COMPANY'S LEVEL OF COMPETITIVENESS – RESULT OR DRIVER OF PERFORMANCE?

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ABSTRACT
Most of us believe that the most relevant indicator for measuring competitiveness should be a performance indicator, and from these performance indicators we generally choose for measuring a company's level of competitiveness the market share or an indicator that compares company's performance to the average performance of the industry in which that particular company operates. While it is true that competitiveness is a performance result and such an approach should be taken into account, we should also think about competitiveness in dynamics, which means present competitiveness is also a cause, a driver of future performance. This paper aims to look at both sides, from a dynamic perspective.

KEYWORDS: *competitiveness, competitive advantage, performance, dynamics, strategy*

Introduction

Measuring a company's competitiveness is not at all an easy task. However, a set of indicators should be used. Generally we consider that the most relevant indicator for measuring competitiveness should be a performance indicator (i.e. market share or an indicator that compares company's performance to the average performance of the industry in which that particular company operates.). The most difficult task here is not finding the right indicator, but finding competitiveness' role, as it is rather an effect, but it is also a cause.

We particularly regarded as a challenge the competitiveness dynamics, the fact that it is a game in which parts are gained by someone, other parts are gained by someone else. Strategies have to be dynamic, as there are many rapid and unpredictable changes in the external environment. It is clear that dynamic strategies require organizations to make coherent tradeoffs between the economic logic of low cost and differentiation as the main factors of strategy. However, dynamic competition challenges an organization to improve its game continuously and in many cases even to strive to rewrite the competition's rules (Carpenter and Sanders, 2007). Games theory can partly explain the most likely beneficial solutions, although the degree of uncertainty is high.

It is important to focus not only on performance (competitiveness as a "result"), but also on the competitive potential, the organization's ability to defend and renew its sources of competitive advantage (competitiveness as a "Driver of competitive advantage").

We must keep in mind that competitive potential does not necessarily turn into a great performance: it is quite possible that competitive potential never produce results or never produce **appropriate** results. Besides performance and competitive potential, competitive analysis for a company should take into account a third group of variables related to firm's management processes (management practices, organizational systems and mechanisms, etc.).

It is important to notice the other side, in which competitiveness is also a cause, a driver of performance. To understand better this distinction line, one can use a matrix organization framework, as shown below:

	Static Approach (assets/resources)	Dynamic Approach (processes)
Competitiveness – as a driver of performance	Resource-based perspective	Competence/capabilities-based perspective
Competitiveness – as a result of competitive advantage	Measuring performance: Returns, market share and several other non-financial parameters	Measuring performance: Profit trend, based on market trends and other indicators

Figure 1 Analysis of competitiveness (adapted after Depperu and Cerrato, 2005)

The columns refer to the competitiveness approach. Competitiveness can be approached as an independent variable or as a dependent one: in the former case, competitiveness is approached as a driver the company's performances, while in the latter case competitiveness is viewed as a result of the company's competitive advantages (cause and effect). The lines make the distinction between the types of approach in the competitiveness study, in terms of static versus dynamic analysis.

Competitiveness as a driver of performance

All research papers regarding the company's sources of competitive advantage are included in the perspective of "competitiveness as a driver of performance". The main clasification of a company's sources of competitiveness makes a distinction between the internal sources, such as the ones who are related to the company, and the external sources, which focus on the industry and country.

The internal (active) sources can be classified as tangible and intangible, as well as referring to the employees or to the company (Cater, 2005). **The internal tangible sources reffering to the company** include especially physical and financial resources. **The internal intangible sources reffering to the company** include mostly organizational resources, transformation capabilities and capability to obtain results (Lado, Boyd şi Wright, 1992), as well as the knowledge base of the company as a whole. **The internal intangible sources reffering to employers** include mostly the company's strategies and policies, human resources, managerial capabilities, and the knowledge base of the employees.

On the other hand, **external sources with respect to the industry** include all the variables related to the competition and industry structure, such as the weak negotiation ability of suppliers and customers, low rivalry in industry between the existing companies, as well as the newcomers and suppliers of substitute products (Porter, 1980).

Finally, **external sources with respect to the national economy** include all the variables which involve the characteristics of the national economy.

Internal sources of competitive advantage can be regarded from a static point of view, and also from a dynamic one. **The first approach, the static one,** concentrates on resources and assets as the base for a company's competitiveness. **The second approach, the dynamical one,** is about the leadership process through which these resources are transformed in order to achieve performance (this approach is considered to be the most appropiate from this paper's perspective).

Specifically, **the perspective based on competences** emphasizes the importance of the dynamical component of competitiveness. Given that the resources lie at the base of a company's capabilities, therefore the capabilities represent the way the companies use their resources. Specifically, the dynamic capabilities (Teece, Pisano şi Shuen, 1997) are those that transform the resources in new competitive advantage sources, and they are processes which allow the companies to achieve new resource configurations and generate new and innovative forms of competitive advantage.

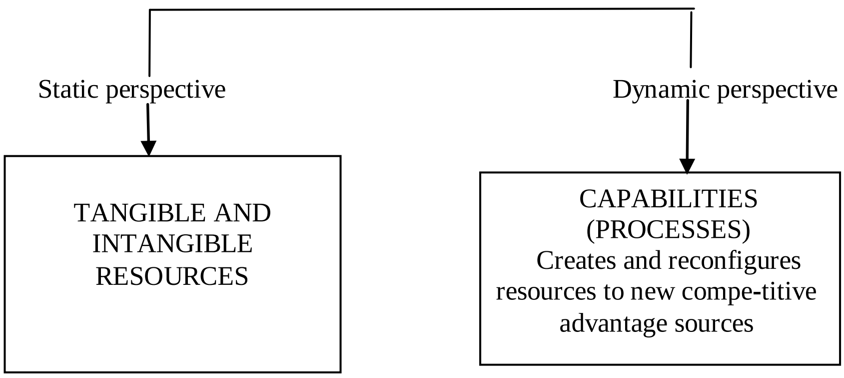

Figure 2 A company's competitiveness sources

The difference between a static approach and a dynamic one can be understood by referring to the difference between the competitive advantage as the company's position in the industry at one specific moment and the competitive advantage as the company's actions and abilities to work more effectively than its competitors. This distinction follows Ma's dichotomy (2000) (position and kinetic advantages): the advantage in position comes from the possesion of resources or from having easier access to them, while the kinetic advantage comes from the company's knowledge, expertise and competence or other capabilities.

Competitiveness as a result

The performance on the market or the economic performance (superior results) are generally considered to be indicators of competitive advantage. Profitability is considered to be the most important indicator of competitive success. The economic short-term performance can be measured through rates of return. The costs and productivity are competitiveness indicators, especially if the industry is characterized by homogeneous products. The non-financial performance indicators could be, for example, the market share, the percentage of regular customers or the percentage of regular suppliers, staff turnover. But one single performance factor is not necessarily a relevant competitiveness factor. For example, the market share can be an indicator of competitiveness, less if the company sacrifices its profits in order to achieve the desired market share without obtaining advantages as a result of such actions (usually, such an approach represents a strategic move; one such example is Cosmote on the Romanian market, which has successfully entered the market and has ensured its long term development potential by abandoning the short-term profitability).

Competitiveness can be considered a multidimensional structure, as it is measured by various variables. Factors that influence this structure are different from one company to another, as well as from industry to industry. Moreover, the indicators are relevant in measuring the competitiveness only for a limited period of time, because the competitiveness is a time-dependent structure. For example, the profitability concept is ambiguous, because the term implies using a period of time in which different indicators are to be taken into account. It can be short-term or long-term profitability. Generally, any indicator of a company's competitiveness shoud take into consideration a larger period of time. The dynamical analysis outlines the trends of the competitiveness indicators through time, and not for only short periods. Anyway, if we look at the performance indicators (whatever they may be), we can develop an idea of the past or present competitiveness, but we cannot fully estimate if and by how much the company will be competitive in the future. As a matter of fact, even if the past performances signal the presence of competitive advantage, generally they do not offer information regarding the stability of this advantage, thus making the analysis process harder.

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