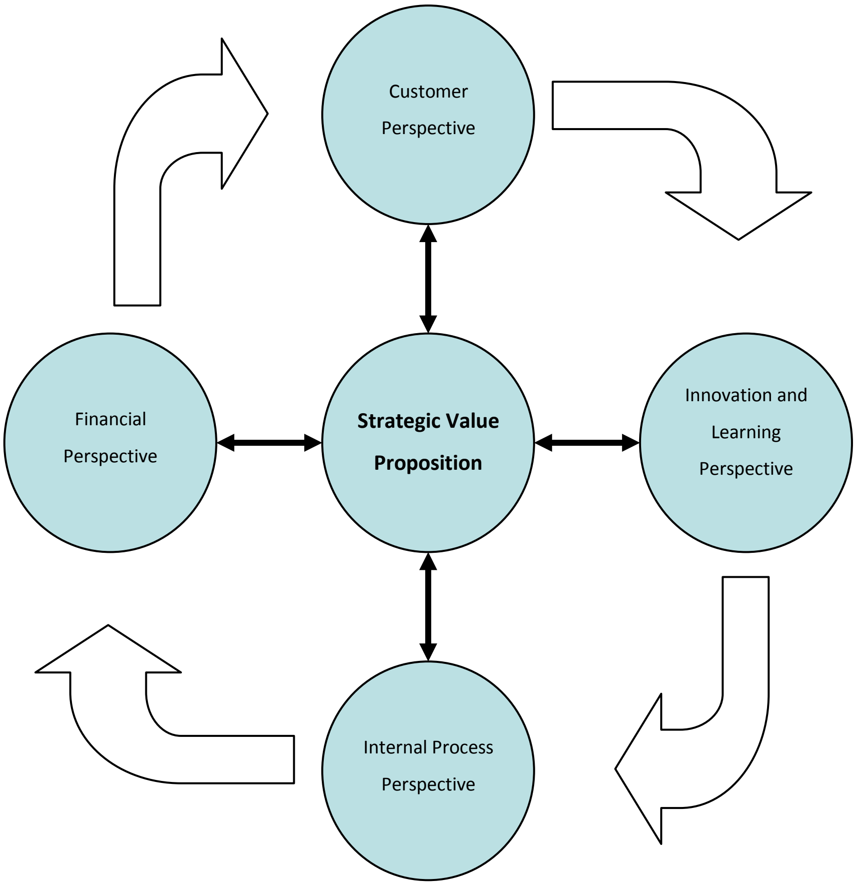
[15] With regards to the "balanced scorecard" system, which seeks out a balance between the financial perspective with respect to the market's existential framework, business processes, and leaning and innovative processes, refer to Kaplan R.s., Norton D.P., 2001, 2004; Olve N.G., Roy J., Setter M., 1999).

The *internal process perspective* aims at identifying the critical success factors that satisfy the expectations of shareholders and customers and defining actions that, according to feedback, allow for the attainment of goals at different company levels to be optimized, bringing about the strategic value proposition.




Finally, within the *future development perspective,* performance is established on process innovation and learning, ensuring the growth of an organization as a whole by focusing on the capacities, skills, drive, sense of responsibility and involvement of its employees.

With respect to the original version of the balance scorecard system, the four perspectives interact not only amongst themselves, but also with the value proposition for which it generates a continuous improvement process fueled by the outcome of performance measures that indicate the degree of customer satisfaction achieved in each perspective.

Thus, the balance scorecard system maintains past financial performance indicators all while allowing for indicators derived from the strategy to be integrated by introducing future financial performance indicators. Due to these characteristics, the value strategy the firm proposes to follow is communicated to the consumers and, consequently, feedback geared towards improving the same strategy is obtained. More specifically, the customer perspective clearly identifies value propositions before identifying the customer and market segments the firm will compete in, in that these propositions represent the true indicators-guidelines with which to measure basic results with regards to the customer.

## Conclusion

This paper has focused on providing information not only to demonstrate the validity of S-D logic in terms of the financial complexity that characterizes firms, but also on proposing specific application methods used to modify corporate finance that are consistent with an interpretative model that has already been widely affirmed in reference literature on value, fully acknowledging the limitations in the solutions we have proposed.

In fact, it is not likely that capital rationing, which influences the real implementation of a firm's best financial practices, inspired by S-D logic, can lead to the refusal of new research channels as an alternative to traditional value paradigms for shareholders.

Nevertheless, the intention of this paper is to simply propose some 'food for thought' with regards to the need to radically change the mentality of those in charge of making financial decisions by also taking into account the consequences that the severity of the shareholder approach risks generating on firm survival, forcing management towards actions that are detrimental to the interests of other stakeholders, especially the consumer.

In acknowledging S-D logic as a more ethical approach, even from the financial point of view, this paper then represents a basis for further elaboration on the topic in order to research interpretive models that are more able to articulately unite ethical finance with the burden of having a shortage of financial resources.

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