

COMPETITIVENESS IN SERVICES, DRIVING FORCE OF ECONOMIC DEVELOPMENT

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ABSTRACT: *The competitiveness of a nation is ensured by the profitable activity of firms. They strengthen their position in the domestic and international markets through global strategies whose purpose is to increase productivity and maintain it at a high level. For this, the company must take into account both the internal economic environment which ensures operating conditions and the external economic environment's development. The five competitive forces determine the industry's profitability because they configure firms' selling prices, production costs and investments needed to be competitive in the field. The threat of new competitors limits the potential profit since they involve new production units and the opportunities for market expansion. Economic strength of the buyers and bidders attracts profits to them. Rivalry among existing competitors erodes profits by increasing costs of competition (like advertising, selling expenses or those required for research and development). The presence of substitutive goods or services limits competitors' prices through buyers' transfer phenomena limiting and eroding market share of industry / firm in the total production output.*

KEY WORDS: *services; development; competitiveness.*

JEL CLASSIFICATION: *J21; F22; F20.*

1. INTRODUCTION

Both at the micro, middle, macro or mega economic level, the new feature influencing competitiveness in our century is the intensity of competition, both national and international, enhanced by the globalization phenomena, rapid evolution of technological changes, especially in computer science and telecommunications and progressive liberalization of international trade etc. (Ionciță, et al., 2008).

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Lisbon Agenda defines competitiveness as the ability of a country to improve and raise the standard of living of its people by providing more jobs of higher quality and achieving a greater social cohesion. In the context of social and economic factors that contribute to these objectives a major role is assigned to competitiveness in the field of trade in goods and services, considered to be a confirmation of the performance of export (and import) of the EU and, respectively, of the member countries. Keeping in mind this narrower definition that focuses just on the commercial aspect, it seems appropriate to evoke the definition formulated by the OECD (2005) stating that competitiveness is a measure of the advantage / disadvantage of a country in the process of selling its products on international markets.

United Nations Conference on Trade and Development considers that competitiveness of a national economy is "the ability of a nation, in terms of free and fair competition, to produce and sell on the international market goods and services that meet global market requirements and to maintain or increase simultaneously the internal rate of growth."

The concept of competitiveness has initially emerged as an aspect of micro economy, referring to the level of a firm's activity. In this respect, it is considered that an economic activity or firm is competitive if it sells its products at market price while covering costs and obtaining a profit and these conditions are valid and necessary both in the short and medium term and long term.

Moreover, competitiveness can be seen as an indicator "of the ability of providing goods and services in the form, place and moment when they are sought by buyers at prices as good or even better than those of other bidders so that consumers can obtain at least the opportunity cost of revenues obtained from the resources involved" (Freebairn, 1986).

Thus competitiveness includes two types of competition: competition of products in domestic and foreign markets, and the ability to gain and maintain its market share; competition in the market of factors involved in the production of goods which must ensure at least the opportunity cost.

2. CURRENT DEVELOPMENTS AND THE CHARACTERISTICS OF THE PHENOMENON OF MIGRATION FOR EMPLOYMENT

In the economic literature, the concept of competitiveness applied to service activities was defined as all those factors that promote and impede the internationalization of those activities. The definition of competitiveness proposed by Trabold (Trabold, 1995) that competitiveness is defined as a consolidation of four skills seems particularly relevant. These abilities are:

1. ability to sell goods and services internationally;
2. ability to attract resources, especially FDI;
3. ability to adjust to continuously changing external conditions through structural changes and modernization;
4. ability to gain, which can be measured by GDP and economic growth. Although it is characterized by pragmatism, this definition neglects the labor factor.

In addressing economic competitiveness, theory goes from microeconomic level and reaches the industrial branches and economy; Porter's competitive diamond model (Porter, 1986) identifies five forces that influence a firm's competitiveness: competition between incumbent competitors, threat of new competitors, threat of new substitutes for their products or services, bargaining power of the bidders and seekers' purchasing power.

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The five competitive forces determine the industry's profitability because they configure firms' selling prices, production costs and investments needed to be competitive in the field. The threat of new competitors limits the potential profit since they involve new production units and the opportunities for market expansion. Economic strength of the buyers and bidders attracts profits to them. Rivalry among existing competitors erodes profits by increasing costs of competition (like advertising, selling expenses or those required for research and development). The presence of substitutive goods or services limits competitors' prices through buyers' transfer phenomena limiting and eroding market share of industry / firm in the total production output.

One of the determining factors in the competitiveness of firms is the economic environment in which firms operate. Michael Porter defines economic environment by the following factors:

- General conditions: refers to the position of the national economy in terms of inputs necessary to compete in a particular industry, such as: human resources, their training and cost; natural resources, with their abundance, availability and cost; the level of knowledge, involving not only stock-specific knowledge and technical expertise required, but also means of training (activity in universities and research institutes, statistical agencies etc.); capital resources (the size and cost of capital available to finance the branch in question); infrastructure (infrastructure's type, quality and cost of use affects competition).

- Conditions of application: domestic demand for goods and services of the industry which depends on the needs of buyers, but is influenced by many other factors (the solvency of buyers; most of them prefer cheap goods, but can always be identified a segment that prefers unique or sophisticated goods; consumer habits and traditions; rivalry of import products etc.). Competitiveness on the internal market will be analyzed by considering the indicator "single market share" and the correlations that exist between industries and support industries analyzed. For a thoroughgoing study at microeconomic level, researches are needed to identify the level of domestic demand, the number of potential buyers, and the growth rate of domestic demand so to anticipate the possibility of saturation of the domestic market. Regarding the external demand, we shall analyze the structural developments in the exporting industries group and the competitiveness in external market will be approached by the pointer "export

intensity" and the correlations with productivity level. Particular attention is given to supporting industries.

- Related and supporting industries: the presence or absence of the national economy of supporting industries and those related to the respective branch that are internationally competitive; the existence of competitive advantage in the supporting industries confers a potential advantage to the branch because they produce the necessary inputs to international standards and at competitive costs. Necessary inputs can be imported, but to have them available domestically confer a benefit to the industries that use them.

- Firms' strategies, industry structure and rivalry: meaning the conditions in which the companies can be created, organized and managed and the nature of domestic rivalry. There is no universal management system available to any company; it depends primarily on internal conditions. Objectives are strongly determined by the ownership structure and reflect the characteristics of capital markets. It is the only point of M. Porter's model for which the input-output tables do not provide the information required for analysis. In this domain of interest, there are other interesting approaches in the specialized literature with direct reference to the Romanian economy.

- Government policies can positively or negatively influence each of these four determinants: the general conditions relating to the factors of production can be influenced by subsidies granted or withdrawn by scientific research. Regarding internal market, government's influence is manifested by setting standards that affect consumer preferences, like state orders for certain industries (arms and not only), as well as through foreign trade policies (tariffs, quota, various barriers to import or export). Support industries are also affected by this type of policies and business strategy depends crucially on capital markets regulations, tax policy, antitrust laws etc.

Another crucial element influencing the firm's competitive advantage is determined by the action of governmental authorities. The government's role is to influence and potentiate national economic factors. This influence can be directly achieved through subsidies, industrial policy and other or more diffuse actions such as modeling internal demand by standards and regulations. The role of government in the market as an important buyer of property and advanced technologies such as telecommunications equipment, weapons, computers, vehicles and others must not be forgotten (Crâng-Foamete, 2008).

Competitiveness problems (definition, measure, drivers, growth strategies, etc.) can be addressed by presenting elements of differentiation and inter-conditioning at the microeconomic level (firms, organizations etc.) and mezo-economic level (economic sectors or branches), macroeconomic level (in a country) or megaeconomic level (of a number of countries - such as the EU). Also, the competitiveness of firms, industries, countries, etc. can be considered at a certain statistical time by mean of issues such as: market share, profitability and position in world trade or long-term dynamic. In the second case, the competitiveness of a company, for example, is seen as its long-term ability to thrive in a competitive economic environment. Similarly, at the macroeconomic level, the competitiveness of a nation can be regarded as the country's

ability to achieve long-term growth in such a way that its economic structure is able to adapt effectively to global economic developments (Ionciã, et al., 2008).

We believe it is essential to specify the angle of approach in the scientific debate on the concept of competitiveness, namely:

A. If we approach it in terms of the creation, maintenance and development of competitive advantages that ultimately lead to competitiveness, the only place in which this process operates is the sphere of activity of economic operators, the productive sector. A business company is the only entity providing economic competitiveness.

B. If we address competitiveness, in terms of level and opportunities of commensuration, the situation is completely different since, although it is achieved only within the company, competitiveness spreads, through its effects, to higher stages of aggregation and it can be more or less precisely measured, depending on the scope, tools used and perceived effects on the national economy (Crâng-Foamete, 2008).

Amplification of the economic relevance of services must be associated, above all, with the accelerated internationalization of these activities and, respectively, their increased capacity to constitute the object of international trade. This process occurs through two interrelated dimensions:

- (1) The sustained growth of trade in services;
- (2) The rapid expansion of foreign direct investment flows (FDI) in services.

The relationship between competitiveness and services must be understood within a framework that takes into account both the effects of services on the global economy and the challenges posed by the competitive economies onto service sector. Since the late '80s, many important studies have examined the role of services as agents of globalization and a driving force of international trade. Precisely for these reasons, we can speak of biunivocal relationship competitiveness - services. Therefore it is obvious that services require a specific approach as their internationalization process differs from that of the manufacturing industry. Two types of factors affecting trade in services: (1) expansion factors, which force opening of markets - due to intrinsic economic dynamics; and (2) limiting factors restricting the growth of trade opportunities - due to inherent peculiarities of services and features related to their regulation (Ghibuțiu, 2010).

Moreover, the main economic factors affecting the development of the tertiary sector are:

- economic growth - the rate at which economy evolves (for better or worse) in a period of time – it influences the development of services, which are both a precondition and an effect of the evolution of the economy;
- final household consumption expenditures are influenced by real income, saving trend, taxes and budget subsidies (grants, aids, etc.), consumer loans, etc. Increased consumer spending by individuals and households leads to a growth in a higher rate of the demand for services;
- investments in the infrastructure, technical development and modernization of the service branches influence the increase of supply in services and their quality level;
- government spending and private sector consumption expenses influence the evolution of public services, non-available on the market, meant for the community or groups of households;

- exchange rates – the exchange rate of the national currency against major currencies influence the evolution of international trade services, stimulating or rather discouraging exports, in spite of the multiplier effects on the economy;
- interest rates - determine the cost of borrowing, encouraging or not the demand for loans for both investment and consumption;
- inflation rate - changes in the general price index affects the purchasing power of the population, the cost of products, with implications for demand and supply of services.

Other economic factors such as the level of taxation (taxes, excise etc.), fiscal policy (allocation of state budget expenditures for public services), the growth rate of labor productivity, and others also influence the development of services and therefore should be carefully analyzed for a rigorous foundation of the tertiary sector development strategies.

In the economic literature have been identified many determinants with a potential impact on competitiveness in services - as in the case of material goods - which can be found at meta, macro, mezzo and microeconomic level. The UNCTAD (2003) and Fischer and Schornberg (2007) distinguish the following determinants of competitiveness in services (Ghibuțiu, 2010):

- at metaeconomic level: the regional economic framework, regional policy, socio-cultural factors;
- at macroeconomic level: the national economy, national policies, vocational skills, technology, and infrastructure;
- at mezo-economic level: industry structure, sector policies and lobbying, supporting industries, the conditions regarding the application;
- at microeconomic level: specialization, investments (including Research & Development) internationalization (FDI, exports).

Among the competitiveness indicators, the sources mentioned include: profitability, productivity and growth.

In the production of services, developments in recent years can be described by the following coordinates:

- constant increase in the share that services hold in the GDP;
- structural balancing of the services rendered;
- differentiated but significant growths, as mentioned above, in various areas of production, which means a concern for the development of services production;
- engaging a significant number of people in the business of providing services, which should be continuing to evolve the same in the next period;
- improving the quality of services rendered to population;
- improvement of the hotel business which meant a better hotel occupancy and contribution to the achievement of GDP;
- a contribution of approx. 50% of the production of services in GDP (in some developed countries, such as Sweden, Switzerland and so on, the services represent over 70% in GDP);
- development of the activity of providing banking and financial services and of the capital market.

Reconsidering the role and importance of services in Romania's development strategy is in fact a necessity due to insufficient development of this sector in our country compared to developed countries.

At least three aspects of the report "Development - Services" give substance to the assessment that the way towards the effective integration of Romania in the European and global economic structures inexorably imposes amplifying the position and role of services in the economy, namely (Ghibuțiu, 2000):

- inextricable link between services and the process of building and operating the markets;
- deepening interconnection and integration relationships between services and the rest of the economy in general, and between services and industry in particular;
- enhancing opportunities for growth and development by virtue of extending the scope of international transactions in services as a result of their progressive liberalization; the institutional framework for this approach is GATS (at global level) and the European Agreement (in Europe), and as a partner, Romania has made specific commitments to liberalize.

The service sector is very heterogeneous, covering a wide variety of economic activities. Theoretically, this diversity masks a fundamental function that many services provide in relation to the economic growth and development process, namely that services facilitate the transactions in terms of space (transport, telecommunications) or time (financial services). Another dimension is that services are frequently direct inputs in economic activities and thus determinants of the 'fundamental' production factors' productivity - labor and capital - that generates knowledge, goods and services (education, healthcare, research and development - are examples of inputs in the production of human capital). As the outsourcing processes amplify - like business models put in practice by more companies both domestically and internationally (especially manufacturing firms) - the demand for services as intermediate inputs for production has increased considerably.

In parallel with the growing importance of intermediary services and emphasizing international relocation process, the combination of decay processes of production functions / tasks that could be sold and rapid progress in ICT domain has enabled a considerable increase in the share of intermediary services in the total trade in services. Wide-scale application of new ICT and reducing barriers to access the services markets, following the liberalization in autonomous, regional and multilateral plan of trade and investment regimes in services, have affected not only the production and consumption of services, but contributed to the growth of productivity in many segments of services and transformed the nature of products, processes, companies, markets' structure and competition in services.

3. CONCLUSION

Competitive advantages of companies providing services seem to be less the result of comparative advantages in terms of costs of production, and more the ability of suppliers to help meet specific customer needs, to reduce uncertainty regarding the quality of services and transaction costs of their customers. However, it can be

concluded that the features that distinguish services from goods, and thus influencing their internationalization process, make the competitiveness indicators based on prices and costs be less relevant in the service sector than in the production of goods. However, a major role in international trade competitiveness in services belongs to quality and differentiation of products, economic and socio-cultural barriers.

Unlike manufacturing companies, competitive advantages of service providers constitute in a lesser extent the result of advantages associated with the production, but rather the ability of suppliers to respond to the specific needs of the buyer with a quality performance, to maintain close contact with the client, to exploit market imperfections and reduce transaction costs for the client. Such ownership advantages may lead - in combination with the location advantages related to the country of provider - to competitive advantages in export markets compared to firms based in the buyer's country.

Increasingly more specialists, including those from our country, are concerned about the development of the competitiveness of services. Their conclusion is that to achieve this we need to act with competence, energy and conviction on the determinants of competitiveness of the services, as follows:

1. technical factors: technical features;
2. financial factors: price / rate, payment conditions;
3. support factors; auxiliary services associated with a product / service in order to increase its added value (e.g. through maintenance, training, consultancy, supply of spare parts, etc.);
4. factors of outlet / sale: delivery time, delivery conditions, methods of distribution / sale etc.

All these factors should in principle be oriented towards satisfying as much as possible the exigencies, the requirements and expectations of customers.

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