Theoretical Foundations of Strategic Competitive Advantages Based on Innovative Development

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In today's highly competitive environment, the foundation for survival and continued economic development is the formation of competitive advantages, which compile the efficient functioning and development of society as a whole.

The advantages of developing an economy through innovation are clear: primary products are being de-emphasized and intellectual assets are growing in importance. Countries such as India, China, Israel and Ireland have succeeded in this direction, focusing on the importance and need for particular innovative development. Innovative businesses find it easier to deal with the competition. Innovativeness is defined as a strategic socio-economic objective of the EU [1].

It is clear that determining the modern sources of competitive advantages of an enterprise is impossible without researching the genesis of approaches to the formation of these advantages and the achievement of each of them, which in their time determined the key directions of development of enterprises around the world. Therefore, this problem is constantly in the focus of scientists, as the peculiarities of the study of this issue determine the thoroughness of strategic decision-making, both at the macro-, meso- and micro-levels.

According to V. Smirnov, the basic level of ensuring competitive advantages is the macroeconomic level, which forms the conditions for the functioning of the entire economic system, "...at the macrolevel, competitiveness acquires its final form in the ratio of price and quality of goods, depending on the conditions prevailing at the two meso- and microlevels" [2].

Analysing the evolution of approaches to the study of the essence of competitive advantages, as well as the specialist literature on the subject, we can conclude that the key categories of competitive advantages were as follows:

– from the 18th to the middle of the 20th century – costs (A. Smith, D. Ricardo, D. Mill, A. Marshall), the scale of production (A. Marshall), factors of production (E. Heckscher, B. Ohlin), requirements of the competitive environment (A. Alchynian, H. Demsetz, T. Egterson), entrepreneurial skill (Y. Kirzner);

– since the 20th century – human factor (A. Drucker), resource efficiency (M. Porter, J.-J. Lambin, A. Oikher), intellectual potential (J. Walter, K. Trabolt, D. Moore), degree of competitiveness (A. Branderburger, A. Oikher).

The study of the evolution and determination of the logic of the formation of enterprise competitive advantages allows us to assert that some of these approaches have grown stale in the competitive environment of the 21st century. In particular, this is concerned with one of the important problems of strategic management of an enterprise – the formation of its competitive advantages, namely, determining the relative importance of internal and external (in relation to enterprise) sources of competitive advantages [3].

The current situation requires the application and adaptation of such an approach to the study (formation) of specific advantages that will harmonise the enterprise capabilities and resources that form its core competencies, lead to the creation of customer value of goods and services and determine the uniqueness of an enterprise in the competitive environment [4].

The intensification of competition in domestic and foreign markets forces enterprises to look for new sources and ways of gaining competitive advantages, which determine the position of enterprises in the competitive environment.

Thus, at the core of the content of competitive advantage is the notion of "competition" as a basic category. In scientific research, competition is considered from a variety of perspectives. The main thrust of the classical political economy view was to present competition as a force that enhances economic life in society.

The classical theory of competition was further generalized by A. Smith in his works. He considered the development of goods-money relations under conditions of free competition. In Studies on the Nature and Causes of the Wealth of Nations, he introduced the concept of the "invisible hand", which means the market mechanism of self-regulation of the economy. According to A. Smith, in a free market economy, individuals, guided by their interests, are ruled as if by the invisible hand of the market and their actions involuntarily ensure the implementation of the interests of other people and society as a whole [5].

Shpaltakov V. notes that concept of economic liberalism is also supported by the classic of political economy D. Ricardo. He considers free competition and other principles of economic liberalism policy as the main condition for increasing economic wealth of the country, "The state should not interfere with production, exchange and distribution, its duties are directed only to the distributive function of interaction with the population, that is taxation” [6]. D. Ricardo has the idea that price formation directly depends on competition. In Principles of Political Economy and Taxation he presents a theoretical model of perfect competition. Subsequently, this trend has been developed in many ways, as the theories of imperfect competition.

Competition theory was developed most extensively in the 20th century. Significant theoretical research on competition was carried out by J. Schumpeter, C. McConnell, S. Brue, F. Hayek and M. Porter.

J. Schumpeter singled out innovation as an element developed in the process of competition. He pointed out the need to promote scientific and technological progress regardless of the type of competition, “... even though there are some negative aspects, monopolies that promote scientific and technological progress are a beneficial phenomenon”. He defined competition as “the rivalry of the old with the new: new goods, new technologies, new sources of meeting the demands, new types of an organisation” [7].

The British economist and politician J. Mill characterised competition as a law. He noted that “...considering that competition is the only regulator of prices, wages, rents, it is itself a law, which establishes the rules of this regulation” [8].

Great attention is paid to competition by the Austrian economist and philosopher F. Hayek. He described the unpredictability of competition as follows, “Competition is of value because its results are unpredictable and generally different from those which everyone consciously aspires to or could aspire to”. Furthermore, although the effects of competition are beneficial, they generally involve disappointment or a breakdown of someone’s particular expectations and intentions” [9].

M. Tuhan-Baranovskyi defines competition as “rivalry of several people in achieving the same goal. Competitors seek to displace each other, to take exclusive possession of one or another economic resource, and therefore competition is always a struggle in nature" [10]. He points out that competition is of great benefit, primarily to the consumer, because of the impact of lower prices of goods. Competition leads to an intensification of processes in the organisation to find ways to improve technology, expand the sale of goods, and reduce the cost of production.

B. Carloff understood competition as "an economic process of interaction, interconnection and struggle between enterprises on the market in order to provide better opportunities to market products, meet the diverse needs of customers and make the highest profits" [11].

R. Faihutdinov considers the process of competition as an activity aimed at the use of competitive advantages, which makes it possible to achieve the goals set for the organization [12].

In general, the given definitions do not contradict, but rather complement each other, which does not allow us to consider them separately.

Having analysed the available interpretations of the notion of "competition", we have identified the main approaches to defining economic competition: structural, behavioural, system, functional, and within these approaches, the innovative micro-, meso- and macroeconomic approaches should be distinguished.

In addition, we have singled out another important aspect of competition – the implementation of innovation. In the course of the competition, organisations have to find new products and services that are or could be in demand in the market, improve their quality, and use new, more efficient production and management methods. These parameters can be achieved by introducing innovations into the activities of an organisation. As a consequence, competition is a major factor in an organisation's susceptibility to innovation [13].

It has been found out that, firstly, competition is a self-regulating process; secondly, competition is seen as rivalry in the market to achieve the most favourable conditions for the existence of an organisation and maximise profits; thirdly, competition has a social (consumer) orientation of a competitive struggle.

The rivalry between organisations in the marketplace leads to constant changes in business conditions and the situation on the market, and organisations have to adapt to the prevailing conditions in order to compete adequately. In other words, competition is a system-forming component of the market and market relations, it creates supply and demand, pricing, the economic model of the market, promotes innovation processes, i.e. determines market conditions.

Thus, competition can be seen as a dynamic process in which organisations are forced to use new technologies, attract investment and adapt to changing market conditions.

In addition, it should be noted that in the works of some economists there is a definition of competition characterised by activities aimed at squeezing and getting rid of competitors. However, we do not fully agree with this view. In our opinion, competition implies gaining a certain part of the market, rather than the total displacement of competitors. We define competition as a dynamic system (determinants of competitive advantages) driven by the emergence and loss of competitive advantages at a certain point in time or a certain stage of development.

Thus, to summarise the above, we consider competition as a dynamic process in which its participants compete with each other to realize more favourable conditions of their existence and achieve advantages over competitors, as a result of which innovation processes are intensified, the performance of an organisation is increased and less efficient enterprises are squeezed out.

It has been found out that the categorical nature of the notion of “competition” implies not only its multidimensionality (competitive processes, models of competitive behaviour, competitive environment, competitive strategies, etc.) but also ambiguity in the concepts of its development. In a modern domestic and global society, “competition” is becoming relevant not only in matters of economics but also in matters of governance and society as a whole. This allows competition to be viewed at a higher level than the national or regional economy – at the level of global economic systems.

From a general historical view of competition, and within the framework of the static approach, M. Porter regards competition as a force of the exchange economy, that is, something that has a cause-and-effect nature, a point of application and a direction of actions. This is how M. Porter defines the possibility of competition development, which is confirmed by the evolution of the views on competition.

M. Porter proposes a universal model of competitive behaviour of business entities in the exchange system (in competitive processes) in which he indicates the main aspects (motives) of competitive behaviour (parameters of determinants of competitive advantages) (Figure 1).

Looking at the dynamics of national superiority, M. Porter identifies six parameters of a country – the “determinants of competitive advantages” that establish the competitive position of firms in the marketplace and prove that “the action of individual determinants combines in a dynamic system” [14].

Thus M. Porter describes the action of competitive “forces”, that is the impact of competitive behaviour and the course of competitive processes as the determinants of national competitiveness, thereby forming the conceptualisation of the competitive environment and its components, and forming the conceptualisation of the competitiveness property as a result of a business entity holding a competitive advantage. M. Porter expresses and at the same time empirically proves the possession of the “national rhombus” – a synergetic property. This property allows us to describe competitive processes (competition) through a set of cause-and-effect relations – a “chain of values” (competitive advantages) – in relation to a particular business entity and thereby explain the circumstances of its competitiveness. The presence of a synergetic property in the “national rhombus” causes the introduction of the notion of “cluster” as a form of manifestation of the synergetic effect in theoretical analysis.

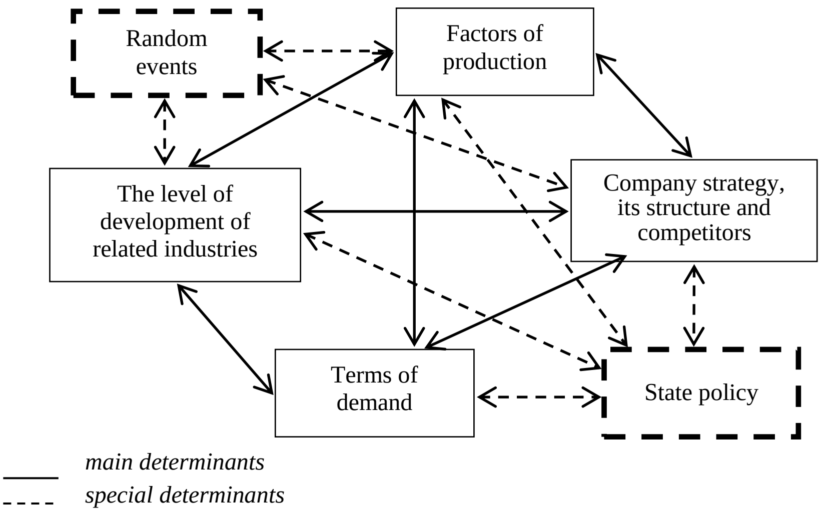

Figure 1. Determinants of competitive advantages (M. Porter’s “national rhombus”) [14]

Thus, the synergism of the “national rhombus”, according to M. Porter, explains the introduction of the trilogy of notions of “competition”, “competitive advantage” and "competitiveness", where "competitive advantage" is the notion revealing the essence of the competitive process and "competitiveness" is the notion characterising competitive processes (an evaluative notion).

The analysis of theoretical provisions of the concept of formation of strategic competitive advantages of enterprises based on innovative development has shown that the notion of "competitive advantage" has ambiguous interpretation by scientists, and the notion of "competitive advantage based on innovation" is not studied at all. Therefore, we faced the task of proposing a definition that best reflects the essence of this notion.

In our opinion, competitive advantage based on innovation is a significant differentiator that arises from the competent use of internal and external knowledge, to identify innovation opportunities at all stages of a company's life cycle and put them into practice in order to ensure further development.

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