

Chapter 1

Firm Competitiveness: Theories, Evidence, and Measurement

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ABSTRACT

Competitiveness has been a topic of research in the manufacturing and related sectors since the early 1990s. While there is much agreement on the economic and social importance of competitiveness, it is less clear what exactly competitiveness is and what its most important determinants are. The focus of this paper is to review the literature at the firm level and evaluate and compare all the available competitiveness-related frameworks and models, to present the empirical evidence and to investigate the relevant competitiveness indices.

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1. INTRODUCTION

Competitiveness has broad and varied definitions depending on the school of thought and on the level of analysis. However, most of researchers agree that it is a complex and fuzzy concept that incorporates a multitude of aspects. Assessment of competitiveness should therefore be undertaken based on several components.

“Firm competitiveness is a capability of a firm to sustainably fulfil its double purpose: meeting customer requirements at profit. This capability is realized through offering on the market goods and services which customers value higher than those offered by competitors. A condition to this competitiveness is for the company, to be able to detect and adapt to changes in the environment and within the company by way of meeting competitive market criteria permanently more favorable than those rivals” (Chikan, 2008)

Porter’s explanation of competitiveness is based on the earlier works of Mason (1939) and Bain (1959) in the area of industrial organization economics (Kale, 2002) and characterized as the industrial organization view of competitive advantage. Porter postulates that competitive advantage results from the competitive strategy a firm adopts to neutralize threats or to exploit opportunities presented by an industry (Porter, 1980, 1985). According to Krugman (1994), competitiveness is a different way of saying productivity, considering the rate of growth of one firm relative to others. In business environment, dynamic capabilities, flexibility, agility, speed, and adaptability are becoming more important sources of competitiveness (Barney et al., 2001; Sushil, 2000).

The Resource Based View (RBV) shifts the focus from the industry structure to the resources developed by a firm. It seems that the strengths of the RBV are the aspects where Porter’s theory presents limitations. However, the meaning of resources remains unclear since it is not specified which resources are the most valuable, and how they should be managed in order to sustain competitive (Miller and Shamsie, 1996; Hooley et al., 1997).

The Dynamic Capabilities View (DCV) may be regarded as an extension of the resource-based view (RBV); while the RBV focuses on firm’s existing resources, the dynamic capabilities view, emphasizes the development of these resources, due to organizational routines commonly understood as repetitious behavioral patterns of practice and learning (Teece et al, 1997; Eisenhardt and Martin, 2000; Helfat and Peteraf, 2003; Schilke, 2014).

Firm’s marketing capabilities play an important role for being competitive both in Porter’s framework (through differentiation) and RBV (since they are included in the organizational resources). Marketing capabilities play also an important role in Market Orientation approach since they represent a fundamental tool for the firm to become consumer focus.

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