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Micro-economic competitiveness: a research on manufacturing firms operating in TRB1region

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Abstract

Since competitiveness is believed that mapping the competitive environment of an organization helps to form a sound basis for business strategy development, the study of competitiveness has become extremely popular with management theorists and practitioners in recent years (Li et al, 2009:568). As an attempt to map the competitive environment of TRB1 region, in this study it is aimed to determine the competitiveness of small, medium and large sized manufacturing firms operating in TRB1 region including Malatya, Elazığ, Bingöl and Tunceli. As a measurement of competitiveness of the manufacturing firms in the region, predominantly accepted and commonly used in both micro-economic and macro-economic competitiveness surveys in the literature, Porter's (1990) Diamond Model was used. According to survey results, it is found that while more than half of the manufacturing firms' competitiveness is at an average level; only a small proportion is highly competitive.

Keywords: Competitiveness, Diamond model, Manufacturing industry

1. Introduction

In today's competitive climate where the only certainty is uncertainty, the dynamics of economic, social, political and cultural change are increasingly shaped by the pursuit and promotion of competitiveness. International organizations such as the IMF, the World Bank and the OECD are all urging governments everywhere to reform the business climate, promote investments and stimulate competitiveness.

Competitiveness originated from a Latin word, competer, which means involvement in a business rivalry for markets. Today, it is commonly used to describe economic strength of an entity against to its competitors in global market economy in which goods, services, people, skills, and ideas move freely across geographical borders (Ambastha and Momaya, 2005:46)

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Competitiveness is a miscellaneous and controversial concept involving multidimensional concepts and disciplines. Beside it, a consensus on whether enterprises or countries compete with each other does not exist (Cibinskiene, 2010: 62). Since competitiveness is believed that mapping the competitive environment of an organization helps to form a sound basis for business strategy development, the study of competitiveness has become extremely popular with management theorists and practitioners in recent years (Li et al, 2009:568). Additionally, the hyper-competitive era in the last few decades has created the need for an explicit management of competitiveness. With the mobility of capital and more open national markets, economies have become interconnected tightly. As a consequence of declining trade barriers, diminishing transport costs and the growth of transnational corporations, traditional economic policies has become insufficient. As a result, a variety of supply side measures have been put forward to improve the efficiency of firms' internal processes aiming to enhance their competitiveness (Turok, 2004:1070).

Within the framework of micro-economic competitiveness, in this study it is aimed to determine the competitiveness of manufacturing firms operating in TRB1 region. In this context, the study begins by a literature review of three different levels of competitiveness (firm, industry and national level), Porter's model and criticisms related to it. Research methodology, statistical analysis results and research model takes place at the next section. The results of the analyses are discussed and recommendations are provided in the last section.

2. Literature Review And Hypotheses

2.1. Firm Level Competitiveness

To provide customers a higher value and satisfaction with respect to the competitors, firms must be operationally efficient, cost effective, and quality conscious (Ambastha and Momaya, 2005:50). Competitiveness involves a combination of assets and processes, where assets are inherited (natural resources) or created (infrastructure) and processes transform assets to achieve economic gains from sales to customers (Li et al., 2009:568).

Firms competing on an open market are under pressure to adjust price of their products and to meet the needs and expectations of customers. A firm has competitive advantages if it can produce and sell in the competitive markets homogenous products by lower price than its rivals without subsidies or if it can develop unique characteristics for the available products and innovative products (Rojaka, 2009:29). To keep up with the pace of the market, the firm must try to function as efficient as possible. Failing to do so, the firm will not be able to hold its position nor make sufficient profits and eventually cease to exist (Schuller and Lidbom, 2009:935).

According to Flanagan (2007), there exist three main schools of theories regarding to firms' competitiveness. They are (1) competitive advantage and competitive strategy models (i.e. Porter, 1990); (2) resource-based view (RBV) and core competence approach (e.g. Wernerfelt, 1984; Prahalad and Hamel, 1990; Barney, 1991); and (3) the strategic management approach (e.g. Wheelen and Hunger, 2002). In general, Porter's theory of firms' competitiveness is characterized by an industrial organization view (Li et al., 2009:568). Porter (1990) developed a diamond framework, and identified four attributes to gain and sustain competitive advantage of the firm: factor conditions; demand conditions; related and supporting industries; and context for firm strategy and rivalry. In Porter's view, two exogenous factors, government and chance influence the functioning of these four major determinants.

2.2. Industry Level Competitiveness

Porter (1990) defines an industry as competitive if its trade balance is positive and if the industry's export share exceeds the national average. Kudrle (1994) regards an industry as competitive if it maintains a steady or growing market share and satisfactory profits for all firms in the industry. Also, he indicates that the definition of an industry is problematic because of the heterogeneity. On the other hand, Rugman (1987) and Porter (1990) equate the competitiveness of countries to that of firms and industries.

According to Porter's fives forces model, there are five main factors that influence industry performance: competitive rivalry, power of suppliers, power of buyers, threats of substitutes and new entrants (Porter, 2000:6). Competitive rivalry will be high if there is little differentiation between the products sold; if competitors are