Competitiveness as a Value Driver – Identification and Measurement[#]

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Introduction

In few last years we can watch great more or less successful attempts to implement various new approaches to firm's management with common target – to make more effective all activity and increase performance of firms. We mention for all total quality management, lean management, flat organization, team building, empowerment, continuous improvement, reengineering and further. All this systems often has not discharged the expectation because of not clear defined targets and not suitable linkage factor – **value drivers** – determined creation of final worth. "*Often the cause of failure was performance targets that were unclear or not properly aligned with the ultimate goal of creating value.*" (Koller, 1994). Despite of high express ability of financial indicators and wide possibility application results of financial analyse in practice (management, decision process, rating specify, pricing..) is necessary to see limit in use of this tools. Financial indicators alone and overall systems based on, are constructed with help very simply mathematic apparatus and so is very difficult to contain and describe with algorithm complicated firm's reality. Than is very difficult to agree with argument, one or few so constructed indicators comprehend reality of global multinational corporation with companies in around the world.

Other problem poses fact, financial indicators are focused in past and indicate already achieved reality expresses trough actual parameters. Economical parameters are useful, but not adequate for interpreting all

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This paper was prepared in the framework of research plan *Development of Accounting and Financial Theory and its Application in Practice from Interdisciplinary Point of View* (registered number MSM 6138439903).

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material and immaterial processes connected with generating of final worth.

In firm's practice have available very much valued information not measure able with tools of financial analyze, but significant for creating firm's financial position and image. We can say, that one of action, which is not possible express with help financial apparatus are determined for financial results and go before facts expressed by financial indicators.

"*Profitability is necessary but not sufficient to generate sustainable shareholder value. The real purpose of profitability is continuity – enabling a company to survive, adapt, innovate, and grow.*" (Fiksel, 2002)

Not all value drivers have financial character just because not all firm's targets are financial. Non-financial targets preserve firm against subjectivity and risk of poor financial targets.

"*Non-financial targets serve to prevent – gaming – of short-term financial targets.*" (Koller, 1994) In difference to on accounting standards based indicators are non-financial indicators more apposite predicting the future and can diagnose development earlier then financial based results.

In the opposite is necessary to observe, that non-financial tool are more difficult processing, because of search of right logistic (heuristic) binding to top often financial indicator. Complexity of processing is primary factor influenced total level of cost and getting of non-financial indicators is so many expensive.

Past due is possible to establish for translating vision in strategy and definition concrete step for their achievement are tool of management based on non-financial indicators a their processed instrument essential. Among principal advantage non-financial instruments rank among:

- Capability to couch participation of intangible assets on creating of value added.
- In different to short-terms focused financial indicators evaluate non-financial indicators long-term perspective and are so more fit to express vision and strategy.

- Fact they are oriented in future and are more bound up together with value chain has consequence they are convenient to define value drivers.
- Response non-financial indicators on the change in environment is more sensitive and so help to correctly and quickly application of precaution in management.
- Results formulated by means of financial indicators (lagging indicators) are effect of preceding phenomenon couch with non-financial indicators (leading indicators).

1 Competitiveness as a value driver

A value creating based on efficiency is a decisive factor for successful firm. Firms try to identify, control, and measure factors accelerating efficiency and final value. One of the key value drivers is competitiveness and a competitive advantage.

Incidence for the control stand in good stead in the following way:

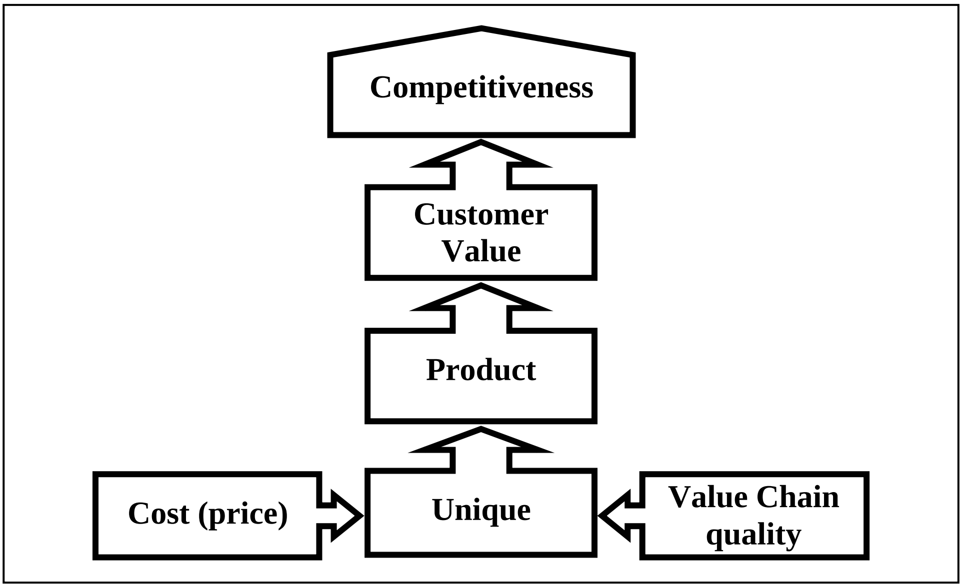
1. Only a company with adequate performance achieving better results than its competitors is able to achieve the greatest appreciation in value of invested capital and increase the company's value.

2. A company's high performance is conditional on its leading position in the competition and cannot be achieved on the market without superiority over rivals.

3. One of the most important value drivers is therefore a competitive advantage possessed by a company offering lucrative products that are in the greatest demand from customers (market) and are produced at lower costs than those of its competitors, as this consequently allows the company to set more favourable final prices.

4. A company's success is determined by the success of its product (goods, services) on the market (with customers) and particularly customer perception of the price and quality of this product.

Fig. 1: Causal relations elements of competitiveness



According to the Strategic Performance Measurement (SPM) it is necessary to define the tools allowing a firm to define from the competitiveness viewpoint, the processes connected with acquiring a competitive advantage, and to manage and finally to evaluate the achieved results. For reaching this target financial indicators are not sufficient. Primary limitation of financial indicators is a fact that they indicate already achieved reality ex post". For operating control it is necessary to use the tools such as (non-financial) indicators, that are in real time able to identify and measure disproportions that can prevent a firm from achieving final aim and in the end, they can lead to the threat of the firm from competitor.

The satisfaction with the price and quality of a good (service) fixes a long-term of the customer to a product and to a producer. Customer satisfaction creates customer loyalty and leads to prosperity of a supplier. The growth rate of revenues is determined by successful sales, the volume of products and the price of these products. For successful sales, the attractiveness of a product (service) must be high and needs to satisfy customers by a higher sophistication of the product than its competitors. The extent of sophistication and competitive advantage expresses the possibility of determining the final price of products on the market.

The viewpoint of the logical-causal linkage particular indicators can be arranged according to the position in the value chain as critical, determining and subsidiary indicators. The position of separate indicators in the value chain is important for the assessment of the measurement framework.

The issue can be formulated as followings:

Which of the determinants is decisive for customer satisfaction with the price and quality of a good (services) and for creating customer loyalty?

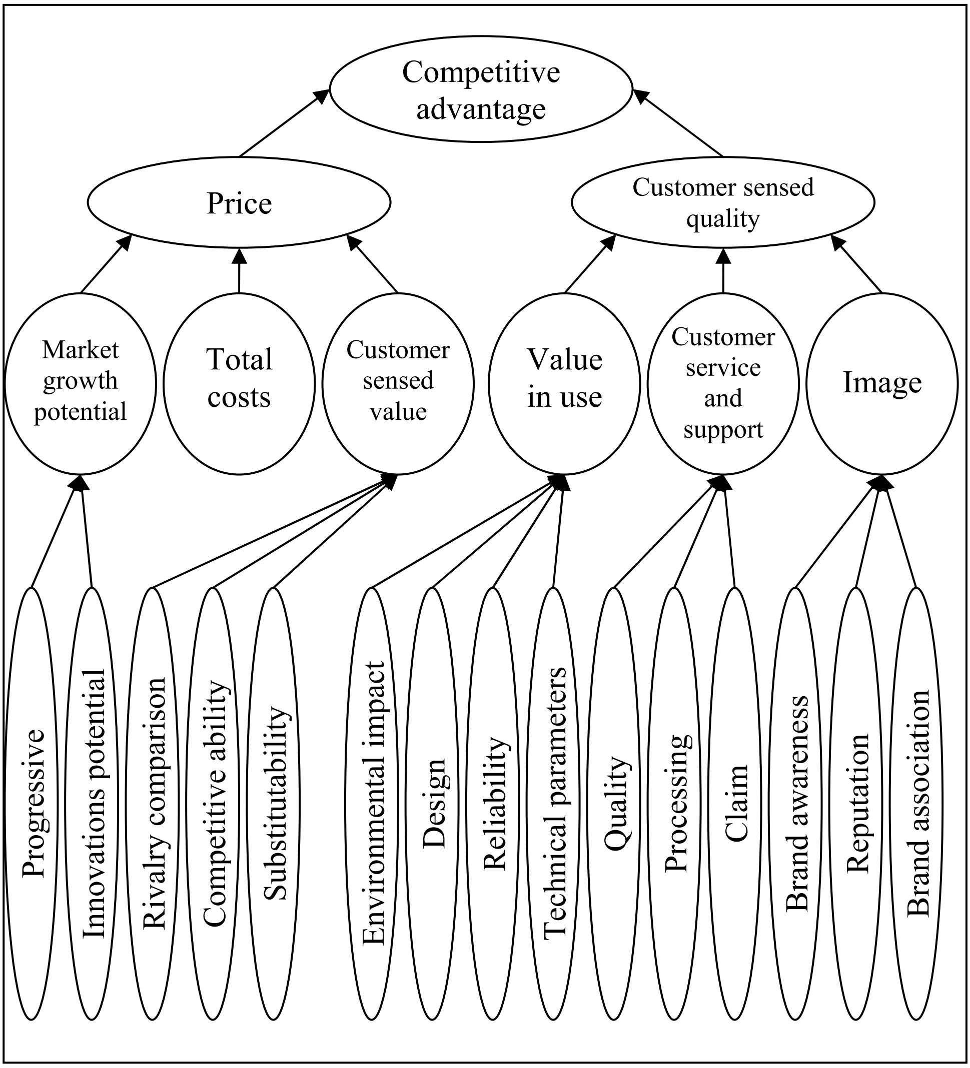
1. Determinants (and also value drivers) influence the price of a good are especially:

   - market and growth potential of a good (progressivity and innovation potential of a product),
   - final price depended on total costs influenced by efficiency and parameters of technology, sophistication of staff and quality of entire value chain linked with production processes and the distribution of a products,
   - true value in use sensed by customers as a system that can be decomposed in to the separate components such as the product value in use compared with that of competitors, competitiveness of a product, its substitutability.

2. Determinants influencing quality of a good sensed by a customer are mainly the following:

   - Quality of the product, its design, comfort and user friendliness and operation reliability, technical parameters and its environmental impact,
   - customer service and support, quality of satisfying orders, satisfactory and fast settlement of claims,
   - image of a firm and a product, brand awareness, reputation, brand association with product category.

Fig. 2: Competitiveness architecture



2 Competitiveness – measurement tools

An initial point for the application of the customer value analysis in the competitiveness measurement is mutual comparison and evaluation of parameters of assessed products in the data table.

Tab. 1: Evaluating table of product X

<table>
<tr><th colspan="4">Value drivers</th><th>Weight</th><th>Evaluat-ing scale (1–10)</th><th>Weighted score</th></tr>
<tr><td colspan="4">(1)</td><td>(2)</td><td>(3)</td><td>(4)=(2)·(3)</td></tr>
<tr><td rowspan="21">Competitiveness</td><td rowspan="7">Price</td><td rowspan="2">Market and growth potential</td><td>Progressive</td><td></td><td></td><td></td></tr>
<tr><td>Market potential</td><td></td><td></td><td></td></tr>
<tr><td>Sales price</td><td>Total costs</td><td></td><td></td><td></td></tr>
<tr><td rowspan="3">Customer satisfaction</td><td>Rivalry comparison</td><td></td><td></td><td></td></tr>
<tr><td>Competitive ability</td><td></td><td></td><td></td></tr>
<tr><td>Substitutability</td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Total</td><td></td><td>x</td><td></td></tr>
<tr><td rowspan="14">Customer sensed quality</td><td rowspan="5">Value in use</td><td>Quality and reliability</td><td></td><td></td><td></td></tr>
<tr><td>Design</td><td></td><td></td><td></td></tr>
<tr><td>Technical parameters</td><td></td><td></td><td></td></tr>
<tr><td>Environmental impact</td><td></td><td></td><td></td></tr>
<tr><td>Total</td><td></td><td>x</td><td></td></tr>
<tr><td rowspan="4">Service</td><td>Sales standard</td><td></td><td></td><td></td></tr>
<tr><td>Customer support</td><td></td><td></td><td></td></tr>
<tr><td>Processing</td><td></td><td></td><td></td></tr>
<tr><td>Total</td><td></td><td>x</td><td></td></tr>
<tr><td rowspan="4">Image</td><td>Brand awareness</td><td></td><td></td><td></td></tr>
<tr><td>Reputation</td><td></td><td></td><td></td></tr>
<tr><td>Association</td><td></td><td></td><td></td></tr>
<tr><td>Total</td><td></td><td></td><td></td></tr>
<tr><td colspan="2">Total</td><td></td><td>x</td><td></td></tr>
<tr><td colspan="4">Total customer value – points</td><td></td><td>x</td><td></td></tr>
</table>

a) Relative expression of product capabilities

$$\textit{Product capabilities of } A = \\ = \frac{\textit{Total points for capabilities}}{\textit{Average points valuated group of products}} \cdot 100. \qquad (1)$$

b) Relative expression of price

$$\textit{Relative price products of } A = \\ = \frac{\textit{Sales price of product}}{\textit{Average price valuated group of products}} \cdot 100. \qquad (2)$$

c) Customer value expressing

$$\textit{Customer value} = \textit{Relative expression of product capabilities} - \\ - \textit{Relative expression of price.} \qquad (3)$$

In third step the index of market superior force – competitive rating must be set. This can be used in the wide spectrum of a management especially when defining vision, strategic and tactic planning, and the efficiency predicting and measurement.

Tab. 2: Market superior force index setting

Customer sensed quality	**Weight**	**Valuated product**	**Rival product**	**Relative ranking**	**Weighted relative ranking**
	(1)	(2)	(3)	(4=2/3)	(5=4x1)
Product capabilities	0.27	4.32	2.55	1.69	0.46
Service	0.14	3.25	3.78	0.86	0.12
Reputation	0.15	3.44	3.62	0.95	0.14
Public relations	0.05	4.13	2.15	1.92	0.10
Association	0.23	4.10	4.18	0.98	0.23
Brand awareness	0.16	3.90	3.71	1.05	0.17
Σ	**1.00**				**1.22**

Customer sensed quality	Weight	Valuated product	Rival product	Relative ranking	Weighted relative ranking
	(1)	(2)	(3)	(4=2/3)	(5=4x1)
Customer sensed price					
Sales price	0.40	3.68	3.85	0.96	0.38
Market and growth potential	0.31	3.20	3.43	0.93	0.29
Customer satisfaction	0.29	3.32	3.21	1.03	0.30
Σ	**1.00**				**0.97**
Total weight for quality: 43% Total weight for price: 57%					
Value flowed from quality: 22% **Value flowed from price: –3% CR: 1.08**					

$$CR = TQSM \cdot QW + TPSM \cdot PW \,, \tag{4}$$

where CR = competitive rating,

TQSM = total market sensed quality indicator (in this case 1.22 viz. Table 2),

QW = in advance fixed weight for quality (in this case 43%),

TPSM = total market sensed price indicator (in this case 0.97),

PW = in advance fixed weight for price (in this case 57%).

3 Conclusion

Successful analysis and modelling of data contribute greatly to the success of business. A key ingredient in fulfilling this promise is to integrate an understanding of the true goals, processes and criteria for success of the business into the data analysis process. The measurement model prepared for European Financial and Accounting Journal – Nr. 3/2006, makes us of the tools based on the philosophy of customer satisfaction, customer loyalty and customer value analysis.

Our model:

1. Eliminates inadequacies by using financial indicators,

2. Enables measuring processes in real time before the effect appears come on,
3. Is applicable on the known tools of the Strategic Performance Measurement (Balanced Scorecard, and EFQM-Model).

References

[1] Fiksel, J. (2002): *Corporate Strategy Today*. www. AHCGroup.com

[2] Koller, T. (1994): *The McKinsey Quarterly*, Number 3, 1994.

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ABSTRACT

A value creating based on efficiency is a decisive factor for successful firm. Firms try to identify, control, and measure factors accelerating efficiency and final value. One of the key value drivers is competitiveness and a competitive advantage. A company's high performance is conditional on its leading position in the competition and cannot be achieved on the market without superiority over rivals. One of the most important value drivers is therefore a competitive advantage possessed by a company offering lucrative products that are in the greatest demand from customers (market) and are produced at lower costs than those of its competitors, as this consequently allows the company to set more favourable final prices. A company's success is determined by the success of its product (goods, services) on the market (with customers) and particularly customer perception of the price and quality of this product. For reaching this target financial indicators are not sufficient. Primary limitation of financial indicators is a fact that they indicate already achieved reality ex post". For operating control it is necessary to use the tools such as (non-financial) indicators, that are in real time able to identify and measure disproportions that can prevent a firm from achieving final aim and in the end, they can lead to the treat of the firm from competitor. The extent of sophistication and competitive advantage expresses the possibility of determining the final price of products on the market. From the viewpoint logical-causal feed it is possible to arrange particular indicators according to the position in the value chain as of critical, determined and subsidiary indicators. Ordering of separate indicators the value chain is limited by the framework of measurement. Prepared and suggested the model of measurement that uses the tools based on the philosophy customer satisfaction, customer loyalty and customer value analysis.

Key words: Competitiveness; Customer satisfaction; Customer value analysis; Price; Value in use.

JEL classification: G40.