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Enterprise capability and its competitiveness

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Abstract: Competitiveness is a key determinant for success of countries, industries and enterprises. Enterprises are the entities that create national wealth and so their productivity, efficiency, and dynamism are central to country competitiveness. An economy cannot be competitive unless enterprises operating within it are competitive and productive. Competitiveness enhancement and sustain enterprise development in a market economy and increased competition are important and practically significant. Moreover, competitiveness provides a chain between an acquisition of market share, greater profitability and long-term stability and growth of these indicators thereby improving the welfare and living standards of people. Putting it in perspective, enterprises and industries must be well competitive in domestic and international markets in order to survive. With respect to recent competitive and dynamic environment if enterprises want to be successful in competition arena, they must have competitive advantage which means creating and sustaining superior performance. Besides, the enterprises should assess the capabilities in order to operate the business by examining the financial and strategic impact. All capabilities are not created equal. Some contribute more to enterprise competitiveness and its value than others. Therefore, the linkage between the enterprise competitiveness and the enterprise capability through examining the competitiveness types and competitiveness of enterprise capability has been explained. The brand value and the enterprise value of ten best global brands have been analyzed.

Keywords: enterprise capability, enterprise competitiveness, competitive advantage, brand value, enterprise value, enterprise capability management.



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1. Introduction

Competitiveness is a key determinant for success of countries, industries and enterprises. Enterprises are the entities that create national wealth and so their productivity, efficiency, and dynamism are central to country competitiveness. An economy cannot be competitive unless enterprises operating within it are competitive and productive. Competitiveness enhancement and sustain enterprise development in a market economy and increased competition are important and practically significant. There is no general approach to explain the linkage between the enterprise competitiveness and the enterprise capability.

2. Recent research and publications analysis

A challenging task of any enterprise is to use the capability to gain sustainable development and competitiveness. Among all the works devoted to specific issues of enterprise capability and its competitiveness, the scientific papers of O.I. Amosha, O.E. Kuzmin, A.A. Pylypenko, S.M. Voronina, N.M. Markova, P. Gupta, R. K Jain, U. Dhar, M.S. Saxena, Davies G. should be mentioned.

A lot of ways to enhance enterprise competitiveness are described in the economic literature. The authors emphasize that the intense competition is forcing enterprises to improve the quality of their products and services and reduce the costs and many companies building strong customer relationships due to increase in competition [4, p. 124-136]. Other authors recognize the role of knowledge management and intellectual property in enhancing the enterprise competitiveness [7, p. 240-300]. Consequently, no attention is paid to the examine relationship between the enterprise capability and the enterprise competitiveness.

There was no attempt to determine the relationship between the enterprise capability and the enterprise competitiveness. Therefore, it is necessary to discuss the issue of relationship between the enterprise capability and the enterprise competitiveness. This linkage should be explained through examining the competitiveness types and competitiveness of enterprise capability.

The goal of this article is to explain the relationship between the enterprise capability and the enterprise competitiveness through examining the competitiveness types and competitiveness of enterprise capability.

3. Key research findings

Enterprise capability management must be an integral part of business management because it is the core of enhancing enterprise competitiveness. The effective use of enterprise capability is the most important factor in the operation of the enterprise because it combines all available resources in order to meet the required enterprise objectives.

To explain the relationship between the enterprise capability and the enterprise competitiveness, firstly we need to talk about the enterprise capability and its competitiveness. Based on the definitions from different authors [1, p. 142], [2, p.82] it can be said that the enterprise capability is a set of separate capabilities that form the economic ability of the enterprise to most efficiently and effectively provide its work and to sustain itself over the long term. Generally speaking, the economic capability of any enterprise is defined by the: quality and volume of available resources at the enterprise; abilities of staff of the enterprise to creation of material benefits that is educational, qualification, and motivational capabilities; abilities of management to use available resources; innovative abilities; information abilities; financial abilities [7, p. 93].

Competitiveness is the capacity of an enterprise to produce services or products that are acceptable to customers in terms of price and quality, and that occupy a statistically significant share of the market for that service or product. Competitiveness refers to the ability and performance of an enterprise, sub-sector or country to sell and supply goods and services in a given market, in relation to the ability and performance of other enterprises, sub-sectors or countries in the same market. Competitiveness is defined by the productivity with which an enterprise, sub-sector or country utilize its human, capital, natural and information resources [5, p. 85-87].

Let's take a look at the competitiveness of enterprise, industry and nation.

Competitiveness at the enterprise level implies the ability to make production at lower costs and higher quality. Therefore, the most important determinants of the competitiveness at the enterprise level are quality, cost (such as labour costs and cost of capital) and the price levels.

Enterprise competitiveness is the ability to combine resources and provide products and services as or more effectively and efficiently than the relevant competitors. Traditionally, the main measures of competitiveness are in financial or marketing terms. For example, a competitive business might be expected to achieve one or more of the following:

- a higher growth rate (sales, revenues) than competitors and the market as a whole;
- higher than average net profit (compared with others in the same industry);
- better than average returns on investment – again, compared with competitors;

– a high (and perhaps leading) market share – measured in either value or volume terms. The leading enterprises in a market usually enjoy a significant proportion of the available revenues or customer demand, unless the market is highly fragmented;

– the strongest brand reputation in the market, e.g. brand awareness;

– a clearly defined unique selling point that enables the business to differentiate its product or service in the eyes of customers;

– significant access to, or control of, distribution channels in the market (e.g. products or brands that are widely stocked or demanded by intermediaries who provide distribution to the final consumers) [5, p. 144].

The above measures of competitiveness are pretty easy to measure. Widely available financial information makes it easy to see which enterprises are achieving the highest profits in an industry (certainly those of any significant size) and which products and brands have the highest market share or growth rate.

So, in the traded sector, competitiveness means sustained success in domestic or international markets without protection or subsidies. Let's take a look at several types of competitiveness measures in the traded sector. They include enterprise profitability, the enterprise export quotient and enterprise regional or global market share. However, there are many other measures of competitiveness – which link directly to the other functional areas of the enterprise. These can sometimes be harder to measure (or to find publicly-available data), but they are still very significant. For example, a highly competitive business may enjoy the following advantages compared other enterprises:

– better quality – e.g. reliability, product features, performance;

– better customer service – e.g. after-sales support, customer information, handling of problems and complaints;

– higher than average customer loyalty (remember that in most markets, the most profitable customers are existing, loyal customers);

– better than average efficiency – e.g. being able to produce at a lower unit cost than most other competitors, either through better productivity or economies of scale;

– faster and more effective decision-making and communication – e.g. with employees involved in customer-facing roles empowered to handle customer issues or able to pass on key market information to managerial decision-makers;

– a more motivated and loyal workforce – which in turn should benefit productivity, efficiency, quality, customer service, etc [5, p. 162].

Competitiveness at the industrial level is generally defined as the ability of an industry to achieve the highest level of efficiency to meet challenges posed by foreign rivals.

Industry competitiveness is the ability of the nation's enterprises to achieve sustained success against (or compared to) foreign competitors. Competitiveness at the industry level is often a better indicator of the economic health of the nation than competitiveness at the firm level. The success of a single enterprise from the nation might be due to enterprise-specific factors that are difficult or impossible to reproduce. The success of several enterprises from the nation in an industry, on the other hand, is often evidence of nation-specific factors that might be extended and improved. Measures of competitiveness at the industry level include overall profitability of the nation's enterprises in the industry, the trade balance in the particular industry, the balance of outbound and inbound foreign direct investment, and direct measures of cost and quality at the industry level.

National competitiveness refers to a country's ability to create, produce, distribute and service products in the international trade while earning rising returns on its resources. Although there are different criteria in determining the national competitiveness of the countries, competitiveness is substantially related with the productivity growth of the countries both at the macro and micro level. In this regard, national competitiveness is well enlightened by defining the national competitiveness at the enterprise level, at the industrial level and at the international level.

In the perspective of competitiveness at the international level, a country should have the ability to increase the welfare and real income levels by producing goods and services under fair international market conditions [5, p. 170].

Countries cannot be internationally competitive as a whole; however, they can have comparative advantage in certain products. In this regard, the performance of firms and industries play a crucial role for international competitiveness. In order for a country to achieve higher international competitiveness, enterprises and industries in that country should be in a good position in the view of competition.

National competitiveness also means the ability of the nation's citizens to achieve a high and rising standard of living. Competitiveness at the national level is measured by the level and growth of the nation's standard of living, the level and growth of aggregate productivity, and the ability of the nation's enterprises to increase their penetration of world markets through exports or foreign direct investment [5, p. 171].

The main important factors of national competitiveness are:

– economic performance (domestic economy, international trade, international investment, employment, prices);

- government efficiency (public finance, fiscal policy, institutional framework, business legislation, societal framework);
- business efficiency (productivity and efficiency, labour market, finance, management practices, and so on);
- infrastructure (basic infrastructure, technological infrastructure, scientific infrastructure, health and environment, education).

A business capability is what an enterprise needs to be able to do to execute its business strategy. Another way to think about the enterprise capability is a collection or container of people, process and technology that is addressable for a specific purpose. Enterprises should assess the capabilities in order to operate the business by examining the financial and strategic impact. All capabilities are not created equal. Some contribute more to enterprise competitiveness and its value than others.

Competitiveness of enterprise capability is the ability of an enterprise to offer products and services that meet the quality standards of the local and world markets at prices that are competitive and provide adequate returns on the enterprise capability employed or consumed in producing them.

Competitiveness of enterprise capability provides advantage that the enterprise has over its competitors. Competitive advantage means superior performance relative to other competitors in the same industry or superior performance relative to the industry average.

The competitive advantage that the enterprise has over its competitors, allowing it to generate greater sales or profits and retain more customers than its competition. There can be many types of competitive advantages including the enterprise's cost structure, product offerings, distribution network and customer support.

Enterprise capability management generates the enterprise capabilities to create the sustained competitive advantages. The main sources of competitive advantage are the following: technology and innovation; brand popularity; corporate reputation; strategic assets; high volume production and access to working capital; barriers to entry; ownership of capital equipment; low pricing; database management and data processing capabilities; human, financial and natural resources [6, p. 58-64].

There are two main types of competitive advantages: comparative advantage and differential advantage.

Comparative advantage, or cost advantage, is an enterprise's ability to produce a good or service at a lower cost than its competitors, which gives the enterprise the ability sell its goods or services at a lower price than its competition or to generate a larger margin on sales.

Differential advantage is created when an enterprise's products or services differ from its competitors and are seen as better than a competitor's products by customers.

Sustainable competitive advantage is a long-term competitive advantage that is not easily duplicable by the competitors. The sustainable competitive advantage is a long-term strategy or process that allows a business to remain ahead of its competitors.

For the sustainable competitive advantage there are four criteria's: customer benefits – the offering must be seen as something important to them; unique (cannot be obtainable from any other company); sustainable (difficult to copy because of patents and economies of scale – the more enterprise produces the cheaper it becomes); profitable (to offer a product or service with a price, cost and volume structure that makes it profitable – customer must be willing to pay for profit) [6, p. 88-120].

Thus, the competitiveness of enterprise capability and enterprise competitive advantages indicate the brand value. Brand is a name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers. The brand is a type of product manufactured by a particular company under a particular name [3, p. 24].

Brand value is the amount that a brand is worth in terms of income, potential income, reputation, prestige, and market value. The brand value is the financial value of having customers who will pay more for a particular brand.

Enterprise value is the combined market value of the equity and debt of a business less cash and cash equivalents. The enterprise value can be seen as the total value that a business would be worth if it was in a position of zero debt.

Brand-to-Enterprise value ratio is the ratio of brand value to enterprise value.

$$R_{BV/EV} = \frac{BV}{EV} \cdot 100\% \quad (1)$$

where BV – is the brand value;

EV – is the enterprise value.

The world's most valuable brands are reported in the table below.

Table 1. 10 best global brands

Logo	Name	Brand Value, million dollars		Absolute increase, million dollars
		Previous year	Reporting year	
	Apple	70,605	87,304	16,699
	Samsung Group	38,197	58,771	20,574
	Google	47,463	52,132	4,669
	Microsoft	45,812	45,535	-0,277
	Walmart	38,32	42,303	3,983
	IBM	39,135	37,721	-1,414
	GE	33,214	37,161	3,947
	Amazon.com	28,665	36,788	8,123
	Coca-Cola	31,082	34,205	3,123
	Verizon	27,616	30,729	3,113

It can be said that the brand value almost of all corporations increased for reporting period compared to previous. Microsoft brand value decreased for reporting year compared to previous by 0,277 million dollars and IBM brand value decreased for reporting year compared to previous by 1,414 million dollars.

The brand value and enterprise value are reported in the table 2.

Table 2. Brand value and enterprise value

Logo	Name	Brand Value, million dollars	Enterprise Value, million dollars	Brand-to-Enterprise value ratio, %
	Apple	87,304	382,490	22,8
	Samsung Group	58,771	242,668	24,2
	Google	52,132	173,628	33,3
	Microsoft	45,535	155,489	29,3
	Walmart	42,303	184,743	22,9
	IBM	37,721	231,914	16,3
	GE	37,161	435,751	8,5
	Amazon.com	36,788	97,371	37,8
	Coca-Cola	34,205	89,855	38,1
	Verizon	30,729	218,469	14,1

Therefore, the share of Coca-Cola brand value to Coca-Cola Corporation value is highest (38,1 %) and the share of GE brand value to GE Corporation value is lowest (8,5 %).

4. Conclusions

To sum everything up, we must mention that a business capability is what an enterprise needs to be able to do to execute its business strategy. Another way to think about the enterprise capability is a collection or container of people, process and technology that is addressable for a specific purpose. Enterprises should assess the capabilities in order to operate the business by examining the financial and strategic impact. All capabilities are not created equal. Some contribute more to enterprise competitiveness and its value than others. Therefore, it is important for the enterprise to examine the linkage between its capability and competitiveness.

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Потенціал підприємства та його конкурентоспроможність

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Анотація. Конкурентоспроможність є ключовим фактором, що визначає успіх країни, галузей та підприємств. Підприємства створюють національне багатство, а тому їх продуктивність, ефективність, динамічність відіграють центральну роль в конкуренто-спроможності країни. Економіка будь-якої країни не може бути конкурентоздатною, якщо діяльність підприємств не є ефективною та продуктивною. Підвищення конкурентоспроможності та забезпечення сталого розвитку підприємств в умовах ринкової економіки та посилення конкуренції є важливими і практично значущими завданнями. Конкуренто-спроможність забезпечує ланцюжок між зростанням частки ринку, отриманням більшої прибутковості та довгострокової стабільності і зростанням цих показників, таким чином, веде до підвищення добробуту і рівня життя людей. Підприємства та галузі повинні бути конкурентоспроможними на внутрішньому та зовнішньому ринках, щоб вижити в конкурентній боротьбі. Якщо підприємства хочуть бути успішними на конкурентній арені, вони повинні досягати конкурентних переваг та стійкого розвитку в довгостроковій перспективі. Підприємства повинні оцінювати свій потенціал для того, щоб передбачати його фінансовий та стратегічний вплив. Різні види потенціалу підприємства по різному впливають на конкурентоспроможність підприємства та його вартість. Тому, в статті встановлено взаємозв'язок між конкурентоспроможністю підприємства та його потенціалом через пояснення конкурентоспроможності потенціалу підприємства. Також проаналізовано вартість бренду та вартість десяти успішних підприємств за версією Forbes.

Ключові слова: потенціал підприємства, конкурентоспроможність підприємства, конкурентна перевага, вартість бренду, вартість підприємства, управління потенціалом підприємства.

Author details (in Russian)

Потенциал предприятия и его конкурентоспособность

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Аннотация. Конкурентоспособность является ключевым фактором, определяющим успех страны, отраслей и предприятий. Предприятия создают национальное богатство, поэтому их производительность, эффективность, динамичность играют центральную роль в конкурентоспособности страны. Экономика любой страны не может быть конкурентоспособной, если деятельность предприятий не является эффективной и продуктивной. Повышение конкурентоспособности и обеспечения устойчивого развития предприятий в условиях рыночной экономики и конкуренции становится важной и практически значимой задачей. Конкурентоспособность обеспечивает цепочку между ростом доли рынка, получением большей прибыльности и долгосрочной стабильности и ростом этих показателей, таким образом, ведет к повышению благосостояния и уровня жизни людей. Предприятия и отрасли должны быть конкурентоспособными на внутренних и внешних рынках, чтобы выжить в конкурентной борьбе. Если предприятия хотят быть успешными на конкурентной арене, они должны достигать конкурентных преимуществ и устойчивого развития в долгосрочной перспективе. Предприятия должны оценивать свой потенциал для того, чтобы предвидеть его финансовое и стратегическое влияние. Различные виды деятельности предприятия по-разному влияют на конкурентоспособность предприятия и его стоимость. Поэтому, в статье установлена взаимосвязь между конкурентоспособностью предприятия и его потенциалом через объяснение конкурентоспособности потенциала предприятия. Также проанализированы стоимость бренда и стоимость десяти успешных предприятий по версии Forbes.

Ключевые слова: потенциал предприятия, конкурентоспособность предприятия, конкурентное преимущество, стоимость бренда, стоимость предприятия, управление потенциалом предприятия.

Appendix. Supplementary material

Citation information

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