NATURE AND SOURCES OF THE COMPETITIVE ADVANTAGE OF THE COMPANIES

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Abstract: *Globalization and the economic changes have recently caused new challenges for the companies, industries and countries. The popularity of the concept of competitiveness is shown by the high national interest for this aspect, similar to the policies by which the government's aim to enhance the competitiveness of the national industry. The present paper aims to answer several questions regarding the analysis and measuring of competitiveness at the company level. Making a connection between the concepts of internationalization, performance and company competitiveness, one can build a conceptual framework to analyse the different dimensions of the competitiveness. The analyses of the ways to develop the competitive advantage of the companies can be done in terms of the resources. The competitive advantage of the companies relies on their capacity of accumulate, exploit, combine anew and innovate the set of resources specific to the company, similar to the transfer of these resources into its expanded network.*

Keywords: *competitiveness, competitive advantage, internationalization, company.*
JEL Cassification: *D24, L20.*

1. Introduction

The literature has many concepts of competitiveness. Competitiveness can be treated as dependent, intermediary or independent variable, function of the analytical perspective (Man et al., 2002). On the other hand, competitiveness refers to different aspects of the competitiveness at a certain moment (for instance, in terms of the comparative advantage, the strategic and administrative perspective, as well as the historic and socio-cultural perspective). Competitiveness is a concept whose study and measuring focused on various levels of analysis: the individual level for company competitiveness, the microeconomic level for industry competitiveness and the macroeconomic level for country competitiveness (Nelson, 1992). At the company level, competitiveness is defined as the capacity of a company to design, produce and market products and services with better characteristics (Rugman et al., 2001) than those provided by the competitors (Ambastha şi Momaya, 2004) within a global market economy in which the goods, services, people, abilities and ideas circulate freely across the national borders (Chao-Hung şi Li-Chang, 2010). A company is competitive if it can produce and deliver products and services with a better quality and at lower costs than its national and international competitors.

2. Competitiveness and the competitive advantage

The notion of *competitiveness* reminds the notion of competitive advantage. According to the consolidated broad visions of the competitive process, the performance of a company is influenced by the competitive advantage. On the other hand, the nature of such advantage will result in one or more specific sources of competitive advantage, which the company controls.

The notion of *competitive advantage* is the focus of strategic management studies (Porter, 1985; Ghemawat, 1986), reminding of comparison and rivalry. A competitive advantage refers to the position of superiority, within an industry in which the company developed, compared to its competitors. The level of competitiveness of the company shows its ability to design, produce and sell better products than those of the competitors, the superiority being evaluated in terms of price, quality or technological advance.

Competitiveness can be considered at various level of aggregation: company, industry and country. The company analytical level regards the behaviour and performance of companies. Competitiveness is often analysed at the level of the industry or of the group, by comparing it with the same industry from another region or country open to trade. Behind the factors specific to the company and to the industry, globalization has recently stressed the importance of the country effects on the performance. The depletion of resources, the cost of labour and of production, the financial and technological infrastructure, the access to the markets and the institutional framework are examples of country-specific factors which determine company performance. The different dimensions of the competitiveness are strongly related: for instance, the competitiveness factors of a particular country are determinant for the international competitiveness of the companies. On the other hand, the most important aspect for the international competitiveness of a country is the competitiveness of its companies compared to the companies from another country.

Relying on comparison, competitiveness is a relative concept, meaning that the criteria and variables used to measure this construction cannot be applied irrespectively of the specific time and spatial conditions. At the company level, profitability, costs, productivity and the market share represent indicators of competitiveness. Generally, competitiveness is considered to be synonymous with success. Hence, the performance should be measured in terms which show the way in which a company manages the critical factors of its success (Ferguson şi Dickson, 1982). Today, beyond the financial or market indicators, the measures of competitiveness also include variables such as innovation, quality, as well as social variables such as ethnic framework, responsibility and the labour conditions of the workers.

The analyses of the sources of variation in the performance of a company represent a key-problem both in the studies of strategic management, and at the level of industrial organisation. Basically, there are at least two points of view regarding the origin of the competitive advantage of the company. On the one hand, the industrial organisation relies on the influence of the determinants of an industry on the performance of the companies, with a particular stress in the importance of factors such as focusing, barriers to entry, barriers to exit, economies of scale. According to Porter (Porter, 1980), the competition within an industry is defined by five structural parameters: current competition within the industry, power of negotiation of the buyers and providers, threat of the new players and threat of substituting the products and services. Therefore, the evolution of an industry depends on the strategic choices of a company.

On the other hand, the vision based on resources appeared as dominant paradigm within the study of the strategic management during the 90s. According to this perspective, the competitive advantage of a company derives from those resources which coincide with the specific conditions such as value, heterogeneity, rarity, durability and imperfect mobility. Different classifications of the resources of a company have been developed in the literature and they have generally made the distinction between the tangible and intangible resources. The perspective relying on the capacity of the competitive advantage of a company derives from its capacities and competencies, which reflect a more dynamic vision of the competition, focusing rather on the processes of company business than on its assets or resources seen from a static point of view. In the broad way, this perspective comprehends all the researches which studies concepts such as distinctive capacities, organisational capacities, basic capacities and dynamic capacities.

3. Company competitiveness – organised framework

To develop a systematic analysis of the research, one can use an organised framework which sets the main ideas of the literature in a 2 by 2 matrix (Table no. 1).

Table no. 1. Analysis of competitiveness

		Dynamic	**Static**
Nature of competitiveness	Leader	Vision based on competencies	Vision based on resources
	Result	Trend of profitability, market and other indicators	Financial relations, market share and other non-financial parameters

Source: processing by the author

The vertical dimension refers to the way in which competitiveness is perceived. Competitiveness can be seen as a dependent or independent variable: the first approach sees competitiveness as indispensable factor of company performances, while the second sees competitiveness as result of the competitive advantage of the company. In other words, the distinction can be seen as the difference between „ex ante” competitiveness and „ex post” competitiveness. The horizontal dimension distinguishes the study of competitiveness in static terms versus the dynamic analysis.

The vision of *leader competitiveness* includes all the contributions about the sources of the competitive advantage of a company. The main classifications of the sources of company competitiveness distinguish between the internal, company, sources and external sources, such as industry or country factors.

The ***internal sources*** can be classified in *tangible* and *intangible* sources, directed towards the employees or towards the company:

- The intangible internal sources of the company include organisational and transformational resources and exit-based capacities, as well as the company knowledge as a whole;

- The intangible internal sources related to the employees include company strategies, the human resources, the managerial capacities and the knowledge of the individuals;

- The intangible internal sources related to the company include entry-based physical and financial resources and operational capacities.

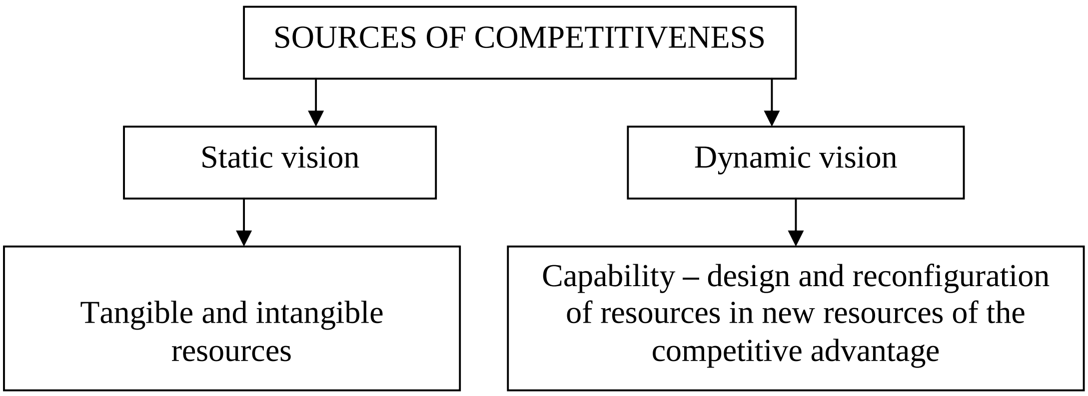

Figure no. 1. Sources of company competitiveness

Source: processing by the author

The ***external sources*** based on industry include all the variables related to the structure and competition of the industry:

- Low power of the providers and buyers;
- Very low competition among the companies within a particular industry;
- Low threat of substitution and of new players entering the market.

The internal sources of the competitive advantage can be seen both statically and dynamically: the first view concerns the underlying resources and assets of company competitiveness, while the second concerns the process of management which transforms these assets so as to achieve the desired performance. Specifically, the dynamic capacities are those which transform resources into new resources of competitive advantage, being processes which aid the companies to reconfigure their resources and to generate new, innovative forms of the competitive advantage (Teece, Pisano and Shuen, 1997) (Figure no. 1).

The distinction between the dynamic and static approach can be understood referring to the distinction between the competitive advantage seen in terms of company position within the industry and the competitive advantage seen in terms of company actions and abilities to work more efficiently than its competitors.

The position of the company within the industry can be defined in various ways which remind the relation between the company and the main competitive forces such as the consumers, providers, competitors and others, such as the shareholders and the governments (for instance, a better access or detailed control of the results and factors of production, or in relation with the providers). Assets such as brand reputation and client loyalty are related to the interaction between the companies and their clients. The network resources involve the relation between the partners and a better access to the channels of distribution which concern company position or the distributors.

Competitiveness as effect. Market performance or the economic superiority are generally regarded as indicators of the competitive advantage. Profitability is reckoned as the most important measure of the competitive success. The short-term economic performance can be measured by the rates of profitability. The costs and productivity are good signs of the competitiveness, particularly in the case in which the industry is characterized by homogenous products.

The non-performing financial indicators can be: the market share, the proportion of client loyalty, the proportion of distributors loyalty or employee yield (for instance, the market share can be an indicator of competitiveness only if the company sacrifices profits in order to adjust the market share to its benefit). The factors which affect this construction vary from one company to another, from one industry to another. Furthermore, the indicators cannot rely on a single period of measuring, as competitiveness is a time-dependent construction.

However, if we look at the performance indicators, we can male an idea about the past and present competitiveness, but we cannot fully evaluate whether, and how much, will the company be competitive in the future. Actually, even though the past performance shows a competitive advantage, it doesn’t supply enough information on the sustainability of those advantages. Hence, we need to use a higher number of indicators related to the expected competitiveness of a company.

4. Clarification of the concept of international competitiveness

The international competitiveness of a company can differ from its national competitiveness. A company can be profitable in its country, with a high share of the domestic market, but can have a low international competitiveness, if the domestic market is protected by barriers to the international trade. Thus, the competitiveness of that company would be compromised if the domestic market were to open to trade. Furthermore, some companies may sacrifice their competitiveness on the domestic market in order to penetrate better on foreign markets. The export market share is frequently used as measure of the international performance of a company. Such measure, however, is not satisfactory if the market share is maintained by significant reduction of the price, therefore by a lower profitability. Therefore, the increase of foreign sales is done to the detriment of profitability and perspective of competitiveness. In order to analyse the international competitiveness of a company, distinction has to be made between internationalization and international competitiveness (Porter, 1990).

The *international competitiveness* is a broader construction than the level of internationalization. A higher level of internationalization, in terms of foreign sales, cannot capture fully the foreign competitiveness of a company if such information cannot be integrated with data on the way in which the foreign expansion affects the productivity of a company and the factors that drive it. In other words, the level of internationalization expresses the presence abroad of a company, while competitiveness refers to the way in which this presence is acquired and sustained. Buckley et al. (1990) propose an analytical framework for the international competitiveness based on three groups of variables: performance, potential competitiveness and process management competitiveness. He says that the performance measures "provide a historical perspective and are all characterized by their incapacity to provide perspectives for the sustainability of this performance". The economic and market performance achieved by a company within its processes of internationalization derive from the past choices and from initiatives, but don't allow a full evaluation of its capacity to preserve and regenerate performance in time. Therefore, it is necessary to focus not just on the performance, but also on the conceived competitive potential and on the capacity of a company to preserve and renew its sources of competitive advantage. Performance is thus related to the past and to the present competitiveness, while the competitive potential is related to the future of company competitiveness.

Beyond the performance and competitive potential, the analysis of company competitiveness should also consider a third group of variables regarding the management processes of the company, i.e. the management practices and the mechanisms and systems of organisation. Such an analysis explains how the competitive potential can transform into positive performance. Buckley shows that "when the statistics were used to show, for instance, that the enterprises behave better on the market than their competitors and that they have generated and sustained a more competitive potential, the qualitative information acquired from investigating the management processes help explaining the reasons for success". The Buckley pattern has been substantially validated by several empirical researches based on the analysis of the most relevant factors of company competitiveness, as perceived by the managers.

Performance can be regarded as „ex post" competitiveness, while the competitive potential is „ex ante" competitiveness, the competitive position that might be achieved in the future. The relation between the competitive potential (prospective competitive position) and the actual potential (competitive position) is the competitive strategy, which comprehends options, behaviours and processes which facilitate the transition from the competitive potential to the competitive position.

Expanding and reviewing Buckley's classification (Buckely et al.,1990), and relying on the distinction between ex-ante and ex-post, one sees that the analysis of company competitiveness should be divided into three different, yet resembling, aspects (Figure no. 2):

- Nature and sources of competitive advantage of the companies (ex-ante competitiveness and potential competitiveness);
- Level of internationalization, which shows how much, is the company present in the international competition;
- Company market and economic performance on foreign markets (ex-post competitiveness).

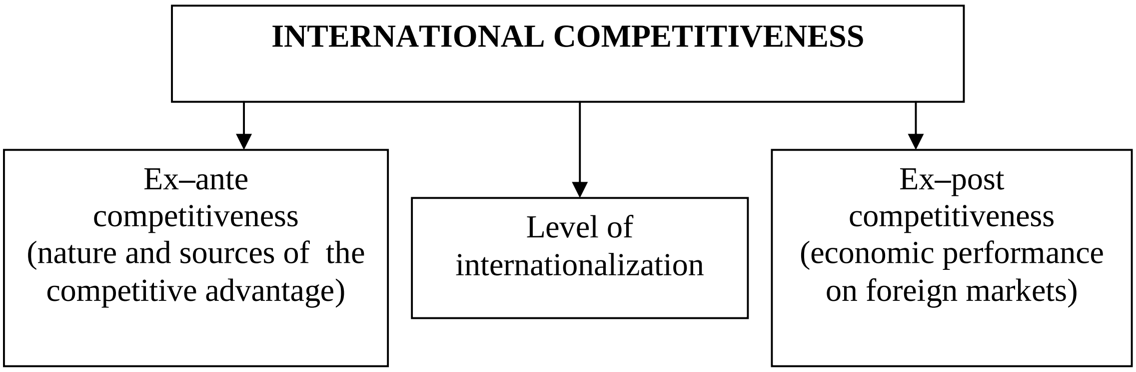

Figure no. 2. International competitiveness

Source: processing by the author

5. Relation between performance and the level of company internationalization

Measuring the level of internationalization and the relation between the level of internationalization and performance, are key-elements in the international business research. Many empirical researches explored the relation between performance and the level of internationalization. There are many dimensions of internationalization. Typically, the single dimension measures the rate of foreign sales within the total sales, the proportion of foreign employees and the number of countries in which the company operates. Specifically, the rate of foreign sales within the total sales is a common measure of internationalization that focuses on the impact of internationalization on company performance. Other measures of internationalization can be: the geographical range, foreign resources, foreign production within the total production, number of international partners, international mergers and foreign acquisitions and financing.

Hassel says that company internationalization doesn’t take place in the production area, but that there is a governmental corporate dimension of internationalization which focuses on the proper types of investors (Hassel et al., 2003). Hence, internationalization must be evaluated rather in financial than in real terms, determining the extent to which a company gets international or finances its own structure, achieving a closer relation with the international investors. Hassel identifies three such measures of financial internationalization:

- Foreign owners as percentage of total owners;

- Number of listings on the foreign financial exchange, showing the signal that the company aims to draw in foreign investors;

- Adoption of international accounting standards other than the simple accounting standards derived from the national laws; this type indicator shows the need of the company to communicate efficiently with the international investors.

The relation between internationalization and performance is not linear, rather a curve: thus, studies suggest that the geographical expansion will increase company performance up to a point, after which the joint action of the costs and of the higher complexity associated to the international organisation will exceed the benefits of the international growth.

Lu and Beamish (2004) show that a company is confronted with the weakness of going abroad: during the early stages of internationalization – when the companies start the foreign direct investments – profitability decreases, but the level of the foreign direct investments is associated to high performance.

The international companies are more complex organisations than the companies which operate within a company and which suffer of the lack of adequate management capacities. The governance costs and the difficulties associated to geographically dispersed activities may affect adversely the performance of the international companies. A newly-established company has a handicap which reduces its competitiveness compared to a company that is already established on the local market. Other problems come from the cultural diversity and from the difficulties to transfer non-corporeal assets in various countries.

6. Conclusions

The competitive advantage shows how much a company makes profit, either by low operational costs, by quality, by its capacity for fast and timely delivery, or by adaptability to market demands. This parameter can transform into sustainable competitive advantage for the company when this performance ensures a long-term top position in its field of activity.

Competition is associated to the competitive advantage. The competitive advantage is the ability of the company to perform better than its competitors in terms of profitability.

The competitive advantage results from the added value that a company can create, above the incurred costs, value which the company offers to the potential buyer at a lower price than its competitors (or at equal or even higher price, but with higher quantitative or qualitative benefits). In other words, there are two types of competitive advantage: of price and of higher quality/larger amount.

The most important factor which determines company profitability is the attractiveness of the sector in which it operates. Therefore, an essential element of any strategy of competitiveness is to identify and understand in detail the rules and practices which generate this attractiveness, and the final purpose of the competitiveness strategy is to use of modify these rules and practices in favour of the company.

Considering the above, in any industrial or services sector, the rules and practices mentioned above refer to the action of five competitive forces:

(i) Emergence of new competitors on the domestic and/or international market;
(ii) Threat from products of substitution (original or not);
(iii) Buyer’s power of negotiation;
(iv) Supplier’s force of negotiation;
(v) Rivalry between the competing companies.

Not all these factors act in all the industrial or services sectors, their action of inaction depending on the structural particularities of those sectors.

Thus, when new competitors come into the market, there are barriers to their entry, such as the possibility of obtaining scale economies, brand identity, capital requirements, access to the distribution networks, governmental policies in those fields, etc. The existence/threat of substituents depends mainly on the relative performance regarding the price of sale, and on the propensity of the buyers for products or services of substitution.

The force of negotiation of the suppliers of goods and services depends on the differentiation regarding the inputs (substitution inputs included), on the level of suppliers concentration, on the level of company integration in the specific sectors of production or services, etc. Finally, the elements which determine the buyer’s power of negotiation consist in the level of buyer concentration, in the volume of purchases, in the extent to which the buyers are informed about the trends on the markets for goods and services, in the price for the goods and services and how they are formed, in the quality/performance achievable by purchasing the particular goods/services, etc.

The five competitive forces and their determining elements which are the fundament of the strategies of company competitiveness are not immovable or rigid, however. This, such strategies can be different, under certain circumstances, depending on the sector of production or services in which the company operates. Each sector is unique and has a unique structure, and the group of five competitive forces give the companies the possibility to evaluate the complexity of their activity and, within this context, to pinpoint those factors which are critical in coping with the competition in their areas of activity.

In other words, this design can be the basis for drawing up a strategy which to enable the company to acquire competitive advantages on increasingly complex markets.

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