

# STRATEGIC ANALYSIS ON THE PUBLIC POWER INFLUENCE

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## ABSTRACT

*Competitors, clients, suppliers, potential competitors, substitute products. All represent competitive forces, considered as being representative for characterising the competition relationships in all industries. In reality however, within the market competition game, a new „economic organisation” interferes- the state. It can directly or indirectly influence various aspects related to the structure of one specific field. The state can either be client (for defence sector products) or supplier (of raw materials controlled exclusively by the state) in many sectors or can influence the structural evolution of a certain activity field by regulating key variables such as: sector entrance, concurential practices, profitability. Regulations regarding products` quality and security, environment`s quality, custom rights or facilities offered to different investors` categories are less direct instruments public power uses to influence relationships in a concurential environment. The present paper focuses on the main modalities and forms of intervention through which the state currently prevails as a major concurential player.*

**KEYWORDS:** *state, competitive environment, intervention, price control, international competition*

The economic reality shows that in the competitive game on the market has appeared a new player – **the State**. This can influence directly or indirectly numerous aspects of the structure of an activity area. The state can be a client (for example through its purchases regarding the national security) or a supplier (through the sales of rough materials which are exclusively under the state’s control) in various areas, or it can influence the structural evolution of the area through various normalizations of some key variables, such as: the entering in a certain activity area, the competitive practices, profitability.

The normalizations regarding the quality and security of products, the quality of the environment, the border rights or the advantages offered to various categories of investors etc., are ways less direct through which the public power influences the structure of an activity are. For example, numerous normalizations regarding the quality of the environment, (although this for sure allows the fulfillment of some social objectives), increase the monetary needs, impose substantial spending for research and for verifications mandatory, damaging the

status of the small companies from that certain activity area and in the same time increases the obstacles of entering new competitors in the area.

If we were to refer to the international competition, this too encounters various obstacles concerning the national public power, motivated in most cases by the pretext of protecting the national companies.

Taking all these into account, we consider that a structural analysis of the competitive environment can't be complete if it doesn't enclose a diagnosis of the way in which the today' and future's politics of the public power of all levels will influence the structure and evolution of that certain sector of activity. In the process of making a strategy for a company we can consider the state one of the "main players" which can sustain or prevent the effective realization of the strategy.

## **1. Forms of intervention of the state**

### **A. Direct intervention**

**The case of extreme intervention of the state in the competitive environment consists of totally replacing the market game.** This means that the central authority will impose each company the quantity of products which are going to be produced, the clients and the prices at which are going to be sold, the suppliers from which are going buy. This represents the situation of the super-centralized plan, well known in the economy of former socialist countries. But, this situation can be also met in the case of a market economy, in a more restricted sense. For example in the case of activity areas related to the extraction of raw materials with a strategic importance, the lack of an essential product, when the market works too slowly and may lead to results that are in opposition to the state's objectives or are social unacceptable.

**The main form of direct intervention of the state in a market economy is the price control, and when the state settles a maximum price.** The motivations of such an intervention are multiples:

- For conjectural reasons, price control can be established to fight against the inflation.
- For social reasons, the price control can be kept for a certain time period.

### **B. Indirect intervention**

The state can interfere in the competitive environment indirectly by acting on the forces that determine the equilibrium of the competitive game on the market. In this situation the state respects the mechanism of the market, but it can change the equilibrium point, by acting on the offer and demand. In this way, by changing the VAT percentage of a product, for example, the states modifies the price and the volume of purchases, and also the public power can use the indirect IRS in order to promote or stop the using of certain category products.

But, in every country, in a more or less hidden way, we meet an indirect intervention of the state with the purpose to determine or influence the rules of the competitive game, as norms that regard the following main aspects:

- a. **Using norms.** All the commercial variables have been included in norms which are more or less detailed. The product can be subjected to quality, pollution, security norms etc. Also, measures can be taken to improve the notification of potential consumers (for example to make mandatory to specify certain pieces of information on the label of a product). The purpose of such norms is to protect the interest of the user and avoid damaging external effects (pollution, noise etc.) with a profound social character.
- b. **Dominant positions.** Although, there are rare the cases of monopole in economically developed countries, a company can have a dominant position on the market without being an only provider. Taking into account the disadvantages of lacking competition, in every economically developed country the state has interfered to prevent or eliminate the situations of dominant position, or at least to limit its harmful effect.
- c. **Agreements.**

## 2. The impact of the public sector over the competitive environment

### A. Activity areas specific to public organizations

Apart from the forms of intervention of the state, in the competitive area presented above, the presence of the state through public companies in some activity areas next to the private companies modifies a lot the rules of the competitive game on the market. The presence of the public companies can be remarked at a theoretical level in any activity area, but in practice, the industries where the public sector is traditionally important are the followings:

- Industries specific to natural monopoles
- Industries that have a strategic importance
- Industries that are decaying
- Heavy industries
- “High-Technology” Industries

### B. State relationships – public organizations and their influence over the competition

The main peculiarities of the strategy of public companies are the following:

- The objectives of public companies are related more to the sales terms than to the profit terms, such as the state is concerned more about the aspects of occupying the labor force than about the profitability aspects.
- The purpose of the strategic objectives and orientations of the public companies are unstable taking into account that they depend on the

political changes (resulted from the shift of the governmental parties and different alliances between the political groups) and on the decisions of politicians regarding that activity areas and the economy in general.

- The strategic orientations are often addressed in very vague terms due to the fact that a clear strategy is lacking, and also to the numerous “players” (with different opinions) involved in their settlement. The ambiguous statement of the strategic orientations is often used to avoid disagreements in terms of opinion that could appear in the case of a clear and precise statement.
- The performances obtained by the public companies are evaluated in an irregular manner: the performances aren’t evaluated at regular time intervals and the evaluation criteria is not regular (is changes in the same time as governments and people that represent the tutelary authority).
- The managers of the public companies are recruited from the “people close” to the politicians, determining in this way a certain “politicization” of the important decisions. Actually, the goal of the managers of the public companies encloses two aspects which are to a large extent conflicting: the first one is related to the fulfillment of the political objectives imposed by the politicians who have appointed them, and the second concerns taking the necessary decisions for the good functioning of the company.

The existence of public companies in an activity area influences a series of factors of the competitive environment:

- ✓ **The barriers to entry are lower for this type of company**, since, generally, public companies have the necessary financial resources, given the support offered by the state. However, since the primary objective of these companies is not profit, they evaluate area appeal using different criteria than the private competitor’s. The risk of recording losses in that particular area is not part of the entry decision.
- ✓ **The barriers to exit are, on the other hand, very high** for the public companies, considering that the economic and financial performance is not the only element taken into consideration in the activity stop decision. Compared to private competitors, public companies remain in their activity area for a long time, given the political goals they have been attributed. This situation is not without consequence over the competitive conditions and especially over the methods of restoring profitability in crisis situations.
- ✓ **Public companies delay adjusting the production** capacity in case of market demand decrease. Having as an objective the business figure or occupying the labor force, public companies are trying to keep all the production capacities for as long as they can. Generally, public companies prefer the integrated structures, which increases the

inflexibility of the production equipment and implies very high fixed costs. This leads to the necessity of using the whole production capacity. However, this delay in adjusting the production capacity to the level of market demand doesn't affect only the company but also its market competitors proportional to the offer excess influence on the price. Since profitability, as outlined above, is not the main goal for the public companies, they can remain on the market despite the offer and price drop.

- ✓ **Determine a strategic diversity on the market** as the goals and objectives of the public companies differ from the private producer's. Experts consider that this fact leads to increasing the rivalry between competitors.

An important step in analyzing the competition is the study of elements that influence the strategy creation for other competitive companies. In the case the competitors are public companies, this analysis is even more necessary.

The analysis can be created starting from the following aspects:

- What purposes and objectives are imposed by the state to each public company (occupying the labor force, aspects regarding the national independence etc)?
- What are the hypotheses of the current government regarding the evolutions of these industries? How does it see the future of these industries?
- What are the generic strategies of these public companies? How are they currently evaluated?
- What relationships have the competitive companies with other public companies? Are these relationships imposed by the exterior? How are these relationships accepted by the management of the companies involves? Do these companies offer advantages to the competitors?
- What are the arguments of the presence of the state in that certain industry? Are these arguments durable? Should these arguments be modified in time?

### **C. Initiatives for influencing the environment**

Compared to the competition that includes public enterprises, the private enterprises with few occasions take a constant position. They seek to determine the environment's evolution in a way as much favourable as possible for them, among the initiatives taken in this regard may reveal the following:

- The establishment of interest groups with other private companies in order to obtain benefits equivalent to those obtained by public enterprises;
- Influencing the Government's analysis regarding a specific industry, if there are elements which might lead to the conclusion that the current and future position of that private enterprise is not satisfactory. Many

private companies allocate considerable sums for disseminating and spreading their point of view among influent persons and circles;

- Confronting the public sector is a risky initiative, but private companies do not hesitate to use it when they consider it to be “in their rights”;
- Cooperating with public entities and exploiting all the opportunities arisen from the existence of the public sector. The cooperation with public enterprises can bring some undisputed advantages.

### **3. The State’s role in international competition**

Global competition is hampered by obstacles related to public power at national level which is often motivated by the excuse of protecting national companies, or a series of direct and indirect benefits for national businesses. These obstacles and benefits have a very wide scope and range, from customs duties and quantitative quotas imposed on imported products, preferential public orders for domestic firms, public power’s insistence that research and development to be carried out locally or that all the components of a product be manufactured locally, the preferential tax treatment and reaching to the traditional subsidies for domestic firms in order for them to cope with international competition, or direct trade support at national level (requiring the buying of products from certain companies) and internationally (some exports, the result of negotiations between states).

The State’s initiatives regarding international competition are the following:

- ✓ Offensive actions for strengthening the attractiveness of its territory:
- ✓ The tax system;
- ✓ Infrastructure and the importance of the public sector;
- ✓ Personnel training and Research & Development;
- ✓ Promoting investments;
- ✓ Concentrating enterprises;
- ✓ Social protection and consensus.
- ✓ Defensive actions against unfair competition;
- ✓ Negotiations at supra-national level (active presence in various organizations and supra-national reunions when agreements are made related to the facilities for Member states)

In conclusion, it can be said that the State’s role as a competition vector has not diminished, but one can say for certain that it has increased. On the other hand, one must understand very clear that this role has changed and must change essentially from previous times, this being even more obvious in the former socialist states. Thus, the State makes “the game rules” but it is not a “player”, the indirect influences are becoming predominant.

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