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Value Driver and Its Impact on Operational Profit in Construction Company

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Abstract

One of the tasks of top management is during the meeting the goal of sustainable development and market growth to ensure that the resources that are essential to the implementation and fulfillment of the objectives are identified and made available. These resources include employees, suppliers, information, infrastructure, work environment or financial resources. But what gives the business a competitive advantage? With application of existing resources management methods, it is to realize its strategic capabilities and to find ways how to link the organization's resources and performance to each other. This means identifying how organizations contribute to value creation and find key value drivers. The aim of the article is to identify the value drivers and, on the basis of the choice of one value driver, to show when it changes it effects the operating profit of the construction company. For the purpose of creating this target, the values from the company's accounting statements will be used, the percentage method will be used to determine the costs during the reporting period. By using the sensitivity analysis method, it will be examined the impact of the change in the value driver on the operating profit.

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Keywords: value driver; revenues; costs; operational profit

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1. Introduction

Nowadays, when there is a big fight for the customer and the competitive environment is still hard, it is important to create strategic plans. These strategic plans may concern not only technical changes within a given production but also human resources that can be used in a multiplicity forms or, on the contrary, can be replaced by machine production. All these interventions in the production process and in the company's strategies can be quantified in financial expression. Therefore, it is very important to set up constantly short-term or long-term financial plans. These financial plans are based on the determination of future total revenues, and it is also necessary to calculate the volume of the individual costs associated with the production and the whole operation of the corporation. Both items affect operating performance.

The goal of each business is certainly to have a positive profit. This can be achieved by increasing sales or reducing costs. If cost optimization is not necessary, then the only way how to achieve the positive growth rate is to increase revenues. Revenues can also be labeled as the corporation value and it can be used for the determination the corporation's own evaluation. That is why it is necessary to check this item on a continuous basis, to establish short-term or long-term plans and to manage it strategically. For this reason, the article is aimed at determining the revenue development in the selected corporation and at determining its impact on the operating profit because of its change.

2. Present state references

Value drivers are actually identified as factors involved in value creation in market valuation of the corporation. Their knowledge is indispensable for stakeholders to determine the so-called future and current internal values of equities (fair value).

The corporation's rating result is an estimate of the value within a particular required category. The value category must be consistent with the purpose for which the valuation is carried out because the value category determines the ability to interpret, interpret and use the outcome of such valuation[1].

The effect on the value may be, for example, sales, margins, working capital, operating cash flow, investments, discount rate or funding structure. The better the generators choose, the more effective it is to create the corporation's plans and make a valuation[2].

The award consists of individual parts, such as free cash flows, discount rates, and capital costs. Each part is influenced by certain factors, which therefore have an effect on the resulting value - just the value drivers. The construction organization is mainly about labor supply and consequently revenues[2].

The amount of sales is related to the volume of production and the price of the production; The cost with the type and level of the production process, and with the ability to effective use the factors of production. Construction corporations increase their competitiveness if they create sufficient space between the cost of the construction and the variable costs for their production and make a profit in the sum of their outputs.

In the case of capitalized profit, it is necessary to define the relationship between revenues and costs. For these purposes, you can use the revenue share method. The revenue share method is based on the assumption that the main accelerating factor is revenue growth and all other parameters are based on their revenue ratio. [3].

Financial statement analysis is an integral and important part of the broader field of business analysis while business analysis is the process of evaluating a company’s economic prospects and risks. This includes analyzing a company’s business environment, its strategies, and its financial position and performance[4]

Financial statements contain insightful information about potential risk and return implications of various decisions[5]. In this regard, profit prediction is of great special importance. [6]

Sensitivity analysis is a way to predict the outcome of a decision, if a situation turns out to be different compared to the key prediction[7].

There are numerous definitions in the literature for sensitivity analysis. Sensitivity analysis is studying the impact of input changes (nature and magnitude) have on outputs. The sensitivity analysis performed is related to determining how much investment must be made in order to bring an implementation of the scenarios back to the base line values[8].

The paper used sensitivity analysis for the assessment the sensitivity of global poverty estimates to the choice between household survey and national accounts estimates of mean income/consumption[9].