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## MARKET ORIENTATION BUSINESS STRATEGY AND MARKETING RELATED STRATEGIC MANAGEMENT ACCOUNTING USAGE IN QATAR

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### ABSTRACT

This study primarily focuses on examining the relationship between the Market Orientation Strategy (MOS) and Strategic Management Accounting (SMA) usage while checking the adoption of both of these concepts. It is based on sample of management accountants working in Qatar and uses the linear regression model to test the relationship between both concepts. The finding indicates that while the companies in Qatar had adopted market orientation business strategy overwhelmingly the usage of SMA appears to be weak with only a moderate form of relationship between MOS and SMA. In addition to general limitations such as time constraint, this study also has its limitations in listing the marketing related SMA techniques where there is no accepted list of techniques. Further, the sample consisted of management accountants from only one of the prime management accountant's institute. This study provides the managers with the list of marketing related SMA techniques that can be used in assisting their market-oriented strategy. Although there are many studies carried out on this subject, yet there is a scarcity of empirical studies. This study also considered as one of the first in the Gulf region focusing on a thriving economy.

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### INTRODUCTION

The ever-changing business world had imposed many changes to the concepts and theories as well as the way business operates in achieving its objective and maintaining its position and success in the market. It was probably a coincidence the resurgence of concepts of Market Orientation as well as Strategic Management Accounting among practitioners and academics during 1980's. While from a marketing point of view Kohli and Jaworski (1990) embarked in providing a foundation for the systematic development of market orientation theory, from management accounting point of view Simmonds (1982) embarked on his journey to take the management accounting to the next step after coining the concept of Strategic Management Accounting (SMA) in 1981 in his seminal article (Simmonds, 1981). The re-emergence of both concepts initiated with staunch criticism.

Market orientation concept was criticised by Kohli and Jaworski, (1990) where they note that the way market orientation presented in the past literatures without having a clear definition, lack of attention to measurement issues, lack of empirical based theory questioned the appropriateness of the concept to the business. Similarly, the management accounting system as well came under a lot of scrutiny and criticism. For Instance, Kaplan (1984) insisted the necessity of revisiting the management accounting system and observed that there has been little innovation in designing and implementing the cost accounting system since 1925 (approximately 60 years). Adding to the commonness between both concepts and evolution, both had many common attributes as well such as external orientation, customer focus and competitor analysis. However, until recently, the academics focused on each concept separately. On one hand the management accounting literatures focused the new SMA

techniques and finding out on SMA's impacts on performance and decision making, such as the balanced scorecard (Kaplan and Norton, 1991) that focused on the performance measurement, strategic cost management (Shank, 1996), the value chain (Shank and Govindarajan, 1992) and strategic investment appraisal (Bromwich and Bhimani, 1991) focusing on decision-making. On the other hand, market orientation related literatures focused on studying its consequences and impact on performance. The literatures related to market orientation started from concepts and theory by Kohli and Jaworski, (1990) and moved towards empirically testing the relationship between market orientation and business performance (Narver and Slater, 1990). However, Cadez and Guilding, (2008) in their study based in Slovenia brought these concepts together identifying the common factors among them and tested the effect of strategic choices, market orientation, and company size on SMA and mediating effect of SMA on company performance.

Although their quantitative analysis results indicated only company size and strategy having a significant bearing on the successful application of SMA and made it difficult to interpret in favour of having relationship between market orientation and SMA, based on the mixed reaction received from the interviews, they explicitly mentioned that no future studies on SMA should abandon this factor. Proving the validity of their concern, the study on hotel industry that based on Cadez and Guilding's study amongst other relationships empirically found that hotel property market orientation strategy was positively related to the usage of SMA in the industry (Turner, Way, Hodari, and Witteman, 2017). However, as indicated by the authors the, hotel industry is a specific industry with its own characteristics and therefore it is difficult to generalize its findings. This study aims to build on a portion of above two studies by only focusing on the aspects of the market-oriented strategy of the companies and the usage of the SMA techniques. However, it differs in few ways. Firstly, the country selected for this study is Qatar a Middle Eastern country that is classified recently as emerging market by Morgan Stanley Capital International (MSCI) (MSCI, 2014). Secondly, it uses the management accountants as the sample of the study. Finally, it only considers the SMA techniques that are directly linked to marketing concept. Despite the attractiveness of the novel management accounting techniques topic, it lacks practical evidence (Kaplan, 1984). Specifically, lack of empirical research has become a key characteristic of SMA literature (Cadez and Guilding, 2008). In the meantime, although market orientations studies have found a positive relationship to business performance empirically (Jaworski and Kohli, 1993; Narver and Slater, 1990; Ruekert, 1992), there is lack of studies performed to find its relationship to the management accounting. This study is motivated by this scarcity in the literature. The focus on Qatar was primarily to support with concepts that will help in increasing the business performance, a key requirement for the country's vision of Economic Diversification.

## Literature Review

### Market Orientation Concept and Evolution

Marketing concept when it was put forward by Peter Drucker, it was purely focused on putting the customer first, a purely customer orientation in the current terms. It did not give any guidance as which customer to put first and how to serve

(Gilligan and Wilson, 2003). In the meantime, due continuously evolving customer needs, continuous research on these needs and respond to them appropriately by broadening the concept of marketing into a detailed study on customer needs were required. This process of broadening the customer view is effectively what is meant by market orientation (Jaworski and Kohli, 1993, p.6). Formally market orientation is defined as follows:

“Market orientation is the organization wide *generation* of market intelligence pertaining to current and future customer needs, *dissemination* of the intelligence across departments, and organization wide *responsiveness* to it.”(Kohli and Jaworski, 1990)

It was further explained that in a company that follows market oriented strategy one or more departments work together to learn the customer needs and share with all the departments where various department engage to meet these identified customer needs Kohli and Jaworski, (1990). Further, (Narver and Slater, 1990) built upon above definition a behavioural content of market orientation. Based on their literature studies they conclude that orientation consists of three behavioural components customer orientation, competitor orientation, and inter-functional coordination. This broader view of market orientation is adopted by many and advocated for it like (Kotler and Armstrong, 2010) in their book they call for the companies to be market-oriented in the context that it balances the attention to both customers and competitors and build a customer relationship by delivering customer value than the competitor. They also highlight the importance of inter departmental coordination by calling the entire department in the organization to understand marketing and create value to customers. Despite the popularity of the these two seminal perspectives on market orientation, Market intelligence perspective put forward by Kohli and Jaworski, (1990) and Culturally based behavioural perspective of Narver and Slater, (1990), There are three more perspectives of market orientation found in the literature as summarized by Lafferty and Hult, (2001): Decision-making perspective put forward by Shapiro in an article of his in Harvard Business Review (Shapiro, 1988), Strategic perspective advocated by Ruekert, (1992) and Customer orientation perspective lead by Deshpande, Farley, and Webster, (1993). This study will use (Narver and Slater, 1990) definition of market orientation to be in concurrence with the adopted measurement that is based on the same definition.

Since the concept of market orientation surfaced there are numerous studies performed on this subject. However, more frequent studies are on the antecedents and consequences of market orientation business strategy and the measuring the market orientation. As there are many studies on both of these theme few of the important studies are highlighted in the following couple of paragraphs. As one of the pioneer market orientation consequences study, Narver and Slater, (1990) concluded from their study that market orientation is an important determinant of profitability for the business both the commodity and non-commodity. Another study by Jaworski and Kohli, (1993) combined antecedent and consequences of market orientation. They identified that Top management emphasis, inter-departmental connectedness, and reward systems as important determinants of market orientation and centralized decision-making act as a barrier to it. They also concluded that higher business performance require a stronger

market orientation. However, they failed to highlight how market orientation can be supported from an information and analytical perspective or how the intelligence is generated, disseminated and analysed. Another study by Langerak, Hultink, and Robben (2004) confirmed the market orientation's effect on new product launch/ performance and organization's performance via product launch. Castro, Armario, and Río (2005) explored the effect of market orientation on employees and customers of a business and found a relationship between those. On the measuring of the market orientation Farrell and Oczkowski (1997) criticized the adoption of MKTOR measure developed by Naver and Slater and MAKROR developed by Kohli and Jaworski blindly by many researchers where they found that both the measures in their original form to be inadequate, with poor empirical fit, and proposed a refined scales based on fewer measurement items. Conversely, Gauzente (1999) concluded that both measurements have its specialties, while MARKOR centered on the organizational aspects of market orientation and MKTOR on the customer dimension, thus, researchers need to analyze their research need and select the appropriate measurement. In a recent study Eva Tomášková (2009) went through almost all the measurements used in the studies and concluded that in no measure capture the market orientation as a whole and propose a new method covering all the aspect that included external environment analysis, branch environment analysis and internal environment analysis. Due to the nature of this study, it has adopted one of the simplest forms to measure market orientation that will be detailed in methodology section under measurements.

### Strategic Management Accounting Concept and Evolution

Although there were many discussions on the requirement to enhance the management accounting concept to suit the ever growing competitive environment, the formal name of Strategic Management Accounting with a definition was first given by Simmonds (1981). According to him, SMA is:

“The provision and analysis of management accounting data about a business and its competitors for use in developing and monitoring the business strategy” (Simmonds, 1981,p.26).

Expanding upon the definition of Simmonds, Bromwich put forth the following definition covering market, competitors and emphasizing on the long term as a working definition of SMA:

“The provision and analysis of financial information on the firm's product markets and competitors' costs and cost structures and the monitoring of the enterprise's strategies and those of its competitors in these markets over a number of periods” (Bromwich, 1990,p.6).

The leading Management Accounting institute in United Kingdom Chartered Institute of Management Accountants (CIMA) define the SMA as follows:

“The provision and analysis of management accounting data relating to business strategy: particularly the relative levels and trends in real costs and prices, volumes, market share, cash flow and the demands on a firm's total resources”.(Collier and Gregory, 1995, p.18)

However, there is still no consensus on what is Strategic management is. ROSLENDER and HART (2002) identified in

their work, three different meaning given to the SMA in the literatures. Firstly, strategic management accounting is used to refer to the totality of developments within the “new” management accounting, as a synonym for accounting for strategic positioning. Secondly, it refers to the attempts to bring together the strategy literature and management accounting as strategic management accounting. Finally, refer to the provision of accounting information to management building on Simmonds and Bromwich's seminal work. Nevertheless, advocating of integration of marketing management to the SMA rather than strategy, Roslender and Hart add another meaning to the SMA. In addition to non-availability of consensus on management accounting definition in SMA literatures, there is also lack of a generally accepted conceptual model.

However, Cadez and Guilding (2007) identified main three themes in developing a framework for SMA: Partial Theme, Normative Theme, and Positive Theme. The Partial theme is based on the seminal studies of SMAs that focused on a particular SMA technique in the name of SMA mostly using case study methods, such as strategic pricing (Simmonds, 1982). The Normative theme is based on the background of building a strategic management normative theory that calls the management accountant to develop practices to support the strategic objective in order to increase their role in strategic management such as the study of Brouthers and Roozen (1999). These researchers used broad conceptual models with rationale justification. The Positive theme is based on examining strategic orientation of management accounting practices to provide an SMA framework such as the studies of (Guilding, Cravens, and Tayles, 2000; Roslender and Hart, 2003). This study is following the Positive Theme.

As for the evolution of the SMA, at the time when the conventional management accounting practices started receiving much criticism such as the one by Kaplan (1984) as it was failing to address the change in the business environment and all its practices were internally oriented, Simmonds put forward the externally oriented strategic management accounting concept arguing that the potential role of management accountants in analysis of external environment such as competitor analysis (Cadez and Guilding, 2008). Following this Bromwich (1990) expanded Simmonds notion of external orientation and included collecting information on customers, products, and markets. In the meantime, Shank and Govindarajan (1992) came up with the notion of an externally oriented long-term focused costing in the name of “strategic cost management.”. Subsequently, Roslender and Hart (2002) initiated their studies on commonness between SMA and marketing to put forward SMA as an attempt in integrating management accounting and marketing management within a strategic management framework. Lately, SMA was analysed as mediator and moderator for the performance such as Mediating Role of Strategic Management Accounting in Managers performance by Zenita, Sari, Anugerah, and Said (2015) and SMA use mediates the relationship between hotel property market orientation business strategy use and hotel property financial performance (Turner et al., 2017).

### Hypothesis Development

Market orientation strategy found to be an important construct of a modern business. An old Study by Hooley and Lynch

(1985) that discovered that top performers (High Fliers) concluded that these top performers in the corporate world found to be much market-oriented using market research to a great extent compared to other normal performers (Rans). In the 1990s itself, it was advocated by Narver and Slater (1990) that market orientation is crucial for Strategy & management and Jaworski and Kohli (1993) concluded that market orientation's consequence to the judgemental business performance. Following in these footsteps, a recent study has concluded that Market orientation business strategy's standard indirect positive effect as well as a positive effect through customer performance on the hotel property's financial performance (Turner et al., 2017). As the Qatar market is a very competitive one and market orientation strategy is expected to be crucial for business survival in this country it is hypothesized that:

### **H1. Companies in Qatar adopt Market-Oriented Business Strategy**

It is noted that via various factors such as strategy, company size Cadez and Guilding (2008) found the SMA usage in Slovenian companies. Another study by Turner et al. (2017) whom developed their study based on Cadez and Guilding also found the usage of SMA in the hotel industry. Further, Oboh and Ajibolade (2017) found that SMA usage in Nigerian banks is adopted on an operational basis not based on the concept. Despite some criticism over the SMA concept adoption and usage (eg: Juras, 2014; Roslender and Hart, 2010) it is noted that the countrywide studies indicating an acceptable usage of SMA techniques. For Example a study based in Romania confirmed the adoption of the SMA concept in Romania (Al Maryani and Sadik, 2012). Another study of three countries concluded that although most of SMA practices are not widely used there are widely used practices as well such as competitor accounting and strategic pricing (Guilding et al., 2000). Further, a study based on Croatia found that the Croatian firms have implemented one or more sophisticated method of strategic management accounting within recent five years from their study (Ramljak and Rogošić, 2012). In addition, a study based on Jordanian listed entities as well found the usage of SMA in these companies (Al-Mawali, 2015). Based on these research results since this study also focuses on a particular country it hypothesizes that:

### **H2. Companies in Qatar use Strategic Management Accounting Techniques**

Studying the literatures on market orientation and SMA provides an indication to the researcher that many common aspects of both concepts, especially focus of external orientation in the form of product, customer and competitor between both the concepts. It is also evident that both the concepts are evolved in the similar period of time. However, despite the suggestion of Bromwich to structure the organization in a manner that Finance can work closely with functions with market-oriented concerns (Bromwich, 1990), it was Roslender, Hart, & Ghosh (1998) considered as one of the first to advocate the close relationship between marketing management and Strategic management accounting in the literatures. Yet, their studies were mainly focused on interdepartmental relationship and the focus of broader concept of marketing management as a whole. Consequently, there were many studies carried out connecting the

management accounting techniques to the Market orientation to the extent that Inglis (2008) coined an accounting term in the name of Market-Oriented Accounting (MOA) reflecting on this commonness. When it comes to testing the relationship between Market Orientation and SMA usage, mixed results can be seen. In their study Cadez and Guilding (2008) could not find any quantitative support for this relationship. However, the interviews gave them a mixed reaction allowing them to suggest not discounting it. In the meantime, in their recent study of hotel industry Turner et al. (2017) concluded that market orientation business strategy had a positive direct effect on hotel property SMA use. As Cadez and Guilding study is almost a decade old and a recent study has confirmed the positive effect of Market-oriented strategy to SMA usage this study hypothesizes:

### **H3. Market Orientation Strategy of companies in Qatar cause positive direct effect on SMA technique Usage**

## **MATERIALS AND METHODS**

### **Sample and data collection**

The Sample for this study was selected from the database of management accountants working and living in Qatar. Based on the table of (Krejcie and Morgan, 1970), 70 management accountants from a database of 85 who had registered with Qatar branch of CIMA were selected by random sampling method using Rand() function of Microsoft Excel. The data were collected using online questionnaire. The questionnaire was circulated to all the selected 70 samples, and the effective response was only 30 making the response rate of 42.86%.

### **Measurement**

Market Orientation was measured by using the four questionnaires below that is developed by (Guilding and McManus, 2002) in their study with a minor change in the Likert scaling. This study uses five-point Likert Scaling as opposed to the Seven point Likert Scaling used by (Guilding and McManus, 2002). The questionnaire participants were asked to what extent you agree with the following statements related to your company? Likert scale that ranged from "1" (Strongly Disagree) to "5" (Strongly Agree).

- My company has a strong understanding of our customers,
- The functions in my company work closely together to create superior value for our customers,
- Management in my organisation thinks in terms of serving the needs and wants of well-defined markets chosen for their long-term growth and profit potential for the company, and;
- My company has a strong market orientation.

Due to changes made in the scaling to check the reliability and validity of the measure a factor analysis and reliability analysis was performed using SPSS. Factor Analysis used the components factor analysis and results indicated that one factor with an eigenvalue greater than one (2.66) and explained 66.6% of variances. The factor loadings for each item were .800, .744, .813, and .898. The reliability test indicated a Cronbach's alpha of 0.830 for four items, very close to the one reported by Guilding and McManus (2002).

The results indicated that the measure is reliable and valid to use. Usage of SMA was tested by many previous studies, some tested using 12 techniques (See Guilding et al., 2000) some others using 16 techniques. The recent study by Turner et al. (2017) used 9 techniques. As Cadez and Guilding (2008) mentions there is no definitive listing of SMA techniques and debate is still continuing. However, this research has taken 10 techniques from two previous studies by Cadez and Guilding (2008) and Turner et al. (2017) those have a direct link to marketing. The participants of the questionnaire were asked, over the last twelve months to what extent they have used the selected ten management accounting techniques providing a Likert scale ranging from "1" (Never) to "5" ( Very Often ) .The reliability test for all 10 techniques indicated a Cronbach's alpha of 0.776. The Appendix A of this study provides the list of SMA techniques used in this study with a brief definition.

## DISCUSSION OF RESULTS

Data analysis of this study was performed using IBM SPSS 20 package and Microsoft Excel 2016. The respondents of the questionnaire consisted of 26 (86.7%) Male and 4 (13.3%) females. The gender disparity is normal in management accounting profession in Qatar where the total subscribed female members are less than 10%. As for the age range of the respondents, 24 respondents (80%) were less than 40 years old and 6 respondents (20%) were above 41 years old. From the total 30 respondents, 66.67% (20 respondents) were fully qualified members of CIMA-UK out of that 2 respondents are Fellowship holders from the institute. Only 10 respondents are yet to qualify. However, 6 of the 10 respondents had already obtained their Diploma/ Advance diploma in management accounting from the institute.

Thus, this sample provides a very knowledgeable sample on this research subject. As for the Experience of the participants, only one participant had an experience that is less than 3 years. More than half the participants had an experience above 9 years (53.33%) adding more validity to the results obtained from this study. In addition, all the respondents' employment level was above executive level and 50% of them are above managerial level increasing the value of the responses. The overall mean of market orientation is 3.98 indicating a significant overall market orientation strategy followed by the companies in Qatar. Even the individual component of the market orientation measure was around the mean of 4 showing a considerable strong market orientation strategy followed by companies in Qatar in all the aspects of market orientation.

This result confirms the hypothesis H1 that Companies in Qatar adopt Market-Oriented Business Strategy. These results are in line with the claim that during the past few years, organizations have embraced a market orientation concept and its purported benefits (Kumar, Jones, Venkatesan, and Leone, 2011). The overall mean of SMA adoption is 2.35 indicating a rare overall adoption of SMA techniques among companies in Qatar. However, detailed analyses by each technique indicate that some techniques are adopted more than other. The mostly adopted management accounting technique was integrated performance measurement with a mean of above 3. And the lowest adoption was for both Valuation of customers as assets and Brand valuation with a mean of 1.92. The table below provides the mean results of each SMA technique testes:

**Table 1. Usage of SMA Techniques in Qatar**

| SMA Technique                            | Rank | Mean |
|--|------|------|
| Integrated performance measurement       | 1    | 3.10 |
| Customer profitability analysis          | 2    | 2.87 |
| Strategic pricing                        | 3    | 2.60 |
| Strategic costing                        | 4    | 2.50 |
| Competitor performance appraisal         | 5    | 2.23 |
| Attribute costing                        | 6    | 2.13 |
| Competitor cost assessment               | 7    | 2.07 |
| Lifetime customer profitability analysis | 8    | 2.03 |
| Valuation of customers as assets         | 9    | 2.00 |
| Brand valuation                          | 10   | 1.97 |

Based on the above the second hypothesis H2. Companies in Qatar use Strategic Management Accounting Techniques can be confirmed. However, it may need to be mentioned at a basic level or low level adoption as categorized by Cinquini and Tenucci (2007). This outcome confirms with the finding of Cinquini and Tenucci, 2007) and is consistent with many other empirical studies based on countries such as Croatia (See Ramljak and Rogošić, 2012), Romania (See Al Maryani and Sadik, 2012) and to some extent Nigeria (See Oboh and Ajibolade, 2017).

As for testing the hypothesis of H3, Market Orientation Strategy of companies in Qatar cause a positive direct effect on SMA technique usage, a regression analysis was performed using SMA technique as a dependent variable and market orientation as an independent variable. As depicted in the table below the results indicated a correlation of 0.468 and R Square of 0.219 at a significant level of 0.009. The results show a very weak relationship between both concepts in Qatar. Therefore, we have to infer that although the results are in confirmation with the result of Turner et al. (2017) and Pavlatos (2015), we need to consider this as a partial confirmation and at this juncture we cannot discount the empirical evidence found by Cadez and Guilding (2008) that did not find any significant association between market orientation business strategy and SMA usage.

## Model Summary

**Table 2. Market Orientation and Usage of SMA Regression Model**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .468 <sup>a</sup> | .219     | .191              | .63013                     |

a. Predictors: (Constant), MKTOR

## Conclusion

Based on the findings it can be concluded that in Qatar companies are following highly market-oriented strategy. However, the usage of Strategic management accounting techniques is very low to support this strategy thus having a very moderate relationship between both concepts in the country. This conclusion should be taken into consideration of the general limitations associated with the study such as time constraints. Further, it also should note that the list of marketing related SMA techniques are selected by the author based on previous studies using his expertizes and there is no definite agreed list of techniques available till date.

In addition, when generalizing care should be taken as the sample of this study only consists of management accountant of CIMA-UK. There is a high possibility that the SMA

techniques are used by financial professionals other than management accountants. This study provides an indication to the managers on the availability of techniques that can be used for their market orientated strategy especially when they have management accountants working with them who have good technical knowledge of these techniques. Future research can be performed by widening the population of the study to listed entities or entities based on their size. Further, this study can be expanded to identify the other factors and relationships between these two concepts. More importantly, there can be a study performed to identify how the companies are managing market orientation strategy using information source and techniques other than SMA techniques to continue their market orientation strategy successfully.

## Appendix A – Strategic Management Accounting Techniques

**Part 1:** Adopted from (Turner et al., 2017)

1. Customer profitability analysis (involves calculating profit earned from a specific customer or customer segment. The profit calculation is based on costs and sales that can be traced to a specific customer or to a specific customer segment).
2. Strategic pricing (the analysis of strategic factors in the pricing decision process. These factors may include: competitor price reaction, elasticity, market growth, economies of scale, and experience).
3. Integrated performance measurement (a measurement system which focuses typically on acquiring performance knowledge based on customer requirements and may encompass non-financial measures. This measure involves departments monitoring those factors which are critical to securing customer satisfaction).
4. Competitor performance appraisal (the numerical analysis of a competitor's published statements as a part of an assessment of a competitor's key sources of competitive advantage).
5. Attribute costing (the costing of specific product attributes that appeal to customers. Attributes that may be costed include: operating performance variables, and after sales service).
6. Strategic costing (the use of cost data based on strategic and marketing information to develop and identify superior strategies that will produce a sustainable competitive advantage).
7. Competitor cost assessment (the provision of regularly scheduled updated estimates of competitor's unit cost).

**Part 2 :** Adopted from (Cadez and Guilding, 2008)

8. Valuation of customers as assets (The technique refers to the calculation of the value of customers to the company. For example, this could be undertaken by computing the present value of all future profit streams attributable to a particular customer.)
9. Lifetime customer profitability analysis (This involves extending the time horizon for customer profitability analysis to include future years. The practice focuses on all anticipated future revenue streams and costs involved in servicing a particular customer.)
10. Brand valuation (The financial valuation of a brand through the assessment of brand strength factors such as:

leadership, stability, market, internationality, trend, support, and protection combined with historical brand profits.)

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