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# STRATEGIC IMPLICATIONS OF ANALYZING COMPETITIVENESS MEASURING INSTRUMENTS FOR ROMANIA

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**Abstract**
Over the past decades, the competition between countries has become more and more important, especially in the current context when the political, social and economic effects of globalization are substantially increasing. States of the world are in a continuous battle for power, influence, investors, and resources. Competitiveness increases the productivity of a country that brings prosperity for its citizens; therefore, increasing competitiveness is a solution for future development. The researchers' reaction was to create competitiveness indexes, tools for measuring and evaluating competitiveness. Using these tools, both public administration and the business community can identify strengths and weaknesses in making decisions that will take advantage of existing opportunities to develop and increase productivity. This study presents two such tools - the Global Competitiveness Index, created by the World Economic Forum and OECD Competition Assessment - and how they can help increase Romania's competitiveness.
**Keywords:** Competitiveness, Strategy, Productivity, Competitiveness measuring instruments.

## 1. INTRODUCTION

More and more specialists talk about competitiveness, which is being discussed in many areas of activity. Regarded with skepticism by some and with great interest by others, competitiveness is real and needs to be treated with seriousness, because it has influence on the welfare of a country through its economic, social, cultural and not only its branch. Governments, as well as companies, must act accordingly in terms of their own competitiveness (Ceptureanu, 2015). Thus, we note the emergence of instruments, the barometers for measuring competitiveness through which we can analyze the level of competitiveness of a country. Important strategic decisions may result from the analysis of these barometers, given important elements such as the intensification of globalization. At the level of the countries, there is an increasingly fierce competition, each of them seeking to have a greater influence on the others, to attract the most resources, to capture the largest sales markets, to attract investors and finally to receive as much attention and influence as possible. Because of phenomena such as globalization, competition between countries is no longer just local, regional, but rather global, some countries competing with other areas, with other countries around the world, pursuing prosperity. Competitiveness is a complex phenomenon that does not benefit from unanimously accepted definitions. It is also a relatively new concept for Eastern European democracies, where it makes its presence felt more or less consciously, especially now that the struggle between states worldwide, for labor, welfare, population, resources, markets and power is getting tighter. In recent years, competitiveness has been seen as a very important factor for development by both practitioners and theorists. They are trying, in a sustained effort, to find a consensus on increasing the level of competitiveness by acquiring and sustaining a competitive advantage (Babalâc, 2013) and sustainable differentiation. This is one of the reasons that have led to the emergence of competitiveness indicators that incorporate diverse work methodologies that address certain social, cultural and economic aspects.

## 2. THE FOUNDATIONS OF COMPETITIVENESS AND THEIR ASSESSMENT

Competitiveness has such a broad meaning, that it is very difficult to define it accurately, and it does not have a universally accepted definition. Next, we have a series of definitions of competitiveness gathered from various sources:

- „The characteristic of a product or enterprise to compete with similar products or businesses in a particular market" (Dexonline, 2017);
- The ability of a firm or a nation to offer products or services that meet the quality standards of the local and global market at prices that are competitive and bring the appropriate profits in line with the resources engaged or consumed in the production process (BusinessDictionary, 2017);
- The set of institutions, policies and factors that determine the level of productivity of a country (The World Economic Forum, 2017);



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- The competitiveness of a country depends on the capacity of the industries in that country to innovate and develop (Porter, 2008a) and represents the share of a country's world markets for its products (Porter et al, 2007)
- Competitiveness is a complex phenomenon, which refers, on one hand, to the ability of a country to ensure an economic, political and social environment that promotes and adds value (Spătaru, 2017), and on the other hand the term refers to nations and firms that develop relationships with each other, but also with supply networks, customers and even other competing firms that help to gain competitive advantage in selling products and services (Wikipedia, 2017).

Competition itself is a positive element, because it acts as an incentive for firms, motivating them to reach their full potential in terms of their productivity. In other words, the production of goods or services must be done in a high quality and with minimal effort in terms of resource consumption by the manufacturer (Zamfir, 2014). Competition is also the "engine" that engages entrepreneurship and entrants to new markets in a particular market.

Competition brings major benefits to efficient firms and represents a real danger to the inefficient ones. Companies, in order to be competitive, must react quickly to external factors in relation to new market entrants and how they alter the structure of demand, but also in relation to suppliers, customers and substitute products. The emergence of new competitors influences the strategies of already existing firms, so competition is one of the determinants of the competitiveness state (Berinde, 2017).

It is clear that the term competition is associated with competitiveness, and the two terms appear more and more often in the vocabulary of decision-makers from both the private and public environments. Competition has become more and more intense over the past decades, making it virtually felt throughout the globe (Cârstea et al, 2002). Until a number of years back, the term competition was unknown in some parts of the world as well as in some areas. More specifically, we were talking about those protected markets, where certain conditions and certain economic agents were usually imposed. Also, even in the markets where there was competition, the actors involved did not really engage in fierce competition because of the over-exaggerated state intervention or cartels that together eliminated competition. Today, after the disappearance of the Soviet Union and implicitly the Iron Curtain, after the deregulation of the markets in most states, following the creation of political and economic unions like the European Union and emerging globalization, competition is manifested in almost every field of activity.

Thus, we have an increasing number of areas where competition has not put its mark on the stability and domination of a particular organization on a particular market. The need to compete today is an element that cannot be ignored by any company or country because the world economy is becoming more open and integrated (Porter, 2008b). Each country and firm must have at least the capacity to understand and create certain skills in terms of competitiveness, taking into account competitiveness, which has become a major concern both for developed countries and for developing ones.

Usually, competitiveness coupled with economic development, mostly focuses on macroeconomic, political, legal, and social conditions, as they are the basis of a successful economy (Zamfir, 2011). Experts (Porter et al, 2007), however, state that these conditions do not create well-being by themselves, but they create the opportunity to achieve well-being. This added value is actually at microeconomic level and it is recognized by the complexity of the firms and the business environment in which it competes. Competitive measurement can also be done by measuring productivity. Productivity depends on the value of goods and services produced in the world market, using available sustainable resources (Zamfir, 2013). With the rise in productivity, a state can pay large wages, get high returns on investments, and a stable currency and social welfare, which we can call prosperity (Savić, 2012).

The only ones that create value in the market are companies that must be dynamic and innovative to be competitive. The government has an important role in providing the conditions for value creation, but it cannot create it by itself. Decision-makers in general and policy-makers in particular need to take this into account and promote and encourage competitiveness by developing strategies in this respect, which could be based on the analysis of the most important instruments for measuring competitiveness.

## 3. ACTIONS TO ENHANCE ROMANIA'S COMPETITIVENESS BASED ON COMPETITIVENESS MEASURING INSTRUMENTS

Using the competitiveness measurement tools, policy makers and the business world will be able to understand more easily what are the determinants of an investment or not, or where productivity and prosperity are rising or falling. They need such tools to be pro-active in identifying and capitalizing on any opportunity. Moreover, the tools for measuring competitiveness have succeeded to show us that we need to increasingly focus on the issues that lead to competitiveness both now and in the future. Enhancing competitiveness is the responsibility of all actors involved, governments, policymakers, and companies and the market in general. The premises from which we start are quite clear, we need to be competitive, given the positions taken by Romania in the evaluations and reports of the main global organizations that have developed their own instruments for measuring competitiveness.

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### 3.1. Context

Romania is a state located in Southeastern Europe, NATO member state and member of the European Union, with a population of 20,121,641, according to the latest population and housing census carried out in 2011 (INSSE, 2011). Relative to the number of inhabitants, Romania ranks 7th in the European Union.

Today Romania is the result of several historical events, starting with the union made by Alexandru Ioan Cuza in 1859, until the great union of 1918. After the Second World War, Romania moves from monarchy to communist regime, but its external policy was different from that of the Soviet Union. It goes to democracy in 1989, with the death of the leader, Nicolae Ceaușescu.

Although a state that is more difficult to develop than other former Communist states in Eastern Europe, Romania is slowly but surely growing and managed to take major steps to move away from its past, such as joining NATO and the European Union, in March 2004 and January 2007 respectively.

In this context, Romania is trying to become more and more competitive, directing its development horizons away from the past. The potential to become a powerhouse in the region is remarkable to be a special one and it can be exploited in the future by increased competitiveness.

### 3.2. The Global Competitiveness Index

***A. Methodology***. The Global Competitiveness Index is a tool developed by the World Economic Forum and measures the level of competitiveness between countries since 1979 in 138 economies.

**The Global Competitiveness Index** comes up with an annual report called the **Global Competitiveness Report.** An innovative set of tools is used to extract the most important information about the competitiveness of the economies studied.

**The Global Competitiveness Report 2016-2017** is based on 114 indicators grouped into 12 elements, called key poles (Schwab, 2016). With the global economy still recovering, countries need to adopt an open attitude, along with the technology and innovation (Apostolov, 2015) needed to stay competitive. And yet, how is competitiveness measured using this tool? The Global Competitiveness Report identifies **12 key pillars**: **Institutions.** Identities of concepts regarding the protection of property rights, efficiency and transparency of public administration, independence of the judiciary, security of individuals, business ethics and corporate governance. This key pillar analyzes both public and private institutions; **Innovation.** It shows the capacity and commitment of a country in technological innovation; **Infrastructure.** It refers to the quality and accessibility of transport, electricity and communication infrastructures; **Macroeconomic environment.** Fiscal and monetary indicators, savings rates and foreign debt ratios are tracked; **Health and Primary Education.** The state of the public health system, the quality and quantity of basic education; **University education and training.** Quality and quantity of university education and quality and accessibility to on-the-job training; **the efficiency of the goods market.** Identify the factors that drive the intensity of national and international competition as well as the conditions of demand; **Labor Market Efficiency.** Identify the efficiency and flexibility of the labor market, meritocracy and gender parity in the workplace; **Development of the financial market.** Efficiency, stability and confidence in the financial and banking system; **Technological readiness.** Use of technologies by individuals and companies; **Market size.** The size of the domestic and export markets; **Complexity of business environment and innovation**. Efficiency and complexity of business processes in the country.

**Table 1** shows the top 10 most competitive countries, according to the report by the World Economic Forum, based on the 12 pillars shown above. Thus, Switzerland is the first. Singapore ranks second, excelling in the field of university education and training. The United States remains third, being very good at the complexity of the business and innovation environment, but staying on the ground in infrastructure and public finance. The Netherlands is ranked fourth, followed by Germany on the 5th place. Sweden is on the 6th place due to improvements in the complexity of the business and innovation environment. The United Kingdom is ranked 7th, and Japan on the 8th place, with the innovation capacity significantly deteriorating. Hong Kong is ranked 9th, registering the most infrastructure increases. Finland is ranked 10th with the best scores in institutions and health and primary education.

**TABLE 1. TOP 10 MOST COMPETITIVE ECONOMIES**

| Global Competitiveness Report 2016-2017 | Global rank |
|---|---|
| **Switzerland** | 1 |
| **Singapore** | 2 |
| **United States** | 3 |
| **Netherlands** | 4 |
| **Germany** | 5 |
| **Sweden** | 6 |
| **United Kingdom** | 7 |
| **Japan** | 8 |
| **Hong Kong SAR** | 9 |
| **Finland** | 10 |

Source: Global Competitiveness Report 2016-2017



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Concluding, against the backdrop of both low productivity and economic growth both in developing economies and in developed economies, the report for 2016-2017 reveals **three key conclusions:**

**Monetary incentives are not enough.** In economies where there are no strong competitive conditions, attempts to revive economic growth only through financial policy are less effective, failing to bring growth. To stimulate business and entrepreneurship, countries need to adopt comprehensive agendas on competitiveness.

**Technology and innovation are increasingly developing.** By uniting physical, biological and digital systems, the "Fourth Industrial Revolution"[1] brings with it unprecedented changes in work and productivity. In this context, the report shows that technology and innovation play an increasingly important role, in relation to other factors, in terms of increasing competitiveness and growth.

**Openness of countries is declining**, so future growth and prosperity is questioned being at risk. Opening up to economic exchanges and foreign investment creates the necessary conditions for companies to innovate. To watch these environments against protectionism, integrative growth strategies are a priority.

The authors of the report hope that it will be an instrument for public decision-makers, businesses and civil society that can be used to fulfill their common goal of economic growth and prosperity in a competitive environment.

***B. The Global Competitiveness Index and Romania.*** According to the results of the World Competitiveness Report for 2016-2017, Romania achieved a score of 4.30 points out of 7 possible, thus ranking 62th out of 138 according to the ranking published by the World Economic Forum. Romania's average score is 4.13 points from 2007 to the present. The highest score for Romania was 4.32, registered in 2016, and the lowest score was Romania's negative record in 2008 when it achieved a score of 3.97 points. Since 2007, Romania has managed to grow by 0.32 points, which is 7.34%. However, in the last 3 years there has been a stagnation that needs to be overcome (Figure 1).

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[1] It is the fourth major industrial era and can be described by the existence of a wide range of technologies that combine the physical world with the digital and biological world, impacting all areas, economies and industries. For more details, go to: https://www.weforum.org/agenda/2016/01/the-fourth-industrial-revolution-what-it-means-and-how-to-respond.

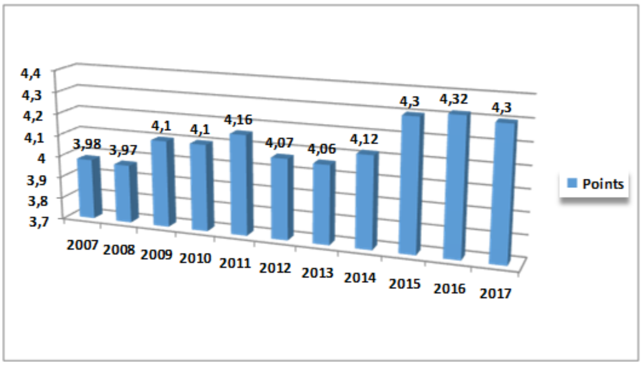


**FIGURE 1. ROMANIA SCORES WITHIN 2007-2017**
Source: www.tradingeconomics.com: World Economic Forum, 2017

If we choose to compare Romania's results with those in Europe and North America (Figure 2), we will note that Romania scores lower scores in the following chapters: institutions, infrastructure, health and primary education, university education and training, efficiency of the goods market, The labor market, the development of the financial market, technological capacity, business complexity and especially innovation. Thus, there is a need to focus on higher state investment in innovation and infrastructure. Also, the need for administrative reform is becoming increasingly obvious. However, in terms of market size (42th place in the cessation) and macroeconomic environment (28th place), Romania recorded scores above the European and North American average. This may be due to the increase in GDP and exports, the economic growth and the decrease in inflation recorded by Romania in recent years.

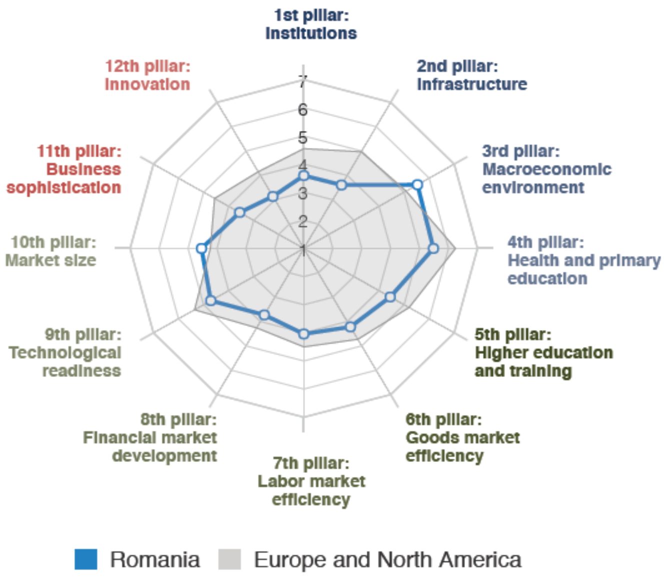


**FIGURE 2. ROMANIA VS. EUROPE AND NORTH AMERICA**
Source: Global Competitiveness Report 2016-2017

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A last aspect identified in the World Competitiveness Report on Romania is represented by the most important factors that create problems for the business environment. In this respect, the World Economic Forum has conducted a series of surveys, the results of which indicate that in Romania, the main problems for the business environment are still: **access to finance, taxation, bureaucracy, unskilled labor, corruption.** The report reveals aspects that Romania needs to improve in the future, such as the five business issues, but also the continuing attempt to reach the European media in terms of innovation, infrastructure, institutions and business complexity. Also, Romania identifies a number of opportunities revealed by the analysis of this competitiveness measurement tool, so Romania can take advantage of the size of its market and the favorable macroeconomic environment. Step by step, only by analyzing this tool, Romania can have a framework to develop a strategy for increasing competitiveness based on solving the previously identified problems by maintaining openness to economic exchanges, foreign investments that can enhance innovation, but also through the awareness of the fact that technology and innovation bring with it more and more growth, and that financial incentives are not enough if they are not achieved in a competitive environment.

### 3.3. OECD Competitiveness Assessments

***A. Methodology.*** Since 1990, the **Organization for Economic Cooperation and Development** has been trying to work with competition authorities around the world to identify competition issues and develop recommendations that can be used to address identified issues. Besides recommendations, these activities also have the following objectives: case studies, seminars, cartel dismantling, business merger analysis, unfair competition, legislative reform in the field of competitiveness and beyond, studies and research in certain areas, and also they give advice in developing public policies such as reducing bureaucracy and restricting competition that are unnecessary to be regulated.

The Competitiveness framework of the OECD is based on the following areas of study: *abuse of domination and monopoly, anti-competitive cartels and agreements, competition enforcement practices, liberalization and intervention by the authorities on competition in certain sectors, mergers, pro-competitiveness.*

The OECD has carried out detailed studies of states' competition laws and policies since 1998. These studies assess how a country addresses competition issues and how it regulates competition, focusing both on the importance and robustness of competition laws, but also the effectiveness of state institutions with attributions in the field.

***B. OECD Competitiveness Assessments and Romania.*** In 2016, the OECD, in collaboration with the Romanian authorities, published a study assessing competitiveness in Romania. This study focused on three key sectors of the Romanian economy: food processing, transport and construction. As a working method, the study considered four steps:

a) ***Analysis of the studied sectors***: this step involved the identification and collection of all relevant laws and regulations, but also the creation of a link with the market itself in the three areas, through associations existing in these fields.

b) ***Analysis of legislation and identification of competition provisions for further analysis***: this step consisted of the actual analysis of the legislation collected in the previous step in order to identify legislative articles that would potentially be restrictive. To accomplish this activity, the **OECD toolkit on competition assessment** was used (OECD, 2015).

c***) In-depth assessment of the damage to competition***: The law identified in the second step has been assessed to see whether this damage brings any distortion of competition. Both qualitative and quantitative tools were used.

d) ***Formulation of recommendations***: This step is actually making recommendations, taking into account the steps taken in the previous steps. Recommendations were made for those articles that have proven to restrict competition. In total, 152 recommendations have been developed.

Although this study only refers to three economic sectors in Romania, it is relevant to our discussion, given that it provides us with a conceptual working framework to analyze competition law and regulations in other economic sectors as well. The results were achieved by identifying those barriers to competition from state regulations by assessing the impact they had on competition, and by suggesting recommendations on specific areas to remove these harmful barriers. Thus, a number of 227 regulatory restrictions have been identified in all three areas, found in 895 legal texts. Following their analysis using the specific methodology used, 152 specific recommendations were developed in an attempt to remove any damage to the competition. (OECD, 2016). Table 2 presents this information broken down by domains.

**TABLE 2. LAWS ANALYZED BY SECTOR**

| | Construction | Freight transport | Food processing |
|---|---|---|---|
| Legislation scanned | 162 | 566 | 167 |
| Prima facie restrictions found | 95 | 85 | 47 |
| Recommendations | 72 | 46 | 34 |

Source: OECD, Competition Assessment Reviews, 2016



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Considering that the study was conducted on three domains of economic activity and not on the entire Romanian economy, the elaborated recommendations are very specific and are not part of the work of this paper. These, found in the OECD study, can be accessed online (http://www.keepeek.com/Digital-Asset-Management/oecd/finance-and-investment/oecd-competition-assessment-reviews-romania_9789264257450-en#page1).

The benefits to competitiveness in Romania and the Romanian economy by meeting the recommendations proposed by the OECD are not to be neglected. Of course, not all benefits from increasing competitiveness can easily be quantified, yet OECD calculations for Romania indicate that the benefit to the Romanian consumer would be about 434 million Euros per year, which means about 0.27% of the GDP of Romania.

Only some of the results that could be obtained from rising the barriers to competition identified in the legislation could be fully quantified (Table 3). According to the OECD study on competition, the proposed legislative changes in the three sectors under review will have positive effects on firms' ability to compete in the long term and the business environment will become more transparent and safer.

**TABLE 3. ESTIMATE QUANTIFIABLE RESULTS**

| Sector | Number of provisions affected | Consumer benefit/year |
|---|---|---|
| **Construction/public procurement** | 8 | 418.0 |
| Estimated effect of stimulating an average of one additional acceptable bid per procurement procedure | | 418.0 |
| **Freight transport** | 9 | |
| Plates | 1 | 1,1 |
| Copy of license | 1 | 7,1 |
| Breaking energy | 1 | 0,9 |
| Pilotage services | 2 | 3,4 |
| Towing services | 2 | 3,1 |
| Waybills and registers of input-output wood material | 2 | 0,3 |
| **Food processing** | 1 | |
| Staff qualification | 1 | 0,7 |
| Total | 18 | 434 |

Source: OECD, Competition Assessment Reviews: Romania, 2016

Thus, a series of analyzes and studies can be made using the OECD's research model of competitiveness. There is a need to extend the area of the study to the whole economy. However, this is still an incipient phase because legislative changes are necessary conditions for the growth and stability of the Romanian competitive environment, but they are not enough. That is why specialists should try to use more tools when studying competitiveness in order to have a broader view. The steps should be taken to improve the competitiveness of the Romanian economy, promote economic growth, create jobs and, of course, achieve higher productivity.

## 4. CONCLUSION

The tools for measuring competitiveness, carried out by some of the most important international organizations, show that there are many reasons to support a more competitive and open market. They also reveal both positive and negative elements in terms of the competitiveness of a particular global economy. Positive elements identified in an economy can be used by decision makers and the business community to build a more competitive market with increased productivity because they are a kind of foundation stone, the foundation on which to build, and furthermore are the strong points which can be used in the quest to increase competitiveness. Negative elements can be the starting points for developing a less reactive and more proactive strategic vision (Zamfir, 2011). Once we understand that competitiveness leads us to productivity and prosperity, to give us the added momentum needed to overcome any challenge, we must act offensive to improve our competitive position.

Increased competitiveness provides people with a greater benefit in terms of increasing economic productivity. It is necessary to know that, unfortunately, there is no universal recipe available to be more competitive because it is a complex task which has to take into account a very large number of variables, which differ from one geographical area to another, from one culture to another, from one field of activity to another. Each country, each company, has to scrutinize both its internal and external environment in order to identify its strengths and weaknesses, respectively opportunities and threats, in order to increase its competitiveness. Romania is no exception. In order for the analyzes performed using the existing competitiveness measurement tools to be effective, Romania should first perform an internal and external audit before applying the resolutions derived from these analyzes. Also, the business environment must know and be certain that competition is encouraged, that it is pursuing well-established rules and that no competitor is favored over another. For example, foreign investors will be much more tempted to invest in Romania, being sure they will have fairly regulated competition in a state with transparent institutions with a high degree of innovation and technology with a financial system well set up, etc. So, we face a complex, long-lasting process that has to meet both the needs of companies and consumers because companies are the ones that support the competitiveness of the market by creating prosperity and its impact is propagating at all levels.

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