Defining International Competitiveness: Perspectives and Pitfalls

by

Adam Koch

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Swinburne University of Technology

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Defining International Competitiveness: Perspectives and Pitfalls

Adam Koch
Swinburne University of Technology

ABSTRACT

Effectiveness of any discourse is critically dependent on a shared and precise understanding of terms. Unfortunately, theory of international competition rarely deals with how specific business contexts affect the way international competitiveness is understood or examines the validity of comparisons between companies representing different forms or stages of internationalisation. This article reviews some of the deficiencies of the relevant theory, discusses various perspectives and pitfalls inherent in comparing levels of competitiveness, suggests analytical framework and criteria to be used in assessing the validity of international competitiveness comparisons and, finally, offers a definition of international competitiveness.

INTRODUCTION

The character and strength of relationships between various macroeconomic variables on one side, and the level of international competitiveness on the other, have attracted a great deal of attention for more than two centuries'. Inquiry into mechanism of international competitiveness at a micro level, on the other side, has regrettably been less intense, and has hence not developed a similarly advanced framework and methodological apparatus. Importantly, borrowings from the macro theory of international competitiveness have often been found precarious since that theory is not conceived to support analysis of real life business situations.²

A comprehensive discussion of international competitiveness should, I believe, include following issues:

- definition(s) of international competitiveness;
- the validity of tools used in measuring it (both their empirical, ie. concurrent and predictive, validity and logical, ie. content and construct, validity³);
- relevance and validity of comparisons between companies;
- actual comparisons of the competitiveness as demonstrated by companies, and
- analysis of factors influencing that competitiveness.

In this paper, various perspectives of competitiveness, validity of tools used in measuring international competitiveness at a micro level and certain related pitfalls will be discussed.⁴ In particular, a question of validity of international competitiveness comparisons between two, or more, companies representing different stages and forms of internationalisation will be raised.

The recent discussion of the mechanism of international competitiveness evolves mostly around the theory proposed by Porter (1990). Some of the contributors (eg. Rugman and Verbeke 1993) indicate the need for a more advanced, and more general, model that would consider determinants of international competitiveness obtained through company's business involvement outside its home country. That modification, they argue, will make it possible to validly use new model with respect to
the class of multinational companies whose origins are in medium and small economies. Using the examples of two large French companies (France Telecom and Alcatel), D'Cruz and Rugman (1994) show how structures and strategies to attain the position of international competitiveness in the global telecommunication industry have been developed in two very dissimilar ways.

A different approach to global competitiveness is represented by Hamel (1991) who sees it as 'a function of the firm's pace, efficiency, and extent of knowledge accumulation'. He calls for an entirely new competitive strategy paradigm, in that he proposes to conceive of a firm as a portfolio of core competencies and "disciplines" (examples of the latter being Total Quality Management, Just-in-Time Manufacturing Systems, Value Engineering, Flexible Manufacturing Systems, Accelerated Product Development and Total Customer Service). His claim is that the traditional paradigm focuses on 'last few hundred yards of what may be a skill-building marathon'. He and Prahalad (1990), as well as Stalk, Evans and Shulman (1992) believe that the time has now come to organise the strategic management thinking around core competencies, capabilities and skills as it should offer better long term chances of prolonged success for companies in an open, highly competitive and rapidly evolving, business environment.

**NATIONAL ECONOMY, INDUSTRY OR COMPANY?**

Even though many believe that the competitiveness discourse is relevant only at the level of company (e.g. Borner 1989), international competitiveness is commonly examined at three levels: National Economy, Industry and Company. Obviously, different challenges may be expected at each of these levels. Their systematic discussion would, I think, require considering the following factors:

- political instrumentality of the international competitiveness issues;
- dependence of the economy on foreign trade and investment;
- competitiveness of the business environment;
- current growth of the economy and relevant anticipations;
- differences in competitive patterns between industries;
- sophistication of the business infrastructure, and
- quality of the relevant theory.

**Political instrumentality**

International competitiveness is strongly politicised in most situations; the forms of that politicisation vary between the above mentioned three levels. At the National Economy level, the way international competitiveness is conceived is often affected by the strategic objectives of the national development, expediency in demonstrating progress in achieving these, peculiarities of country's political scene including political balances, attitude of ruling party(-ies) to free trade and protectionism and country's affiliations with trade blocks and global economic organisations.

At the Industry level, it is supposedly the age and size of an industry, industry's political significance and contacts in government, ease of entry and exit from it, domestic demand volatility, domestic customers sophistication and industry's general image with the society that would influence most strongly the way an industry would conceive its specific international competitiveness paradigm. At the Company level, in many instances it will be the relative internal status and importance of international business versus the
domestic one and, again, the relative expediency of all options considered available to the management that will normally determine the way international competitiveness is understood and measured.

With most studies on international competitiveness being commissioned by either government agencies involved in formulating new government economic and export policies or by organisations representing the interests of industry, reliability of their findings may at times be debatable. Often these studies may indeed measure something else than the actual international competitiveness of the industries in question, because of methodological problems they fail to either recognise or resolve.

**Dependence on foreign trade and investment**

A strong influence in this case will most evidently be demonstrable at the National Economy level. A long history of country’s dependence on foreign trade and investment is likely to produce a much better understanding of the mechanism of the international competition and stimulate its more adequate conceptualisation. Countries such as US find it difficult, due to their history and size of their economy, to reorient their thinking from one focused on the domestic competition to one informed by the global benchmarking.

**Competitiveness of the business environment**

A highly competitive business environment, particularly when combined with a small domestic market, will stimulate both industrial managers and researchers to examine, in more detail, the reasons behind all recognised differences in international competitiveness and will produce more adequate general, and specific, definitions of international competitiveness at the Industry and the Company levels. In countries where high level of domestic industry protection has been in existence for many decades the management prefers to accentuate the rates at which industry has enhanced various components of its international competitiveness over certain period of time (eg. cost, reliability of products, delivery periods etc.), rather than compare these with the relevant best international practice.

**Growth of the national economy**

High growth rates, other things being equal, are likely to reduce interest in examining issues relating to international competitiveness. Prolonged periods of slow industry growth are likely to encourage investigation of the international growth drivers, increase the relative significance of those issues in strategic planning and shift the emphasis towards those methods of enhancing international competitiveness that do not depend on growth. Increased usage of qualitative, rather than quantitative, measures of competitiveness (if alternatives are available) may also be noticed. The latter phenomenon is likely to be most pronounced at the National Economy level.

**Competitive patterns**

The most important distinction that needs to be made in this context is the one between price and non-price forms of industry competition. Examining respective roles of those forms in determining the strategies prevalent in industries is equally critical an element of analysis. It will be at the Industry level that most of these differences will influence most strongly the way competitive advantages are perceived and sought.
Business infrastructure

A very well developed business infrastructure, in particular of its parts responsible for gathering, processing, analysing, and distribution of high quality information used in business planning and management, will aid in arriving at adequate definitions of international competitiveness and carrying out valid comparisons of its levels between companies and industries.

Quality of the discourse

Certain cultural values (such as high respectability and social appeal of superior knowledge and/or professional performance, consensus based philosophy encouraging wide participation industry decision making) when coupled with scholarly competence and high intensity of research in the relevant business disciplines, increase chances of finding adequate solutions and acquiring consensus (both within, and between, theory and business practice) as to what ways of conceptualising international competitiveness, and measuring, seem to be appropriate.

HOW INTERNATIONAL COMPETITIVENESS IS UNDERSTOOD?

The considerable variety of the ways in which international competitiveness is understood results from the difference of perspective (see Table 1 below), diversity of industrial context to which these definitions refer (explicitly or implicitly), as well as, sometimes, from methodological deficiencies. The report "Australian Management and International Competitiveness" prepared in 1990 by the Centre of Export Marketing at the Australian Graduate School of Management mentions several possible interpretations of international competitiveness (see Table 1 below).

Table 1 Various perspective of international competitiveness

<table>
<thead>
<tr>
<th>No</th>
<th>Perspective</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Mainstream economists</td>
<td>The ability of a country to deliver the lowest cost products to global markets</td>
</tr>
<tr>
<td>2.</td>
<td>Industrial economists</td>
<td>The ability of a country to nurture dynamic and growing industries</td>
</tr>
<tr>
<td>3.</td>
<td>Leadership protagonists</td>
<td>International competitiveness depends on the quality and the vision of the chief executive office of a company</td>
</tr>
<tr>
<td>4.</td>
<td>Marketing scientists</td>
<td>The ability of a company to meet the needs of customers worldwide</td>
</tr>
<tr>
<td>5.</td>
<td>Scientists and technologists</td>
<td>The ability of companies and research institutions to sustain research and development at the cutting edge</td>
</tr>
<tr>
<td>6.</td>
<td>Policymakers</td>
<td>The ability of an economy to improve living standards of a country's citizens</td>
</tr>
</tbody>
</table>

Competitiveness of a country

In his analysis, Porter (1990) mentions the general components of industry environment, i.e., factor conditions (basic vs. advanced; generalised vs. specialised factors), demand conditions, related and supporting industries and firm strategy, industry structure and competitive rivalry that determine the level of an industry international competitiveness. Obviously, in a concrete geographic (or industry) context, the list of factors that affect the competitiveness may contain a large number of more specific items. A recent study of international competitiveness of Australian industry suggests that the following factors are responsible for impeding the increase of competitiveness in this country:

- inadequate quality of leadership;
- short term focus in planning (lack of vision);
- poor level of cultural empathy;
- fear of international competition (low confidence levels);
- low export participation and experience;
- lack of interest in developing exports;
- poor preparation to international negotiations;
- low level of expectations of the global market opportunities (which reflects on the relevant objectives set by the companies);
- opportunistic character of the Australian industrial strategy (emphasis on mergers), and
- the deficiencies in education system?

Investigating macro aspects of international competitiveness usually involves using some very aggregate, non-specific constructs or measures that are believed to be relevant to all national industries. Many believe for instance that a consistently positive balance of current account, combined with high rates of economic growth and of income per capita as well as high ratio of exports to GNP are the most typical characteristics of an economy that is competitive internationally.

Competitiveness at the micro level

Essentially, the construct of international competitiveness at the micro level differs from the one that concerns international competitiveness at macro level in that the former will emphasise company's exports to total sales ratio, price competitiveness, non-price competitiveness (superior quality, quicker delivery, better after-sales service conditions etc.), higher market shares and some other measurable, sometimes industry-specific proxies for international competitiveness. Putting together a list of most significant industry specific and non-specific capabilities that determine the rate and degree of success in international competition, weighting these adequately, and then testing the predictive validity of such comparisons on appropriately selected companies poses a substantial challenge.

Competitiveness of an industry

Opinions on what determines industry competitiveness often feed on the theory of perfect competition. Frohlich (in: Francis and Tharakan 1989) proposes for instance that,

- the lower the level of nominal wages;
- the lower the external value of the currency, and
- the faster the increase in productivity,
the greater will be the international competitiveness of the country’s industry. His claim seems to leave though some space for further debate. To start with, it is important to realize that before any perspective on international competitiveness is adopted, two vital questions should be answered:

- do we consider as internationally competitive industry only such one which has got a demonstrated capacity to sell its goods and services in overseas markets and/or defend its position in domestic market against overseas competitors without the benefit of tariff protection, tax reduction or exemption or any other form of government support? or
- are we also prepared to include into this category such industries that have been able to successfully competed internationally due to significantly superior levels of various forms of protection and support, compared with their overseas counterparts?

It would appear that both above-mentioned perspectives may be acceptable even though not for the same purposes. The first perspective, that we shall refer to as the absolute one, would apply to situations where differences between industries (and companies) in various aspects of their international business performance are investigated and their root causes sought. The second, that we shall call the pragmatic one, would be more relevant when, for instance, forecasting changes to international market shares held by competitors, or running intergovernmental round of trade negotiations.

Frohlich's somewhat vaguely phrased contention *'the lower the external value of the currency, the greater will be the international competitiveness of the country's industry'* supposedly was meant to signify: *'the more has the exchange rate of the domestic currency decreased over a certain period of time, particularly against the currencies of the major international competitors to the domestic industry, the greater will be its positive influence on the international competitiveness of that industry'. If this is a correct interpretation, Frohlich's assertion could be accommodated by the pragmatic perspective, but not - by the absolute one. It would also appear that another part of same contention ('*the faster the increase in productivity, ...*') would become less ambiguous by adding a reference to the absolute level of productivity, lest we need to accommodate a separate case of industries despite a rapid increase in their productivity have not reached yet a level that would have made them internationally competitive.

A common argument links the level and fluctuations in international competitiveness to the changes in the price levels relative to competitors. As convenient and attractive price comparisons have always been, they neglect non-price advantages that in case of some industries, product uses, buyer's preferences and purchasing situations may be more significant than those based on price. Comparisons based solely on price are not able to properly reflect the richness of competition forms as well as variety of product uses and buyer behaviour and therefore will only in very few instances found a valid base on which to evaluate the relative competitiveness.

A brief literature review is offered below of some popular interpretations of international competitiveness.

The share of exports in total sales

This ratio may not necessarily be an adequate measure of a company's competitiveness, in that the size of the domestic market (eg. USA) may encourage many companies to concentrate their efforts on it, just because they may, for example, believe that their competitive advantage is largest with regard to that
Comparisons should preferably be made only between companies that follow the same generic business strategy (e.g., global, overall cost leadership strategy) and represent the same stage of internationalisation.

Cost and price differences

The differences in prices between competitors might be a useful proxy for their relative competitiveness. For this comparison to produce reliable results, it is however necessary that they all have a very similar product mix (to avoid possibility of cross-subsidisation), offer undifferentiated products that compete mostly on price, and sell to the same market segments in the same countries.

Innovation based competitive advantages

Innovation strategy is believed to have three distinctive, interrelated dimensions:

- development of industry-specific skills;
- bundling these skills into entrepreneurial scope through internalisation/externalisation and global exploitation of skills and scope in all company operations.

All these dimensions form the basis for the new paradigm of management supported e.g. by Hamel (1991) that suits the requirements of imperfect and volatile markets, abundant technological opportunities, globalisation of competition and the need for an intense customer value creation.

**INVALID TYPES OF COMPARISONS**

Comparing competitiveness across various forms of international business, stages of business internationalisation and stages of export involvement is not uncommon. Yet, the practical meaningfulness and methodological correctness of such cross comparisons is indeed very questionable. The following discussion will provide some arguments against such comparisons.

Forms of international business

Theory discerns three generic forms of international expansion: those based on trade, those based on investment, and those based on countertrade. It is evident that all these generic forms follow entirely different business philosophy:

- trade usually aims to maximise profit by continuously optimising elements of marketing mix in selling certain products and/or services to areas and customers targeted by a company;
- investment has a distinctive long term perspective and engages certain combination of a company's (or companies') transferable resources and skills; it requires considerable feasibility study effort, involves great deal of political risk and inflexibility, and
- countertrade is essentially focused on single transaction, requires specific competence and a very well developed network of contacts.
Thus, comparing competitiveness of two companies each of which concentrates on a different generic form of international business does not seem to be able to bear any meaningful results. Each of these companies follows a different strategy and should not be evaluated against the same set of criteria. If an entity is involved in more than one of above-mentioned generic forms simultaneously, the comparisons should always be carried out very cautiously and, if possible, with respect to the same business form only.

Stages of business internationalisation

Similar argument can be used in relation to the various stages of strategy internationalisation: Domestic, Regiocentric, Polycentric and Geocentric. Even though many companies would at some point change the internationalisation level of their business, yet the consequences of such decisions are almost always irreversible. International business objectives, mode of operation and performance levels differ, quite substantially, between various stages. In the Ethnocentric (or Domestic) stage, for instance, no systematic international market research and no international marketing planning is believed to be undertaken by companies, their international marketing effort is almost exclusively reactive, exports sporadic. Regiocentric stage means a more focused and more intense international marketing research and planning effort as well as an established, long term presence and commensurate competence in dealing with some countries of a region.

In the Polycentric stage multinational mode of operation is dominant; independent entities are involved in a systematic international marketing research and planning effort; each of these relatively independent entities is allocated a certain region. Finally, Geocentric stage is characterised eg. by the global marketing research and planning effort, financial dependence of individual operations from the parent company and - usually - a standardised marketing-mix. These few examples explain I think why comparing international competitiveness of two companies representing different foci has hardly any practical meaning.

Stages of export involvement

The mechanism of international competitiveness has often been studied via models representing stages of increasing export involvement. Unfortunately, most of these models have a limited capacity to explain and predict the relevant behaviour and international business performance of any individual company in that they concentrate on a small number of variables, eg. time, cultural proximity of export markets, risk aversiveness with management, company experience in international business and level of risk typically involved in various forms of market entry in international business. They do not offer a holistic framework of the analysis, ie. a framework that would entail all factors that are jointly capable of explaining most of the variance in international competitiveness between companies.

Disagreement as to the number and nature of export stages, the criteria to be used in measuring export development, and the relative importance of factors believed to influence export behaviour is reported by Samiee et al 1993 and Turnbull 1987 in their critical evaluations of export involvement models. Some of the researchers focus on internal influences on the export behaviour (Cavusgil and Naor 1987); others (Wiedersheim-Paul et al. 1978) provide for some balance between internal and external influences; still other look at the differences between "proactive" and "reactive" motivations for exporting (Czinkota and Johnson 1981) or at the innovative behaviour of a company and examine the relevant differences between two categories of companies (Samiee et al 1993).
Economic policy

Economic policy can make a great difference to whether or not a company which is successful at home can also be successful internationally. Stronger economies with a substantial number of industries heavily dependent on international business can, and usually do, spend more on supporting their most promising, politically important or strategically vital industries with various forms of export promotion. Of particular importance is whether these policies are trusted as indicative of a firm and long-term government commitment. On the other side, fostering any industry for too long is hardly a salubrious measure.

Organisational and contractual innovations

The question of international competitiveness may be perceived (Francis and Tharakan 1989) as primarily relating to adjustment, adaptation, innovation and specialisation of business enterprise. Structural adjustment needs to be viewed in the context of all dimensions of international transactions; trade, factor income, FDI, technology transfer, countertrade etc. National strategies to improve national competitiveness must address all possible comparative (national) advantages and all absolute (entrepreneurial) advantages that may result from all possible types of international operations. Organisational and contractual innovations designed to adjust the scope of the firm to its economic and political environment are believed to be more important for international competitiveness than common opinion would acknowledge.

**ASSESSING VALIDITY OF METHODS**

Examining validity of methods used in measuring international competitiveness at micro level has got a paramount importance. Yet, an apparent confusion that results from a wide array of possible perspectives, lack of consensus on the methodology to be used in investigating the mechanisms of international micro competitiveness and of acknowledged, precise definitions of all relevant constructs and terms, has thwarted the progress of that discourse. A rigorous evaluation of that validity would require looking at its various aspects (see Table 2) and would need to be carried out in a specific industrial context. Table 2 below suggest such a framework, and offers series of author's non-specific judgments with respect to some of the methods mentioned earlier in this paper.

**CULTURAL VALUES AND COMPETITIVENESS**

In his study, Hofstede (1984) maintains that most cultures differ with respect to four major values and dimensions:

1. degree to which the individual vs. the collectivity is valued;
2. the view of power relationships;
3. perceptions of male and female roles;
4. the degree to which people know and can control their future.

The ways in which cultural values affect the perception and pursuit of competitiveness in general, and international business competitiveness in particular, are not always easy to demonstrate. Yet it may be interesting to mention that in some countries (eg. Australia) the very notion of competitiveness with respect to the work environment is strongly resented by the majority of the industry workforce as it is
commonly associated with a ruthless exploitation of helpless and alienated individuals by employers and an absence of the sense of commonality of interests and of need to conform with ethical norms, otherwise commonly recognised by the employees. A mini survey of views and opinions of 100 Australian business executives from the state of Victoria on competition and competitiveness in the workplace, I carried out in December 1994 may offer some insight into the cultural determinants of international competitiveness of Australian businesses. Since there is an obvious vinculum between international competitiveness of a company and the understanding of, and attitudes to, competition and competitiveness in higher echelons of management in the company, I shall briefly present below some of the results of that survey.

<table>
<thead>
<tr>
<th>No</th>
<th>Method</th>
<th>Logical validity</th>
<th>Empirical validity</th>
<th>Overall usefulness</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Price competitiveness</td>
<td>S,A</td>
<td>A</td>
<td>High except in case of high brand preference or high switching costs</td>
</tr>
<tr>
<td>2.</td>
<td>Total export/total sales</td>
<td>I</td>
<td>A (2:1)</td>
<td>Depending on the size of the home market (absolute and relative to the company's production capacity)</td>
</tr>
<tr>
<td>3.</td>
<td>Foreign market share</td>
<td>A</td>
<td>A (3:6); (3:8)</td>
<td>When no historical advantage exists and with regard to companies of similar size</td>
</tr>
<tr>
<td>4.</td>
<td>Rate of innovation</td>
<td>I</td>
<td>A (4:5)</td>
<td>High technology product markets in their introduction and early growth stage</td>
</tr>
<tr>
<td>5.</td>
<td>Quality of products/services</td>
<td>A</td>
<td>A (5:4)</td>
<td>Except for low involvement products</td>
</tr>
<tr>
<td>6.</td>
<td>Ability to customise products/services</td>
<td>A</td>
<td>A (6:3)</td>
<td>Except for mass products and in case of high price elasticity of demand</td>
</tr>
<tr>
<td>7.</td>
<td>Delivery periods</td>
<td>S,A</td>
<td>A (7:8)</td>
<td>High, except in case of high brand preference or high switching costs</td>
</tr>
<tr>
<td>8.</td>
<td>Rate of success in tenders</td>
<td>A</td>
<td>A (8:1); (8:3); (8:7)</td>
<td>High: for the industries where a substantial percentage of sales occurs via tendering process and provided company is an active participant in it</td>
</tr>
</tbody>
</table>

Legend: S = superior validity level, A = adequate, I = inadequate, NC = not certain.
Interestingly, respondents showed a great deal of disparity in interpreting competitiveness in the workplace. Similarly, there was no prevalent opinion on the character of the relationship between competition pattern in a company's external environment and competitiveness of that company. Neutral, or close to neutral, disposition towards competitively minded people was claimed by the majority of respondents, most of which are operating in a work environment described by the majority of them as 'moderately' to 'extremely competitive'. A clear preference for a 'fairly competitive' work environment was demonstrated in the survey. A majority of nearly 56% believed that one's attitude to competitiveness depends to a large extent on the character of one's professional pursuit. 73% of the respondents thought that the level of competitive challenge in the companies that they have worked with so far has been varying. The same percentage believed that at least some of those companies would have been better off if they had had a more competitive work environment.\(^\text{13}\)

**THE ANALYTICAL FRAMEWORK OF INTERNATIONAL COMPETITIVENESS**

Holistic approach demands that the following three dimensions of competitiveness be always examined regardless of any peculiarities of the business context involved:

- cost of products/services;
- their value to a particular client/customer or their category, and
- amount of time it takes to complete any specific task related to satisfying needs and demands of a client/customer.

Even though in some situations adopting domestic frame of reference in benchmarking may be acceptable (eg. a case of highly efficient system of protecting a mature domestic industry unlikely to be revoked due to the political sensitivity of the issue and absence of strong pressure from foreign governments), assuming the global frame of reference in business is obviously a far more appropriate alternative in all other situations.

International competitiveness may be examined validly only when:

- the general and industry-specific rules and mechanism of contemporary international competition are well defined;
- a narrow, operational definition of international competitiveness, of appropriate content and construct validity is formulated, and
- the focus is put on comparisons between companies with very similar, if not identical, product-mixes, and with respect to their performance in the same markets.

It would be appropriate to stress here an immense practical significance of studies that:

- examine relationships between capabilities of companies and individuals and the rate and extent of success in international business;
- diagnose the most essential aspects of international competitive advantage, and
- offer most promising directions for government and corporate policy to enhance the relevant business practice.
Apart from factors that constitute competitive advantage of a nation (Porter 1990), it is I believe the system of education and related cultural values, human attitudes and skills as well as better access to business information that seem to often hold the key to sustained economic growth, productivity improvements and, not less, of international competitiveness of a company. Several factors presented in Figure 1, such as:

- commonality of the desire to excel;
- persistence in job assignments;
- identification with company objectives;
- long term business focus;
- coherence of the society;
- respectability of knowledge;
- shared moral values;
- status of the teaching profession;
- quality of the education system;
- respectability of the business professions, and
- strength of the work ethos

would appear to be heavily dependent on the general, and business, culture of a country. Of particular practical significance appears to be here the question concerning the extent and the pace at which these factors may be changed through appropriate national policies, or modified work practices. It is important to know whether any of the factors listed above may be regarded as constant within the policy maker's perspective (whatever is its length in a given country).

In their study of the factors believed to be able to explain the variance in success rate in international business, Francis and Tharakan (1989) divide relevant explanatory variables into four groups:

- group 1 representing physical capital intensity;
- group 2 - human capital intensity;
- group 3 - industrial concentration, and
- group 4 - level of protection and market openness.

They report a dominant role of industry specific factors in explaining the success rate of individual industries (in some cases these factors are responsible for over 80% of the variance), yet the results need to be treated with caution in that the interviews revealed a great deal of unawareness by the majority of managers of the 'general' forces to which the study points as causes of industrial success: economies of scale, degree of concentration of production, commercial policy variables such as market openness, tariffs etc.

**DEFINITION OF INTERNATIONAL COMPETITIVENESS**

An examination of international competitiveness may be carried out at any of at least six following levels of aggregation/disaggregation:

- individual transaction,
- individual product/service,
- product line,
Due to a relatively higher homogeneity of business environment and situations it is easier to conceive methodologically valid comparison of international competitiveness between companies from the same industry than between or across industries. On the other hand, comparisons of international competitiveness between countries seem to have much less practical significance than the other two categories, and are used almost exclusively for political purposes, be it internally or, internationally.

In a short paper like this, it is not going to be possible to offer a variety of possible international competitiveness definitions. Let me therefore quote the definition by the Centre of Export Marketing (1990) that reflects what seems to be a quite common understanding of the notion. The Centre proposes that 'internationally competitive enterprise is one which is capable of selling its goods and services in overseas markets and/or defending its position in Australian markets against overseas competitors without the benefit of tariff protection'. While this definition makes it fairly easy to determine whether a company is internationally competitive or not (at least as far as exporting and competition with imports are concerned), it refers to an ideal situation that may be difficult to relate, or reduce the real one, to. However, when this obstacle is removed and the definition fully operationalised, ensuring appropriate level of validity of relevant discourse shall be much less difficult a task.

A range of related application difficulties is to be expected, still. An appropriate insight and rigour will be required to determine for instance, in every specific case, a list of factors that explain the real differences in competitiveness levels between the competitors. Fluctuations of competitiveness will need to be allowed for and proper attention given to ranking and measuring them. Length of the period of time from which the data are gathered constitutes another challenge, for cognitive and logistic reasons. Another question worth asking in this context is whether comparing competitiveness between industries and companies make sense regardless of the length of the period for which the comparison is made.

Recapitulating the discussion, high validity of international competitiveness comparisons may only be ensured if:

- only entities representing the same forms of international business, stages of business internationalisation and of export involvement are compared;
- performance in the same markets is compared;
- the amount of time the entities being compared have been exposed to the same business environment is significant (say, not less than 1/2 of the average life cycle of a brand in the relevant market) and the differences in the length of that exposure between the entities appear inconsequential (say, are less than 1/3 of the longest period in question) and
- the same level of aggregation/disaggregation (see above) should be used in every comparison.

Whenever possible, more than one tool should be used in comparing competitiveness of companies, to increase the concurrent validity of results. Most of these tools will be developed for particular industries; their predictive validity will need to be properly verified.
I therefore propose that the international competitiveness of any two, or more, companies
be compared against a number of criteria (both general and industry specific);
be carried out only with respect to the same markets and organisational entities that have been exposed to the same business environment;
be carried out only with respect to the organisational entities that represent the same industry, forms of international business, stages of business internationalisation and of export involvement, and
be compared only for sufficiently long periods in order to minimise the impact of the volatile character of international business as well as the inequity caused by different length of companies presence in individual markets.

To increase their validity, comparisons of competitiveness should reflect sustained achievements of two, or more, companies active in the same markets and enable eliminating most of short term export fluctuations (might be particularly important in case of investment goods, such as turn-key projects, complete technological lines, major modernisations of existing plants etc. that are sold through tendering) and other disparities between the examined entities.

To be regarded as internationally competitive (in the sense of the conventional competitive strategy paradigm) a company needs to have

- a sustained capacity to sell most of its goods and services in overseas markets and/or
- to defend its position in domestic market against overseas competitors without the benefit of tariff and non-tariff protection, and with no government export promotion support (or if its level does not exceed, in comparative terms, that of their least privileged international competitor).18

If one were however to assume the perspective based on the new management paradigm proposed by, among others, Hamel, Prahalad, Shulman and Stalk, then obviously the qualifications for an internationally competitive company must differ, correspondingly. In the latter case, a company might be considered internationally competitive only if it possesses core competencies that:

- provide potential access to a wide variety of markets;
- make a significant contribution;
- are difficult for competitors to imitate.19

It is easy to see, that the competitiveness debate acquires in that perspective a decisively different format: it does not focus any more on evidencing the past or current company capacity to compete internationally but it looks at company's capacity to remain internationally competitive in the foreseeable future conditions of its business environment. If accepted, this change has all the makings of a real breakthrough in strategic management.

CONCLUSION

Recognising the variety, background and ramifications (also political ones) of possible perspectives of international competitiveness, understanding when and how they should be assumed as well as detecting
all pitfalls in theoretical debate, and in examining actual international business competitiveness, form a set of preconditions for an advance in conceptualising international competitiveness. This paper sets out to take stock of major relevant ideas and concepts, offers some pertinent reflections and aims to prepare the ground for further development of theory.

ENDNOTES

1 Adam Smith and David Ricardo deserve a mention here as eminent precursors of that discourse.

2 Price and productivity focus of the macro theory has made it very difficult to explain successes of companies that relied eg on their superior cultural empathy, ability to differentiate products, ability to react faster to signals from customers, or on more effective customised selling techniques for their sustainable international competitive advantages.

3 Content validity (Gay and Diehl 1992) as 'the degree to which a test measures an intended content area'; construct validity - 'the degree to which a test measures an intended hypothetical construct'; concurrent validity - 'the degree to which the scores on a test are related to the scores on another, already established, test administered at the same time or to some other valid criterion available at the same time'; predictive validity - 'the degree to which a test can predict how well an individual will do in a future situation'.

4 The latter will be done to establish the degree to which these tools measure what they are supposed to measure.

5 D'Cruz and Rugman attempt to classify strategies by France Telecom and Alcatel using the Five Partners model (it names ). They refer to France Telecom's strategy as one that is more cooperative and depends upon sharing and accessing resources with partner organisations, while that of Alcatel adheres to the traditional structures of a multinational corporation and relies more on the mechanism of competition in developing their strategy.

6 Whilst core competencies, capabilities and skills are not understood to be mean the same, there certainly is a great degree of uncertainty as to how to define all these and, in particular, where to put demarcation lines between them.

7 Surely, it will always be tempting to describe an economy's progress by referring to its past performance rather than by comparisons with current performance levels by other economies, or comparing production or export growth rates with stagnant economies or industries rather than with those experiencing most dynamic growth; the same applies for the Industry level. In Australia's case we often witness rather peculiar reference points being used in the relevant debate: one for instance relates to being 'among the best industries/companies in the southern hemisphere' (??).

8 For a systematic presentation of this construct's components see eg. Koch (1994).


10 Obviously, in two latter cases (tax relief and other government support) what really interests us is whether the industry in question would have a sustained advantage resulting from taxation level which would be lower than that of any, or at least that of most of its international competitors; similarly, whether other forms of government support obtained by this industry would exceed the relevant levels of support overseas.

11 The convenience sample consisted of the graduates of the course in Business Administration run by the Swinburne University of Technology (Graduate Diploma in Business Administration). Since almost every graduate of that course has a university degree, the results of the survey may not be necessarily representative of the entire population of the Australian business people. Still, a very wide array of respondents' industrial, educational and ethnic backgrounds, different age groups they belong to, as well as a fairly balanced gender structure of the sample, make I think some of that survey's findings worth presenting here.

12 A comprehensive analysis of this survey's results is to be undertaken in a separate paper to be published this year. See, for instance, a recent discussion by Dunlop (1992).

13 This category would also include any general factors other than those assumed in their research.

14 Some other propositions of levels at which international competitiveness could be examined are offered in: the Centre for Export Marketing report "Australian Management and International Competitiveness" (1990).


16 p. 2.

17 The above definition modifies one proposed by the Centre of Export Marketing (1990) in that
- It stresses the importance of the **demonstrated** capacity to sell in overseas markets,
- Adds **forms of protection** against overseas competition and 'unfair advantages' other than tariffs substantial government support as impediments to fair competition.

19 These three requirements are identical with the criteria proposed by Hamel (1991) for a core competence.
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