The Concept of Value and Knowledge in B2B Relationship in the Czech Republic

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Abstract

The work in progress paper presents some findings from an ongoing research project for the Grant Agency of the Czech Republic dealing with – in a broad sense – the competitiveness of the small and middle enterprises. Except macro-economic factors, the attention in this research project is paid to the areas of concern which are on the theoretical as well as practical level underdeveloped in the Czech environment. In particular, there are three topics with the insufficient interest of the Czech theory and practice and the aim of the paper is to offer a look-in the contemporary instance in this country within these topics.

It is first the concept of value and value creation and co-creation– the awareness of its meaning for the managerial practice, constituents (e.g. benefits and sacrifices in the tangible and intangible form), types and/or levels of value, the different aspects of value creation from the internal and external point of view of the enterprises; secondly the concept of knowledge and learning (as intangible element of value) and its deeper understanding for value creation and value co-creation and thirdly the knowledge (both explicit and tacit) and own knowledge potential of one partner in the business relationship recognised by this partner as the important resource for the exchange and relationship.

The findings presented in the paper result from the explorative empirical survey which purpose was to collect data to get an insight into the actual situation of the above introduced problem. A comparative analysis of SMEs and big enterprises, as well as of SMEs active versus passive in foreign trade is made, too, for bringing more coloured picture.

With regard to the character of the survey and other limitations of research work (which will be mentioned further in the paper), the focus of the survey is an enterprise-centric hence limited one comparing to the dyadic or network view that would be ideal.

Key words: value, value creation, B2B relationships, network

1. INTRODUCTION

The concept of value is of increasing interest from both practicians and theorists in various economics as well as for instance philosophy fields. As such, it has very broad and different meaning and is highly context and perspective-taken depend. Probably two connotations are prevalent in the contemporary practice (both of managerial and academic): value for shareholders and value for customers. The first is expressed mostly in financial terms (e.g. profits), while the latter can be expressed with the aid of soft measures. But the perception and the content of value is much wider and for management it can be very important to understand various forms, categories or types of value and to employ them properly.

Post-communist countries in Europe have to cope with many problems and barriers to become more competitive in the international markets, to improve economic indicators and to remove obstacles for undertaking drifted during over fifty years with the aim to rank among the developed economies. It is not necessary to specify all the obstacles, what we need for the purpose of this article, can be covered up by the simple explication “ability to carry business”.

To be successful in the market postulate certain prerequisites – beside endowment and luck usually proficiency, skill, competence, experience and knowledge are those factors which help. Some are gained naturally, some by the “learning by doing” and some from the education (both formal – school, courses, training… and informar – for instance by media publicity or person-to person interaction). Person-to person interaction is what we can call “passive learning” and assign to the socialization process. According to the results of the survey presented in The Competitiveness Yearbook - the Czech Republic 2005, the Czech economy in the sphere of knowledge-based economy can be
characterized as lagging especially in the questions of productivity and innovativeness behind the EU-12 (older and developed countries). The figure below offers a picture of the situation describing the position regarding the sources for the innovation capacity.

Figure 1: Sources for the innovation capacity EU 25, 2004

Of course, there are plenty of reasons explaining this lagging but one argument can be that from the different marketing concepts point of view the majority of the Czech firms prefer and exercise (consciously or unconsciously) production, product or sales concept instead of value miscellaneousness, problem-solving and needs and wants meeting.

The paper is structured as follows. First some theoretical backgrounds concerning value conceptualization and creation, knowledge and value connection and the meaning of value and knowledge in B2B relationships will be introduced. A short review pointing out illustration of the value and knowledge in business relations in the Czech theory and practice ends up this part. The survey results regarding value and knowledge perception in B2B relations among Czech managers are presented in the second part.

2. VALUE, KNOWLEDGE AND B2B RELATIONSHIPS – LITERATURE REVIEW

2.1 Literature review

The fight for the competitive advantage in the last twenty years is connected with the growing interest to form and keep closer and collaborative relationships with the partners from the environment, where mostly customers and suppliers usually pay the dominant role. Among the reasons we can mention the rapid technical changes, global and continually increasing competition, blurring the market boundaries, market fragmentation increase (Day, 1990). For to be and stay competitive, managers much more intensively turn the attention to the question how to attract customers and gain profit. Their effort can be class with one of the general strategies: differentiation or superior customer value or/and lower costs strategy.

The essence of the entrepreneurship and business is the creation of value. Value on the conceptual level is very broad term taking on many meanings and is highly dependent on the context as such. For market, maybe the prevailing connotation probably is: “the monetary worth of property, goods or
services”, usually expressed in price. Nevertheless this explanation is not able to comprehend many other areas, matters, realities etc. where enterprises need to “evaluate” something what is worth of.

So, maybe it could be desirable return to the most simplest and general definition of the value, which is given by the following equation (e.g. Buttle, 2004):

\[
\text{value} = \frac{\text{benefits}}{\text{sacrifices (costs)}}
\]

where both ‘benefits’ and ‘sacrifices/costs’ may include tangible as well as intangible elements, monetary and nonmonetary form. For value verbalization in the concrete situation or context namely auxiliary explanatory words are usually used. These “helpers” generally fall within the circumstances that support to increase value (which we can call benefit, gain, contribution, asset, advantage, favor, profit etc.) or on the contrary those factors that lessen, decrease, diminish etc. final value (sacrifices or in language of economists the costs). Among others, marketing theory offers one clarification what these two constituents represent: benefits can be functional or emotional; sacrifices can be financial, time, energy, psychological and both can be inherent in product, service, personnel or image (Kotler, 2001). Ulaga and Eggert differ among five benefits dimensions (product, service, know-how, time-to-market and social) and two sacrifices (price and process costs) (Ulaga, Eggert, 2005).

Another approach explaining value through benefits and sacrifices (marketing conceptualization hence concerning a priori value for customer) is offered by Buttle. Here value for customers (but the basic ideas can be applied also to the supplier side) can be seen in product, service, process, people, physical evidence, communication and channels. Although the above text does not provide us with comprehensive list of value concept explanation, one could be obvious. Value is not only product or monetary worth of something.

In general, enterprises exist for the sake of value creation, mostly as value added entities. Although it can be a topic for discussion, there is a consensus that value creation and offering need some resources, it is impossible to create “something from nothing”. Johanson and Wedin cite Moran and Ghoshal (1999) who argue that “…resource use is the most important issue for the single firm…” and also that the “creation of economic value, be it individuals or organisations, is a process that involves the use of resources” (Johanson, Wedin, 2000). In compliance with Resource-based theory (for more information see for instance Fahy, Smithee, 1999), a firm utilizes its resources and capabilities turning to the distinctive competencies which help to follow chosen strategy and to create a competitive advantage that ultimately results in superior value creation. According to Barney: "...firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc." Certain distinction has been made by Amit & Schoemaker in whose respect resources can be split up into resources and capabilities whereas .....resources are tradable and non-specific to the firm, while capabilities are firm-specific and used to utilize the resources within the firm, such as implicit processes to transfer knowledge within the firm…“(Amit, Schoemaker, 1993).

Beside the current trends noted previously and beside the growth of concentration in some areas, most of enterprises have to focus more on so called “core” competencies. When we assign to these trend also the concept of knowledge or intellectual capital (or society in the similar meaning), there is probably no doubt that both differentiation as well as lower cost strategy is more and more dependent upon knowledge and capabilities. In such a situation as Contractor and Lorange argue, external acquisition of knowledge is growing, because knowledge and capability are fragmented distinctively with the growth of specialization and value chain (vertically) or value network (vertically and horizontally) complexity growth (Contractor, Lorange, 2002). More evidently, to be competitive means how the firms are able to marshal, combine and commercialize their know-how and how the know-how is combined with complementary assets, resources and skills provided by partners. In other words, there is remarkable shift from independent and own goals - following entrepreneurship to interdependence.
Knowledge is defined as facts, information or skills acquired through experience or education (The Oxford Dictionary, 2001). There are two basic types of knowledge: firm-specific knowledge supporting the internal activities and market-specific knowledge supporting the external links of the firm (Berdrow, Lane, 2003). Both types of firm’s knowledge are embedded in firm’s assets, competencies and capabilities and resulting in a value creation potential (Möller, Törrönen, 2003). They are essential for value creation process, namely value defining, value developing, value delivering (Piercy, 1998) and value capturing. Another approach to the knowledge categorization differs between explicit (can be processed, communicated, stored or transmitted) and tacit knowledge (know-how and values, beliefs or ideas) (Seidler–de-Alvis et al, 2004) which is practically impossible to separate off.

Market is the place where the business units meet and realize (or try to realize) the value they created. Except several examples, where markets were (or are) missing (e.g. self-consuming production units) this is the reality of mankind for thousands of years. Market may have many forms – there are independent firms with market-based transactions versus interdependent and connected firms and interactions and value co-creation. In the first case, firms have a low emphasis on joint value creation and they attach high importance to their own autonomy. On the other side, in value-creating networks exchanges concern not only products and finance, but the ideas, know-how, resources etc., so the exchange become the interaction, where partner learning is critical to the network success. Value creating networks assume managed relationships (Campbell, Wilson, 1996) in a certain scope, although it needs not to be absolutely necessary condition.

Knowledge belongs to the primary resources (referring to the knowledge-based view of firm) – and need capabilities to be productive. Capabilities for value creation can be divided into several types: production, delivery, process-improvement, incremental-innovation, radical-innovation, relational, networking or mastering the customer’s business capability using Möller and Törrönen supplier’s capability base point of view (Möller and Törrönen, 2003).

It would be very daring to allege that either independent firm or – on the contrary – firm interdependent with other firm – can be more competitive (or even claiming one’s sustainable competitive advantage). There is no rule, no 100% existing proof or confirmation of such an assertion. But on the other side, the power of alliances in human and entrepreneurial history has been verified many times. As Büchel and Raub mentioned, effective knowledge networks increase innovation and improve organizational efficiency if target oriented managed (Büchel, Raub 2002). The survey which they conducted (although on the relative very small sample) showed three major benefits of knowledge networks: boosting product and/or process innovation, improvement of employee motivation and satisfaction and operating efficiency increase. Especially the first and the third benefits belong to the tangible outcomes which are the heart of the companies’ interest, usually and are expressed in the form of more short-time goals. But “sharing of” tacit knowledge helps to the more sustainable and more difficult imitated competitive advantage for networks members (although not always for all members).

There are several more or less different directions in organizational theory with various extent of interest in the value creation aspects of enterprises as open systems. For B2B markets, which are in the focus of this paper, probably the theory of industrial networks and its interaction approach to the process of value creation is pivotal. Within this theory “…value creation is fundamentally based on the knowledge of the actors and on how they combine this knowledge…” (Håkanson 1993, cited in Möller, Svaln, 2002).

Many types of flows – resources or some activity outcomes flows run through between (or among) the subjects in B2B relations, which are values themselves or future-value creation “prerequisite”. We can call these flows exchanges or transfers as well. So does knowledge, too. Knowledge transfer is essentially dependent on the relationship context, knowledge characteristics and the learning abilities and incentives (Nieminen, 2005).
When we go back to value as benefits and sacrifices ratio concerning the knowledge transfer, we can agree that “…effectiveness of knowledge transfer processes depends on the perceived benefits and the overall satisfaction with knowledge management…” (Schlegelmilch, Chini, 2003).

Försström, summarizing the idea of Ford et al (2003) specifies the benefits (but also their sacrifices form) of partners’ high involvement as (Försström, 2005):

• Access to both technical and commercial skills
• Lower operational costs
• Reduced development expenses for both companies
• Improved material flow for both companies
• Quicker and more cost efficient problem solving
• Reduced administration costs
• Learning, which can be applied in other relationships
• Access to other parts of the network

As we can see, most of these examples of benefits are linked with knowledge.

2.2 The Czech Republic

The situation in the Czech Republic is different from the above presented picture either on the theoretical or empirical level. In the Czech language there is only one theoretical book on the market concerning the concept of value for customer written by the Czech author (Vlček., 2002). The title is a little misguided, while the content is based on Value analysis or engineering. Couple of publications (original Czech or translated) deal with the value for customer (for instance in CRM point of view). The rest of theoretical knowledge “aggregate” round the value in financial management (e.g. company’s market value, ) value and physical – product flow, or company’s value growth. Apart from this course, there is rather independent interest for knowledge management - but somehow abstracting from value perception and link of value, value creation and knowledge. Resource-based theory, resource-dependence theory or industrial networks theory as well as any other organizational network theory is absent in universities libraries and as the titles for the education in courses syllabuses. The only two concepts which are near to networks and partnerships or relationships are alliances and clusters, but again more as the organization form.

This reality is distinctively reflected in the managerial practice. Value for other partners perception – for instance backwards in the supply chains or horizontally joined partners in the networks is very rare – some exception is the interest for clustering initiatives supported by the Czech government in the special program “National cluster strategy” (http://www.mpo.cz/dokument6216.html). When mentioning supply chain management, most enterprises thinks over in logistics connotation (the same is in the education). Very similar case is with the quality management. Though many Czech firms have ISO 9001: 20001 certificate, awareness of total quality real meaning is not very often. And the last point here refers to the value for customer area. Also here the interaction, mutuality and the miscellany of value is missing, although the managers start to be conscious of the importance of satisfaction with the quality of product and service with the aim of keeping the loyalty of customers.

Summarily we can conclude that knowledge is somehow separated from the concept of value and value creation in managerial and theoretic thinking and practice in the Czech Republic as well as the consciousness of partnerships and real relationships for value creation and “value capturing, either in tangible or intangible form. Of course, it is probably a question of time, and knowledge transfer speed and knowledge absorptive ability of academicians and practitioners.

3. VALUE AND KNOWLEDGE PERCEPTION IN B2B RELATIONSHIPS IN THE CZECH REPUBLIC - SURVEY
As it was introduced in the abstract and introduction of the paper, findings of the survey presented below, make only one part of a large-scale survey dealing with several aspects of the small and middle Czech enterprises’ competitiveness within the scope of the project for the Grant Agency of the Czech Republic. While the author of this paper deals with the value concept in her PhD thesis and up-to now collected information show, there is distinct lack of understanding or familiarity with this concept both on the theoretical and practical level, the research team decided to investigate this issue as well.

One solely and three doubled open questions (together 7 questions) dealing with value were included in the questionnaire and in the analysis they were compared with several other answers from the survey, searching for potential dependence. The hypothesis for dependence verification between competitiveness and value perception intensity and diversity was formulated, although inquiring for value had more explorative character and even the number of respondents cannot lead to the findings generalization. The questions wording were as follows: “What does the concept “value” mean for your firm?”; and then two triple of nearly the same questions differing only in the object: customer or supplier “You figure as the value creator for your customer/supplier. Can you describe the value, which you add for him?”; “Please introduce some benefits and sacrifices which according to your opinion is perceived by you customer/supplier in the value you create.” ; Is there any value, which you get or obtain from your customer/s supplier/s? If yes, specify”.

Competitiveness was measured indirectly through the questions asking for the evaluation of the sales revenue (on the 6 points scale: excellent to minimal) and its development evaluation during last three years (on the 5 points scale: marked declension to marked improvement) and further through the question evaluating the profit confronting with the firm’s potential and environmental influences (again on the 7 points scale: excellent to marked loss) as well as development evaluation (the same 5 points scale as with the sales revenue). Yet two more questions asking for the reasons of these two variables evaluation were queried.

The open question “What is the competitive advantage of your firm” supplemented the competitiveness matter. No other direct financial measurement of the competitiveness was used because Czech firms are very reluctant to answer.

A total of 179 valid questionnaires from a range of industries were obtained. The respondents were mostly the top managers or owners of the firms in the executive positions. 96 firms represented small enterprises (from 10 to 49 employees), the rest 60 middle enterprises (from 50 to 249 employees) and 20 big enterprises (from 250 employees over). 12 firms were subsidiaries of foreign - home companies and 133 firms were active in foreign trade (only 4 of the mentioned subsidiaries were involved in foreign business as autonomous subjects and are included in the given figure of 133). About 60% of enterprises were founded in the first half of 1990ies, the rest mostly at the turn of the centuries.

The survey was realized during the autumn and winter 2006-2007 and personal semi-structured interview with the use of questionnaire was applied. The respondents were contacted directly by the interviewers from the research team.

There are several limitations of this survey and consequently of the findings felt strongly by the author of the paper. First it is the individual firm-centric focus of the survey. Although aimed at relationships with the customers and suppliers, only one focus firm point of view was inquired. Because of the lack of finance and time, these partners in the vertical line and their opinion and experience, were not involved in the research. The second limitation with the same reasons as mentioned above together with the limited extent of the questionnaire can be sought in the snapshot depth of value perception of the practitioners. As the third limitation, the relative small number of respondents can be considered, as referred before.
3.1 Survey findings

Survey findings are stated in the order according to the questionnaire:

1. “What does the concept “value” mean for your firm?”

For the majority of respondents it was very difficult to describe or specify this concept in other terms. The most frequent categories can be covered into two clusters:

a) financial – profit, sales revenue, earnings….so that respondents spontaneously introduced the value in monetary form which they gain from unspecified activities.

b) nonfinancial - prevalent tangible and “hard” characteristics – corporeal chattels, real properties etc. Only about a fourth part introduced some “softer” tangibles – products for customers or intangibles – services and also skills and/or know-how. In the first case the value is considered as something more static, where the point of value creation and any activities or any actors’ involvement are not taken into account. More positive situation is with the rest of the answers which comprehends some relationships elements.

No further term were mentioned.

2. “What is the value you create for your customer/s?”

About one third of respondents did not fill in this question. The most often introduced answer was: quality, quality/price ratio, low (or lower) price as competition, know-how, professionalism, knowledge of the market. Only rarely other terms were mentioned, as for instance: ability to solve problems, flexibility, entry point for further market expansion, credibility, perfect service, assortment scale, product innovativeness, terms keeping, quick response to the customer’s need, cooperation, logistics performance. Approximately 2-3 specifications were mentioned.

There is one quite interesting remark. The respondents did not distinguish between competitive advantage and value created for customer what is maybe not strange. Nevertheless the author suppose, there is a difference, at least some of the terms related to value creation cannot present a competitive advantage as such (e.g. terms keeping).

3. “What is the value you create for your supplier/s”?

In this case the answer was absent in more than three third of questionnaires. Only big enterprises and a couple of small firms were able to “entitle” perceived value “of themselves” for the supplying partners. Guarantee of the purchase in the contract scale and price during certain period, number of customers or market share increase, knowledge of legislation, knowledge of the Czech market, image, and tradition were the only value-related constructs.

4. “What are the benefits/sacrifices concerning the value you create perceived by your customers?”

This “mirror” question made again problem to nearly about half of respondents in its “sacrifices version”. While the benefits were very similar (or the same) as in the question No 2 (some extra answers were introduced, as: profit made by the customers based on our competitive sales prices, brand promotion on the market, loyalty, market share), the sacrifices were regarded as those generated for the respondents firms. Only 7 managers from big firms were able to give the right answer and the sacrifices stated by them were: investment to our know-how or technology, investment or costs connected to the education of our employee and costs for promotion and marketing (one firm with foreign-based customer).

5. “What are the benefits/sacrifices concerning the value you create perceived by your suppliers?”

Only two benefits were mentioned: stable relationships and our financial potential (2-times with different wording but same meaning) and warehouse space and only one sacrifice: logistics costs.

6. “What is the value you get from your customer/s?”

Regrettably less than 40% of managers were able to point out any value – again rather big enterprises
and firms active in foreign trade. Among value categories sales, profit, stability were the most often stated terms, whereas human resources investment done by the customer, references to the other potential customers were introduced only ones. About 15% of respondents specified know-how as value shared with customers.

7. “What is the value you get from your supplier/s?”

Nearly no concrete answers aside form “difficult to answer” were filled in by the respondents. This fact is quite interesting when we confront it with the reactions to the 5th question. A few of answers were: quality, to be and stay reliable and confident to our customers as well as our owners and employees, reputation.

Evidently, this question seemed to be the most difficult one. As was mentioned above, there was not space in the survey to ask more deeply especially for the reasons or explanation. Hence the author can only speculate that the fight to win and keep customers is much more competitive and demanding comparing with the relationships to the suppliers. This is maybe why managers do not think over so intensively what is behind the relations to their suppliers.

Questions concerning directly the concept of knowledge, relationships and network were not formulated, as it is obvious from the text above. It was the intention of the author to gain spontaneously some reaction to the value oriented question. When we go through the responses, it is clear that enterprises link knowledge to value creation process, although their frequency is not so optimistic. Nearly the same we can connect with the relationships (directly as well as indirectly introduced). Only the network perception cannot be considered as satisfying at all. It seems that inquired firms do not understand the importance of interactive partnerships neither in the value – added (created) chains backwards and forwards or networks.

The responses regarding the value perception in B2B relations were compared to the competitiveness measures and awareness of the own competitive advantage. Three very strong dependences are prominent, respectively between the variety and “richness” of the value concept perception and a) competitiveness (measured both by the sales revenue and profit as well as the development of these factors) and b) foreign trade involvement. Unequivocal conclusion can be made that firms which are active in export or import activities are much more conscious of the value understanding in both tangible and intangible form for the internal activities just as much as for the external links at least to the customers. Their competitiveness in financial criterions corresponds with this fact. The same – but not so intensively evident – we can attribute to the c) size of the enterprises. Bigger enterprises were more familiar with the value many facets meaning and it is very probable that they utilize this familiarity in practice.

5. CONCLUSIONS

The survey was rather explorative in nature and the purpose of the used survey instrument was to collect empirical data to get some view or indication concerning the value in B2B relationships conceptualization and managerial “prehension” of this concept. Many questions rose from the results. Some of them are more of scientific nature when the above given limitation of the survey can be repeated. What can be added to this is - among others - for instance the need to prefer in-depth interview in potential future research investigating more aspects of value and value creation in B2B relationships.

On the other side, at least on a small scale, the value perception in the Czech Republic has been explored what can be considered as the first “modest” trial with some results for the further investigation. There are many directions for this theme knowledge build-up as it was indicated in the paper. And value as well as relationships in networks topics for research, are still missing in this country.
REFERENCES


