

Threats to the Business Value: The Case of Mechanical Engineering Companies in the Czech Republic

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Abstract : Successful achievement of strategic goals requires an effective performance management system, i.e. determining the appropriate indicators measuring the rate of goal achievement. Assuming that the goal of the owners is to grow the assets they invested in, it is vital to identify the key performance indicators, which contribute to value creation. These indicators are known as value drivers. Based on the undertaken literature search, a value driver is defined as any factor that affects the value of an enterprise. The important factors are then monitored by both financial and non-financial indicators. Financial performance indicators are most useful in strategic management, since they indicate whether a company's strategy implementation and execution are contributing to bottom line improvement. Non-financial indicators are mainly used for short-term decisions. The identification of value drivers, however, is problematic for companies which are not publicly traded. Therefore financial ratios continue to be used to measure the performance of companies, despite their considerable criticism. The main drawback of such indicators is the fact that they are calculated based on accounting data, while accounting rules may differ considerably across different environments. For successful enterprise performance management it is vital to avoid factors that may reduce (or even destroy) its value. Among the known factors reducing the enterprise value are the lack of capital, lack of strategic management system and poor quality of production. In order to gain further insight into the topic, the paper presents results of the research identifying factors that adversely affect the performance of mechanical engineering enterprises in the Czech Republic. The research methodology focuses on both the qualitative and the quantitative aspect of the topic. The qualitative data were obtained from a questionnaire survey of the enterprises senior management, while the quantitative financial data were obtained from the Analysis Major Database for European Sources (AMADEUS). The questionnaire prompted managers to list factors which negatively affect business performance of their enterprises. The range of potential factors was based on a secondary research - analysis of previously undertaken questionnaire surveys and research of studies published in the scientific literature. The results of the survey were evaluated both in general, by average scores, and by detailed sub-analyses of additional criteria. These include the company specific characteristics, such as its size and ownership structure. The evaluation also included a comparison of the managers' opinions and the performance of their enterprises - measured by return on equity and return on assets ratios. The comparisons were tested by a series of non-parametric tests of statistical significance. The results of the analyses show that the factors most detrimental to the enterprise performance include the incompetence of responsible employees and the disregard to the customers' requirements.

Keywords : business value, financial ratios, performance measurement, value drivers

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