

# THE INFLUENCE OF THE COMPETITIVE ENVIRONMENT ON THE COMPANIES COMPETITIVENESS

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**Abstract:** In a market economy, competition is the engine which makes the entire system of connections between the economic operators work, the main element of the market mechanism which leads to the development of the economic life. The competition represents a tough fight, without considerations, where the economic interests of each participant on the market come first. In this context, this paper attempts to carry out an analysis of the competitive environment and especially of the influence exerted by it on the competitiveness of the companies. Otherwise, competitiveness can be regarded as the main goal that is to earn higher profits or a better position on the market. This work was supported by CNCSIS-UEFISCSU, project number PNII-IDEI 826/19.01.2009

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A major preoccupation of the economic operators from the developed countries is the constant adaptation to the new exigencies generated by the acceleration of the technical progress, the increasing globalization of the economic relations and the development of the competition on the internal and international market.

The approach on the nature of competition, and of the behaviour and performances of the economic operators has constituted the object of the researches in the vision of different classical and modern schools of economics. In this context, the classical school considers that there are a series of important advantages which come out of the competition relations, as for example the minimization of the costs and the maximization of the profits, promoting innovation and satisfying consumers (regarding the quality of the supplied products, and of increasing the level of the purchasing power by offering relatively low prices); all these are reflected in a growth of the efficiency of the activity. At the same time, the classical school considers that in the competitive environment, the causal relation is developed towards the *structure of the market* → *behaviour* → *performances of the enterprises*, and in a few cases in reversed order, from performances to the structure of the market.

Unlike the classical school, the modern schools of economics think that the enterprise is no longer an entity, with an undifferentiated behaviour, determined by the

market, because in practice, its strategic actions are able to modify the structures of the market, and certain elements which are considered exogenous can be transformed in endogenous elements through different types of integration, association and cooperation.

In consequence, the relation between the structure of the market, the behaviour of the enterprise and its performances was perceived in two different manners:

- most of the researchers from the second half of the 20<sup>th</sup> century (especially the American school) have emphasized the study of the market structures, explaining the cost-effectiveness of the enterprises as a result of this structures, under the circumstances when the role of the consumer is minimized. Therefore, they considered that the enterprises do not have a strategic behaviour, and that their performances are reflected in a cost-effectiveness indicator (the ratio between profit and turnover or profit and capital), so that, the companies from two different branches of the industry should accomplish the same performances if there is an identical market structure;

- unlike this approach, most of the European researchers have pointed out the determining role of the behaviour, studying the strategies of the enterprises (price, products, agreements, etc.) which, in similar market structure, differentiate the companies from each other and lead to different performances. They reached the conclusion that in order to know how markets function it is necessary to take into consideration the network of agreements (cooperation, market segmentation, exclusive distribution, conditioned sales, etc.) and the group strategies characteristic for the contemporary economies and which point out the real market structure. In this context, the structure of the market depends on its existent level at a given moment, but also on the behaviours of the enterprises.

Under the current circumstances, determined by the amplification of the oligopoly structures, and the growth of the degree of incertitude on the market, the technological mutations, the enterprises are looking to influence the product demand by making important investments. These investments might need a longer period of time for their accomplishment, time when there is the risk of some modifications in the level and structure of the requirements of the beneficiaries. In order to avoid these risks, any enterprise will follow to dominate the market of the goods it sells or buys, so that it could orient its demand and supply for goods.

In this situation the price will not only be the result of the supply and demand ratio, but also the expression of the dominance degree exerted by a manufacturer or a group of manufacturers on that market. The competition will maintain on the oligopoly markets, but it will be manifested under new forms, with new laws, where the manufacturers do not behave as in the case of perfect competition (because their decisions influence the market), nor as in the case of monopoly (because besides the agreements between them there are also confrontation relation, especially on the international markets). In these circumstances, the price will constitute in a lesser degree the object of competition, taking into account the nature, the performances and the way of presenting the products. In this context, competition will be manifested by product differentiation, promotion of the technical and commercial innovations, commercials, advertising, providing service assistance through methods which give companies, especially those from the concentrated sectors, a certain market power.

If from all these new form of competition, the most important one is competition through innovation, the technological evolution modifying the lifecycle of the products, as well as their costs, which makes the manufacturers look for the newest manufacturing technologies. The reduction of the production costs as a consequence of the technical

progress makes the leader enterprises have higher profits than the competitors (if the selling prices are maintained at a high level) or to increase their market share (if the selling price goes down). Therefore, the technological evolution leads to the emergence of new leader enterprises and facilitates the market domination from certain countries, the competition through innovation becoming the most efficient form of fighting under the circumstances when the options of the buyers are considerably modified.

In this context, M. Porter states that, by obtaining an advantageous position towards its competitors, an enterprise can conquer important market shares, using the principles of strategic management. The marketing, production and/or staff functions are the ones which can determine the competitive advantages which should generate superior performances and incomes. If an enterprise wants to set some strategies, it is important to know the competition and the competitive environment. An enterprise should constantly compare its own activity with the one of its competitors. This might identify the strength and weaknesses of the competitors and after their analysis, it can develop strategies which should provide an advantageous position.

We can distinguish four levels of the competition in the contemporary period:

- the brand competition appears when the enterprise is competing with other companies which offer the same range of products or similar ones, for almost equal prices;
- industrial competition – the enterprise considers that all those actors from the same sector of activity can be included in the category of competitors ;
- formal competition – the enterprise considers competition from those companies which produce goods/services which satisfy the same needs;
- generic competition- the enterprise considered a company competitive if its products aim at the same incomes of the consumers ( for example an enterprise which trades long term use goods will compete with a tourism agency).

In this context, we can say that the functioning mechanism of the market and especially the competition takes place in a complex social environment, which can be imagined under the form of some concentric circles which communicate: the development level, the tension degree needs-resources, the general business environment, the competitive environment etc. In consequence, the competitive environment is an environment submitted to the general economic environment, containing:

- the organisational and institutional structures;
- the tools or the fiscal, monetary- currency and budgetary key-factors, including the judicial norms which regulate competition.

The competitive environment represents a social creation, it has a concrete determination and a historical evolution influenced by a series of exogenous factors, but also by the dynamics of the structure of the market and the preferences of the consumers, as we can notice in fig. no.1

The main support of the competitive environment which leads to the manifestation of the free initiative, as a premise and an engine of competition is the private property. Actually, under the circumstances of the autonomy of the economic operators (the freedom to choose the economic field of placing the capital, the possibility of setting its own strategies of manifestation as distinct entities of the market economy, setting their own strategies regarding the management of production, the financial management etc.), the private property is the one which stimulates the market consolidation process of the positions of the companies, mobilizing all the resources in order to make the activity efficient and to provide the fundamental objective: profit maximization (on a short term) and enterprise value maximization (on a long term).

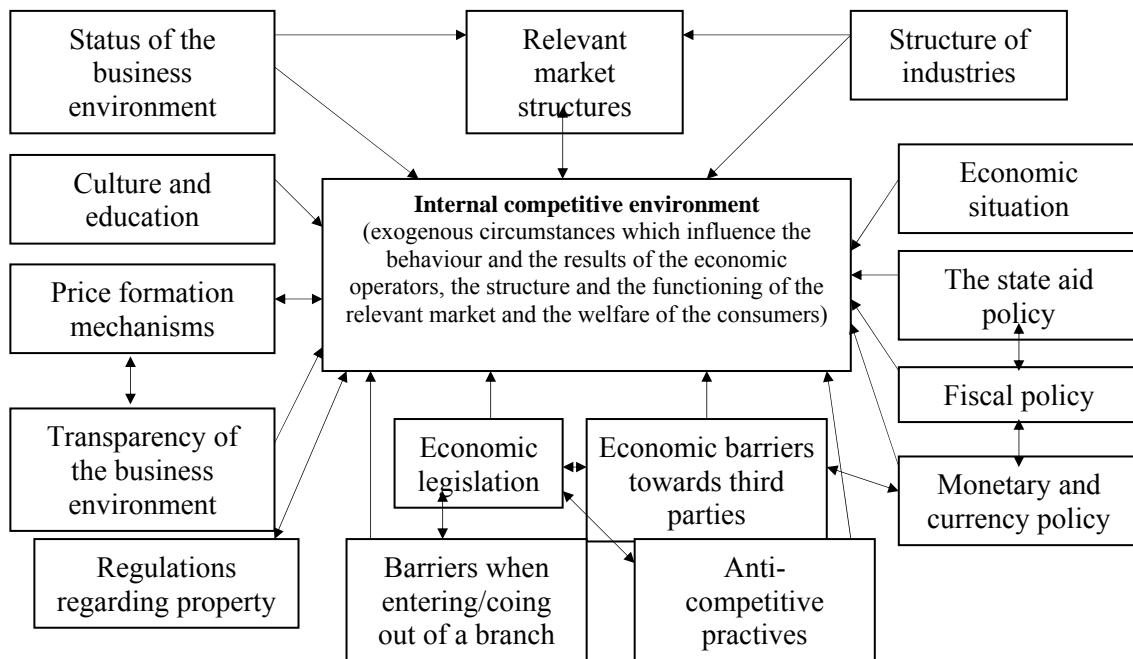


Fig. no. 1 Influence factors of the internal competitive environment

Source: Gavrilă I. Gavrilă T., *Competitiveness and Competitive Environment/Competitivitate și mediu concurențial*, Ed. Economică, Bucharest, 2009, pg. 86

From the perspective of the private property the competitive environment is influence by its structure. The number and the average of each segment of private property (family association, company, cooperative association etc.) influence the intensity of competition and its key factors. In the contemporary period which is characterized by the transfer to the informational society (based on information, creativity and knowledge), the intellectual property, the correct and rigorous regulations regarding its protection has gained a more important role.

The ambiguous and insufficient regulation of the intellectual property affects the possibility of its protection, altering the quality of the competitive environment, in the sense that some people pay to use property rights, while others hack them, which means the latter get undeserved advantages as a consequence of lower costs for their goods, perturbing the competitive environment. There are also some disputes regarding the protection of the intellectual property rights between different groups of countries, between economic groups (EU, NAFTA, ASEAN) but also between two countries (except for the EU members, where there is a unitary regulation). These divergences are presently related to those knowledge-based goods and industries. For example in the field of software, there are many disputes around the patents or their free circulations, showing that the patent will inevitably lead to a monopoly, which will affect the market of these and of other products, due to the role of computer in the contemporary economy and society. If the software were

accessible and free for anyone, then it is hard to imagine that anyone would have the interest of developing it, besides the situations when this work is financed from public funds. At the same time, in the field of agriculture, pharmaceutical, food and extractive industry, the competitive advantages are conditioned by the performances of the very expensive biotechnologies (different types of new plants, races of animals, seeds, genetic structures, etc.), and their patenting would mean the monopoly of several transnational companies, thus affecting the structures of the market.

If the decision and practices used by competitors are honest, the competitive environment is characterized by a free competition, where the mechanism of the market economy is centred on supply and demand, having as a major axis the price which provides the self-regulation of the market balance. In order to fulfil this role, the price formation should be carried out in a normal competitive environment.

The normal competitive environment is defined through the following coordinates:

- the existence of more manufacturers, and of more buyers ;
- the existence of the diversification of a homogenous good ;
- the existence of rational economic operators, in the sense that the participants on this market are involved in choosing the best variants of mixing the production factors, in order to maximize the economic efficiency;
- the non-intervention of the state in the price formation, these are formed free on the market according to the supply and demand ratio;
- substantiation the decisions based on reasons defined by the sustainable development requirements of the companies, which involve present and future objectives, internal and external;
- reducing the role of the state in regulating the behaviours, in the sense of adopting laws regarding the discipline of the economic operators on the market and the supervision of its compliance, in order to eliminate the anti-competitive manifestations;
- the intervention of the state in economy should be made with other tools than the price;
- the main goal of the organisation of the sales market should be the improvement of the quality of the services for the consumers;
- the manifestation of the tendency of stabilization of the prices, by the direct confrontation between the demand and the supply, which allows to balance the market through the free price (the balance price);
- the welfare of the end consumers, provided, by the quantitative, qualitative and varied existence of the goods and services on the market, according to the needs and use recognized by consumers.

All these coordinates which define the normal competitive environment, are finally found in the welfare of the consumers, this actually representing the final objective for the functioning of the free market and the manifestation of the role of the state as supervisor of the free behaviours of the participants in market transactions.

In what the analysis of the attractiveness is concerned, this reflects the structure, dynamics and influential factors of the evolution of that sector, the characteristics of competition being presented in general terms. The competitive analysis is concentrated on the competitive forces, its importance being generated by the fact that it allows for the understanding of the way of action of the competitors and of the methods in which one can gain competitive advantages.

The competitive analysis does not involve following the actions of the competitors, but understanding the way in which they act on the market in order to

segment and adopt a corresponding strategy. Michael Porter, the one who developed the concept of competitive analysis defined five competitive forces:

- the negotiation power of the suppliers;
- the negotiation power of the buyers;
- threatening the substitute products/services;
- threatening the new competitors entered on the market;
- rivalry among the existing companies.

According to these five factors, we can point out the structure and the intensity of competition, with effects on the potential performances which can be obtained in an industry, performances measured with the help of the profitability indicators. According to the result of this analysis, the company will formulate a series of strategies which should allow it to get advantageous positions.

We have to mention that the importance of the five competitive forces differs from one sector of activity to another. In the PC industry, for example, the power of suppliers and the level of competition are decisive to set the intensity of competition in the respective sector, while in other sectors the most important force is the power of the buyers. On the other hands, the influence of these forces can be modified in time. In order for a company to react rapidly to any fluctuation of the external environment, it has to determine the sense and the intensity of these modifications. A company can set the influence of one or more factors on the intensity of competition and in consequence it can set the defensive methods against the actions of the competitors:

- regarding the power of suppliers, the company can defend itself by purchasing supplying companies or concluding long term contract with them;
- regarding the threats from the substitute products/services, the company can defend itself through promotional policies and/or product differentiation;
- regarding the threats of the new competitors on the market, the company can defend itself through measure of maintaining its customers ;
- regarding the rivalry of the sector, it can defend itself by purchasing the competitive companies or by regulations which take into account the tactics which can be used by competitors.

The more the methods of knowing the competitors are put into practice, a company will have to decide which of them to confront. In order to accomplish this, the company will have to develop an analysis of its own value perceived on the market, analysis which will point out its own advantages and disadvantages towards each competitors. Schematically, this analysis can be presented in a comparative table which contains the following elements: characteristics, strategies, objectives, strength, weaknesses, reactions, involvement in marketing.

Table no. 1

Comparative analysis of the competitors

Competitors profile	Company A	Company B	Company C
Characteristics			
Strategies			
Objectives			
Strengths/weaknesses			
Reactions			
Involvements in marketing			

Being in a continuous competition, each of the companies will seek to maximize its profit, and it will elaborate a series of competitive strategies, as adequate as possible for their situation and market. The competitive strategies differ from one company to another and even in the same company from one stage to another; in reality we have the following main types:

- the strategy of concentrated effort, practiced by those companies who, at a given stage, follow a certain objective and they put their efforts to it (financial, human, technologic, etc.);

- the strategy of elite which relies on quality, on the production and promotion of some exceptional products. Such a strategy ensures the name of the company, selective customers, success in sales, etc.;

- strategy of the costs, takes into account the market promotion of some products for lower prices, based on low costs. This strategy takes into account the sensibility of the buyers towards the price and the capacity of the company to earn by the quantity produced and offered for sale.

These types of strategies express only a general frame because, in reality any company can elaborate and adopt other types of strategies or their combinations according to the ingeniousness of the managers and the concrete situations on the market.

In consequence, one can say that the analysis of the competitive environment, which starts from the analysis of the supply and demand ratio, may influence the behaviour of the economic operators and the competitive position through: the characteristics of the product, the level of the price, the promotion strategy which should be adopted etc. In this context, the economic action generates effects, in the sense that the action of the competitors which determines the weakness of the competitive position of other competitors will generate an answer from the latter. The specific actions of each participant on the market cause reactions from the competitors, reactions which determine the nature and the characteristics of competition which are manifested in a certain economic sector and which in its turn influence the decision making process of the other economic operators.

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