Scientific Research Publishing

Open Journal of Social Sciences, 2023, 11, 1-7
https://www.scirp.org/journal/jss
ISSN Online: 2327-5960
ISSN Print: 2327-5952

Value Theory: Critical Analysis and Theory Construction

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How to cite this paper: Liew, A. C.-B., & Chen, Y. S. (2023). Value Theory: Critical Analysis and Theory Construction. *Open Journal of Social Sciences, 11,* 1-7.
https://doi.org/10.4236/jss.2023.115001

Received: December 7, 2022
Accepted: May 5, 2023
Published: May 8, 2023

Abstract

This paper covers a review of theory construction, a critical analysis of prior "value theory", and an attempt in a comprehensive value theory construction. Prior value theory in the Economics literature has been highly fragmented, and left a gap between value and modern economic theory. This new value theory explains the gap and amalgamates the various perspectives of value. The outcome includes a theoretical statement and supporting propositions.

Keywords

Value, Value Theory, Theory Construction, Benefit-Cost

1. Introduction

Value is polysemous and carries various perspectives. Economic studies have a long history of looking into its nature (Daraban, 2016; McCracken, 2001) as well as other disciplines such as axiology (Aschenbrenner, 2012), psychology and philosophy. The purpose of this paper is to (re)construct a value theory that explicates the nature of value including its semantics and mechanics. The rationale of revisiting the Value Theory is the insight generated from another business research on value creation.

2. Literature Review—Value Theory

Value theory started as early as 1600s; natural value by W. Petty (1623-1687); value based on land and labor, R. Cantillon (1680-1734); value and market price, N. Barbon (1640-1698); utility as value, F. Galiani (1728-1787), W. Jevons (1835-1882), and C. Menger (1840-1921); objective value, intrinsic value, A. Smith (1723-1790); value driven by labor, K. Marx (1818-1883) and D. Ricardo (1772-1823); value driven by supply-demand, A. Marshall (1842-1924) (Daraban, 2016).

Various conceptual analysis include Rapp, Olbrich, and Venitz (2018) in intrinsic value and subjective value analysis; Kim and Hall (2020) in intrinsic-extrinsic value analysis; Costanza (2004) in subjective-objective value analysis; Viner (1925) in utility and hedonic value analysis. Intrinsic value is internal to human subject, and extrinsic value is external to human subject and towards products/services (Kim & Hall, 2020). Subjective value is a "subjective standpoint of individuals and their internal value systems and from the objective standpoint of what we may know from other sources about the connection" (Costanza, 2004).

Value is viewed from two main perspectives: valuation of goods (i.e. utility and worth) and axiological/hedonic judgment (Kim & Hall, 2020; Pink, 2020; Yang & Lin, 2014). Value is associated with value drivers (i.e. labor and utility), price, cost, money, subjective/objective view, intrinsic/extrinsic view, instrumental/terminal view, exchange/usage view, and axiology/hedonics. These are the fundamental issues in the theory of value (e.g. Freeman, 2010)

However, between modern economics of supply/demand and price/quantity and the wealth of value theory discussions, there is an obvious gap. There was no transition between value theory and modern economics, nor why value theory became almost oblivious in modern economics.

3. Critical Analysis

The unresolved debate and non-consensus as to source and measurement of value in goods led to replacement of value theory with modern economic theory of supply-demand, price-quantity equilibrium (Pink, 2020). In the 1870s, the concept of value based on objective premises was abandoned in favor of subjectivist theories. Carl Menger denied the existence of objective value as a trait of the goods. Value is the judgment of an economic operator and does not exist outside of human consciousness and is therefore subjective by nature (Pink, 2020). The debate on objective value and subjective value led to inconclusive stalemate. Objective value was championed by W. Petty, K. Marks, and R. Ricardo, while subjective value was supported by C. Menger, W. Jevons, and L. Walrus.

Neoclassical economics equate value of good with the price of market equilibrium, thus the value of good has become quantifiable (with price and money) (Pink, 2020). Monetary value is also known as economic value and financial value; the numerical value of money or in simple terms the amount of money. Related concepts are price and cost. Price (value measure) is the valuation of goods and services, and transaction validates that valuation. Money is a medium of transaction and also a vessel in holding "value". Cost is the input on goods/services that is part of price on the supply side. Cost is also the purchase price on the demand side.

Price:

1) Valuation of goods/services; validated via transaction, hence measure of

value.

2) The amount of money exchanged in a transaction.

3) As cost of acquisition (note: cost of producing goods/services is on supply side).

In essence, value is validated and measured by transaction price, which is the amount of money exchanged and also the acquisition cost.

Value = Money = Price = Cost at the point of transaction

Albeit value is a subjective valuation and evaluation, transaction transformed it into an objective outcome simply because of seller-buyer agreement realized in an exchange. This explains the gap or sudden transition from prior value theory to modern economic theory of price/quantity, i.e. from abstract and subjective evaluation to concrete and objective valuation. The significance of monetary value is the objectified measure of an agreed valuation or simply "value".

4. Theory Construction—Short Review

Historically, many of the value theories were constructed on an ad hoc basis as they were based on observations and analyses, as well as many rounds of argumentation and correction. Nevertheless, there was no formal theory construction protocol then.

Theory is a "statement of relations among concepts within a set of boundary assumptions and constraints", and its purpose is "to organize (parsimoniously) and to communicate (clearly)" (Bacharach, 1989). The primary goal of a theory is to answer the questions of what, how, and why (Bacharach, 1989; Whetten, 1989). Theory emphasizes the nature of the causal relationships, examines the underlying process, and interprets the systematic reasons for occurrence or nonoccurrence (DiMaggio, 1995; Sutton & Staw, 1995; Weick, 1995).

Value Theory Construction

The What – Definition of Value

Value = Benefit/Cost

Value is an evaluation and valuation between benefit offered and the total cost of acquisition on the buyer side. On the other hand, value is an evaluation and valuation between benefit sought and the total cost of producing/offering on the seller side. The exchange also includes barter (Eggert & Ulaga, 2002; Möller & Torronen, 2003; Oluru & Purchase, 2008; Payne & Holt, 2001; Rokeach, 1973; Songailiene, Winklhofer, & McKechnie, 2011; Walter & Lancaster, 1999; Zeithaml, 1988).

Semantics of Value

1) Numerical value and monetary value.

2) Appreciation of usefulness and/or benefit; e.g. I value your contribution.

3) Worthiness of exchange; e.g. value for your money.

4) Axiological; values and beliefs as in judgment of true/false, good/bad, right/wrong.

"Value" is polysemous because it is viewed at several perspectives; 1) on the cost manifested in money, 2) on the benefit, 3) on benefit-cost exchange, and 4) axiological judgment on the exchange (See **Diagram 1**). Benefits include utility and hedonic benefits, while costs include monetary, time, physical and psychic costs (Aaker & McLoughlin, 2014), as well as opportunity costs and future costs (favors owed). Benefits may also be unrealized and thus potential or perceived.

The Four Dichotomies of Value

Instrument value vis-à-vis terminal value

Terminal value refers to ultimate consumption. Instrument value refers as work-in-progress towards ultimate consumption in the value chain.

Exchange value vis-à-vis use value

Exchange is instrumental to final usage or consumption.

Subjective value vis-à-vis objective value

The long debate in the past between subjectivity and objectivity has been erroneous. It stands to be corrected. First contention, it is a matter of perspective or focus. Subjectivity is focused on analyzing the human subject. Likewise, objectivity is focused on analysis of the object (Costanza, 2004), and both are analyzed by human subject. Second contention, objectivity is independent of the truth (albeit being associated). For example, the objective view more than two hundred years ago of the Earth is flat. That does not mean it is true as we now know. We have limited sensory perceptions even with technological advancement. Given the vastness of the universe and beyond, we are still limited and minute. In short, objectivity does not necessarily equal to the truth. Another way of putting it, objectivity is subjective majority in agreement/consistency, and it is also known as "inter-subjectivity" (Zen & Vanderdonckt, 2016).

Intrinsic value vis-à-vis extrinsic value

Intrinsic value is internal to the human subject, not the object. Concepts include happiness, satisfaction, and pleasures, etc. They are hedonic concepts that are applicable only to human subject. On the other hand, extrinsic value is external to human subject that is referred to as the analysis of the object. Analysis of the object would include utility as well as aesthetic value. In turn, through usage of the object intrinsic value or hedonic value is created (Kim & Hall, 2020; Viner, 1925).

The dialectics of value is fundamentally various perspectives on value as an exchange, and human subject evaluation and valuation of object.

The How

See **Diagram 1**.

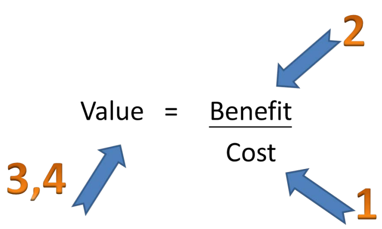

Diagram 1. The semantics of value.

The Why

Product/service is of value because it provides certain benefit that is able to satisfy consumer needs/wants. Human subjects evaluate and valuate the product/ service (object) on both sides of supply and demand.

So-What

Economic theory is about market transactions which are based on our implicit understanding of value in products and services. Value theory explicates the rationale behind that implicit understanding. As such it provides us better understanding and application of the ubiquitous process of value creation.

Theoretical Statement

Value is a subjective evaluation and valuation of products and services with benefits and costs embedded. Value becomes objective at the point of transaction with price (money exchanged) as the validation.

Proposition 1: Subjective evaluation involves utility, hedonics, and axiological assessment.

Proposition 2: Objective evaluation involves product-service function, price, and cost assessment.

Assumptions

1) Value assessment is based on human needs and wants.

2) Human interpretation of value is pragmatic.

5. Conclusion

This paper has explicated the nature of value and its various perspectives including relationship with price, cost, and money. Moreover, a value theory is constructed parsimoniously. The importance of such a theory is to make clear what was once implicit understanding of value, in turn, allows us a better foothold on the process of value creation. Future research studies call upon verification of this value theory or disprove it.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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