GLOBALIZATION AND THE DYNAMICS 
OF COMPETITIVENESS – A MULTILEVEL 
BIBLIOGRAPHICAL STUDY¹ –

OGREAN Claudia
HERCIU Mihaela

Abstract:
Globalization and competitiveness are two of the most common presences in the public discourse. But, surprisingly (or not), both of them mean different things for different people (and the meanings of the concepts themselves evolved in time), they are analyzed and evaluated by specific methods and measures at the different levels, and they lead to different conclusions – generated by the different – theoretical and practical – approaches.

So, there are a lot of interdependencies between globalization and competitiveness – if we talk about them diachronically as well as synchronically. There should be no doubt that globalization is the general framework, the ever changing context within entities – firms, clusters and countries – are looking for sustainable competitiveness. And this is happening because, given the objective liberalization and globalization of the (almost) entire world, the search for (global) competitiveness is a non-optional desire or preference – in order for firms and clusters to simply survive, and for countries to grow and develop.

Keywords: globalization, competitiveness, localization, firm, nation, loca(liza)tion, industry

The globalization process is an undeniable reality of nowadays, and the economic dimension represents, without any doubt, the angular stone of this process; nevertheless, globalization reaches today (more or less, positively or negatively) all the aspects and domains of the human kind and life. Attempting to capture all the dimensions of globalization, the IMF defines it as “a historical process, the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labor) and knowledge (technology) across international borders. There are also broader cultural, political and environmental dimensions of globalization” (Globalization: Threat or Opportunity?, IMF Staff, 2000).

¹ Research financed by UEFISCSU, CNCSIS project no. 273/2009/IDEI
Another type of approach emphasizes that, as a result of the last few decades of politics and markets liberalization, faster movement of peoples, capital and information from one region to the other and all around the globe, *globalization* has become one of the identifying concepts of the post-industrial economy, describing the increasing integration of national and regional economies and the domination of the world economy by massive MNEs. The term also describes the convergence of individual tastes at the expense of local cultures, worldwide *political domination* by a small number of industrialized states and the international non-governmental organizations (NGOs) that are seen as their tools, the integration of capital markets, the increasing ubiquity of communication and information around the world, and the spread of technology to the farthest reaches of the globe. (Tallman, S., *Global Strategic Management*, in Hitt et al, 2006).

Anyway, there is no unanimously opinion regarding the emergence and evolution of the globalization process, neither regarding its causes and effects, nor its nature. All the good things globalization brings with it are shadowed by its side effects; the score is not final yet, and, more than that, the problems seem to be amplified as the globalization process goes further. During its journey, globalization has changed both the societies from all over the world and the agents within them (into a continuous process of cross-determination). These changes were, most of them, beneficial (because in the context of globalization, markets promote efficiency through competition and the division of labor – the specialization that allows people and economies to focus on what they do best. Global markets offer greater opportunity for people to tap into more and larger markets around the world. It means that they can have access to more capital flows, technology, cheaper imports, and larger export markets), but they were accompanied by new concerns and worries which become, at there turn, global (unparalleled growth and increased inequality, weak integration, pollution, etc.) and vocal (when they were claimed by global entities such as World Bank or International Monetary Found). So, markets do not necessarily ensure that the benefits of increased efficiency are shared by all (Ogrean, Herciu, Belascu, 2008).

*Competitiveness* is also a complex and a multidimensional and multilevel concept; it has become (in time --- the last few decades) a central concern in an increasingly open and interrelated-to-integrated global economy. Despite its acknowledged importance, the *concept and nature* of competitiveness are often controversially (at global level --- intermediary level (industry and/or regional/cluster based) --- firm level); on the other hand, in their search for (global) competitiveness, entities (countries --- locations --- firms) are looking for more and more unique, refined and sophisticated sources of (sustainable) competitive advantages, able to ensure long term and sustainable competitiveness; so, their efforts are differently evaluated and measured and the achieving of their purposes is differently judged and appreciated.

All the above mentioned features are, for instance, the background within Paul Krugman treated (national) competitiveness as a “dangerous obsession” of a zero-sum global game (Krugman, 1994):
“People who believe themselves to be sophisticated about the subject take it for granted that the economic problem facing any modern nation is essentially one of competing on world markets – that the United States and Japan are competitors in the same sense that Coca-Cola competes with Pepsi – and are unaware that anyone might seriously question that proposition. … Most people who use the term "competitiveness" do so without a second thought. It seems obvious to them that the analogy between a country and a corporation is reasonable. …

In fact, trying to define the competitiveness of a nation is much more problematic than defining that of a corporation:

✓ the bottom line for a corporation is literally its bottom line: if a corporation cannot afford to pay its workers, suppliers, and bondholders, it will go out of business. So when we say that a corporation is uncompetitive, we mean that its market position is unsustainable – that unless it improves its performance, it will cease to exist;

✓ countries, on the other hand, do not go out of business. They may be happy or unhappy with their economic performance, but they have no well-defined bottom line. As a result, the concept of national competitiveness is elusive."

More than a decade after Krugman’s paper, Karl Aiginger tried to overcome his “obsession” regarding competitiveness (but, paradoxically, he started his paper with and from it), by looking at a brighter side of the reality of competitiveness: the “welfare creating ability with positive externalities”:

“According to my interpretations, the consensus will soon be that competitiveness should be defined as the “ability to create welfare”. (…)

✓ On the firm level, business economists and management scientists search for factors which create “competitive advantage” and then for capabilities and processes which help to “sustain” the advantages created.

✓ On the regional level, we look for supportive institutions, firm clusters, spillovers, and forward and backward linkages.

✓ On the national level, economists analyze the innovation system, the quality of education, life long learning, physical and intangible infrastructure, trust, etc.

The research on competitiveness, with its focus on firms, regions and nations, carves out the factors and processes which increase incomes and provide employment over the long run” (Aiginger, 2006).

Based on a similar idea, Michael Porter, a world well-recognized guru in the field of competitiveness emphasizes that while firms compete on "market share and profitability", "nations compete in providing a platform for operating at high levels of productivity and therefore attracting and retaining an ample investment in those activities that support high returns to capital and high wages"… (so, when we talk about competitiveness we have to be very accurate about the goals we are trying to achieve): … "in the case of a company it is return on invested capital; in a region or country it is productivity measured by value, not productivity in the narrow sense of volume" (Snowdon & Stonehouse, 2006, interview with M. Porter).
As the same M. Porter argued a few years prior to this interview, “the productivity of a country is ultimately set by the productivity of its companies. An economy cannot be competitive unless companies operating there are competitive, whether they are domestic firms or subsidiaries of foreign companies. However, the sophistication and productivity of companies are inextricably intertwined with the quality of the national business environment” … (more than that, Porter discovers and promotes a pattern of evolution for firm competitiveness which goes hand in hand with country competitiveness;) … “Companies in a nation must upgrade their ways of competing if successful economic development is to occur. Broadly, companies must shift from competing on endowments or comparative advantages (low-cost labor or natural resources) to competing on competitive advantages arising from superior or distinctive products and processes” (Porter, 2004).

There are here some very important issues regarding the evolving (in time --- space --- significance) relationships between globalization and competitiveness which we would like to emphasize, in order – first to understand why the concept of competitiveness is so difficult to catch into a unique expression and be able after that to transform it into palpable reality and second – for an evolving and complex framework to be developed after that:

✓ at exhaustive yet the most comprehensive (global and evolving) scale – analyzing dynamic developments which take place in space, as well as in time – realities and perspectives regarding competitiveness have to be treated globally and evolutionary, related to firms --- locations / industries --- nations; global competitiveness is not only an abstract desire for entities but also a necessity in order to evolve from one stage of development to another – or even to survive (for firms);

✓ at a second level of analysis competitiveness may be seen as an industry determined and determining concept and purpose or locally/regionally determined and determining concept and purpose; more than that, the relatively recent theory in this field insists very much on the role and contribution of (dynamic) clusters – as determinants of competitiveness and, as well, as result of the global search for competitiveness;

✓ the third, but the most important and relevant level is that of the firm; it gives us accurate and reliable information about the degree of increasingly integration of an entity (especially firm/company – which operates on the constraints of profits in order to survive) into the global economy; so, direct and undeniable sources of data will be the long time survival of a firm within a defined industry / country, its ability to cope with the requirements of a changing environment.

So, every one of these levels is important, and its (singular and/or potentiate) significance was/is/will be different in time, as the (global) economy evolves, and became more integrated – a rising number of (more or less, better or worst) decisional nodes into a network may simplify processes taking place within it and make them more transparent, but the associated risks rise accordingly – more power is also more responsibility and it requires more trust between participants. More than that, there are
a lot of interdependencies between the different levels and forms of competitiveness, all of them contributing in a particular and dynamic way to define and evaluate something that we can call "spot-competitiveness".

**Parallel evolution of globalization and global competitiveness**

Twenty years after he started his research work on world competitiveness, Stephane Garelli have made a parallel approach of the emergence and growth of globalization and competitiveness, two of the most emphasized items on the world's economic agenda. He has even discovered and emphasized a similar evolution pattern of those two and, more than that, he makes a foresight regarding their future; as a result, he argued into the paper *The new waves in globalization and competitiveness*, part of the *IMD World Competitiveness Yearbook 2008* (Garelli, 2008):

"The power base of the world economy, which used to be centered on the US, Japan and Europe, is now more diluted. Money, work, brainpower and technology can be accessed almost everywhere.

- **In an early stage, global companies entered emerging markets mainly to lower their costs of supplies** – globalization and world economic liberalization urged firms to look globally for the cheapest access to resources in order to optimize their costs and offer to the global market competitive products; in time, prices become similar, so the deflation process Garelli talked about, and the evolution from raw resources (nature and labor) to refined resources (human capital) took place.

- **Today, their roles are shifting and they are key players in the development of emerging nations, which are eager to build their infrastructure and develop their domestic consumption** – in terms of evolving competitiveness, the results of this second wave of globalization were defined by Garelli to be the middle-class revolution, the birth of an urban civilization and new products to serve new customers – a change in purposes took place, and the access to domestic markets led to an "inflation time" on one hand, and to a desire to develop "catching up" strategies on the other hand.

- **But tomorrow, global companies will have to compete with the homegrown companies and brands that are being born and bred in today’s emerging nations. Emerging markets are becoming emerging powers. The partners of today will become the challengers of tomorrow** – and is there a better example in order to confirm this assumption, that the recent "rise and shine" of the BRIC countries – Brazil, Russia, India and China – under these circumstances of world economic crisis and bench-mark loses? New tensions arise and will arise while the third wave of globalization – characterized by local competition becoming global – will take place.
Figure 1. The Three Waves in Globalization and Competitiveness (Garelli, 2008)

Globalization and competitiveness thus evolve in waves (see Figure 1.). Each successive wave has its own business logic and its own mode of operation. And each wave eventually fades away to be replaced by another. The actors may be the same, but they play different roles”, as Garelli emphasized.

Parallel evolution of globalization and national competitiveness

The World Economic Forum (WEF) and its annual Global Competitiveness Report developing the Global Competitiveness Index (GCI) – which is Garelli’s IMD (International Institute for Management Development) World Competitiveness Yearbook better known competitor – also emphasizes on the idea of evolution in terms of determinants of competitiveness. But, there are at least two big differences, because:

- it doesn’t see the world economy as a whole (under the effects of the globalization process): this approach maintains a segregation of countries and promotes a static/picture view; there are three levels of development in terms of national competitiveness and, as they evolve and develop, countries move from one stage to another one, which is superior;
- it treats the subject of competitiveness only related to nation – without mentioning the contribution of the firm level (by this point of view the approach is a little bit to arid/technical) – but all the recent theories emphasize on the fact that firms are the entities which create wealth and creating a friendly environment for the national competitiveness is just and only a premise for firms to evolve.

The GCI technically reflects the three stages of development that the economic theory prescribes for a country (see Figure 2.); according to WEF through the GCI (WEF, 2009):

- In the first stage, the economy is factor-driven and countries compete based on their factor endowments: primarily unskilled labor and natural resources.
Companies compete on the basis of price and sell basic products or commodities, with their low productivity reflected in low wages.

- As wages rise with advancing development, countries move into the efficiency-driven stage of development, when they must begin to develop more efficient production processes and increase product quality.

- Finally, as countries move into the innovation-driven stage, they are able to sustain higher wages and the associated standard of living only if their businesses are able to compete with new and unique products.

![Figure 2. The 12 Pillars of Competitiveness (WEF, 2009)](image)

The limits of this approach – which we have mentioned above – are understandable and rectifiable: on one hand, this is a static picture of a reality one moment in time and, on the other hand, it reflects evolution, but the evolution itself is made differently by different countries, no matter their level of development. More than that, it develops a model which could be anticipated by countries and integrated into their national strategies and policies aiming growth and sustainable development; it also reflects – based on the theory of the 12 pillars determining national competitiveness it develops and calculates which are a country’s strengths and weaknesses, how it is placed among the other countries which are similar regarding their level of development – in order for the different interested entities to be able to take a decision.

**Parallel evolution of globalization and local competitiveness**

The interrelations between globalization – the globalization of competition, to be more specific – and the (apparently contradictory) effects it generates (against the causes that determine it) at different levels of examination – the localization of competitive advantage, particularly was the main concern for Michael Enright, who argued, more than a decade ago (Enright, 1998): "While trends towards globalization..."
of industries and companies appear to reduce the importance and distinctiveness of (subnational) regions, a tendency towards localization of certain industries and economic activities appears to do exactly the opposite”. Michael Porter reached to the same conclusion (in the same year): “paradoxically, the enduring competitive advantages in a global economy lie increasingly in local things – knowledge, relationships, and motivation that distant rivals cannot match” (Porter, 1998).

How come this apparent paradox between the globalization of competitiveness and the localization of competitive advantage and how can it be solved? It is explained by both of the above mentioned researchers in terms of regional clusters – of firms and industries – developments.

According to Porter, clusters are: “geographic concentrations of interconnected companies and institutions in a particular field; they encompass an array of linked industries and other entities important to competition (including, for example, suppliers of specialized inputs such as components, machinery, and services, and providers of specialized infrastructure). Clusters also often extend downstream to channels and customers and laterally to manufacturers of complementary products and to companies in industries related by skills, technologies, or common inputs. Finally, many clusters include governmental and other institutions (such as universities, standards-setting agencies, think tanks, vocational training providers, and trade associations) that provide specialized training, education, information, research, and technical support” (Porter, 1998).

Michael Enright come to answer the question above and says that “the numerous examples of regional clustering provide evidence that even as competition and economic activity globalize, that competitive advantage can be localized. … Of course, the apparent economic paradox is really no paradox at all. Globalization can result in a geographic spread of economic activities over space, but it also can allow firms and locations with specific sources of competitive advantage to exploit their advantages over ever wider geographic areas, often, though not always, at the expense of other areas. (Citing a prior work of himself from 1993, Enright claims that) as long as globalizing forces move at a faster pace than forces that influence the geographic sources of competitive advantage (such as localized human capital, presence of key suppliers, tastes of local consumers, demand patterns of industrial customers, the nature and levels of local competition and co-operation, and local institutions), that economies will become in some ways more distinct, rather than less distinct. Thus, geographic sources of competitive advantage will become more, not less, important”.

At his turn, M. Porter argued that "economic geography during an era of global competition involves a paradox, it is widely recognized that changes in technology and competition have diminished many of the traditional roles of location. Yet clusters (…) are a striking feature of virtually every national, regional, state, and even metropolitan economy, especially in more advanced nations. The prevalence of clusters reveals important insights about the microeconomics of competition and the role of location in competitive advantage. (…) Clusters represent a new way of thinking about national,
state, and local economies, and they necessitate new roles for companies, government, and other institutions in enhancing competitiveness (…) Clusters suggest that a good deal of competitive advantage lies outside companies and even outside their industries, residing instead in the locations at which their business units are based.” (Porter, 2000).

**Parallel evolution of globalization and industry competitiveness**

The most well-known model for analyzing industry related competitiveness (in order to identify the better type of competitive strategy afterwards) belongs to the same Michael Porter: the school of strategic analyzing or the school of positioning within an industry (See Figure 3.). In more than one occasion, Porter emphasizes that "understanding the competitive forces, and their underlying causes, reveals the roots of an industry’s current profitability while providing a framework for anticipating and influencing competition (and profitability) over time. A healthy industry structure should be as much a competitive concern to strategists as their company’s own position. Understanding industry structure is also essential to effective strategic positioning. (…) defending against the competitive forces and shaping them in a company’s favor are crucial to strategy” (Porter, 2008).

The framework developed by Porter allows firm management orientations and decisions based on the amplified role gained by the five forces that act over it: rivalry among existing competitors, bargaining power of suppliers, bargaining power of buyers, threat of new entrants, and threat of substitute products or services.

The main idea of the application of this theory is that "the essence of formulating competitive strategy is relating a company to its environment. Although the relevant environment is very broad, encompassing social as well as economic forces, the key aspect of the firm’s environment is the industry or industries in which it competes. Industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available to the firm. Forces outside the industry are significant primarily in a relative sense; since outside forces usually affect all firms in the industry, the key is found in the differing abilities of firms to deal with them” (Porter, 1998, b).
Studies in Business and Economics

Figure 3. Elements of Industry Structure (Porter, 1985)

Parallel evolution of globalization and firm competitiveness

In the context of globalization, firm is the main determinant and source of competitiveness; the majority of the academics agree on this subject. But, in their search for sustainable competitiveness, firms have myriads of options, based on myriads of factors and variables which could be taken into consideration. Trying to analyze "international competitiveness at the firm level", Donatella Depperu and Daniele Cerrato argue that “fundamentally there are least two main views of the origin of a firm’s competitive advantage:

✓ **Industrial organization scholars** focus on the *influence of industry-related determinants of firm performance* – "classicist" claim that a firm can neither influence industry conditions nor its own performance, so the competitive advantage originates from external sources rather than internal (firm-specific) sources – while the new industrial organization scholars, particularly Porter, which is mentioned here with his "five competitive forces that shape strategy" model claim that competition within an industry is defined by five structural parameters; then, the paths of industry evolution depend (among other things) on firms’ strategic choices.

✓ **Strategic management scholars** underline the importance of firm-specific resources in determining variance of performance among firms. Research
works in this field (...) shift the focus from the external to internal sources of competitive advantage, by pointing out that a firm creates a competitive advantage through the accumulation, development, and reconfiguration of its unique resources, capabilities and knowledge” (Depperu & Cerrato).

The competitive strategy is the one that have to define and maintain a firm’s good position/place into the industry it operates into the global economy. It makes that possible by evaluating and integrating into a successful model all the (endogenous and exogenous) factors that can influence the evolution of the firm. The main objective is to obtain and, more than that, to ensure the long term / sustainable competitiveness of the firm into a global economic world.

As Michael Porter defined it, the competitive strategy of the firm represents the action of searching for a favorable competitive position into a particular industry; it is looking for a profitable and long-term position within the forces that determine the competition into the industry. There are two essential aspects that the competitive strategy is relying on: (1) the appealing of the industry in terms of long-term profitability and its factors; (2) the basic factors of the relative competitive position into the given industry. Both of these aspects can be influenced by the firm, and that’s why choosing the appropriate competitive strategy is so difficult, but exciting as well (Porter, 2001).

While the appealing of the industry is partially a reflection of the factors that the firm can influence just a bit, the competitive strategy is almost perfectly capable to make one industry more or less appealing. In the same time, by the competitive strategy that it chooses, the firm obviously can improve or damage its position within the industry. So, the competitive strategy not only responds to some environmental conditions, but it tries to change that environment in the firm’s favor.

The strategic management literature emphasizes three basic questions that the competitive strategy has to answer to in order to obtain a correct and clear vision of the firm: (1) which is the market share that the firm has to focus on and to compete on? (2) which are the products that the firm has to compete on / with? (3) how can the firm obtain and maintain a competitive advantage on the market share it chooses to compete on? Michael Porter’s answer to those questions is the well known three elements matrix: domination by costs; differentiation; focusing. But, the answer of each firm has to be a unique one, if it is looking for a long term competitive advantage. From now one, things become more and more complicated and insecure, and the specific answer to the risks involved will define a well connected firm to its environment (Faulkner & Bowman, 2000).

In the context of globalization on one hand, and of the global searching for competitiveness, on the other hand, one could argue that “striving for “price competitiveness” – the ability to produce at low cost – is important for low income economies. For richer countries, price competitiveness continues to be important, if the county supplies low value added, homogenous products. For these goods, a firm or a country can compete only if its price is equal or less than that of the other producers. For sophisticated goods with a large potential for product differentiation, quality and innovation define the competitive edge (“quality competitiveness”, “technological
competitiveness”). A low cost strategy is feasible for low income countries, high wage countries ultimately have no other choice than to compete in quality and technology” (Aiginger, 2006).

With the globalization process rapidly and intensively spreading, the firm approaches in search of (global) competitiveness within an industry become more and more challenging – the pressures and threats evolve continuously, urging firms to delicately and sophisticatedly respond, but also new kinds of opportunities may be seen (or invented) all over the globe; the weak and vague signals of the industry a firm has to answer in order to survive are, under these circumstances, weaker and vaguer. So, the ability to identify them and their possible impact will differentiate successful firms from those who will fail.

References:


