



Factors of Competitive Advantage in the European Single Market

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Abstract *This article addresses the issue of national and corporate competitiveness and its increase, presenting the factors and the mechanisms of its achievement, with a detailed case study on American Nautics SRL in Bucharest. This company managed to obtain a series of spectacular economic and financial results, decisively increasing their competitiveness as a qualitative global indicator, by the development and intelligent use of its intangible long-term assets. Their performance is especially commendable as it was obtained in the current economic and financial crisis faced by the entire world, and that affected Romania more than other countries.*

Key words:

Competitiveness, intangible long-term assets, brand, know-how, return, performance, value, European Single Market, financial crisis.

JEL Codes:

F20

1. Introduction

1.1. European Single Market

There is no doubt that the single market is one of the European Union's greatest achievements, with a direct and massive impact on national and corporate competitiveness. Restrictions between member countries on trade and free competition have gradually been eliminated, with the result that standards of living have increased.

The European Single Market (ESM) is now a single EU wide economy, but it has not yet become a single economic area. Some sectors of the economy, such as public services, are still subject to national laws. The individual European Union (EU) countries still largely have the responsibility for taxation and social welfare.

The single market is supported by a number of related policies put in place by the EU over the years. They help ensure that market liberalization benefits as many businesses and consumers as possible. It is also intended to drive economic integration whereby the once separate economies of the member states become integrated within a single EU wide economy, where half of the trade in goods within the EU is covered by legislation harmonized by the EU.

The enabling instrument for the single market was the Single European Act, which came into force in July 1987. Its provisions included:

- extending the powers of the Community in some policy areas (social policy, research, environment);
- gradually establishing the single market over a period up to the end of 1992, by means of a vast legislative

programme involving the adoption of hundreds of directives and regulations;

- making more frequent use of majority voting in the Council of Ministers.

2. What is Competitiveness?

2.1. A complex concept

Competitiveness, this basic, complex, qualitative, synthetic and suggestive indicator for the valuation of micro- and macroeconomic economic activity is, due to its importance, a central concern of fundamental and applied economic research. However, this concept is not clearly defined and a quantification model for it was not developed yet. Competitiveness, in the widest sense, is about the capacity of a country, comparing to others, to create a domestic social, economic, political and cultural environment, able to support the accelerate process of value added creation.

That is why we present hereinafter a wide range of definitions, applicable both for national and corporate competitiveness:

- Uri (1971): "The ability to create preconditions for high revenues".
- Orłowski (1982): "The ability to sell".
- Scott and Lodge (1985): "The ability of the countries to produce, distribute and sell goods and services in the global economy, and do so gains lead to higher living standards".
- Porter (1990): "The only full indicator defining the concept of competitiveness at national scale is national productivity".

- OECD/TEP (1992): “To produce goods and services able to cope with international competition while maintaining and increasing real domestic income”.
- Management Forum (1994): “Global competitiveness represents the ability of a country or a company to generate, proportionally, more wealth than its competitors in the international market”. [2]

2.2. Romania in the Global Competitiveness Index

The notion of competitiveness is very complex and it has many uses in different domains. When the development level of a country is concerned, competitiveness offers the possibility to compare national performances and the growth potential in the future.

In the global ranking, Romania holds very modest positions, showing where we are and what we still have to do:

- 67th place out of 139 states in 2010/2011, 77th place out of 142 states in 2011/2012 and 78th place out of 144 states in 2012/2013. Just a little higher in 2011 are placed Bulgaria (74th place) and Croatia (76th place), but we surpass Greece and Serbia (95th place). [3]
- The quasi-absent system of selection and retention of experts is critical for Romania; this system makes the difference between pragmatic countries (who increase their competitiveness by using experts trained in other countries) and prodigal countries (who train the experts, but are not able to keep them).
- Competitiveness is impossible without well educated, competent, highly trained and properly rewarded employees. [4]

The places held by Romania for each criterion that define competitiveness are presented in the Table No. 1 hereinafter: [5]

Table 1. Places occupied by Romania following competitiveness criteria analysis

Crt. No.	Criteria	Romania's Ranking
1	Institutions	99
2	Infrastructure	95
3	Macroeconomic environment	87
4	Health and primary education	92
5	Higher education and training	96
6	Goods market efficiency	84
7	Labour market efficiency	66
8	Financial market development	55
9	Technological readiness	60
10	Market size	44
11	Business sophistication	99
12	Innovation	95

Source: Global Competitiveness Index 2011/2012

It can be easily noticed that the above-mentioned competitiveness evaluation criteria mainly refer to

education, innovation, quality of human resources, institutional management that is *Long-Term Intangible Assets*, at macro- and micro-economic level, as we shall present in detail hereinafter.

3. Factors That Generate National Competitiveness

3.1. Factors of permanent influence on industrial structure:

- Potential, quality and diversity of natural resources;
- Human resources;
- Scientific research;
- Climatic conditions;
- Cultural and educational level of the population;
- Level of urbanization and institutional development;
- Influence of the middle class and raising level of internal capital accumulation;
- External (territorial/colonial) expansion.

All these factors have a strong and direct influence on competitiveness of domestic companies and national economy.

3.2. Non-permanent influence factors:

- Economic crises and natural disasters;
- War and post-war states;
- Significant changes and progress in technology, IT&C, structure of energy balance (coal vs. oil, oil vs. renewable energy etc.).

3.3. Geopolitical influence factors:

- Cold War Period and the evolution of the relations between the superpowers;
- Position in the centre or the periphery of the international system.
- International relations, disappearance of the colonial system etc.

4. Current Situation of Romania

4.1. “The Weighty Communist Legacy”

Romania's communist leaders used to boast that the local socialist industry had a wider assortment of goods than Czechoslovakia's, the socialist country regarded as one of the most industrialized in the Council for Mutual Economic Assistance (CMEA).

But they did not say what was the effectiveness of this diversification in terms of quality/technical progress, export, energy intensiveness and environmental pollution. Just 5% of the industrial products could be exported to free markets.

After 1989, the Romanian economy characteristic developments have been the following:

- a) Industrial restructuring was achieved exclusively by external influences (foreign capital penetration by chaotic industry relocation), due to the fact that there

was no national strategy in the medium and long term aimed to define structural basis of national factors of comparative advantage.

b) The industry has been transformed into a subcontractor specialized in producing parts, subassemblies and products tallies for Western markets.

c) There was manifested an involution to global trends of Romanian industrial development by prevailing character of "manufacturing assembly" (*workshop*) industry at the expense of the character of "research and innovation" industry (*laboratory*).[6]

Romania's EU accession in 2007 was supposed to strongly enhance its competitiveness. Unfortunately, the EU's competitiveness itself is been diminished in the meantime, synthetically expressed by the decline in GDP per capita at purchasing power parity (from 25,000 euros in 2007 to 24,400 euros in 2010), according to the data published by Eurostat.

4.2. A national strategy is needed

Although useful in theory, the national strategies, plans and programmes promoted and required by the EU can not replace a national competitiveness strategy in the long run in Romania, especially because Romania has a lot of catching up not only to the developed West: it maintains a gap of 15% in both the EU average and former colleague from the Eastern bloc.

The EU member countries, like many other countries (exceptions are very few) are spinning in a vicious circle of markets distrust in governments measures to keep sovereign debt under control, which in turn creates difficulties for the authorities in their action of economic stabilization.[7]

5. The Identification of Sources and Forms of Non-Current Intangible Assets

Romania as a country and Romanian companies compete on the European Single Market with other countries and companies without the benefit of any special direct or indirect legal, commercial or financial protection, because subsidies and other state aid are prohibited: free competition and its safeguard from the possible distortion is a fundamental principle of the European Union since its inception.

Starting from the Romanian realities, we can say that the development and implementation of strategies to increase national economic competitiveness are a real challenge due to the weak position of Romania (low level of economic development and productivity, lack of control over its natural resources, difficult and costly access to financing sources, low level of education and scientific research, emigration of specialists, of workforce in general etc.).

Even under such unfriendly circumstances, Romanian companies have many possibilities available to increase their competitiveness, and especially long-term intangible assets. Specialized foreign literature [8] convergently considers that non-current intangible assets are generated from 4 main sources in companies, synthetically presented in Table No. 2 below:

Table 2. Sources and forms of long-term intangible assets

Crt. No.	Sources of long-term intangible assets	Forms of long-term intangible assets generated by sources
1	Leadership, corporate governance, organization, strategic and operational management	<ul style="list-style-type: none"> ▪ Leadership, good influence and corporate image in the market and society ▪ Harmony between the interests of stakeholders within the company (associates, managers, employees, auditors), good cooperation between them ▪ Proper strategy execution ▪ Modern technology and effective business processes ▪ Good communication and transparency ▪ Adaptability
2	Client Relationship Management processes	<ul style="list-style-type: none"> ▪ Increasing the attractiveness of the brand ▪ Franchising ▪ Improving the quality of products and services, customer satisfaction beyond their expectations ▪ Enhance corporate reputation ▪ Development of networks and strategic alliances
3	Creativity and innovation processes	<ul style="list-style-type: none"> ▪ Development of human capital, its creativity and innovation ▪ Stimulation of intellectual capital development (patents, secrets, know-how) by quality circles, applied research, technological development and design ▪ Development of organizational culture
4	Social and alignment processes	<ul style="list-style-type: none"> ▪ Employee equity ownership plan offer ▪ Corporate Social Responsibility ▪ Professional ethics, deontology and integrity ▪ Environment protection policies and procedures ▪ Security & Health policies, procedures and equipment.

Source: Work of the author from the literature

6. The Role of Intangible Assets in Romanian Business Competitiveness Revival

6.1. The current state of Romanian companies

Intangible assets can contribute decisively to increase corporate value, economic and financial performance and competitiveness, provided that they are optimally

generated, developed and marketed by correct strategies, consistent and efficient actions.

Certainly, Romanian enterprises with 100% domestic capital, which are 95% SMEs (small- and medium-sized enterprises) [9], are not in a good position when intangible assets generation is concerned.

Such a weak position is determined by their lesser innovative potential, professional competencies and financial resources.

6.2. The process of competitiveness increase by long-term intangible assets development

The corporate value creation, performance increase and competitiveness enhance processes by developing long-term intangible assets of the company are a progressive and incremental strategy, synthetically presented in Figure No. 1 hereinafter:

Financial View	Productivity Strategy	LONG-TERM SHAREHOLDER VALUE		Growth Strategy
	Improve Cost Structure	Increase Asset Utilization	Expand Revenue Opportunities	Enhance Customer Value
Customer View	Customer Value Proposition			
	Price	Availability	Functionality	Partnership
Internal View	Quality	Selection	Service	Brand
	Operation Management Processes	Customer Management Processes	Innovation (Management) Processes	Regulatory & Social Processes
Learning and Growing View	1. Supply 2. Production 3. Distribution 4. Risk Management	1. Selection 2. Acquisition 3. Retention 4. Growth	1. Opportunity ID 2. Portfolio 3. Design/Develop 4. Launch	1. Environment 2. Safety & Health 3. Employment 4. Community
	Human Capital			
Knowledge Capital				
Organizational Capital				
Culture	Leadership	Alignment	Teamwork	

Source: Author's Creation

Figure 1. Progressive upwards prospective on long-term intangible assets development (from bottom to top)

6.3. The policy of American Nautics SRL of competitiveness increase through intangible assets

During my cooperation with American Nautics SRL Bucharest (company established in 2002 and aimed at business selling motor boats for sports, patrol, fishing, hunting or leisure purposes, as well as selling spare parts, consumables, complementary products, repair & maintenance services) [10], I proposed them a multiannual strategy to apply these mechanisms in 2010-2014, in accordance with the progressive methodological stages presented in Figure No. 1 above.

Thus, in 2010-2011 the business leadership focused on the development of human capital, information capital and organizational capital of administration, mainly by improvement of leadership and strategic management, organizational structure and procedures, organizational culture, (professional) training courses (in Romania and

abroad) for all brands of boats & engines in order to increase the know-how stock, coaching & team-building, alignment & compliance (social, security, health, environment). The whole team of 9 engineers and technicians were trained in 24 technical courses for repair & maintenance services, out of which 11 were organized by producers in Belgium (*Brunswick*) and Spain (*Sole Diesel*), 6 in the USA (*Mercury*) and 7 were workplace courses. This technical service team is by far the best in Romania in this field.

Furthermore, in 2011-2012, American Nautics SRL focused on internal processes (innovation, operations, clients relations and continued to develop the social & compliance activities, due to the expansion of repair and maintenance services). The service workshop were enlarged and reorganized: their internal flows were optimized, their equipment was updated (including computerized diagnostic equipment), the bookkeeping, inventory management and client relations were improved. The stock of spare parts on-the-spot was increased and it is managed electronically. 5 tow-cars were borrowed for emergency cases. A special attention was paid to the evidence of other companies' motorboats and engine sales in Romania and Bulgaria, for which repair & maintenance services are needed.

American Nautics SRL is the only company having authorized service workshops that is why this company put in place an online IT evidence system for all technical failures and complaints, for the motorboats and engines models sold by American Nautics, regardless:

- Selling company (American Nautics SRL or other companies);
- Country of buyer (Romania or Bulgaria);
- Period (guarantee or post-guarantee).

In the period 2012-2014, American Nautics SRL is being in a full process of analysis-diagnosis and reorganization on economic bases, aiming to increase profits, corporate value and competitiveness, mainly by:

- Decreasing costs (operation costs, hidden costs, sunk costs);
- Selling redundant assets (equipment, tools, means of transportation, inventory);
- Recalculating all selling prices and tariffs of the company;
- Increasing market brand equity;
- Developing partnerships with companies from Bulgaria, Republic of Moldova and Ukraine to cooperate in providing technical service in compensation with annual settlement.

In Table No. 3 below we present a comparative situation of the indicators *Expenditures on long-term intangible assets*, *Net Profit*, *Net Assets* and *Return on Assets (ROA)* [11] for the period 2010-2013, mentioning that for 2013 these indicators have been

calculated prudently based on the results in the first 4 months (of 2013), on firm contracts concluded (in progress) and on domestic & international economic conjuncture as expected:

Table 3. *Evolution of the indicators Expenditures on long-term intangible assets, Net Profit, Net Assets and Return on Assets of American Nautics SRL, between 2010-2013*

Crt. No.	Indicators	Unit	Valoarea indicatorului, pe ani:			
			2010	2011	2012	2013
1	Expenditure on long-term intangible assets	RON	50.000	63.000	80.000	89.000
2	Net Profit	RON	39.000	203.000	668.000	685.000
3	Net Assets	RON	7.607.000	7.740.000	8.212.000	8.415.000
4	ROA	%	0,51	2,62	8,13	8,14

Source: Work of the author from company's documents

7. Conclusions

The systematic and coherent application of this policy, consistent with growth and development of intangibles, has helped American Nautics SRL Bucharest in raising its competitiveness dramatically.

As a direct result of this positive evolution, the company American Nautics SRL has developed substantially improved relations with the producers of boats, engines, parts, accessories and supplies from abroad, expanding its range of providers and imported products under much improved commercial and financial conditions (prices, discounts, terms and conditions of payment etc.) from manufacturers and external suppliers.

This very favorable course of economic and financial indicators of the company is not due exclusively to the positive influence of intangible assets (exact quantification of this influence requires further analysis), but given the specific activity of the company, all having as background the financial crisis, allows as to say that the contribution of intangible assets was determinant in achieving the performance presented.

It is so demonstrated that the real chance of Romanian companies and the Romanian economy as a whole, in the new context created by the highly competitive European Single Market, is represented by creativity, quality and credibility, ie generating intangible factors, which are both the engine and the outcome of the New Economy and the Knowledge Revolution, specific to the postmodern period we are going through nowadays.

Notes:

[1] The text of this chapter was assumed, paraphrased and commented from: http://europa.eu/abc/12lessons/lesson_6/index_ro.htm, accessed on April 14, 2013.

[2] Spătaru, Mihaela, "The Factors of National Competitiveness", from: www.oeconomica.uab.ro/upload/lucrari/.../37.pdf, accessed on April 16, 2013, p. 1.

[3] Pană, Marin, "Competitiveness: The Indicator That Keeps Romania Away From The West", from: <http://cursdeguvernare.ro/competitivitatea-indicatorul-care-tine-romania-departe-de-occident.html>, accessed on March 14, 2013.

[4] Pană, Marin, "Competitiveness: The Indicator That Keeps Romania Away From The West", from: <http://cursdeguvernare.ro/competitivitatea-indicatorul-care-tine-romania-departe-de-occident.html>, accessed on March 14, 2013.

[5] "Global Competitiveness Index 2011/2012", apud. <http://cursdeguvernare.ro/competitivitatea-indicatorul-care-tine-romania-departe-de-occident.html>, accessed on March 14, 2013.

[6] Cosea, Mircea, From "Made in Romania" to "Made by Romania", from: <http://cursdeguvernare.ro/mircea-cosea-de-la-made-in-romania-la-made-by-romania.html>, accessed on April 10, 2013.

[7] Cosea, Mircea, From "Made in Romania" to "Made by Romania", from: <http://cursdeguvernare.ro/mircea-cosea-de-la-made-in-romania-la-made-by-romania.html>, accessed on April 10, 2013.

[8] Examples: Miller, Warren D., p. 132; Kaplan, Robert S., Norton, David P., p. 65; Low, Jonathan, Cohen KALAFUT, Pam, p. 53; ULRICH, Dave, Smallwood, Norm, p. 8.

[9] <http://cniipmmr.wordpress.com/category/comunicate/>, accessed on April 15, 2013.

[10] Research Contract No. 7797/28.09.2010.

[11] Roxana Ionescu-Davidescu, Daniela Penu, p. 173, for the methodology of ROA calculation.

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8. Ionescu, V. (2013). “*Isărescu: Revival Lies In Competitiveness, Not Subsidies. Lazea: Public Wages Grow Only By Restructuring*”, from: <http://cursdeguvernare.ro/isarescu-relansarea-sta-in-competitivitate-nu-in-subventii-lazea-salariile-bugetarilor-cresc-doar-prin-restructurari.html>, accessed on April 14
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