THE ROLE OF THE PRIVATE SECTOR IN DEVELOPING AND SUPPORTING INTERNATIONAL COMPETITIVENESS

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Abstract: *In the actual context of economic globalization, the competitiveness has a crucial importance for all the countries. But due to which factors and to what extent takes place the creation and improvement of it? This paper traces the role of the private sector in creating and sustaining international competitiveness, it summarizes three determinants of international competitiveness (productivity, innovation and clusters) and traces their impact on it. The main argument of this paper is that these three determinants developed at the microeconomic level play an important role for country's competitiveness due to their creation as a result of quality activities which take place in firms. At the same time, they are goals for a firm in its pursue for high profits and efficiency.*

Keywords: international competitiveness; private sector; productivity; innovation; clusters.
JEL Classification: F00; O31.

INTRODUCTION

Globalization and regionalization have a great influence on international markets and competition, as firms' survival in the actual competitive environment supposes conceiving an economic climate that allows added value producing companies to become efficient and be capable to develop in the actual economic circumstances. The national and international context can be considered key factors for the development of competitive and comparative advantages, through the set of economic policies and productivity incentives targeting the climate needed for the microeconomic development in a defective competitive environment.

Within the more and more liberal and globalized economy, company and industry competitiveness supposes innovation and flexibility in order to overrun the challenges of the market circumstances. The continuous improvement of products, processes, technologies and organizations has thus become the leading factor supporting competitiveness in the globalized economy.

In the process of understanding and investigating competitiveness, challenges lie in the identification, measurement and analysis of the attributes of competitiveness. Although international competitiveness has not been clearly defined, its approaches involve the firm's productivity concept. Thus, these can only create and support competitive advantages. For this purpose, companies must admit the key role of innovation – as well as the fact that innovation is the

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result of pressure and challenges. Leadership is also essential for the development of a dynamic and provocative environment, and also for the avoidance of failures. The competitive advantage is the result of the leadership exploiting and enhancing the diamond forces in order to promote innovation and modernization.

Moreover, under conditions of uncertainty and rapid changes in the world economy, an understanding of the environments in order to assess and pursue strategies not only becomes crucial but also a major challenge.

1. THE FIRM'S PRODUCTIVITY - THE MAIN DETERMINANT OF COMPETITIVENESS

Paul Krugman's approach towards international competitiveness is very well known. In an article published in the *Foreign Affairs* (1994), he states that "Concerns regarding competitiveness are, as an empirical approach, nearly always completely groundless…the obsession of competitiveness is not only faulty, but also dangerous…the competitiveness thinking leads to disadvantageous economic policies regarding a set of problems". He considers that the development of the national living standards is basically determined by the productivity growth rate.

Michael Porter (Porter and Ketels, 2003), one of the most influential authors addressing the "competitive advantage" – of the firm, industry, nation, regions and cities – also suggests that the best gauge of competitiveness is productivity: Competitiveness remains an uncertain concept, despite of the widespread acceptance of its importance. In order to understand competitiveness, the departure point must be one nation's prosperity sources. The living standard of one nation is determined by the productivity of its economy, measured through the value of goods and services, produced by using one unit of natural, human and capital resources of the nation. Productivity depends both on the product and services values of one nation, evaluated through the prices that can be asked within open markets, as well as on the efficiency of their production process. Thus, real competitiveness is evaluated through productivity. Productivity allows one nation to offer high wages, a strong currency and capital attractive yields, and such, a high living standard.

But, in the beginning, one has to emphasize the fact that the productivity concept is far from being a simple concept. The standard productivity concept concerns the productive efficiency of a certain labour force that is labour productivity, evaluated in terms of output per work input. This is an aggregated notion and, as shown in figure 5, within national context, labour productivity is the result of a multitude of determinants. Many of these and the national assets also determine the

national employment rate. Together, productivity and employment rate are measures of what could be assigned as "competitiveness", and both are central parts of economic performance and of national prosperity (measured by GDP per capita), although there is little known about the basics of national attributes ("competitiveness source") they depend on (Dublin National Competitiveness Council, 2008). It would not be fair to describe a "competitive" country only by its productivity standards, as one country's productivity may significantly grow when firms localized there went through rationalizations and reductions, involving the closing-down of the less efficient factories and the redundancy of the less efficient workers. Such an induced productivity growth cannot be associated to one country's general output growth (or to any improvement of the competitive advantage), but to an unemployment growth, which could finally prove difficult to solve. In such cases, the reduction of the employment rate is a "negative" way of growing national productivity, contrasting the nations with high productivity and employment rate (Gardiner et al., 2004).

The living standard of one nation depends on the firm ability to reach high levels of productivity – and continuously improving them. The sustainable growth of productivity assumes that national economy self improves. Native companies must continuously improve their productivity by developing their products' quality, by adding new features, by improving technology or by higher production efficiency. They must develop the abilities assumed by the growing competition in the sophisticated industrial fields, where productivity is generally high. Finally, they must be able to compete in completely new and sophisticated industries (Aiginger, 2006).

International trade and foreign investments can grow national productivity or can affect it. Positive influence can be noticed as one nation's ability to specialize in those industries or industrial sectors in which native firms are more productive and import where firm's productivity is lower. There are countries where even native firms are uncompetitive despite of their high living standards. One must direct the available resources towards the most productive uses. The negative consequences result from countries taking international productivity tastes (Waheeduzzaman, 2011). One industry will lose if its productivity is not higher compared to the competition, calling thus off the advantages based on the native wages level. If one nation loses its ability to compete in high productivity or wages industries, then the living standard is threatened.

Defining national competitiveness by registering a trade surplus or a trade balance is inappropriate. Export growth as a result of low wages and a weak national currency, next to sophisticated goods import, only lead to the decline of the living standard, although there is a

balance or a trading surplus (Onsel el al., 2008). Competitiveness also does not mean only workplaces, but also their type and quality.

What is to be understood is the productivity determinants and the productivity growth rate. Analysis must be undertaken on the industries and industrial sectors. The fight for competitive advantages against foreign competitors in certain industries and sectors, where products and processes are developed and improved, is the one that motivates and underlies the growth of national productivity.

Carefully watched, competitive success emerges as the result of differences among national industries. Advantages focus only on certain industrial sectors. Thereby, analysis must focus on the decisive feature of one nation that allows native firms to create and sustain competitive advantages in certain domains – that is the competitive advantage of nations (Davies and Ellis, 2000). The main target is to determine the factors of international success in the sectors and technological industries and intensive skills industries that support a high growing level of productivity.

2. INNOVATION – THE PILLAR OF COMPETITIVENESS AND COMPETITIVE ADVANTAGE

Globalization has changed the process of research and development. Local knowledge clusters are not threatened merely by multinational companies, but also by small and medium developing enterprises. Global networks accelerate the technological evolution and demand new management concepts. Modern communication technologies create the global community, but clients become harder and harder to please and demand specific products, well localized, well set as a part of their actual activity. Integrated technology is needed in order to cope with these needs. The danger or engineering overload has not ever been as great as these days (Boutellier et al., 2008). The frequently asked question is not whether some new features are technologically feasible, but if the clients are willing to accept and pay for them.

Within the context of fast development and the spread of new knowledge, innovation becomes a more significant criterion for competitiveness. Companies must continuously innovate in order to avoid lagging behind. It does not really mean that they must push the technological barrier forward. Only the most developed companies act such (Nijkamp and Siedshlag, 2011). Though, all companies must be at least fast imitators and adopt, use and improve the new technology in order to keep up.

Globally, successful companies have adopted significantly different strategies. But, though each company develops its own strategy, the basic operating process – the feature and company trajectory - is the same.

Companies gain competitive advantages through innovation. They approach innovation in a widespread manner, which is technologies, and also new processes; they notice new bases of competition or discover innovative ways of competing the old way. Innovation can take shape of a new product design, a new production process, a new marketing approach or a new personnel training method. Most of the innovation processes are mundane and elementary, more dependent on the observation accumulation and progress, and not on a single discovery (Cho and Moon, 2000). Innovation often involves ideas that are not "new" – ideas that exist, but that have not been yet set into practice. Innovation also involves qualification and knowledge investments, but also in physical activities and brand notoriety. Some innovations create competitive advantages by discovering new market opportunities or by addressing a market sector that has been ignored by competitors (Hickman, 1992). When the competitors' reaction is slow, innovation leads to competitive advantages.

On the international markets, innovation that creates competitive advantage anticipates both national and foreign needs. On the other side, innovation that mainly reacts to national demand could delay the international competitive success.

Information plays an important role in the process of innovation and improvement – information that is not available for competitors or the one they are not searching for. Sometimes, information is gained through the simple investment in research & development or from market surveys; most frequently, it comes from significant efforts and from the openness or from looking the right way. Therefore, innovators are external individuals, from other industries or countries. Innovation can start from a new company, whose founder has a non traditional past or has not been appreciated at his old workplace; or he might come from an existing company due to the new arrived top managers, who are able to observe opportunities and try to use them; or it may come from the diversification of one company's activity, by attracting new resources and qualifications; or it may emerge from another country, with another economic situation or competing means (Momaya, 2011).

With few exceptions, innovation is the result of great effort. The company that succeeds in implementing a new or better competing method earnestly follows its interest, without taking critics or impediments into account. In fact, in order to succeed, innovation demands pressure, needs and even adversity; fear of loss is stronger that the hope to win (Boutellier et al., 2008). Since a

company has gained a competitive advantage based on innovation, it can keep it only by continuous improvement, as nearly any advantage can be copied. Inevitably, competitors will overtake any company that stops or decelerates the innovation and improvement process. Sometimes, advantages gained during the early stages of one company's activity, as customer relationship, scale economies or providers' loyalty, are sufficient enough for a clogging company to maintain its position for a longer time. But, sooner or later, more dynamic competitors will innovate, developing cheaper or more efficient production processes. Not the least, the only way to maintain a competitive advantage is by improving it – by developing more sophisticated types (Hussain and Ilyas, 2010).

There are two preceding conditions in order to maintain the competitive advantage. First, the company must adopt a global perspective of the strategy. It must sell its products on a global scale, under its own brand, through marketing channels it controls. A real global approach assumes that the company delocalizes its production or the research and development units in order to gain benefits from low wages, to gain or to improve its market access or to adopt foreign technologies. Second, creating more durable competitive advantages supposes giving up the actual competitive advantage, assigning it as old – even though it is still an advantage; if the company would not act such, the competitors will (Asheim and Gertler, 2005).

Implications for companies are represented by the fact that these must make more significant efforts in order to keep up with new technologies and new forms of business organizations, production and distribution networks (Hickman, 1992). This supposes more investment in the technological capacities in order to search, to purchase and adapt technologies to their needs and to manage the production and distribution systems. For companies that are highly technologized, it means that they must considerable effort towards real latter-day innovation in business and technology.

3. CLUSTERS - WAYS OF USING COMPETITIVE ADVANTAGE

The national diamond consists of the production factors, internal demand, related and providing industries and the organizational structure of the company and internal competition. These factors are in each country's possession. But the competitive advantage is based on the relation between and on the way they influence each other, creating specific conditions. These interrelations, as well as a series of external circumstances, determine the evolution of the national system. Amongst the external circumstances, Porter emphasizes the decisive role of the internal competition and the geographical concentration. Additionally, the author highlights and points the

role of clusters, consisting of unequal spread industries, but united through various relationships. The cluster concept is derived from the diamond theory and refers to the group of related companies and institutions that are associated in a similar field, geographically focused. If the existence of the four elements of the diamonds is important, it is expected for the clusters to develop, as their represent an efficient production structure where companies can operate (Pralea et al., 2006).

One of the systemic nature effects of Porter's diamond is that nations hold not just a single competitive industry; the diamond rather creates an environment that promotes competitive industry clusters. Competitive industries are not isolated; they are related through vertical bonds (seller-buyer) or horizontal (clients, technologies and common channels). Moreover, they are not dissipated, but geographically oriented. A competitive industry supports the development of another one through a mutual supported process. Once a cluster is created, the industries within support each other. Benefits are transmitted and capitalized at all levels, horizontally and vertically. The strong competition within an industry also influences the others industries in the cluster through products, negotiation power and diversification (Tiemstra, 1994). The entrance of other industries in the cluster hastens modernization by stimulating approach diversity within the process of research and development and by easing the introduction of new strategies and qualifications. Due to suppliers' or clients' behaviour, who have also accounted other competitors, information spreads and information is quickly transmitted. The interrelations within the cluster, mostly unanticipated, lead to noticing new opportunities or new competing methods (Kärkkäinen, 2008). Thus, clusters became a vehicle used to maintain diversity, supporting the overrunning of inflexibility and convenience that might emerge in the competing environment, phenomena that decelerate or stop innovation and competitive modernization.

In other words, clusters support competitiveness based on the multitude of relations created between the consisting factors of the diamonds. The geographical concentration of companies allows the more efficient access to information, to the labour force and to specialized suppliers. The innovation opportunities area easily perceived within the clusters. Clusters also reduce the market entrance barriers, considering that new companies gain access to a stable resource source. A major challenge for each economy is to update its cluster sophistication degree towards advanced superior values activities (Snowdon and Stonehouse, 2006).

The method of cluster analysis can be traced starting form Marshall (1890), who focused on the external economies; the access to mix companies' products represented the basis of his analysis. Technological development can emphasize in this environment by reflecting itself into labor

qualification and product innovation through information dissemination and company knowledge (Kuah, 2002).

In Marshall's conception, the motivation for cooperation is certain. Regarding rivalry, only recent studies have concretely approached its influence on cluster development. Rivals intensely compete in order to win and maintain their customers. Without biting competition, the cluster will fail. Yet there is cooperation, mostly vertical, that implies companies in related industries and local institutions. Competition might exist, as it emerges in parallels with the cooperation between different dimensions and players (Pitelis and Teece, 2009).

Both cooperation and rivalry are important to cluster development. If a service or a product is not provided within the cluster, companies can cooperate in order to remove it from the group or to develop it. Rivalry allows clusters to be proactive and prepare for foreign competitors. If a business within the cluster is not sustainable, it is less probable that it will be sustainable in the external environment.

A recent series of articles regarding development economics emphasizes the spatial importance of clusters and inquires about the factors that can explain these spatial models. According to Asheim and Gertler (2005), three main factors are considered to stand at the base of cluster development: the existence of knowledge base (the integrated and located nature of teaching and innovation); public sources of technological opportunities, such as infrastructure availability and public facilities (for example, research and development laboratories, universities, technical schools) and a regional aggregation mechanism (the successful regions are more to attract advanced resources leading to economic and technological continuous and future success.

Orienting himself on the causes of cluster, Marshall has estimated them as accidental. Yet, empirical studies (Nadvi and Barrientos, 2004) assume that cluster development can also be deliberate, leading to the concept of collective efficiency, that is a competitive advantage derived from external economies (accidental/passive ones) and from common actions (deliberate/active ones). The strategies of companies within the cluster will subsequently depend on the focus on each of the strategies: deliberate or accidental ones.

Cluster analysis has evolved at the same time with company development. The cluster is not just about location (proximity) conditions. Elements such as transportation costs, environment variables (climate, geological and topographical) (Madsen et al., 2003), as well as the diversity and the intensity of linkages between companies should be included in the analysis. One must emphasize the fact that the company linkages should not be physical. More and more companies use innovative information technologies in order to overrun physical distance and to coordinate

products and services. Clustering is regarded as a significant issue for highly technologized industries, and, it often represents an important engine of growth and a competitive branch of the innovation system.

CONCLUSIONS

One country's wealth is conceived at micro level by companies efficiently operating in various fields. An economy cannot be competitive unless companies operating in that country are competitive, no matter if it is about native companies or subsidiaries of foreign companies. Competitiveness directly depends on the company productivity level, which also influences the national productivity. Approaching competitiveness through the eye of productivity allows the understanding of the fact that global economy is not a zero-sum game, that each nation can improve its performance if they take action towards productivity growth, the challenge of modern times being the speed one conceives the conditions for fast and sustainable productivity growth at global scale (Bîrsan, 2010). In a more and more liberal and globalized economy, company and industry competitiveness involves innovation and flexibility in order to overtake the challenges in the market.

Companies' ability to survive and gain a competitive advantage on the global market depends, inter alia, on the public institutions' efficiency, on the health and education quality, on the telecommunication infrastructure, but also on national political and economic stability (Onsel et al., 2008). The main challenge of each economy is to conceive the conditions that lead to the growth of employees and companies productivity. The private sector itself is not merely a beneficiary, a business environment consumer, but it also has to be, to influence its modelling. Private companies can act towards means of financial support for primary education, research, but also to define new standards/regulations that are not only for their benefit, but also improve the whole competitive environment.

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