

## Chapter 3

# Strategies for Enhancing the Competitiveness of MNEs

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### ABSTRACT

*Globalization has dramatically changed the competitive landscape in many national markets. Dunning (1993) provided evidence that Foreign Direct Investment (FDI) had doubled and even tripled in the last fifteen years in Less-Developed Countries (LDCs), generating a tremendous impact on the economic development and welfare of these countries. Yet, less attention has been given to the role that domestic customers and domestic competitors play in shaping the strategic behaviour and performance of MNEs in the targeted markets and the strategies which need to be adopted to enhance the competitiveness of MNEs. Through grounded theory approach and in depth literature review, the chapter aims to examine the positioning of MNEs to extend existing perspectives and incorporating competitive interactions between the external environments, competitive strategy and in particular, evaluates the strategic positioning and competitive behaviour of MNEs.*

### INTRODUCTION

The topic of firms' competitiveness is greatly debated today among managers, politicians as well as academics. Globalization and changes in the world economy over the last years have raised new challenges for firms, industries and countries (Baporikar, 2011). The popularity of the concept of competitiveness is clearly demonstrated by the fact that there is an increasing interest around the issue of competitiveness benchmarking at the country level as well as the policies through which governments can enhance national industrial competitiveness. Although the definition of the competitiveness appears to be straightforward, such construct is often used in different and somewhat ambiguous meanings. Moreover, the competitive possibilities of developing economies in the most dynamic international markets depend on a fan of advantages that are defined at firm and national levels including productive, commercial technological capabilities along with influence of external factors (Baporikar, 2015b). Beyond the pioneering discussions of the concept of competitiveness and its application at the aggregated level (Krugman, 1994);

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the determinant factors of it are defined by the individual behaviour, mainly by the firms' management and technology abilities in a given country. Nonetheless, the adaptation of the competitiveness concept to the country-level of analysis is also methodologically accepted (Porter et al., 2008; Sala-I-Martin et al., 2008). Thus, through grounded theory approach and in depth literature review, the chapter aims to examine the positioning of MNEs to extend existing perspectives and incorporating competitive interactions between the external environments, competitive strategy and in particular, evaluates the strategic positioning and competitive behavior of MNEs.

## **BACKGROUND**

Competitiveness is a concept very discussed among academics and it has been applied to several levels of analysis; the most pertinent applications of it is at firm level because it refers to a comparative notion of competition or market gains, but it has also been broadly applied at the national level in last decades (Fagerberg, 1996; Nelson, 1993; Porter, 1985; Roessner et al., 1996). A general definition of competitiveness relates to productivity and growth of countries (Krugman, 1994) while the more tractable one focuses on the ability of a country to compete by exporting (Fagerberg, 1996; Lall, 2001). Most of the time, the concept of competitiveness reminds us of competitive advantage. According to the largely consolidated view of competitive process, a firm's performance is affected by its competitive advantages. In its turn, the nature of such advantage results in one or more specific sources of competitive advantage which a firm controls. The concept of competitive advantage is central in strategic management studies (Porter, 1985; Ghemawat, 1986). It recalls that of comparison and rivalry. It can be interpreted as "the asymmetry or differential among firms along any comparable dimension that allows one firm to compete better than its rivals" (Ma, 2000: 53). A competitive advantage refers to the position of superiority within an industry that a firm has developed in comparison to its competitors. Firm level competitiveness indicated a firm's ability to design, produce and market products superior to those offered by competitors, where superiority can be evaluated from several factors, like price, quality, technological advancement, etc.

Competitiveness can be considered at different levels of aggregation: firm, industry, and country. Firm level analysis focuses on behaviour and performance of firms. Competitiveness is frequently analyzed also at industry level or "cluster" level. The competitiveness of an industry can be assessed by a comparison with the same industry in another region or country with which there is open trade. Beyond firm-specific and industry-specific factors, in recent years globalization has emphasized the importance of country-related effects as determinants of performance. The different dimensions of competitiveness are strongly related: for example, a country's competitiveness factors are determinants of its firms' international competitiveness. On the other hand, the most evident aspect of a country's international competitiveness is represented by its firms' competitiveness in comparison to other countries' firms. As it is based on comparison, competitiveness is a relative concept in the sense that criteria and variables used to measure such construct cannot be applied regardless of specific time and spatial conditions. At the firm level, profitability, costs, productivity and market share are all indicators of competitiveness. Generally, competitiveness is considered synonymous with success. In very simple terms, success can be intended as achievement of company objectives. Hence, performance should be measured in terms of how an organization manages its critical success factors (Ferguson and Dickenson, 1982). Today, beyond financial or market-based indicators, measures of competitiveness increasingly include other variables such as innovativeness, quality, and social ones like ethical standing, social responsibility, working

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