

COMPETITIVE ABILITY OF THE ASSUMPTIONS OF STABLE GROWTH OF THE NATIONAL ECONOMY

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Abstract: *Competitive ability is a basic need of every economic activity and increasingly dominates the comparative advantages. It is, in fact, the ability to profitably export, and survive on the domestic market. The essence of the competitive ability is the quality and attractiveness of the products or services, their innovation, but also in new and smarter ways of doing business and management, with the goal of „smart development“. The role of the state regarding improving and stimulating competitiveness consists in the process of synergy effects equilibrium state measures and market laws, which stimulates everything creative and innovative that can contribute to the competitiveness and stable growth of the national economy.*

Keywords: *competitive ability, competitive advantages, market and market principles, creativity, innovation, the role of the state, synergy effects, the national economy*

1. DOMINATION OF COMPETITIVENESS

Competitiveness category of the national economy suppressed an existing theory and practice of comparative advantages. The values of natural resources, natural beauty, locations of their potential significance, are entirely replaced by the abilities of companies and the overall economy to produce something, or to offer a service, whose benefit is based on efficiency greater than competition, favorable price and appropriate quality of the product, or service. In the production of furniture, the most important thing is where high quality wood grows, then where is the most attractive design and distribution logistics, for example.

Thus, the ability to profitably export, and also survive in the domestic market, while strengthening the economies of scale, shows the state of things, and who in the space of competitiveness succeeding and who is not.

The question of how to achieve the competitiveness of the national economy that will ensure the survival of the national and adequate presence on the surrounding, and then the distant markets, it is the assumption of achieving vital development goals of society, such as a higher level of employment of the working age population, social involvement of all sections of the population investment in physical and overall infrastructure, and steady and stable growth of living standards. At the same time, to stop the present trend of outflows of the population in Western Europe and overseas in search of employment that lasts for decades. The basic parameters of the success of economy are measured by GDP growth, the increase in employment rate and suitable infrastructure according to the requirements of business and life, and permanently sustainable growth of living standard. New investments and, consequently, the necessary capital investments, and market share increase in some economic segments of finding their own niche are the only permanent sustainable solution, therefore, raising the level of competitiveness in order to strengthen the export performance.

2. THE COMPETITIVENESS OF THE NATIONAL ECONOMY

Known turbulent events in our region from the late 80s after the fall of the Berlin Wall, marked by the war conflicts, radical changes and transformations, were the main concern of all social factors and the total population.

In the same period, the enormous developmental conceptual shift from comparative advantage to competitive advantage of the nation and each individual company has been realized worldwide. More natural resources and locations were not so important, but how to achieve the level of creating more sophisticated goods and services more successful than competition. This new understanding of the contents of competitiveness implies the following:

„The competitiveness is the country's ability to achieve success on the world market, which allows a better standard of living for all. It is the result of numerous factors, especially at the level of competitiveness and favorable business climate that encourages the introduction of new products, processes, and investments. All these factors lead to increased productivity, increased income, and sustainable development.”¹

Thus, the objectives are to achieve stable economic growth, to raise the level of employment and quality of life, which is imperative for any government, i.e. the protagonists of economic policy.

But, how to do that? The answer lies in the need to raise the threshold of national competitiveness.

Raising the level of competitive ability of the national economy is the basic premise of stable growth, i.e. achieving of two important goals – to increase employment and quality of life. The total score of the current situation is contained in the conclusions of the high costs, especially labor costs. Then, weak demand for local products, i.e. limited market opportunities are a reflection of weak internal and foreign trade competitiveness of domestic producers.

Competitive power can be expressed by three basic characteristics – macroeconomic stability, the average growth within the region and the level of employment. A direct and

¹ Godišnje izvješće o konkurentnosti Hrvatske, Nacionalno vijeće za konkurentnost, Zagreb, svibanj 2005., Svezak 2, str. 8

broader business environment (growth), the dominant mode of restructuring and increasing productivity (employment), as well as the need to maintain macroeconomic stability has its impact.

Our situation is the fact that the bulk of the privatization process took place within the buying of the existing companies, so-called brown field investments, while the level of investment in innovation and new economic entities is unsatisfactory, lagging behind other leading transition countries.

3. INNOVATIONS – THE BASIS OF COMPETITIVENESS AND PRIORITY OF THE EUROPEAN POLICY

Innovations are not just new technologies, or new products, but these are new and smarter ways to perform tasks, new management methods, new business systems, or new services. Innovations do not only bring greater development, more jobs and money, innovations lead to the creation of „smart” development.

Smart development could include eco-innovations that improve the environment, or social innovations that provide similar opportunities to all. Innovations are not based only on higher production, or increasing sales, but bring a real improvement in our lives. Innovations that bring smart growth ultimately require social interaction, and social and cultural environment are the key to the innovation process.

Creativity and innovation are the top priority of European policy. Europe’s response to the challenges of globalization is the adoption of the Lisbon Agenda, which established an ambitious set of goals based on the idea that Europe needs to strengthen research and innovation in order to remain competitive. Focusing on innovation has led to the „birth” of a new generation of transnational cooperation programs with emphasis on funding innovations as a priority.

Knowledge and ideas are not by sufficient themselves, because it is important to translate them into action. What is important for the transfer of knowledge into new products and services? Investing in knowledge is not enough if that knowledge does not return the invested funds. Losing a job is not the problem – the problem is there are no new jobs creating. Innovations require competitiveness. In the transfer of knowledge and ideas into products and services, it is important to emphasize the need for better coordination of all levels and better cooperation between all stakeholders, i.e. between so-called “triangle of knowledge” – public policy, education and research community, on the one hand, and the business community on the other.²

A well-functioning research centers, innovative and well-equipped industrial parks, are critical to the achievement of results in research and development. In addition, cooperation among regions and countries is specifically emphasized. A common challenge lies in the integration of shared resources, finding a balance between cooperation and competi-

² Dr Mehmed Avdagić, „Strateški menadžment“, Sarajevo 2009, p.45, The need for business strategy and development of the company comes from the mission and the needs of enterprises to survive, progress and gain profit on the market. On the other hand, the need for a strategy imposes the environment, whose essential feature is the competition, the variability of the structure and characteristics of the market and a host of influential factors from international relations, international and national regulations, and the development of technology, customer requirements, and practices.”

tion, in order to enhance competitiveness. Shared resources include transport infrastructure, energy and telecommunications, universities, scientific and technological centers and tourism.

Innovation and innovation processes belong to the basic factors of development and competitiveness of enterprises, whose importance is increased especially today, in a time of so-called knowledge based economy.

The OECD defines a knowledge based economy as directly „dependent on the production, distribution and use of knowledge and information.” This approach has evolved from the 60s to the late 20th century, when the influence of knowledge manifests itself as a central element of the new economy, with the domination of information and communication technologies, as key strategic dimensions of competitive advantages through new forms of communication and business – such as e-commerce and Internet use.

The concept of innovation is largely evolved in the last decade, together with the extraordinary development of innovation management. The European Commission, according to the standard document known as the Green Paper on Innovation from the 1995, defines innovation as „improving and enhancing the scope of products, services and related markets, establishment of new methods of production, supply and distribution; introduction of changes in management, organization and working conditions for employees.”³

The development of the theory of innovation is associated with the analysis of J. Schumpeter in '30s of the last century, which marked the innovation as a basic factor of technological progress and economic development, in terms of replacing old technology with new, called a creative destruction. He was one of the first scientists who recognized the importance of developing a new product – product innovation for economic development, considering that the competition, achieved by introducing a new product far more significant than the one based on marginal changes in the price of existing products. The approach by which the phase of establishment of each industry sector there is a radical product innovation developed much later, followed by a radical innovation of the corresponding production process, followed by diffusion of incremental innovations.

One of the simplest and most popular definitions of innovation is the process of turning ideas into practical application – realization. In other words, the process of innovation – innovation process (project), and output – innovation process output, which can be represented as a relation: Innovation = theoretical concept + technical inventions + the commercial exploitation.⁴

In its definition of innovation and innovation processes, Porter, who has formulated a model known as five forces of competition, as one of the key elements citing the ability of enterprises to gain competitive – competitive advantage based on innovation, i.e. ability of the company to realize a successful innovational projects.

Generally, these elements of innovation processes are implemented in the organization through three key functions: research and development, production and marketing. Successful management of innovation is based on the concept of managing the knowledge flow within and between these (and other) functions in the company, which should support the communication with the environment in order to increase competitiveness and profitability, and achieving the overall business success.

³ www.symorg2008.fon.bg.ac.yu

⁴ Piter Draker, „Inovacije i preduzetništvo“, Privredne teme, Beograd 1991

The most important criteria for the classification of innovations, on which depends one of the distinctive attributes of each innovation – the degree of innovation, is nature of innovation and the type of paper. According to the criteria of the nature of innovation, there are two broad classes of innovations:

- Radical (essential) innovations;
- Incremental (evolutionary) innovations

Incremental innovations are small improvements, which can be described as „solving problem where the aim is clear and well known, but the solution is to find it.” In contrast, the result of radical innovations is new products/services/processes, and they can be presented as a process in which a research direction is known, but the ultimate goal is unknown. Incremental innovations are the most common form of innovation in many enterprises and in average, about 80 % of all investments belongs to them. Within the different classifications, there is a group of so-called semi-radical innovations (between two general, final shapes). When it comes to the criterion of the type of innovation, the latest edition of a basic document known as the Oslo Manual (2005) – Guidelines for Collecting and Interpreting Innovation Data, for the first time explicitly states the following classes of innovations⁵:

- Product/service innovation;
- Process innovation;
- Organization innovation;
- Marketing innovation

Bearing in mind that the innovation is one of the key factors of competitiveness, one of the elements essential to the success of the new task is the appropriation of innovation benefits. Appropriability represents an extremely important component that innovation and technological breakthrough transforms into the economic effect. The high degree of appropriability enables the company that is the leader in innovations to achieve the position of market leader, or to realize the benefit based on innovations. The capacity of the company for the appropriation of the benefits of innovation generally depends on:

- The ability of the company to transform its innovation advantage into commercially important products/services and processes (product/service innovation and process);
- The ability of the company to defend itself against imitators⁶.

4. THE ROLE OF THE STATE

When we look at every aspect of the subject that affects the competitiveness, we ask the question, where are the main causes of the unsatisfactory situation in this respect in our country. Are they predominantly a consequence of some of our properties (war, political problems), or the result of some sort of transition disorientation. That is the way to recognize how institutions are important.

⁵ www.symorg2008.fon.bg.ac.yu

⁶ Kyprijanov S., Shevtsova S., *Regional innovative system as the main part of the national innovative system*, „LAW, ECONOMY AND MANAGEMENT IN MODERN AMBIENCE“ LEMIMA 2011, 12.-15-APRIL 2011. Belgrade, Serbia

Today it is a challenge to find the right balance between state and market, between collective action at local, national, and global level, and between government and non-governmental actions. As the economic circumstances change, so that balance must be redefined. The government must undertake new activities and abandon the old ones.⁷

It is of crucial development importance to recognize and to appropriately define the role of the state in the intelligent development of each country, especially those where the process is just at the beginning. The role and responsibility of the state is to structure economic and political environment by encouraging investments, which inevitably must be preceded by raising the level of export performance. That means ensuring political stability, arranged legal framework and efficient public administration, create a real economic policy, be internationally active and open, and be more successful and plausible on its way to join the EU. In the field of industrial environment, it is necessary to accelerate the improvement of infrastructure and to encourage the cluster development.

In the field of human resources, it is necessary to raise the level of education quality, and encourage the processes of ongoing professional development. In addition, it is necessary to create the legal requirements for flexibility on the labor market, which does not mean an increase in unemployment or uncontrolled deterioration of the conditions of existing employees. Conversely, it must to be aimed at stimulating capital and entrepreneurs to help decide on new investments and new jobs.

In the context of raising the level of concern for human resources, it is very important to find ways of encouraging the return of high-quality professionals who spent part of their working life abroad, in the countries of exceptional competitive potential. Therefore, it is necessary to find ways to attract them to be employed in their country, which brings a number of benefits starting from lower infrastructure costs (existing apartment, houses), especially knowledge of social values and social system, faster socialization, and, consequently, more efficient professional performance.

Problems of export competitiveness must be solved with the full coordination of the government and the authorities of the republic, who must provide the clarity of the development goals, selection of appropriate instruments of economic policy and coherence in achieving development programs, common criteria of success with practicing actual specifics of each country and how to adapt the process of building competitiveness and finding the balance between state and market.

5. RESUME

Raising the level of competitive ability of the national economy is the basic premise of stable growth that is best recognized in increasing employment and quality of life.

Weak competitiveness is taking advantages of high costs, especially high labor costs. Certain structural features of the economy contribute to that, which it is necessary to affect on thru the larger share of manufacturing and high-accumulative production of such products (and services) that will find its way to customers due to its quality and performance, both on the local and the wider international social and market environment. All this can be achieved by an appropriate activity and synchronization of all economic entities through the process of restructuring activities and checking the intentions regarding the export orientation and their affirmation.

⁷ J. Stiglitz: *The Roaring Nineties*, Alen Lane – Pengium Group, London 2003., str. XII

Innovative products and services are the driving force of competitiveness. Innovative products are generators of demand, profits and customer loyalty. Good innovations give the company a positive image; such products eventually become synonymous with quality and often are the decisive factor when deciding which product to choose. However, we should be careful, because each innovation, which carries a greater chance of success, entails a greater risk.

Creating innovative products primarily requires knowledge of the consumer target market, knowledge of their own capabilities, as well as the competitive environment. Innovative products enable companies to become market leaders, but involve great risk, that will be reduced or eliminated if development process is properly managed.

The state must be able to provide the balance of state measures and market laws in order to contribute to synergy effects of that balance, which actually means that achieved balance needs to release all that is creative and innovative, which can contribute to the competitiveness and exports, but also to prevent effect of negative factors that can hamper competitiveness.

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