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The Essence and Measurement of a Competitive Advantage

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Abstract:

Purpose: *Despite its fundamental importance for management science, sustainable competitive advantage must be better defined and conceptualized. Apart from the terminological confusion, the lack of an agreed-upon definition of this term leads to several theoretical and practical problems. The article aims to clarify the concept of competitive advantage in its semantic content and operationalization.*
Design/Methodology/Approach: *This study employs a qualitative research methodology grounded in a comprehensive literature review, logical inference, and insights derived from the researcher's previous studies. The approach aims to synthesize existing knowledge with personal observations, highlighting patterns and developing a refined theoretical framework.*
Findings: *This article identifies several drawbacks relating to the current understanding of competitive advantage that creates a need for an unambiguous definition of this concept that could be utilized in both empirical research and management practice. The article proposes a univocal definition of the term sustainable competitive advantage and its measurement. The Author proposes a distinction between the three concepts: advantage, competitive advantage, and sustainable competitive advantage.*
Practical/Implications: *The proposal's contribution to developing the theory and practice of strategic management embraces two aspects. First, in the presented concept, the reference point of the company's activities to create a sustainable competitive advantage is value creation for customers and value capture for the company, with the secondary role of outperforming competitors. Secondly, a univocal measure of sustainable competitive advantage is submitted – the enterprise value to invested capital ratio (EV/IC). Adopting an EV/IC ratio based on economic profits as a measure of sustainable competitive advantage gives managers a helpful tool for making decisions about the efficient allocation of resources. When deciding whether to enter a new market, offer new products, restructure assets, engage in the acquisition, or invest in research and development or brand building, managers should analyze the impact of these decisions on the competitive advantage demonstrated by future economic profits. For researchers, the EV/IC ratio and economic profits can serve as endogenous variables in research on the determinants of competitive advantage.*
Originality/Value: *To the best of our knowledge, the proposed concept is the first attempt in the subject literature that links the definition of sustainable competitive advantage with, simultaneously, knowledge building, value creation for customers, and value maximization as the primary objective of a company. The Author explains in detail the differences between concepts of advantage and proposes measures to analyze their types.*

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1. Introduction

One of the key concepts in the theory and practice of strategic management refers to the idea of competitive advantage. Although competitive advantage is a fundamental concept in strategic management, it remains a poorly defined and refined construction. The critical area of research within strategic management is to explain what factors cause differences in the companies' performance. There are three general notions around the concept of competitive advantage – competitive advantage itself, sources of competitive advantage, and superior performance.

Various theories explain why some companies and sectors perform sustainably better. Companies achieve superior performance due to their competitive advantage from specific sources. The definition of the concept, its meaning, and its components vary depending on the theoretical framework.

Ansoff (1965) was the first scholar to refer to competitive advantage as a company's ability to perform in a manner that allows it to achieve superior outcomes compared to its competitors. Since the concept was popularized in his book by Porter, the term competitive advantage has appeared in many publications in strategic management, general management, and corporate finance. However, no conclusive theory, supported by systematic evidence, has been presented to explain the sources of competitive advantage.

Therefore, none of the approaches has widespread acceptance in academia and practice. There is also an absence of a precise definition of competitive advantage and measurement methods. Powell presented a nuanced perspective in this context, focusing on the logical and philosophical foundations of what constitutes competitive advantage. His work critically examines the conventional notions of competitive advantage and suggests that the concept is more complex and subjective than typically acknowledged (Powell, 2001).

Competitive advantage means different things to different people. Scholars define this concept in various ways, which entails specific practical consequences and conceptual confusion. Notion "competitive advantage" is used by academics in various contexts, opening space for different interpretations.

In industrial organization theory, entry and exit barriers are highlighted as potential sources of competitive advantage (Porter, 1980; Bain, 1956). In resource-based theory, competitive advantage is the result of possessing, specific to the firm, rare and valuable resources that cannot be imitated or substituted (Peteraff, 1993; Grant, 1991; Barney, 1991; Newbert, 2007).

The lack of an agreed-upon definition of this term leads to the situation in which the research results related to sources of competitive advantage, its size, durability, and measurement methods are not comparable. The usefulness of such research for business practice is also minor – managers can use them to a limited extent as possible recommendations in the decision-making process.

According to Sigalas and Economou, the two main problems associated with an ambiguous definition of competitive advantage are the term's lack of semantic content and the impossibility of operationalizing the variable-competitive advantage in empirical research. Due to the deficiency of explicit semantic content, competitive advantage means something different in the context of better results and different in the context of its sources. Because of the absence of term operationalization, the researchers failed to create a measurement scale for this variable that would cover all its aspects (Sigalas and Economou, 2013).

In the subject literature, considerations focusing on an attempt to organize the terminology related to competitive advantage are limited to a few articles, the recommendations of which are inconclusive. In a 2003 study, Rumelt points to areas of confusion related to the term competitive advantage and gives examples of theoretical situations of companies for which having a competitive advantage is debatable (Rumelt, 2003). The author believes that the question about the meaning of competitive advantage requires an answer arguing that the term should not be used until it is clearly defined.

In a 2013 article, Sigalas and Economou return to the definition of competitive advantage, postulating the development of a measure of competitive advantage in isolation from the company's financial results (Sigalas and Economou, 2013). Contrary to Rumelt’s postulate, a significant body of recent research on competitive advantage concentrates on analyzing its relations with different management concepts, omitting fundamentals like its definition and measurement, which should form the ground for further research. In a recent research article that aimed to map the topic of sustainable competitive advantage in various scientific publications from Scopus between 2017 and 2023, 204 documents were found (Liwafa *et al.*, 2023).

The most used keywords related to "sustainable competitive advantage" identified in the study were sustainability, sustainable development, innovation, etc. The authors did not identify keywords related to the definition or measurement of sustainable competitive advantage. It indicates a persistent knowledge gap related to defining and measuring competitive advantage.

This article seeks to contribute to the discussion on understanding the concept of competitive advantage, one of the basic constructs of strategic management. Therefore, this research aims to clarify the concept of competitive advantage. This study's intended contribution is to progress knowledge about the essence of competitive advantage and its measurement.

The concept of competitive advantage was analyzed based on qualitative research methodology grounded in a comprehensive literature review, logical inference, and insights from the researcher's previous studies. The approach aims to synthesize existing knowledge with personal observations, highlighting patterns and developing a refined theoretical framework.

The paper is organized as follows. It opens with a brief, general review of the essential definitions of competitive advantage in the literature and the differences in its understanding. Then, it identifies and examines perspectives that can be applied to measuring competitive advantage. The following section discusses the concept of competitive advantage in the light of value creation fundamentals. The last part of the article presents the author’s proposal of clear distinction between the three concepts - advantage, competitive advantage, and sustainable competitive advantage, concerning their definitions, efforts targeting, goals, and measurement. The article ends with a summary containing the essential conclusions from the conducted considerations.

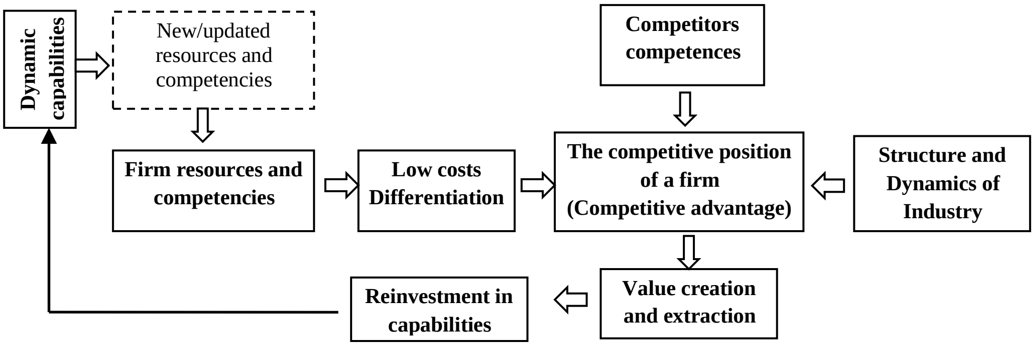
2. Literature Review

Research within strategic management tries to explain the phenomenon of permanently better results that some companies obtain. The leading hypothesis is that lasting, better performance results from having a competitive advantage. Theories differ when it comes to indicating the sources of advantage. In Ansoff's framework, the concept of competitive advantage is closely linked to a firm's strategic choices - market penetration, product development, market development, and diversification (Ansoff, 1965).

In other approaches, better results are the effect of a monopoly rent resulting from a protected market position (Porter, 1980), they form a Ricardo rent due to unique, company-specific resources (Grant, 1991; Peteraf, 1993), they are associated with Schumpeter rent, thanks to the dynamic capabilities to renew advantages over time (Winter, 2003).

It is worth noting that the ways of building a competitive advantage postulated within the framework of various strategic management theories are consistent and complementary. By integrating different theories, a competitive advantage can result from an appropriate alignment of internal resources and competencies with current and future market requirements. Based on lower costs or differentiation, it leads to a privileged relative position in the market at a given moment. In order to maintain or improve this position, the company uses dynamic capabilities to modify its resources and competencies to challenge changing market requirements - Figure 1.

Figure 1. *The logic of an integrated approach to competitive advantage*



Source: *Own study.*

Generally, there are two perspectives to understanding the concept of competitive advantage. In the first, competitive advantage is defined in categories of the company performance, while in the second, it is related to its sources (Sigalas and Economou, 2013). Most researchers define competitive advantage as how companies perform or, more specifically, perform better than their competitors. Superior results are defined differently, with various measures, like profitability (Grant, 1998), value creation (Porter, 1985; Barney, 1991), or excess return (Schoemaker, 1990; Peteraf, 1993; Winter, 1995).

Some researchers, in turn, identify a competitive advantage with the factors that determine it. Before a brief presentation of the definitions of competitive advantage proposed by theoreticians of strategic management, it is worth quoting the opinion of the famous investor W. Buffett on this subject. Buffett's investment fund is seeking businesses that have a lasting competitive advantage. At a shareholders' meeting in 1995, W. Buffet explained the principle of investing as looking for businesses with a broad and durable moat, defending the economic castle and its master. This could be cost leadership, position in customers' minds (brand), technological advantage, and everything else that creates this moat (Strategic Direction, 2013).

Ansoff defines competitive advantage as distinct characteristics or specific properties of individual product markets that give a company a strong competitive position (Ansoff, 1965). According to Porter, competitive advantage means low costs, the advantage of differentiation, or effective concentration. Porter argues that competitive advantage is rooted in the value a company can create for its buyers that exceeds its creation's cost (Porter, 1985). For Barney, competitive advantage equates with extended benefits resulting from using a unique, value-creating strategy that is not implemented by competitors simultaneously and whose benefits cannot be duplicated (Barney, 1991). According to Schoemaker, competitive advantage is determined by systematically getting above-average returns (Schoemaker, 1990).

Winter characterizes competitive advantage by achieving better financial results, which can be determined using extraordinary returns, value creation, and other synonyms for making money (Winter, 1995). Grant defines competitive advantage as a company's ability to outperform its rivals against a critical performance goal. For this author, a company has a competitive advantage over its rivals when it continuously obtains higher profit rates (Grant, 1998).

Ghemawat characterizes competitive advantage as the extent to which the difference between the benefits and costs of a given product outweighs the benefits and costs of competing products (Ghemawat, 1991). Peteraf describes competitive advantage as holding above-normal returns and identifies imperfectly mobile resources as those that form its source because the Ricardian or monopoly rents generated by these resources will be higher than the alternative cost of their use by other companies (Peteraf, 1993).

Financial literature often uses the term period of competitive advantage (CAP), which relates to a time interval when a company obtains a return on the capital invested above its cost. In this sense, competitive advantage means obtaining a surplus over the cost of capital resulting from lower costs or product differentiation (Visconti, 2020).

The literature review on competitive advantage indicates terminological confusion in this field, a need for more consensus on its meaning, and, even more so, on how competitive advantage should be measured. A general question arises: If competitive advantage is any cause or factor determining whether it leads to better results, should competitive advantage be equated with better results on its own? Some authors identify competitive advantage with the results obtained by the company (Schoemaker, 1990; Winter, 2003; Grant, 1998; Ghemawat, 1991).

Others equate it simultaneously with the obtained results and their sources (Porter, 1985; Barney, 1991; Petraff, 1993). The least often competitive advantage is equated solely with its sources (Ansoff, 1965). According to Silas and Economou, equating competitive advantage with better company performance leads to a tautology, i.e., defining a concept through content with the same meaning. Gaining a competitive advantage leads to better results. Competitive advantage means getting better results. Hence, getting better results leads to better results (Sigalas and Economou, 2013).

3. Research Methodology

This study employs a qualitative research methodology grounded in a comprehensive literature review, logical inference, and insights derived from the researcher's previous studies. The approach aims to synthesize existing knowledge with personal observations, highlighting patterns and developing a refined theoretical framework. Integrating external literature and internal knowledge enhances the study's depth, bringing a unique perspective to the research topic.

The study uses triangulation by cross-referencing findings from literature, personal observations, and earlier studies, ensuring a multi-dimensional perspective. The implemented research methodology contributes to the academic discourse and enhances the practical applicability of the findings, offering a unique input to theoretical and practical fields.

4. Research Results and Discussion

4.1 Considerations on Measuring Competitive Advantage

Reviewing the competitive advantage understanding in the subject literature allows for identifying a common element in different approaches - the connection of competitive advantage with the concept of value creation and company performance. However, value creation is an ambiguous term expressed through various means.

There needs to be consensus or clarification of value creation, i.e., from what perspective it should be measured, how, and in what time horizon. The choice of value-creation measures is subject to the adopted perspective. From the company's point of view, value is analyzed with accounting indicators. From shareholders' perspective, created value is apprised based on market indicators. An enterprise's value is created in a given year if the return on invested capital is higher than the cost of capital, meaning that the company generated economic profit.

However, this surplus in the short term may result from a reduction in costs incurred to improve the company's current financial results. Suppose this applies to spending that would improve the company's competitiveness in the future, like expenses in research and development or customer relations. In that case, the economic profit cannot be considered a sign of the company's competitive advantage. Economic profit indicates the company's economic strength (perhaps competitive advantage) if it extends over time. For companies, the sign of the durability of this surplus is the ratio of enterprise value to invested capital (EV/IC).

Using indicators based on accounting data to assess financial results and possible competitive advantage raises the issue of estimating the amount of capital employed. The issue is that the actual value of the capital employed should include off-balance-sheet intangible assets.

Therefore, to maintain the comparability of the financial results of various companies, it is necessary to capitalize expenditures associated with the creation of intangible assets (primarily R&D and brand building). Consequently, expenditures related to intangible assets should be excluded from the income statement for calculating real profits generated in a given period on invested capital. Another controversy is identifying a threshold, which is the reference for identifying the presence and scope of competitive advantage. Rumelt addressed this issue by asking whether competitive advantage should mean winning in the game, i.e., surpassing all competing companies or maintaining a position (Rumelt, 2003).

Rumelt's question can be enhanced even further by considering various perspectives of advantage. Put another way, the threshold that must be exceeded to reach a competitive advantage should be identified. It could be related to competitors' results, positive economic profit for the company, or value creation for shareholders.

Certain factors or activities can contribute to overtaking competitors in specific areas, but they do not necessarily lead to the results desired by the company. For example, actions aimed at achieving goals, like increasing market shares, entering new markets, improving the quality of the product, developing technology, building a brand, and reducing costs, may lead to outperforming competitors in these areas but do not necessarily result in value creation for the company.

Therefore, outperforming competitors in different areas does not make sense if it is not ultimately associated with improved financial results. In some cases, gaining an advantage in specific areas is possible because competitors are giving up these fields, knowing that racing with others in a particular area is senseless since it does not improve the company's results. An advantage over competitors makes sense and constitutes a competitive advantage only when it ultimately translates into an economic advantage (Kontes, 2010).

Suppose the competitive advantage is looked at from the company's perspective. A competitive advantage means obtaining an economic profit for a long time. In that case, the threshold for identification of competitive advantage does not refer to variables related to competitors but to the internal parameter, which is the cost of capital.

Therefore, a company possesses a competitive advantage when it generates economic profits over time. Suppose competitive advantage is considered from the shareholders' perspective. In that case, it should relate to market data, primarily changes in share value and dividend payments. The gross value creation for the shareholders in a given period could be estimated as a total return to shareholders (TSR).

TSR is a rate of return based on changes in stock prices after accounting for cash inflows and outflows to and from shareholders. For several periods, the TSR is equal to the internal rate of return calculated for the flows obtained by the shareholders. TSR is not the same as the net value created for shareholders because the latter depends on the opportunity cost for shareholders; otherwise, it is the required rate of return. Therefore, the value created for shareholders is the difference between TSR and the required rate of return - this is the so-called abnormal return.

The required rate of return (opportunity cost) is determined ex-post based on changes in the market index beyond the company's control and the systematic risk indicator for the company. The use of abnormal return (AR) as a measure of competitive advantage may raise several doubts, both methodologically and related to the essence of the competitive advantage (Keef and Roush, 2002).

The AR estimation methodology uses market data, which allows its application only to publicly traded companies. In addition, it relates the company's results to the entire market, not to companies from a given industry. Finally, the construction of the indicator (AR) is based on the assumption of complete diversification of the investor and market efficiency, where stock prices reflect all available information.

Both assumptions refer to theoretical situations, limiting the possibility of using this measure in practice (Lee and So, 2014). Therefore, adopting the shareholders' point of view and using an abnormal return (AR) as a measure of competitive advantage does not capture its essence. A competitive advantage should relate to the company's fundamentals and ability to create value.

Therefore, the existence of the competitive advantage should not be affected, for instance, by the degree of diversification of its shareholders, which determines abnormal returns. The company's competitive advantage only indirectly shapes the value creation for its shareholders. From the shareholder's point of view, the competitive advantage and resulting financials are only partially responsible for their wealth growth. Other factors that are often decisive for the amount of value realized by shareholders are, for example, market sentiment and investors' expectations about future company results. Therefore, there is no justification for equating a competitive advantage with an abnormal shareholder return.

4.2 Competitive Advantage and Value Creation

The above considerations over the competitive advantage construct indicate that this term occurs in various meanings and contexts, causing difficulty in defining it unambiguously. Moreover, this term has yet to be operationalized as a specific measure. It has been twenty years since 2003, when one of the most prominent researchers in strategic management – Rumelt, postulated the necessity to define the term competitive advantage or stop using it altogether (Rumelt, 2003).

No such definition has been proposed, but the term is still extensively used in management and corporate finance literature. Failures in defining a competitive advantage may result from the fact that it generally becomes a dynamic concept, changing over time even concerning a specific company.

Meanwhile, maintaining a competitive advantage over an extended time in the current turbulent environment is rare. Competitors and customers are unpredictable, and sector boundaries become blurred. In these circumstances, achieving and maintaining a competitive advantage based on specific, stable, and non-changing factors is questionable. Research results indicate that a lasting competitive advantage, regardless of its definition, is rare, and its duration decreases (Ruefli and Wiggins, 2003).

The trend related to the temporal nature of competitive advantages results from several reasons, like fast technological changes, globalization, industrial convergence, aggressive behavior of competitors, deregulation, government subsidies, the growing importance of China, India, and other emerging economies, the increase in the availability of venture capital, terrorism, pressure on markets to achieve short-term results (D'Aveni *et al.*, 2010).

The dominant idea in strategic management, stating that success depends on establishing a unique competitive position that remains long-term, has ceased to be adequate for most companies nowadays. Instead, firms must constantly pursue new strategic initiatives while creating and leveraging multiple temporary competitive advantages to remain competitive. Although individual companies' advantages would be short-lived, their constantly renewed portfolio will allow them to compete effectively over a long time (McGrath, 2013).

In the search to clarify the concept, the dynamic nature of competitive advantage can be a clue in setting the direction in which attempts to define this term should go. A competitive advantage does not result from a specific activity, position, or resource. Instead, a company's continued ability to build innovative knowledge allows it to create high-quality value-creating ideas that represent temporary competitive advantages with a different lifetime (Madden, 2021).

Competitive advantage relies on knowledge created by an organization's information collected, analyzed, and utilized. Competitive advantage is subject to a specific life cycle regardless of the duration. In the case of short-term advantages, the company needs to rotate advantages faster and more often. To this end, it should create a system for creating continuous new advantages based on innovative ideas.

Such action complies with the philosophy of real options in strategic management. Option means the possibility, but not the necessity, to take specific actions in the future. The options can take the form of an idea for a new opportunity, an experiment, or a pilot project implemented on a small scale (Williamson, 2006).

Competitive advantage begins with taking a chance on the emerging idea through the appropriate mobilization of resources. Then, the new idea is scaled. In the next phase, the competitive advantage is exploited if the company successfully scales its activities. When competitors' actions or changes in the business setting weaken the company's advantage, activities and resources should be reconfigured to refresh the advantage (McGrath, 2013). If the advantage is completely outdated, the exit from the given commitment occurs, and the company invests in new ideas, which should emerge from the ideas pipeline.

To assess the existence and reasonableness of building a specific competitive advantage, evaluating its potential impact on the company's value is necessary. Otherwise, the company may pursue a strategy that leads to gaining advantages over competitors, which simultaneously causes a decrease in its value. In other words, only some advantages over competitors benefit the company. A problem appears regarding the origin of the common desire to gain advantages over competitors. The explanation is a misconception of cause and effect. Striving to obtain economic benefits (economic profits) often leads to gaining advantages over competitors in specific areas.

Conversely, the dependence is ambiguous - gaining an advantage over the competition does not have to be equated with obtaining satisfactory economic profit (Kontes, 2010). Therefore, the concept of competitive advantage should be linked to value creation and extraction as the company's primary objective. To fulfill this objective, the company must begin creating value for its customers while simultaneously implementing actions for its capturing.

Suppose competitive advantage is related to a company's value maximization. In that case, the potential sources of advantage should be identified and analyzed, given their impact on value determinants for customers and, ultimately, for the company. According to the valuation model based on economic profit, the enterprise value is equal to the sum of the invested capital and the present value of the future economic profits (Koeller *et al.*, 2005):

Formula 1:

$$EV = IC_0 + \frac{IC_0 x (ROIC - WACC)}{wacc - g} = IC_0 + \frac{EP_1}{wacc - g}$$

Where:
EV – enterprise value
ROIC - return on invested capital
IC_0 - book value of invested capital
g – a growth rate
ECP_1 - next year’s economic profit
WACC – the weighted average cost of capital

The firm creates additional value above that resulting from the capital invested, if it earns economic profits - the return on invested capital exceeds its cost. When the company generates economic profit from new investments, faster growth of the company additionally contributes to value increase. Analysis of the return on invested capital components, the primary variable shaping the firm's value, allows identifying the determinants of value and, ultimately, the sources of competitive advantage. The following formula disaggregates return on invested capital into constituent factors:

Formula 2:

$$ROIC = \frac{NOPLAT}{IC} = (1-T) \times \frac{(unit\ price - unit\ cost) \times quantity}{invested\ capital}$$

Where:
NOPLAT – operating profit after tax,
IC – the value of the invested capital,
T – income tax rate.

The formula indicates that the additional value results from a higher price or lower product cost, higher sales level in units, or decreased value of invested capital. Companies must adjust their prices to market levels for commodity products since customers can choose between alternative offers. Hence, for commodities, cost advantage is a fundamental factor in creating value for the customers and, finally, for a company.

Unit cost reduction can result from scale (production volume, order volume), the scope of activities (offering several different products), or implementing an effective business model that allows for significant cost reduction per unit sold. A company can generate significant value even on low unit margins by selling more products per invested capital. This effect is potent for online platforms like Airbnb, Booking.com, Uber, or Spotify. These companies utilize external assets in their business models without incurring the cost of buying and maintaining them. A tiny unit margin translates into a high ROIC due to high NOPLAT and low invested capital.

For differentiated products, companies have some price flexibility, which depends on the product's value for the customer. The product's differentiation source can be its unique functional features, superior service, matching of the product to the customer's needs, or brand. It is worth mentioning that nowadays, digital technology development allows for combining the old mutually exclusive strategies for achieving competitive advantage – differentiating the offer and low costs. Algorithms and digital platforms enable delivering customized, unique experiences at a low price (Charan, 2021).

4.3 Advantage, Competitive Advantage, and Sustainable Competitive Advantage

To clarify the concept of competitive advantage and its operationalization, distinguishing between three notions - advantage, competitive advantage, and sustainable competitive advantage, is proposed. Advantage refers to any superior result a company achieves concerning competitors, regarding different areas of rivalry. On the route to value creation, firms carry out activities and pursue several sub-targets, such as increasing market share, entering new markets, improving product functionality and quality, increasing brand awareness, or cost reduction.

These objectives are realized by taking action that would result in various advantages over its competitors. These advantages may relate to different aspects of a company's activities and are assessed using various accounting, operational, financial, or market measures. Superiorities of this type can be specified as advantages. Such advantages sometimes translate into increased company value. That it would be so, the company's superiority must contribute directly or indirectly to improvement in its financial performance. Numerous examples from the past show that many companies, although defeating competitors in various fields of rivalry, failed to translate these advantages into value generation (Teece, 2006).

Some superiorities over competitors become competitive advantages when they contribute to improved company performance. In the predominant understanding, competitive advantage means better results a company achieves concerning a competitor or group of competitors. It assumes explicitly directing the company's strategy and struggles to outperform competitors. Meanwhile, gaining an advantage over competitors may be an effect, but it should not be the strategy's goal. The overriding goal of strategy ought to be the maximization of enterprise value.

According to the principles of value creation, it results from implementing projects in which the company generates economic profits for an extended time. In many instances, a high economic profit may signify an advantage over competitors in various activities. However, such an advantage is a residual or side effect of actions to create value for customers in a profitable way for the company. At a specific time, competitive advantage results from the current value proposition based on mobilized resources and capabilities.

Hence, competitive advantage refers to any company activity, competence, or resource that contributes to customer value creation and improves the company's financial performance. The existence of competitive advantage is linked to improving such parameters as ROIC (return on invested capital) and economic profits. An observation confirming the paradigm shift in strategic emphasis from competitors to customers is that many traditional organizations formulate their current visions around satisfying customer needs. Examples: Visa – enables the best ways to pay and get paid to anyone, anywhere. Walmart – enables customers to save money to improve their lives. Novartis – discovers new ways to improve and extend people's lives (Vaz, 2021).

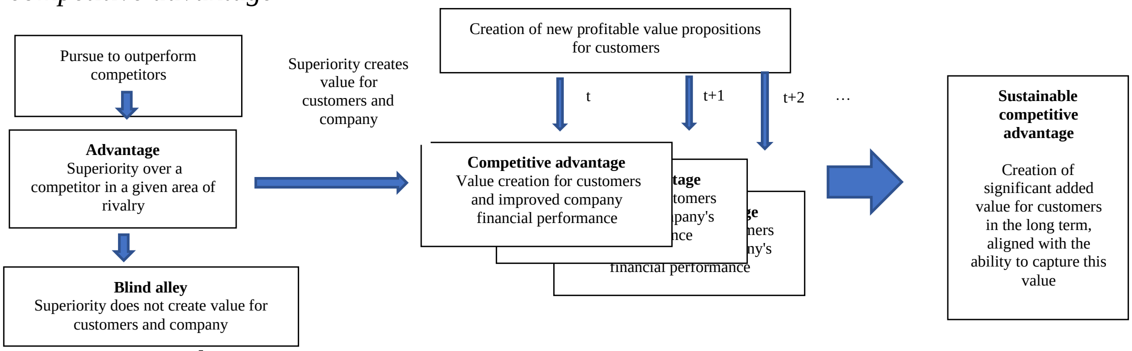
Situations are rare when competitive advantage is long-lasting and based on a once-gained protected market position or unique, static resources and capabilities. Currently, managers struggle with constant change and collisions that affect their organization and the markets in which they compete. In these circumstances, maintaining a competitive advantage requires taking innovative actions that positively affect the return on the capital invested and the company's growth rate in the long run (Iansiti and Lakhani, 2020).

Due to constant technological changes, the blurring of sector boundaries, and changing consumer needs, existing isolation mechanisms are weak, making it necessary to build new advantages based on new or modified resources and capabilities. Managers should focus on delivering customer value through discovering, meeting, and anticipating their expectations.

Hence, the dynamic capability of the company to build innovative knowledge that allows the formation of high-quality ideas that constantly create value for consumers becomes crucial for the company's success (Madden, 2021).

Thus, a sustainable competitive advantage is associated with continuously creating new advantages. That leads to the proposal of the definition of sustainable competitive advantage as a result of implementing a strategy whose central element is to build and apply innovative knowledge that enables the creation of significant added value for customers in the long term, aligned with the ability to capture this value. Figure 2 presents the interrelations between advantage, competitive advantage, and sustainable competitive advantage.

Figure 2. *Distinction between advantage, competitive advantage, and sustainable competitive advantage*



Source: *Own study.*

Sustainable competitive advantage is defined and should be measured from the company's perspective, not its owners (shareholders). Creating value for a company does not mean the same as creating value for its shareholders. In the former, the decisive factors are the company's economic foundations. In the latter, the shareholder value depends on investor expectations, overall market sentiment, and other behavioral factors that could be loosely related to the firm's fundamentals.

Moreover, the value generated varies for different shareholder cohorts depending on their investment timing. All these factors are not directly related to competitive advantage. A sustainable competitive advantage is associated with high economic profits. That translates into an increase in the enterprise's value, provided economic profits are maintained over the long term.

Market forces in a competitive economy should gradually drive ROIC to converge into the cost of capital. In economic reality, many companies can maintain a high level of ROIC over an extended time, which is a sign of possession of lasting competitive advantage. That leads to the proposal that the size and sustainability of the competitive advantage should be measured based on the enterprise's present value regarding its invested capital (EV/IC).

This conclusion can be directly drawn from the critical valuation formula based on the economic profit presented above (Koeller *et al.*, 2005). The enterprise's present value reflects the expectations concerning the size and durability of its future economic profits. Hence, the higher the ratio of company value to invested capital (EV/IC), the more significant and durable the value-creating competitive advantage of the company.

Based on comparing this ratio with the company's peers, the relative sustainable competitive advantage of the company can be determined. Table 1 summarizes the differences between conceptions of advantage, competitive advantage, and sustainable competitive advantage concerning their definitions, efforts targeting, goals, and measurement methods.

Table 1. *Scope and content of different types of advantages*

	Advantage	Competitive advantage	Sustainable competitive advantage
Definition	Any superior result a company achieves compared to competitors, in different areas of rivalry.	Any set of activities, competencies, or resources of a company that contributes to value creation for its customers and improves the company's financial performance	A result of implementing a strategy whose central element is to build and apply innovative knowledge that enables the creation of significant added value for customers in the long term, aligned with the ability to capture this value
Efforts targeting	Competitors	Customers and economic profits	Customers and long-term value of a company
Goals	To outperform competitors in a given area/areas	To create value for customers while generating economic profits	To constantly create value for customers and maximize company value
Measurement	Different accounting,	Economic profit in the short/medium term	Company value to invested capital ratio (EV/IC)

	operational, financial, or market measures		

Source: *Own study.*

5. Conclusions, Proposals, Recommendations

The business world is obsessed with creating and maintaining a sustainable competitive advantage. However, despite its fundamental importance for management sciences, the concept of sustainable competitive advantage has yet to be unequivocally defined. It has become a "buzzword" concept, used and often abused without a more profound reflection on its meaning.

This article identifies several drawbacks relating to the current understanding of competitive advantage that creates a need for an unambiguous definition of this concept that could be utilized in both empirical research and management practice. Competitive advantage is described in the strategic management literature differently and, in many cases, ambiguously.

The definitional and operationalized ambiguity of the concept creates significant problems not only from a theoretical point of view but also in the practice of strategic management. The deficiency of commonly accepted competitive advantage measures does not allow for comparing the results of various studies on competitive advantage. From the perspective of business practice, the lack of a coherent theory of competitive advantage and conceptual confusion results in the limited use of research results in decision-making.

The sparse attempts by researchers to organize the theory of competitive advantage resulted in the identification and articulation of numerous problems related to this issue but did not lead to unambiguous conclusions. Rumelt's comment, expressed in the conclusion of his work from 2003, that "the question of competitive advantage needs to be answered" remains unresolved.

This article aims to join the discussion on sustainable competitive advantage by proposing this construct's definition and operationalization. The starting point for capturing the essence of competitive advantage is to link this concept with value maximization as the primary objective of a company. Pursuing this objective starts with creating an appropriate value proposition for the customers while simultaneously capturing part of the created value profitably for the company.

Conceptually, the proposed definition aligns with the understanding of competitive advantage by authors identifying this term with the company's value creation and financial results. The proposal's contribution to developing the theory and practice of strategic management embraces two aspects. First, in the presented concept, the reference point of the company's activities to create a sustainable competitive advantage is value creation for customers and value capture for the company, with the secondary role of outperforming competitors. Secondly, a univocal measure of sustainable competitive advantage is submitted – the enterprise value to invested capital ratio (EV/IC). A critical variable that determines the enterprise value is future economic profits.

Therefore, the relationship between economic profits and the company value is direct and results from the value creation model. In the case of present competitive advantages, their existence and scope are associated with the intermediate measure of value creation – economic profits. Adopting an EV/IC ratio based on economic profits as a measure of sustainable competitive advantage gives managers a helpful tool for making decisions about the efficient allocation of resources.

When deciding whether to enter a new market, offer new products, restructure assets, engage in the acquisition, or invest in research and development or brand building, managers should analyze the impact of these decisions on the competitive advantage demonstrated by future economic profits. For researchers, the EV/IC ratio and economic profits can serve as endogenous variables in research on the determinants of competitive advantage.

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