

UNIVERSITY OF LJUBLJANA  
FACULTY OF ECONOMICS

MASTER'S THESIS

**STRATEGIES FOR INCREASING COMPETITIVENESS  
OF THE EXPORT-ORIENTED MANUFACTURING COMPANIES  
IN THE REPUBLIC OF MACEDONIA**

Ljubljana , September, 2016

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# TABLE OF CONTENTS

<b>INTRODUCTION.....</b>	<b>1</b>
<b>1 COMPETITIVENESS AS A PREREQUISITE FOR SUCCESSFUL IN THE INTERNATIONAL MARKET.....</b>	<b>5</b>
1.1 Competitiveness: Definition .....	5
1.2 Prerequisites for Competitiveness .....	8
1.3 Levels and Models of Competitiveness .....	10
1.3.1 Models of comparative advantage .....	11
1.3.2 Porter's model of competitive advantages (the “Diamond” approach).....	12
1.4 Factors Affecting Competitiveness.....	15
1.4.1 Indicators of competitiveness.....	17
1.4.2 The IMD indicator of world competitiveness .....	18
1.4.3 Global competitiveness index .....	19
1.5 The Impact of the Technological Development on the Competitiveness.....	22
<b>2 STRATEGIC FRAMEWORK AND COMPETITIVE ADVANTAGES OF THE INTERNATIONAL MARKET.....</b>	<b>24</b>
2.1 Competitive Advantages in the International Market.....	24
2.2 Strategic Options in the International Market.....	28
2.3 Strategies Used to Increase the Competitiveness .....	32
2.3.1 Criteria for selection of appropriate strategies .....	35
2.3.2 Functional characteristics of the strategies .....	36
2.4 Selection of Strategies by the Export-Oriented Manufacturing Companies Aimed at Improving Their Competitiveness .....	39
2.5 Planned and Strategic Options of the Non-Price Factors of Competitiveness of Export-Oriented Manufacturing Companies .....	40
2.5.1 Strategic approach regarding the product performance in the international market.....	41
2.5.2 Strategic approach in conducting distribution activities in the international market.....	42
2.5.3 Strategic approach in conducting promotional activities in the international market.....	43
2.6 Strategic Options in Relation to the Price Performance in the Foreign Markets.....	45
<b>3 RESEARCH.....</b>	<b>46</b>
3.1 Research Objectives.....	46
3.2 Research Methodology .....	46
3.3 Researched Company Profile.....	47
3.4 Ethics .....	48
3.5 Implications of the Study.....	48
3.6 Result Analysis .....	48
3.7 Discussion and Recommendation.....	58
3.8 Limitations .....	63

3.9 Contributions and Further Research .....	64
<b>CONCLUSIONS.....</b>	<b>65</b>
<b>REFERENCES.....</b>	<b>67</b>
<b>APPENDICES</b>	

## **LIST OF FIGURES**

Figure 1. Porter’s Diamond Model of Competitive Advantage .....	13
Figure 2. Building Blocks of Competitive Advantage .....	16
Figure 3. Indicators of Competitiveness .....	19
Figure 4. Indicators (pillars) of Competitiveness according to the GCI .....	20
Figure 5. Global Competitiveness Index – 2009-2010 Rankings Compared to 2008-2009 Rankings.....	21
Figure 6. Comparative Analysis of the Rank of the Republic of Macedonia for Innovation and Business Sophistication for 2008-2009 Compared to 2009-2010.....	23
Figure 7. Stages in Shaping a Strategy.....	34
Figure 8. Working Experience .....	49
Figure 9. Management Levels.....	49
Figure 10. Company Orientation for Operating in Foreign Market.....	50
Figure 11. Support for the Business Operations in a Foreign Market.....	51
Figure 12. Opportunities Offered by the Foreign Market .....	51
Figure 13. Detailed Analysis for Entering a Foreign Market.....	52
Figure 14. Company Competitiveness in the Foreign Market .....	53
Figure 15. Obstacles in the Foreign Market .....	54
Figure 16. Improvement in the Foreign Market.....	55
Figure 17. Next Steps of the Company .....	56

## **INTRODUCTION**

Subject of research in this master's thesis, as the title itself suggests, is to consider the possibilities that are standing before one export-oriented manufacturing company for increasing its competitiveness by applying an appropriate strategy. The importance of the special strategic performance of the export-oriented manufacturing companies, the process of creating appropriate forms and ways for performance and achieving better competitiveness in the domestic and in the foreign markets, the manner in which the export-oriented manufacturing company can perform better and be a leader compared to the other companies, are issues that will be dealt with in this paper.

The improvement of the competitiveness, as a result of the creation of a single market at the level of the European Union, also involves application of a new approach by the companies for successful performance in that market. This approach is in the interest of the consumers who are offered abundant supply under the best possible conditions with a single aim at achieving a competitive advantage. The question here is how to achieve a competitive advantage? In this Master's thesis, solutions are proposed on how to improve the competitiveness by applying an appropriate marketing strategy. For this purpose, it is necessary to start first with the analysis of the competitiveness on the basis of which competitive strategies will be developed that will make the company more efficient compared to its competitors and will provide it with the strongest competitive advantage.

The aim of the analysis of the competitiveness is to identify the main competitors of the company by collecting data and information on the objectives, strategies, as well as on the strengths and weaknesses of the competitors (Doyle, 2008). Having such information, every company can select the competitors that it needs to challenge attack or avoid. It is indeed clear that many businesses have failed because they simply did not follow the foregoing rules on competitiveness and competition positions. Each management of a company develops a specific strategy towards a certain group of customers and competitors.

The contemporary economic thought has been promoting for a long time advancement of economic relations with foreign countries as one of the basic prerequisites for development of every economy. This is especially true for small open economies, which see the intensification of the foreign trade and economic cooperation with the foreign countries as a milestone to the developed world. Under the influence of the increased fragmentation of the world market and the media, and the intensified competitive struggle on the global basis, there was a significant turning point in shaping and repositioning of the relations between the consumer and the enterprise. In such terms, basic economic criteria for the existence and functioning of the market economy is the ability to respond to the pressures of competition and the power of the internal market of the European Union or, in other words, to be competitive. The problem of low competitiveness is permanently present in

the economy and, despite that, it can be said that it receives little attention. The increase of the competitiveness of the economy, and thus of our companies, is a very complex problem that requires more sustainable and long-term measures to solve it, which requires extraordinary efforts of the enterprises, state institutions and science.

Special attention should be paid to the promotion of the so-called basic factors of competitiveness: product and distribution and promotion channels, which in countries with developed market economy are a decisive factor for successful placement and sale of the company's products. Precisely in this regard the importance, as well as the role of benchmarking in defining the competitive ability of the Macedonian companies, is highlighted. In the global economy, competition is intensive and offensive, and the conditions of the competitive relations at the level of innovation are significantly conditioned, which requires application of modern management solutions. The competition takes place at the level of large and medium size enterprises, as well as between companies that possess high technology and others. In order to achieve greater success, given the complexity and intensity of the competitive relations in the global market economy, managers are required to apply new knowledge in introducing changes, planning, addressing challenges, decision making and problem solving, which is very difficult in modern business conditions.

What is common in all aspects is the fact that we live in a time of globalization, when the competitiveness becomes more and more apparent. It is exactly in these conditions that if one company wants to succeed on the market, it is necessary for it to be distinguished from the rest of the companies.

- **Purpose of the thesis**

The purpose of this thesis is to highlight the importance and the role of the strategies that have influence on the increase of the competitive position of the companies in the Republic of Macedonia. The importance of properly formulated strategies is high in the creation of a positive image of the company, and hence of the overall success of the export-oriented companies.

Achieving a good competitive position in the foreign market requires methodologically defined strategies that will provide a significant contribution to the market entry. Competition is affected by a number of foreign market factors, as well as the general orientation of the companies for a serious approach and planned performance on the market.

The developed companies pay significant attention to the research and development of the products and services that they offer on the market. The appropriate strategic positioning and determination of suitable strategic approach significantly reduce the risk of a possible failure, while directly affecting the stable entry in the foreign market, supported by the

professional and reliable approach. The emotional approach is inappropriate choice for export to the foreign market and opens up possibilities for unexpected gaps that could lead to a long-term failure in the implementation of the business plans of the companies.

In the interest of the research, factors influencing the increase of the competitiveness of the companies will be analyzed according to the Porter's model also known as diamond approach. We will discuss the following factors: Factor conditions, Demand conditions, Related and supporting industries, Firm strategy, structure and rivalry. Government, Chance. This is institutional approach that could be very useful in post-transition economies such as Macedonia.

Therefore, we need to provide answers to the following basic research questions:

- Which are the industries that are/could be competitive globally?
- Which are the key strategic factors determining the global competitive position of these industries?
- How do they determine the competitive position of these industries?
- What is the importance of these factors?

By answering these questions we could suggest the appropriate strategy how to improve competitiveness of specific industries in Macedonia.

- **Research objective**

Other objectives or goals of this paper are:

- to acknowledge certain factors that affect the competitiveness of the companies and to gain knowledge about the process that ensures successful entry in the foreign markets;
- to gain general knowledge about the competitiveness;
- to analyze the criteria that influence the choice of appropriate strategy for the overall planned performance in the foreign markets;
- to consider the opinions of the business community in the Republic of Macedonia on the impact of the strategies on the improvement of the competitive position in the foreign market.

- **Research methodology**

In the research and procession of data related to the subject matter, scientific methods are applied which are generally employed in the social sciences. Besides the theoretical research method, the analytical, synthetic, comparative and statistical methods are also applied. For a better understanding of the presented facts, hypothetical examples are used.

For the research purposes, a case study involving a Macedonian export-oriented company was used. Case study outlines the strengths of a case study methodology in business network research which are executed in different spatial, social, political, technological and

market structures. There is a great suitability using case study in a trial to understand a complex relationship as competitive strategy is (Halinen & Törnroos, 2005). According to Eisenhardt (1989) case studies are a good starting point in theory development and a good basis for analytical generalization. The unit of analysis in this research is the company Alkaloid AD.

For the preparation of this paper, other methodological procedures are employed which result both in theoretical and in practical knowledge. To support the research on the strategic options for the improvement of the competitiveness of the export-oriented manufacturing companies in the Republic of Macedonia, implementation of a questionnaire is planned. It is actually a survey that will be distributed to the representatives of the business community who operate export-oriented businesses, as well as to the companies which are planning to expand their own presence in the foreign markets and which are already engaged in activities aimed at defining the appropriate marketing strategies.

The respondents need to answer the questions in the survey which is structured as follows:  
**General questions** - questions in which the respondents are expected to explain what kind of operations their company is engaged into;

**Competitiveness** - the respondents are expected to give answers to questions covering issues related to the competitiveness;

**Strategies and their impact on the success of the company in the export of its own product assortment** - the respondents are expected to provide answers to questions related to the strategies;

**Evaluation of the statements**, conditions and factors for the improvement of the competitive position of the company in the foreign market.

Through a comprehensive analysis of the results obtained, relevant conclusions will be drawn. The conclusions are to be drawn by deduction, i.e. it will be assumed that the position on a certain phenomenon or process applies to a particular case, too.

This paper is divided into three parts; the first part is titled “Competitiveness as a prerequisite for successful performance in the international market” and contains the definition of competitiveness, the prerequisites for competitiveness, the levels and models of competitiveness, etc. This part however strongly emphasizes the importance of Porter’s diamond model of competitiveness. The factors of competitiveness, the indices of competitiveness and the impact of the technological development on the increase of the competitiveness are also issues analyzed in this part.

The second part of this paper is titled “Strategic framework and competitive advantages of the international market” and includes several key theoretical postulates for the competitiveness of the companies such as: competitive advantages in the international market, strategic options in the international market, strategies used to increase the competitiveness, selection of strategies by the export-oriented manufacturing companies

aimed at improving their competitiveness, planned and strategic options of the non-price factors of competitiveness of export-oriented manufacturing companies and strategic options in relation to the price performance in the foreign markets.

The third and crucial part of this paper consists of the research conducted in the Macedonian company Alkaloid AD Skopje, an export-oriented manufacturing pharmaceutical company. This part of the paper includes the methodology and the objectives, as well as the results of the survey, whereas this part ends with the recommendations and discussions, i.e. the conclusions of the research.

## **1 COMPETITIVENESS AS A PREREQUISITE FOR SUCCESSFUL PERFORMANCE IN THE INTERNATIONAL MARKET**

### **1.1 Competitiveness: Definition**

At the very beginning of this paper, there is a need for resolving the dilemma over the difference between the concepts of competition and competitiveness. Namely, **competition** is the state of the market when there are many providers of a certain product or service, while **competitiveness**, however, is the ability to win the competition in an open market contest, that is to be successful in the competitive market in which there is strong competition. Hence, it appears that the concepts of competition and competitiveness are correlated, but certainly different.

The term competition (*concurrentia*) is of Latin origin and means rivalry, contest, opposition in all domains of human activity, but, on the other hand, competition is defined as a behavioral pattern or actions taken by the market participants in the exchange of goods on the market. Furthermore, the notion of competition has a number of meanings in theory, which are fundamentally related to the trade and supply, explaining the meaning of various phenomena such as: the trading behavior of the subjects in the exchange, the market structure, the pricing conditions, i.e. the supply and demand terms.

The development of the competitiveness of every economy provides an opportunity to engage in the world economy, i.e. it shows the ability of the national economy to be part of the globalizing world economic trends. Basically, the essence of the competitiveness is directly related concept which is derived from the globalization of the world economy and, in that sense, competitiveness is the flexibility which enables the national economies to adapt to the structural changes. The high competitiveness in the open and integrated world of economy has become a central topic and purpose (Porter, 2004).

OECD defines competitiveness as an ability of the companies, industries, regions and nations to be exposed to international competition and provide a relatively high income

and, based on the factors of production, maintain a relatively high level of employment on a permanent basis (Bretschger, 2001).

In the European Competitiveness Report for 2003, prepared by the Commission of the European Communities, the term competitiveness means high and rising standards of living of a nation with the lowest possible level of involuntary unemployment on a sustainable basis.

The US Competitiveness Policy Council defines competitiveness as an ability to produce goods and services that meet the requirements of the international markets, while the citizens achieve living standards that should be increased and could be sustained for an extended period of time (Echeverri & Ayala, 2008). According to the Council on Competitiveness, in the United States, competitiveness is defined as increased competitiveness of productivity through improvement of the living standards of the citizens. This naturally requires creation of high-value jobs and high-value outputs. Having defined the concepts, it is necessary to make a difference between the terms of competition and competitiveness. Indeed, competition is the state of the market when there are many providers of a certain product or service, while competitiveness, however, is the ability to win the competition in an open market contest, that is to be successful in the competitive market in which there is strong competition. Hence, it appears that the concepts of competition and competitiveness are correlated, but certainly different.

The dilemma related to the term competitiveness stems from the fact that it refers to the world of business economy. In fact, that term was “invented” in the business sector, because the community needed a word that would indicate the degree of (dis)ability to win in the open market contest. In the business sector, the things relating to the competitiveness are crystal clear, but problems arise when this term refers to the level of the overall national economy. The first association is clear: if competitive companies are those which are able to win in the open market, then, by analogy, competitive economies are those which are able to win in the open market. But the essence of the concept of competitiveness of the national economy is that it is one (out of many) doctrine of economic development.

Therefore, it is probably most appropriate to accept this definition of competitiveness, which defines it as the ability of one economy:

- to produce (sell) enough products and services to meet the external constraints,
- to have factorial income correlated with the (existing and variable) level of aspirations of the citizens of that country, and
- in macro-terms, the economic, ecological and social systems to be observed (experienced) by the citizens as satisfactory.

In a modern, more open and integrated economy, competitiveness occupies a central position in the economic thinking of the developed and developing countries. However, the conceptual definition of competitiveness is a complex issue. Different forms of competition and competitiveness, such as natural and economic competition, price and non-price economic competition, competitiveness at micro and macro level, national and international competitiveness, competitiveness based on comparative and/or competitive advantages, categorization and other forms, can be defined differently and have different specific meanings in some economies.

In a modern economy, enterprises are making selfless efforts to implement a better or more efficient approach to the market. The global flows impose the necessity of strategic positioning of the activities of the companies. Today, compared to the past, it is much more difficult for the enterprise to take a competitive position in the market. The new technology, the shortened life cycle of the products and a range of other significant factors affect the drastic change in the principles of doing business. The chance of success today is almost impossible.

There are different conceptual understandings of competitiveness amongst the modern economic trends. One should not think that competition is a set of measures, actions, etc, but it is mainly philosophy, or a set of attitudes, beliefs, concepts by individuals and groups in the society. In that regard, it is important to accept some starting points:

- Competitiveness does not mean a struggle with others and against others. It is a struggle of each individual with himself. It is an ideal for every individual that today is better than yesterday and that tomorrow will be better than today. Such an approach means competitiveness and individualization, association of the individual and his freedom of choice. This means that the competitiveness of each individual is also affected by the factors from the scope of his personal freedom and individual responsibility. This approach emphasizes the importance of microeconomic competitiveness of one economy and continues to illustrate the macroeconomic competitiveness, derived from the microeconomic, not vice versa.
- The insistence on corporate competitiveness means insistence on economic freedom or freedom to enter or exit large businesses. Economic freedom means opening up the economy, but that is not all. Above all, economic freedom means having clear rules and security deriving from these rules. Namely, it means creating an environment that encourages creativity, innovation and entrepreneurial spirit of the individual.
- The insistence on competitiveness also means acceptance of global orientation. However, globalization and free trade (liberalism) are not synonymous. Liberalism is a set of ethical principles, and globalization is a set of events and behaviors. Unlike free trade, where flows of goods and services between individual countries are important, in globalization, the flows of goods and services within the same company are important (which may be located in different countries). Thus, the concept of competitiveness implies

respect for individual freedoms, economic freedom and acceptance of globalization and its principles.

Competition makes the domestic companies be oriented to greater efficiency, because, otherwise, they will not be able to cut their costs, which would result in uncompetitive prices. The new theory of competition presupposes that national wealth is not inherited, but creates a strategic choice (Porter, 2008). While in the past, the development of one country was based on comparative advantages, like cheap labor and natural resources, lately, the international competitiveness has been affected by other factual conditions obtained on the basis of knowledge and developed infrastructure, high technology and innovation, i.e. on the development of the global information society and the general liberalization.

Analyzing the growth and development of the enterprises, and thus of the countries, it is possible to see in some of the factors that has contributed thereto (Deakins, David & Mark, 2002) that:

- there is a growing importance of international trade and investments, whereas the highest growth rate is realized precisely by those countries that have the largest increase in exports;
- the global mobility of factors of production is increasing, and this is potential increase of the similarity of the manufacturing facilities worldwide;
- the rapid transport and communications have reduced the role of location, subject to competition; technology has become one of the key themes of development, and, based on mass production of cheap labor, the raw materials and energy may lose their importance as a result of the technological development, whereas the importance of acquiring knowledge-based industries will increase. Knowledge, skills and human creativity have become key issues of competitiveness;
- an important role plays the size of the market, which is the main driving force of the expansion of the business activities in the international markets;
- in order to survive in the harsh international competition, the owners, jointly, feel the need for strategic alliances aimed at achieving optimal utilization of global knowledge and skills.

## **1.2 Prerequisites for Competitiveness**

A basic prerequisite for competitiveness of the enterprises on the market is the necessity to implement a series of measures in order to foster the competitiveness of enterprises, but also of the entire national economy. The significance of the market competitiveness is invaluable. The competitive economies, those which invest in their development, are, at the same time, the most powerful in the world. The increased level of competitiveness stimulates creativity, and thus the productivity of the economy, which results in long-term financial benefits for the national economy. The prerequisites for development of a

competitive economy by providing competitive products, industry sectors and industries are based on several components.

The state plays an important role in promoting the competitiveness of its economy: in many cases, it is proven that the state economic measures and economic policies in the world had a significant impact on the country's competitiveness of the entrepreneurial business practices.

Thus, it can be concluded that the success of the economic entities is a prerequisite for international competitiveness, but also the success is not sufficient unless it is supported by appropriate measures in the economic, fiscal, monetary and other policies. The state has a significant impact in the following areas: development of appropriate tax policy, providing subsidies, coverage of domestic export risks, assistance and support for research and development activities, IT support, export support, non-tariff and tariff barriers, bans on production and use of certain products, etc.

The Republic of Macedonia, with a small but open economy, must align its foreign, economic, monetary and financial policy with the policies of the already developed countries, to which Macedonia aspires to approach. Given the small internal market, for the purpose of ensuring sustainable high growth, Macedonia's economy must be as open and integrated as possible, both in the region and in Europe, and even beyond, in the global economy. Namely, Macedonia must increase and develop its competitive position in the light of the developments in production, product quality, product pricing policy, product final appearance and the like. The whole process of approximation to the developed economies presupposes that the structure and quality of the Macedonian production must get closer to those of the developed economies, and, by strengthening the competition and increasing the efficiency of the management, the needs of the population would be met more fully, at a higher quality and quantitative level, which is the ultimate goal of the economic development.

Considering the fact that free competition is the basis of the market economy to which the Republic of Macedonia is striving, it creates a system and other prerequisites for enhancing the competition. Macedonia has adopted a series of reforms and laws to strengthen the competition and created conditions and prerequisites for achieving significant results in this very important area of development. In this regard, it liberalized the foreign trade regime, which is undoubtedly the leading transmission market component for the increase of the market competitiveness. In this respect, it revoked the quotas for imports and exports of certain goods and, for a number of products which have special importance for the country, authorizations are to be issued. Free trade agreements have been signed with several countries in the region and beyond (Serbia, Montenegro, Slovenia, Bulgaria, Turkey, etc.). In 1997, the Cooperation Agreement with the European Union was signed, which has created opportunities for expanding the trade, as well as for integration of Macedonia into the European family. Several systematic solutions have been adopted to

create conditions for greater influx of foreign direct investment, thus contributing to the increase of the competitiveness in the investments.

The competitiveness of the domestic market marked an increase with the reforms that have facilitated the registration of a new company, which resulted in rapid increase of the number of enterprises. With their number, diversification, multiplicity and efficiency, they are becoming a key element for strengthening the competition.

### **1.3 Levels and Models of Competitiveness**

In defining competitiveness, its multi-dimensional character is noticeable. Competition can indeed refer to different areas of a national economy; hence there is a need for its differentiation for the purpose of better understanding and further consideration. In essence, competitiveness can be observed at several levels: macro, mezzo and micro.

- Micro aspects relate to the factors and mechanisms for competitive adjusting at the level of enterprises,
- Mezzo aspects relate to the level of sectors, while
- Macro aspects relate to the overall national economy.

However, it must be emphasized that it is a conditional division due to the fact that competitiveness is a combination of corporate, branch, sector and general-national performances and, ultimately, an aggregate indicator for the rating of the national economy in the global market. The increase of the competitiveness of the enterprise necessarily leads to greater competitiveness of the sector and the economy in entirety and vice versa.

In literature, a huge number of analyzes can be found which observe the competitiveness from various aspects. Competitiveness, as an economic category, has been spoken of long ago. At the beginning, the economy reflects this term through the development and application of international exchange, as the beginning of the conquest of large market areas. Even in this respect, specialization, creativity and uniqueness can be seen, which play an important role in the inclusion in the international exchange. The literature differentiates a series of models set as a roadmap for creating competitive advantages and indicators of the essence of the competitiveness and the factors affecting it.

Today, modern economy gives particular importance to competitiveness as a factor which significantly affects the success of the economic entities of a national economy, which, in turn, implies strengthening of the state economic potentials. It is also important to highlight the role of the contemporary authors who deal with the issue of competitiveness, and here I would especially mention Michael E. Porter, who published a series of papers on competitiveness. He offers experiential strategies that can be used by the enterprises as a reference for improving the competitive market positions.

### **1.3.1 Models of comparative advantage**

Author of the first theory of international trade is Adam Smith. “The theory of absolute advantage” was developed as a critique of mercantilism and therein Smith opposes the concept of free trade. The basic starting point of the theory is the international division of labor and specialization. Given the underdeveloped markets in the eighteenth century, Smith came to his conclusions based on the simple example of two countries that produce two products with application of production - work. The countries will have an absolute advantage in producing certain goods, if they can produce more efficiently than any other country, that is, if they invest less work in the production units. The absolute advantages of the country can be presented as physical (climate, soil and air) and acquired (knowledge, skills, etc.).

The result of the international specialization can be seen in the following (Strahinja, 2000: 23):

- increase of the total production and consumption in both countries, and thus of the global production;
- reduction of the production costs, and thus of the product prices;
- the benefits are much larger than they would have been without the implementation of the international division of labor and specialization.

The disadvantages of this theory can be summarized in the following (Strahinja, 2000: 29):

- the mobility of various factors of production and the price differences between the countries are neglected;
- the model is too simplified because the production costs are reduced to spending on production factors of labor (homogeneous labor).

The absolute advantage, as a reflection of the absolute difference in the production costs, has full recognition only in free trade conditions, which allows specialization in the production of goods in the countries in which the most favorable conditions for it exist. David Ricardo developed his theory of comparative advantage in which he is explaining the need for each country to specialize and export those goods whose production is more efficient compared to other countries, and to import goods whose production is less efficient compared to other countries. Ricardo takes into account production costs and price ratios. John Stuart Mill supplements the theory of comparative costs by introducing an element of demand and develops his theory stating that production costs are determined by the price on the domestic market. He discovers that the relations in the exchange depend on the mutual demand of the countries participating in the international trade. Namely, the increase of the demand for the products of one country from the other determines the increase in the prices of the export products, and thus improves the ratio of the exchange of the other countries.

### **1.3.2 Porter's model of competitive advantages (the “Diamond” approach)**

The introduction of dynamic elements is seen as a national efficiency process caused by the country itself, such as resources, the size of the country, the influx of foreign capital, the country's economic policy, whereas the theory of comparative advantage is complemented and adapted to the socio-economic conditions. The availability of natural resources, as a basis for increasing the comparative advantages, is replaced with the ability of creating comparative advantages, i.e. with those elements that strengthen the country's position in view of the competition. The trends in the international trade can no longer be explained by the existing theory of international trade as new and modern authors are emerging who are explaining the criteria of specialization, while the structure and movement of the international trade are starting from the differences in the availability of raw materials, energy and capital, education and quality of human resources, namely of the skilled and unskilled workforce, the share of research and development, the intensity of the technological development and so on.

The concept of competitive advantage in the economic theory was introduced by the American economist Porter. Analyzing more than a hundred industries in various developed countries, Porter came to a conclusion that some countries are more competitive than other in a variety of activities and that no country can be competitive in all branches of economic activity. Therefore, it is very difficult to compare competitiveness between different national economies based on different branches. Some general rules are defined that directly drive the development and success of the international business sector. The environment in which the company operates is defined by Porter as a competitive core (through the production of factors, it includes a large number of actors and forces that operate in the market), in which each industry has different profile of competitiveness (Porter, 1990).

The process of globalization greatly affects the change of the theory of comparative advantage in the field of competitiveness. Michael Porter developed a model of competitive advantages based on four related elements - known as the “Diamond” model. National competitiveness, specific for each country, is created through interaction of four groups of external subjects and two variables. The two external variables are the government and the chance (opportunities), while the factors are (Strahinja, 2000, p. 31):

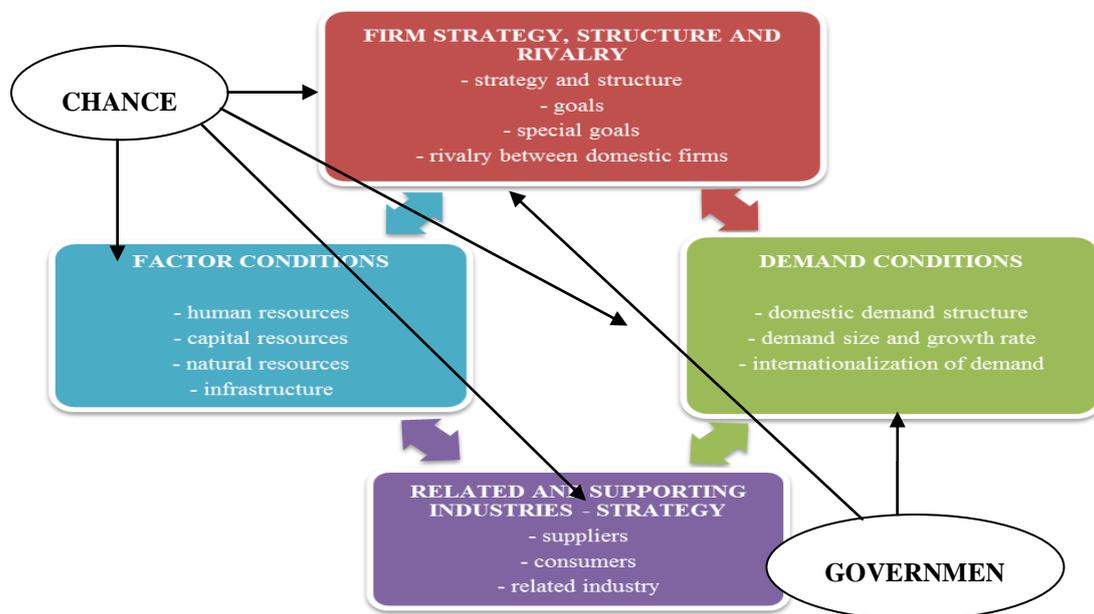
- factors of production;
- related branches of industries - strategy, structure and rivalry between the companies in the industry;
- conditions imposed by the demand - the quality of domestic demand, and
- strategy and structure of the companies and competition among them - the existence of groups (clusters) of related industries in the country.

Government's policy and influence affect all four determinants. This framework, known as the “Porter's Diamond” model is shown in Figure 1.

**Factor conditions** are factors of competitiveness of one country, but if they are not possessed sufficiently and effectively, they become inaccessible. These include the following:

- human resources which, today, along with technology, are the primary assets, including the impact of knowledge and thus of the creation of technology, with special importance of the highly educated workforce;
  - natural resources, which include elements such as quality, abundance and accessibility of national land, water, minerals and energy, location and areas of land and other natural resources, geographical positions and distances of markets;
  - assets, such as knowledge or technology, by importance, are right behind human resources. The measures include scientific, technical and market knowledge necessary for production and trade of goods and services;
  - capital resources - capital is realized through gross domestic product, the structure of national savings and capital markets. It is very mobile resource. Globalization of capital markets leads to equalization of the conditions in the national capital markets. The increase of the capital is realized through investments which are important segment of the economic adjustment of the structure of one country on the world market;
- infrastructure, which includes transport system, communications, business services and business infrastructure.

Figure 1. Porter's Diamond Model of Competitive Advantage



Source: M. Porter, *The competitive advantage of nations*, 1990, p. 77.

**Demand conditions** include the following components: the advanced needs of the customers, the size of the domestic market, the number of individual customers and the

growth rate of the domestic demand. Meeting the needs of the domestic customer is particularly important for the company that builds its competitive advantage, because it presumes prior preparation for the future requirements of the foreign customers. The size of the domestic market is particularly important in the phase of economic growth and development. Due to the size of the domestic demand, big countries have the advantage, while small countries are forced to start exporting to foreign markets earlier. The structure of the demand and the requirements of the domestic consumers are important for the performance on the foreign markets, because this affects the quality of the products.

**Related and supporting branches of industries** refer to the specialized local suppliers and producers, as well as to the complementary production, which are divided by some common elements, which together constitute the competitiveness of the entire sector. The Swiss pharmaceutical success is closely linked to the previous international success in the technologically related industries. One result of this process is that the successful industries within a country tend to be grouped together in a union with the related industries. This is one of the most advantageous conclusions of the Porter's research. One such union is the German Textile and Clothing Industry which involves usage of high quality cotton, wool, synthetic fibers, needles for sewing machines and a wide range of textile machinery. Such unions are important because they may generate valuable knowledge among the companies that are in a geographic union by using specific knowledge within a specific union. Knowledge flows occur when employees fluctuate between companies within a region and when the national industry associations gather employees from different companies together at regular conferences or workshops.

**Strategy, structure and rivalry between the companies** is the fourth, wide, characteristic of the national competitive advantage in the Porter's model. This strategy represents a set of activities which is implemented to achieve the vision. The strategy refers to the positioning of the companies in the market, as well as to the implementation of activities that are different from those achieved by the competitors or similar activities by the competitors, but implemented differently. The activities imposed by the strategy must be aligned with each other, with strong positive interconnections, and thus function as a system, a hierarchy, where the responsibilities should be divided. The strong competition in the domestic market is particularly important early step in preparing the companies for participation in the international markets. It is difficult to assume that the companies in the international arena can gain competitive advantage instead of gaining advantage in the domestic market. Porter speaks of two important elements in this strategy. First, different nations are characterized by different management ideologies that either help them or not in building a national competitive advantage. For example, Porter highlights the dominance of the engineers in the German and Japanese companies. He attributes this to the importance these companies pay to the improvement of the manufacturing processes and the design of the product. In contrast, Porter indicates the supremacy of the people with a financial background who manage many companies in the United States. He attributes this to the lack of interest of the companies in the United States to improve the

manufacturing processes and the design of the product, especially during the 70s and 80s of the last century. He also argues that the financial supremacy has contributed to the exaggerated emphasis on the short-term financial gains. According to Porter, one of the consequences of these different management ideologies is the relative loss in competitiveness of the United States in the engineering-based industries where the results of the manufacturing processes and the design of the product have comprehensive meaning (for example, the automotive industry). Porter's second conclusion is that there is a strong link between the large domestic rivalries and the creation and persistence of the competitive advantage in one particular industry. The strong domestic rivalry encourages the companies to seek ways to increase their efficiency, which makes them stronger than the international competitors. Domestic rivalry is pushing and encouraging innovation, improving quality, reducing costs and investing in upgrading of the advanced factors. The interaction of these four determinants of competitive advantage is determined in such a way that the relations between the factors are interactive, and the favorable position of one factor positively affects the others. Moreover, the weakness of any of these factors restricts the potential of all others.

**The role of the chance** is one of Porter's external variables. The technical progress brings new materials, processes and implementation, creating the possibility for substitutes, which are the basis for gaining competitive advantage. The timely perception of the potential and the range of new phenomena is a chance to ensure new competitive advantages.

**The role of the government** is of great importance for the competitive ability of the country. The opinions on this issue are divided between two extremes. The first one is that the state should not interfere in the problems, and the second is that the state should conduct all the segments of the process. Porter suggests holders of economic policy and draws the attention to the need to cut the government's strategic and industrial policies, and, instead, to open the domestic market and create attractive conditions for foreign direct investment. It can be concluded that it is not only important to produce, but it is more important to sell, hence, the theory of competitive advantage deals with consumer problems and finding and defining the key elements that would sell the product.

## **1.4 Factors Affecting Competitiveness**

One of the most important lessons managers and enterprises should learn if they want to reach and survive on the top of the competitive environment in their respective businesses is analysis of the factors affecting competitiveness. The answer is related to the use of resources by the enterprises in building competitive advantage. Appropriate strategy applied by the enterprise is the key factor affecting the competitiveness on the market.

Competitive advantage is a term that basically reflects the company's ability to offer its customers a certain value. Besides resources, it is necessary to create value, availability of

production factors and to set a task of providing the position of knowledge and innovation. This means that only those companies that are willing to acquire new knowledge and continuous innovation, not only finished products, but also production and business processes, can count on a favorable market position in comparison with the competitors, and thus on a future development. Competitive advantage is the ability of company to operate better than other companies because it is able to produce the demanded goods or services in a more effective and efficient manner than its competitors (Bahra, 2001, p. 181).

The ability to manage the needs of the target markets, the anticipated changes in the market trends and the flexible response to the actions taken by the competitors, as well as the choice of appropriate strategies are the activities on which the competitiveness of the entire development of the enterprise will depend.

The four blocks building the competitive advantage are: increased efficiency, quality, innovation and responsiveness to customers (Jones, George & Hill, 2000).

Figure 2. Building Blocks of Competitive Advantage



Source: G. Jones, J. George, and C. Hill, *Contemporary management*, 2000, p. 458

**Increased efficiency**—companies increase their efficiency when they reduce the resources (the workforce and raw materials) they use to produce goods and services. In today's competitive environment, the companies are constantly seeking new ways to use the resources to improve their efficiency. Many companies train their workforce to acquire the new skills and techniques they need in the computerized manufacturing facilities.

**Increased quality**—the challenges generated by the global companies, such as the electronic manufacturers, producers of agricultural products and the European marketing and finance companies, have also increased the pressure on the companies to improve the skills and capabilities of their workforce in order to improve the quality of the goods and services offered. Another incentive to improve the quality is the introduction of techniques for improving the quality known as Total Quality Management (hereinafter: TQM).

Increased innovation - the process of creating new products and services demanded by the consumers or finding modern ways to create new products and services is a particular challenge. Managers must create an ambiance in their companies in which the employees will be encouraged to be innovative. Innovation generally occurs in small groups or teams; hence, the management decentralizes the control of the operating activities to the team members and creates a company culture that rewards the one who is willing to take a risk. Understanding and managing innovation, as well as creating a working environment which encourages risk, are among the most difficult management tasks.

Increased responsiveness to customers– the companies are fighting for customers for their products and services, therefore training of the employees to make them ready to meet the needs of the customers is important for all companies, especially for the companies that provide services. Retailers, banks and hospitals, for example, are entirely dependent on how their employees behave and whether they ensure high-quality services at reasonable prices. Since many countries (the United States, Canada and Great Britain are just some of them) move in the direction of service-based economy (partly due to the loss of manufacturing jobs because of the competition from China, Malaysia and other countries with low labor costs), the management of the behavior of the employees in the service companies is becoming increasingly important. Many companies give powers to their employees in service companies to take part in providing high-quality services to the customers. It is rather clear that proper development of these blocks will provide better competitive conditions for the enterprise. The core of these blocks of competitive advantage unifies the key conditions for success of the enterprises. The increased efficiency of the working team leads to quality and innovative products offered at the market, and it essentially means greater responsiveness to the customers.

#### **1.4.1 Indicators of competitiveness**

There are a number of economic and non-economic factors affecting the determination of long-term competitiveness of the national economy. The main factors of competitiveness vary in time and space. In the rankings of the global competitiveness, which is, at regular intervals, assessed by several international institutions, the position of individual countries is also changing.

The International Institute for Management Development (hereinafter: IMD) defines ten “golden rules of competitiveness”, and they are (IMD, 2003):

- creating a stable and predictable legislative environment;
- working on a flexible structure and elastic ownership structure;
- investing in traditional and technological infrastructure;
- encouraging private savings and domestic investment;
- developing aggressiveness on the world market and attractiveness for foreign direct investment;
- ensuring quality, speed and transparency of the government and administration;

- maintaining a balance between the wage levels, productivity and taxation;
- preserving the social structure in order to reduce the pay gaps and strengthen the “middle class”;
- significant investment in education, especially at the level of secondary schools, life-long learning and workforce;
- establishing a balance between national and global economy in order to ensure sustainable development, by maintaining a system of values customized to the citizens.

The indicators of competitiveness, created by various international institutions, describe, to varying degrees, the elements of the pyramid of competitiveness. The IMD indicator has the widest methodological range. The Global Competitiveness Index (hereinafter: GCI) and the World Economic Forum (hereinafter: WEF) have the middle range, which show the long-term ability of the state to ensure sustainable growth, while somewhat smaller range has the Business Competitiveness Index (hereinafter: BCI), which is more focused on measuring the competitiveness of the enterprises (Porter, 2004). The IMD indicator of world competitiveness and the global competitiveness index are explained in details below, which are important indicators of the annual progress achieved by the countries in terms of their competitive position.

#### **1.4.2 The IMD indicator of world competitiveness**

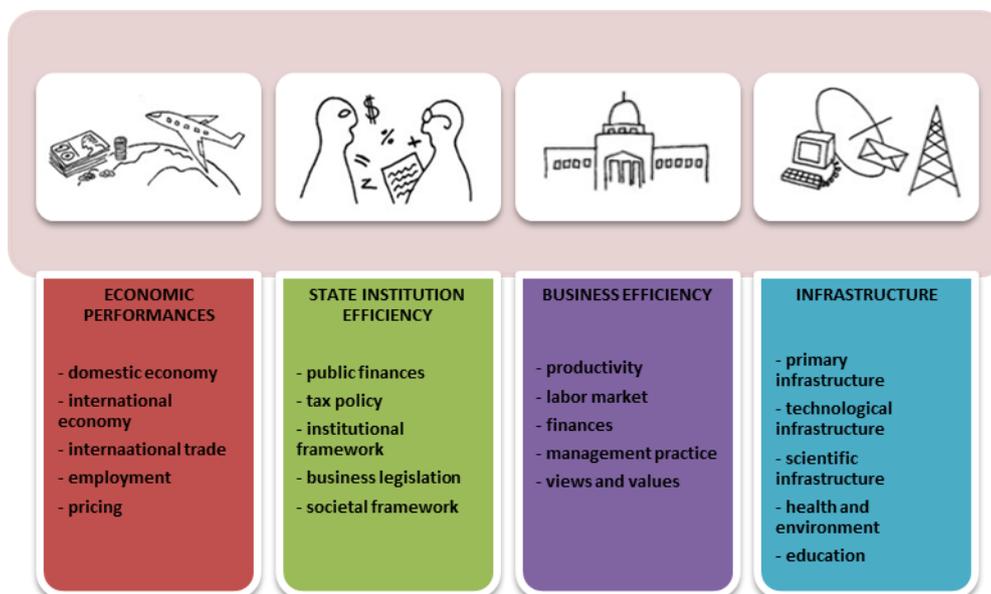
IMD publishes the World Competitiveness Yearbook (hereinafter: WCY), which contains two approaches: ranking of global competitiveness aimed at providing systematic evaluation of the competitiveness of each country, while the profile shows how some countries are improving and specializing. The Yearbook ranks and analyzes the ability of the countries to create and maintain an environment in which the companies compete. This means that it is assumed that wealth is primarily generated in enterprises - the area called “competitive companies”. Given that the companies are operating in the domestic environment, it encourages or hinders their competitive ability, be it domestic or international - the area called “world competitiveness”, which is contained in the WCY.

The methodology of the WCY divides national competitiveness into four main areas, each area into five sub-areas, which indicate the individual aspects of the analyzed areas (Figure 3). The twenty sub-areas include more than 300 criteria, although each sub-area does not necessarily contain the same number of criteria (for example, more criteria are used to evaluate “education” than “pricing”). Each sub-area, regardless of the number of criteria it includes, has the same value of the total result, which is 5% ( $20 \times 5 = 100$ ).

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evaluate “education” than “pricing”). Each sub-area, regardless of the number of criteria it includes, has the same value of the total result, which is 5% ( $20 \times 5 = 100$ ).

Figure 3. Indicators of Competitiveness



Source: M. Durand, and C. Giorno, *Indicators of international competitiveness: Conceptual aspects and evaluation*, 2009, p. 160

The criterion can be exact data used to measure competitiveness (for example, GDP) or evaluating data used only to estimate the competitiveness (i.e. the availability of competent managers). The exact criteria comprise 2/3 of all ranks, while the evaluating data 1/3. The unification is done by summing up the results of all twenty sub-factors and, finally, the rank in the Yearbook is assessed. In this report, the Republic of Macedonia is not ranked. The 2009 Report ranks 57 world economies, including the economies from our immediate surroundings, such as Bulgaria, Romania, Croatia, Slovenia and Greece.

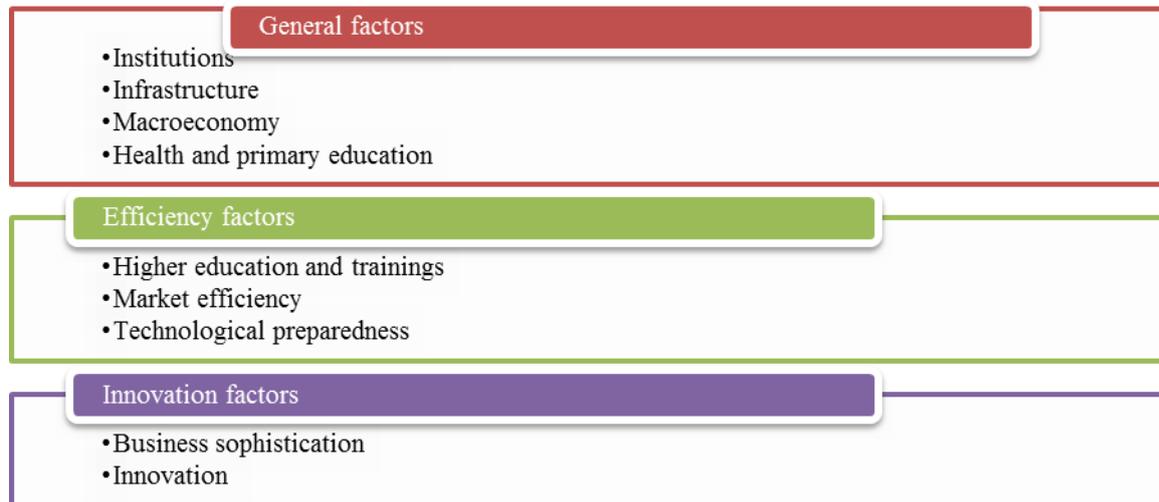
### 1.4.3 Global competitiveness index

The Global Competitiveness Report is generally accepted as the world’s leading comparative analysis of the aspects referring to the economic competitiveness and growth. The WEF provides analyzes of the factors that enable sustainable economic growth and long-term prosperity of the world economies since 1979. The Report is prepared by the WEF and was first publicly presented in 1979. Since 1996, the WEF has been collaborating with the Harvard University in the preparation of the report, and, today, together with the Institute for Strategy and Competitiveness at Harvard, the WEF is heading the process of developing and purification of the competitiveness rankings which are included in the Report.

The data used in the calculation of the GCI are obtained from two sources (GCR, 2006):

- statistical information systems of the countries and international companies;
- surveys conducted among the managers of the companies.

Figure 4. Indicators (pillars) of Competitiveness according to the GCI



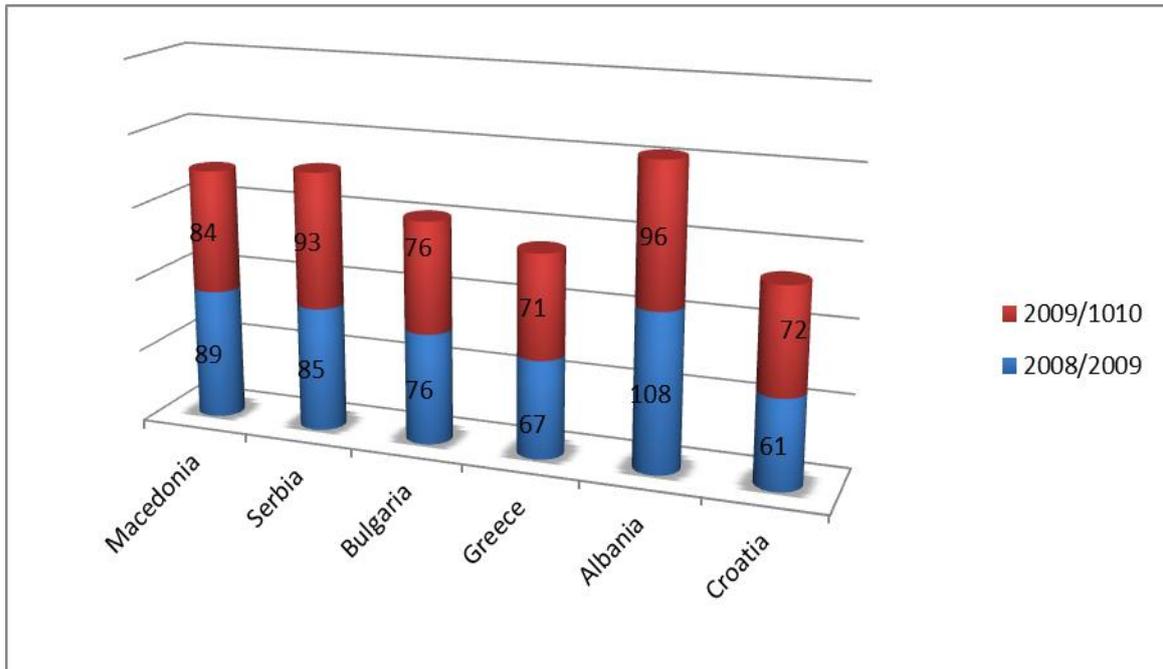
Source: The World Economic Forum, *The Global Competitiveness Report*, 2006, p. 26.

The GCI, published by the WEF, collects a number of indicators, where the survey indicators account for about two-thirds and the statistical indicators about one-third. The index is based on nine factors: institutions, physical infrastructure, macro stability, health and primary education, higher education, market efficiency, technological preparedness, innovation and business sophistication (GCR, 2006).

For the developing countries, the highest percentage (50%) in the final index goes to the general factors. For the middle-developed countries, a high percentage goes to the efficiency factors, while for the developed countries, besides the first two factors, particularly important are the innovation factors, which have a significant share in the final index (30%).

In the 2009 - 2010 Report, out of 133 ranked countries, the Republic of Macedonia is ranked at the 84<sup>th</sup> place, which, compared to the previous 2008 – 2009 Report, in which the country is ranked at the 89<sup>th</sup> place, is an improvement of 6 positions. The Republic of Macedonia has an average index of 3.95, and, compared with the countries from the region, has a better position than Serbia, which is ranked at the 93<sup>rd</sup> place with an average index of 3.77, and Albania, which is ranked at the 96<sup>th</sup> place with an average index of 3.72. The other countries in the region are ranked better than the Republic of Macedonia, namely, Bulgaria is ranked at the 76<sup>th</sup> place with an average index of 4.02, Croatia at the 72<sup>nd</sup> place with an average index of 4.03, and somewhat better position in the Report has Greece, which is ranked at the 71<sup>st</sup> place with an average index of 4.04.

Figure 5. Global Competitiveness Index – 2009-2010 Rankings Compared to 2008-2009 Rankings



Source: The World Economic Forum, *Global Competitiveness Report 2009-2010 - Republic of Macedonia*, p. 28.

The comprehensive comparison of the Republic of Macedonia with the EU countries in the reports from recent years suggests that the main holdups and weaknesses of the country as regards the determinants of competitiveness are as follows:

- Low research and development costs, low level of innovation and research and development activities, low level of technological preparedness and export of high technology, low level of business sophistication.
- Lack of infrastructure, network industries, including low level of information and communication technologies and information society.
- Lack of highly educated personnel and training in the field of science/technology appropriate to the needs of the industry.
- Lack of flexibility of the banking sector and non-banking institutions, low level of financial services.
- Problems in terms of doing business, especially related to starting a business, dealing with construction permits, contract implementation, cross-border trading, protecting investors and registering property ownership.
- Insufficient social inclusion which requires greater workforce, improved qualifications and modernization of social protection.
- Problems relating to sustainable development.

## 1.5 The Impact of the Technological Development on the Competitiveness

Technological factors have great impact on the competitive position of the enterprises in the national economy and in the global market. Global conditions are characterized by a myriad of technological achievements that are changing the way of thinking, i.e. the way of living. Innovation, creativity and new designs are a daily practice of many researchers worldwide. Hence, the enterprises are exposed to daily “bombing” of new technological inventions and achievements, of a series of basic and applied research, and, therefore, they have to carefully incorporate them in the process of planning.

When technology changes, the survival of the company requires the managers to promptly adapt and apply new technologies for innovation of their products. Managers who do not practice this and behave otherwise soon discover that there is no market for placement of their products and thus destroy their company.

### **Clarification:**

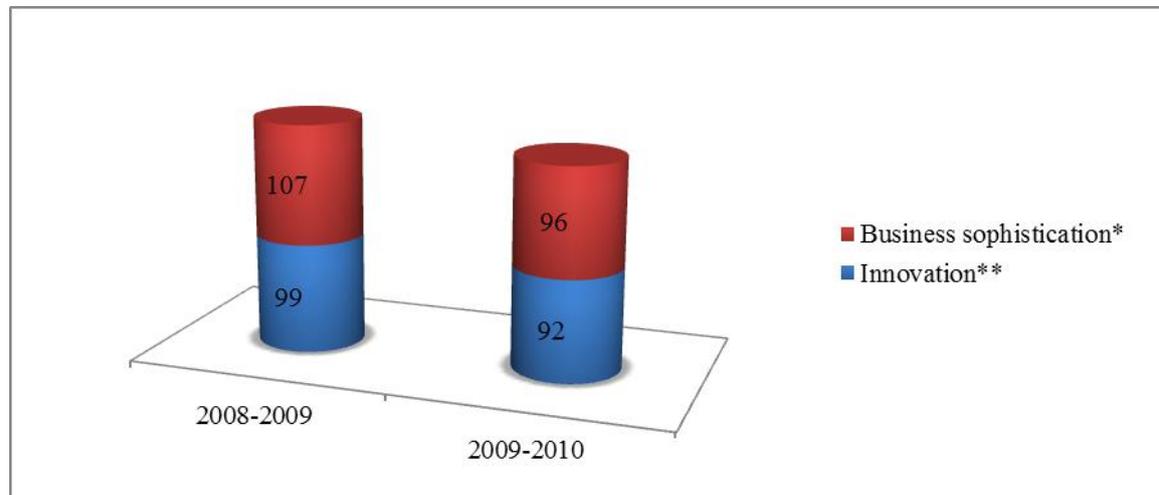
**Business sophistication** includes: quality and quantity of local delivery, nature of competitive advantages, control of international distribution, marketing range, etc.

**Innovation** includes: innovative capacity, quantity of research institutions, research and development costs of enterprises, cooperation at the level of universities and industries in research and development, available scientists and engineers, etc.

Technology consists of skills, knowledge, experience, technological knowledge corpus, tools, machinery, computers and equipment used in the design, manufacturing and marketing of goods and services. Technology is included in all companies activities and the rapid changes in technology contribute it to be a significant factor in almost every technological innovation. According to the famous American professor Michael E. Porter, the essence of formulating a competitive strategy is in the relationship of the enterprise with its environment, i.e. national prosperity is created, it is not inherited (Porter, 2009). For Porter, the nation’s competitiveness depends on the ability of its industry for innovation and improvement. The main determinations in the technological development strategy should be aimed at raising the technological level in all areas, especially in the manufacturing and social activities, adoption of information technology and new energy as engines and generating technologies of modern economies and economic systems.

There are two types of technological change: erratic and gradual (Ericson, 1991). The erratic technological change represents a fundamental shift in technology which results in finding new types of goods and services. Two recent examples are the development of the Internet, which revolutionized the computer industry, and the development of the genetic engineering (biotechnology), which promises a revolution in the treatment of diseases through drug development by genetic engineering.

Figure 6. Comparative Analysis of the Rank of the Republic of Macedonia for Innovation and Business Sophistication for 2008-2009 Compared to 2009-2010



Source: The World Economic Forum, *The Global Competitiveness Report 2008-2009 - Republic of Macedonia*, 2009, p. 37

The principles developed by the McDonald's company in the production of fast food also serve as examples of erratic technological development. The gradual technological changes result in technological development that advances the existing technology and leads to gradual changes or improvements of the product.

Generally, there are five areas or fields of technological advancement, and they are: energy, materials (raw materials), transport, communication and information, and, recently, genetics (especially in agriculture and medicine). The type of technology chosen and its driving force can affect the meeting of the needs of defense, the rise of prosperity and achieving commercial success, which, ultimately, will boost the overall competitive market position.

Technological inventions and innovations change the environment of the enterprise; it must act quickly by changing its objectives, targets and plans. Technological changes reduce the product commercialization timing, which leads to rapid obsolescence or change of the type of products/services. A typical example of the impact of the technological factors is the emergence of personal computers which opened up the possibility for information procession, data storage and implementation in work files. It enabled better marketing decisions to be formulated and adopted. Computerization, as a kind of contribution, promoted the Internet, and, today, extranet and intranet are introduced, which provide networking of enterprises and swift communication. Moreover, electronic media are increasingly advancing to perfection thanks to the cable and satellite television, and it facilitates the promotion of products/services of the enterprises.

All this makes the position of the enterprises on the market precarious since there are constant threats of developing substitutes for their products. Namely, the

- high rates of profit growth of individual companies attract new competitors in a particular branch,
- rapid change of consumer needs contributes certain technologies to become inadequate and thus abandoned,
- intensity of technological development threatens some existing technological solutions,
- governments, through the legislation, may affect the establishment of substitutes on the market (Doyle, 2002, p. 138).

In that sense, companies should be prepared to react quickly to the appearance of new technologies and products on the market. The effects of the new technological solutions generally take a positive direction. Notwithstanding, this also leads to changes in marketing planning, and often there is resistance to the rapid changing of the planned activities. However, some technological solutions allow the marketers to detect segmentation of the market easily (for example, the digital work allows, with only one click, information concerning the consumers of a particular type of product to be obtained, or the structure of consumers to be identified, etc.). Thus, the company can easily communicate with the identified consumers, using the technological advancements offered by the Internet, e-mail, telephony and on-line sale.

In the years after the independence, the Republic of Macedonia entered negative trends in the technological development, with inadequate economic structure, obsolete technical and technological equipment in the production processes, particularly in the supporting industries which were mostly labor-intensive. It was certainly not a picture characteristic of the overall business sector. Over the years, especially the last few, the Republic of Macedonia has been characterized by the evident improvement of the production processes by the businesses. They are faced with pressure from competitors in the domestic market and growing pressure from foreign producers, particularly those from the immediate environment. That is the reason for investing in technical and technological equipment that has a direct impact on the achievement of competitive products on the market in the country and in the world.

## **2 STRATEGIC FRAMEWORK AND COMPETITIVE ADVANTAGES OF THE INTERNATIONAL MARKET**

### **2.1 Competitive Advantages in the International Market**

In the literature, a relatively new concept, “national competitive advantage” is increasingly being used. Although it is not a completely accurate concept, it replaces more of the related terms used thus far with identical and the same meanings. The term “national competitive advantage” refers to the ability of one country (state) to produce and distribute products

and services in the international economy which are competitive with the goods and services produced in other countries, in a manner that is expected to result in raising the living standards of the population. It means to be competitive on the international market compared to the other countries, which enables to raise the living standards based on increasing the productivity and not on borrowings or on the instruments of the economic policies that provide short-term effects only.

National competitive advantage is interpreted relatively; it refers to the relative position of the country towards its former position in the global economy (achieved results), towards the defensive purposes and, even more importantly, in relation to the other countries. It is not only a relative concept but it is a dynamic concept, as the parameters for measuring the relative position of the countries are changing. The only objective measures are the income per capita and the standard of living or, as it is called lately, the quality of life.

The World Bank classifies the middle-income countries as developing countries, offering an explanation that they are not similar and that not all of them are developing with the same pace. Developing countries are also known as emerging market economies, which is an expression used to distinguish the market capital (market debt and market share) in a particular country in development and the market capital in the developed countries (Daniels et al., 2004, p.108). There is no country that has a competitive advantage in all goods and services it offers worldwide. Gaining competitive advantage in particular goods and services often leads to increased chances to gain advantage in the related products and services. This is also the case when it comes to the loss of competitive advantage.

It is not easy to distinguish the factors that lead to creation or loss of competitive advantage. Very often, the following are mentioned as important factors: management of economics, enterprise management, quality national strategy and understanding the changes in the factors of success in the global economy. In the international market, it is the manufacturing companies from various countries not the states that are competing; it is a quality management prerequisite which is important for achieving a relatively permanent competitive advantage in certain industries. The management must be long-term and not short-term oriented, and should focus on product inventions, processes and marketing strategies; moreover, it must be ready to accept the tolerable risks, as well as business cooperation with companies from other countries. In industries with global character, the competitive advantage will increasingly depend on the capabilities of the management and not as was the case until now when the advantage was based on labor and capital, and on the available natural resources.

All modern states play a significant role in the choice of the international strategy of the companies. Each country stimulates, but also limits, international business operations, yet they all apply different approaches. The company must have a strategy towards its own and towards the foreign state authorities. Evident is the reason that sometimes, in its best

intentions to help a particular company, the state adopts measures that are detrimental, if not in short, then in long term.

The relationship between the state and the enterprise is seen dialectically; market economy does not mean that the opinion that the market-oriented enterprise should be left on its own, both nationally and internationally, is wrong. The classical forms of coupling and blending are becoming contradictory; however, there is a need of finding new and subtle decisions of establishing cooperation, or joint ventures. Today, the question is whether what is good for one company is, at the same time, good for the country? There is indeed no branch that is not vulnerable to the foreign competition, as probably there is not a small number of branches to which, though modest but timely, the help from the state can mean a lot in dealing with the international competition. The state may, in many ways, influence the demand on the national market. It is the buyer of a number of goods and services. Yet, it influences the most the demand conditions through regulations which affect the standard product and the manufacturing processes. It is useful for the national competitive advantage if there is need for high quality and functionality of the product. It is considered that the presence of the effective instruments of the company is desirable in the domestic market. In order to ensure national competitive advantage in different branches, the state should help and thus connect with and support those branches.

In the world economy, all businesses face with some forms of restrictions. The innovation-oriented management will require and apply new technologies, will realize the need for new products and services, and see the opportunities for new production sources and inputs, etc. The degree of innovation, to a great extent, depends on the competitive economy. The branches and corporations that are protected from foreign competition have no inclination towards innovation.

Numerous factors affect the phenomenon of increasing similarity between the countries, which is getting even more remarkable. The mobility of people, the information revolution and the integrative role of technology contribute to the process of convergence. One of the consequences of this phenomenon is the emergence of a number of new competitors, very little known of in the business world until a few years ago. Even more so, some of them become competitors on international grounds. The convergence of needs and consumers' demands are the main indicators of globalization. International consumers are a group of consumers with homogeneous needs and benefits sought in the attributes of the product in a number of countries or markets. There is no successful strategy without identified international market segments. International segments are relatively homogeneous group of consumers with similar needs, interests and preferences in the approach in many countries, although, they are not major segments in many markets.

It is gathering of information based on which the strength of these segments can be determined and evaluated, and thus of the capabilities of the companies to function relatively successfully therein. The main feature of the international segment is the

consumers who constitute the market, who are looking for favorable purchase of the products and services in the global scale, i.e. the best product at affordable prices among most of the offers. Early detection and presence in the international market segment is a prerequisite for creating a competitive advantage in the world economy. It is not possible in the short term to cover all international segments adequately. The international array of products facilitates the participation of the company in the international market segment.

The situation on the international market clearly shows that there is no single approach to the competition, one type of strategy that leads to business success. The nature of competition is changing and the company may not capitalize on the same strategy on the long run. It emphasized the need to initiate a change in the strategy, in a situation when the accounting data is not the main concern of the company's management at a certain point. Crucial changes in the strategy usually lead to review of the company structure of the enterprise. The companies that perform their international business activities on several different markets must pay more attention to the coordination of the network operations of their enterprises. The screening of every country and each activity individually as something special and sufficient for the assessment of the success or failure becomes a short-sighted activity of an orientation which does not provide good results in the long-term and globally.

There is a view that the creation of a global consumer market is largely a result of the technological development, where the products are quite different in their intent and place in the system of consumption and can thus become international products. The reason for failure of the international product is that the consumers prefer a good price ratio and quality in terms of the heavily adjusted product for the specific purposes but with a significantly higher price. The manufacturing company which intends to become global in this way, not only will have to work hard to find a target market, but rather it will have to create it. It is necessary to minimize some insignificant differences between the countries and to strive to use marketing to homogenize the global demand.

In the international markets, the needs of the consumers are similar but in every country there are more segments with differentiated preferences. However, the national frontiers of the countries are no longer seen as limits of segmentation. In fact, some developments on the international market are as on the regional markets (for example, the EU). International markets reduce the difference in life style, taste and behavior. Consumers are crossing the borders to procure a certain product or a service and thus the borders are considered as smaller barriers. There is increased compliance in the assessment of the existing products and services and in favoring a particular brand of products. Competition among the world's leading enterprises is present in every national market. National markets also become tools for the enterprise in the international network.

## **2.2 Strategic Options in the International Market**

The strategy is a rational way of the company to respond to the developments in the environment, especially of those companies that change their strategic position. As there is no single approach to competition, so there is not just one type of international strategies. International strategy is needed in the branches in which the process of globalization relied the most. In many of the branches, globalization of competition is more a rule than an exception. Globalization leads to a change in the nature of competition. It changes the relative importance of the instruments the company competes with and their combination. The practice says that technology is no longer a reliable way for ensuring a lasting differential advantage in the long term.

As the operating activities of the international companies are performed in several markets, one of the important sources of competitive advantage becomes the overall coordination of the international networks of operating activities of the company. In all markets where it performs its operating activities, the company has to face the state. It seems that the state can stimulate but also restrict the competition. The state can enforce special protection on the day when the process of globalization commences in some industrial branches or, if started, to speed up the process of globalization. The economic policy of the state should be seen as a particularly important factor in the decisions on the performance and in the performance strategy pertaining to individual markets. Occasionally, the situation implies the need for cooperation with domestic companies in certain countries under certain conditions, which sometimes are suitable and sometimes not for negotiations in a given interval in which the decision should be brought.

Global production cost or differentiation is a cost or differentiation as an advantage in the international confrontation (coordination sells more product lines to customers in all major market segments). The international segmentation is oriented to a specific market segment in each country in which the operating activities are performed. This strategy is suitable for small businesses. Protected are the markets where the governments of those countries defend the markets with different kinds of barriers, thus seeking to prolong the process of globalization. A suitable strategy is the one that implies early investments in such markets with transfer of technology for which the government believes that can contribute to the growth and development of its national economy. A serious problem is to find a strategy for the markets that are dominated by national specificities, although the overall industry is international. The attractive marketing combination should meet the special requirements of that particular market. The practice shows that there are many branches in which the process of globalization may rely on two or more strategies.

There is an understanding (Mooij, 2014), in which the international market oriented companies may choose to serve the same market segments on an international basis, the same market segments on a national basis or to combine the international and the national

segment. International market segments are a strategic orientation the company chooses to segment the markets according to certain criteria in a way that it ignores frontiers. It focuses on identifying what is common in the needs of the customers through foreign market segments, i.e. what is different in these segments.

National market segments are a strategic orientation when the company serves more segments in several markets but on a national basis. The company strives to meet the needs of the market segments within the national borders. The geographical location is a major criterion for market differentiation. The combined market segments are a strategic orientation when the company opts for a combination of the international and national segments.

The orientation to the international market segments usually requires creating “megabrands” and a global marketing mix that emphasizes availability, acquisition and acceptability. Market segments are selected and classified according to their contribution to the overall international competitive position of the enterprises. Special attention may, where appropriate, be paid to the needs of individual significant groups of consumers.

The orientation to the national market segments is orientation to satisfying the needs of the market segments within the national frontiers. It requires good knowledge of the needs and requirements of each country (market) in creating adequate marketing offer. The selection of the market is based on its individual potential. Markets are treated independently, as elements of the overall marketing portfolio, which is either decreased or increased, depending on the individual profitability. The company uses experience from the combined instruments in the marketing mix for individual markets and measures that suit local conditions (Kumar & Nagpal, 2010, p.13).

The decisions that are made pertaining to the marketing mix are conditioned by the strategy of segmentation, the strategy of positioning against the competition and the strategy about the product. The pure international marketing strategy is the best strategy - international products on international market segments, using uniformed marketing program. Pure national marketing strategy is when the company offers a product for the specific needs of the targeted national market and marketing mix tailored to face the international competitive market situation. International strategy of product positioning is when the international product is created for a number of foreign markets. Finally, the combined marketing strategy can be based on any particular product or on one of the tools of the marketing mix which is considered crucial to the success of the product.

The export-oriented manufacturing companies are generally implementing a policy of global marketing mix in the international market. In the national markets, the companies must be flexible in defining the marketing mix policies - so that the branches could adapt to the local conditions. When choosing a development strategy in international marketing, it is necessary to use a matrix which entails two dimensions: the number of countries

(which can be large or small) and the scope of the international mix of products (which can be wide or narrow). In this regard, there are four alternative options for the company in the international marketing.

If the number of countries to which the company is oriented is small but the international mix of products is wide, i.e. the company has a wide production program, the most suitable strategy is the concentrated growth strategy. If the number of countries to which the company is oriented is small and the production program is narrow, then the most suitable strategy is the product line extension strategy. If the number of countries in which the company performs its operations is large and the production program is wide, then the most suitable strategy is the market expansion strategy. Finally, if the number of countries in which the company performs its operations is large and the production program is narrow, then the most suitable strategy is the diversification strategy. This matrix stems from the famous Ansoff's matrix, from his pioneering work on the strategies applied by the companies of 1965, which is based on two dimensions: product (existing or new) and market (existing or new). Accordingly, there are four alternative strategies for the growth of the company (market penetration, market development, product development and diversification). As any other matrix, this matrix also helps to structure the mindset of those who should, in certain circumstances, define the best growth strategy in the international marketing that best meets the business objectives and potential of the company.

In order to be able to effectively compete in the international market, the company needs to achieve cost efficiency and standardization of its marketing program. Not a few believe that neither complete standardization nor complete adaptation is possible. In such case, it is best to resort to the so-called contingent approach or adjustment approach to the actual situation in the standardization and adaptation. Standardization and adaptation should be seen as two extremes.

Technology and the manner of its application by the company's management have significant impact on the definition of the marketing program. There is an opinion that the research development activities should include three categories of activities (Ericson, 1991, p. 13):

- monitoring,
- portfolio management, and
- program implementation.

Monitoring is an activity intended to research new technologies, products and processes and to understand their relevance for the competitive position of the companies. Portfolio management is the stage in which a decision is made on the balancing of various diversified opportunities to which the resources for research and development activities should be allocated. Program implementation is the stage in which the research and

development activities are performed, the attributes and specification of the products are defined, the time and budget are specified. Key technologies for international companies are those that can be protected. Multinational companies opt for technology that provides flexibility. For multinational companies, key technologies are those that enable flexible design of products and processes.

Regional managers influence the choice of technology for the company. For international companies, key technologies are those that significantly contribute to the efficiency of the operating costs. Portfolio planning includes the strategic operating units of the company because they implement it. As the company moves to a transnational style, it must combine three inputs and one process. The export-oriented manufacturing company strives, in the program implementation stage, to combine several different approaches to achieve competitive advantage. Some elements of the program are standardized, while others are tailored to specific target markets.

The product should not be considered in isolation from the other three marketing tools (price, distribution, promotion). The consideration can start with greater emphasis on standardization or adaptation in the marketing program and, with great caution, initial decision about the time frame can be brought. Different marketing tools may have a different degree of adaptation according to the requirements and conditions of the individual target markets. It is important to achieve maximum business success of the chosen target market. The increased intensity of competition in the target market usually requires a greater degree of adaptation of the marketing program. Greater degree of standardization can be achieved when the branch is technology intensive, when the product is not specific to the consumers' culture and when the competition is not so intense.

There are several strategic options the company may choose when deciding on which and on how many markets it will perform and on which and on how many segments in those countries. The export-oriented companies constantly reconsider whether they should remain on the same markets and segments or they should expand their operating activities on new markets (countries) and market segments. If two dimensions are observed in the matrix, namely countries (concentration and diversification) and market (concentration and diversification), four alternative strategic options can be obtained:

- narrow focus,
- focus on countries,
- diversification of countries, and
- international diversification.

The narrow focus strategy is concentrated on few segments in the target countries. Keegan (2002), the creator of this systematization, says that this strategy is usually the starting point of most enterprises. It aligns the resources of the company with the necessary investments on the market. The strategy that focuses on countries represents a strategy of concentration on countries and diversification of segments in selected countries. Hence, the

companies serve more markets in a limited number of countries. This strategy is used by a number of European companies when seeking new markets.

Diversification of countries and concentration of market segments is a typical international strategy applied when the company seeks an international market for its product. By serving international customers, the export-oriented company achieves greater cumulative sales volume and low costs compared to the competing companies and thus achieves competitive advantage. This strategy also serves the special needs of a particular group of consumers. International diversification means diversification by countries and by market segments. It is a good strategy if the goal is to achieve a significant market share at the global level.

According to Yip (1995, p. 19), the common needs of the customers represent a limit within which the consumers in certain countries share the same requirements for specific products or services in defined branches. The common needs facilitate the participation in the major markets because fewer products can satisfy the demand on more markets. That is the reason for several international market products to be accepted in a large number of countries. Indeed, the common needs of the consumers in individual countries vary greatly in the branches, depending on numerous factors (the level of economic development, national culture, physical environment, etc.).

Keegan (2002) emphasizes that many international markets do not occur by chance but are thoughtfully created, with planning efforts. As an example, the market of refreshing soft drinks can be mentioned. Successful international companies have found that the needs of the important segments can be satisfied with global presence of selected products/markets. All successful international strategies are based on the performance of international functions or serving international needs. Each branch that will succeed in this is a serious candidate for globalization.

The countries will turn into market economies, given the opportunity to choose between more products than before. Domestic enterprises usually react to foreign competition in three ways: they require support from the state and restriction of the imports; they become young partners to the foreign enterprises in their home country or they sell their enterprise to a foreign partner. Not a small number of companies want to globalize which, to a certain extent, depends on the branch in which the business activities are performed. The companies that in the past were exclusively focused on meeting the existing needs of the domestic market are difficult to globalize.

### **2.3 Strategies Used to Increase the Competitiveness**

The strategy of the company refers to determining the general guidelines and development policy of the company and indicates a way of achieving the vision, mission and goals in

the dynamic economic conditions. The strategy that is formulated and implemented in the export-oriented manufacturing enterprises should allow transfer from the current position to the future desired position in the most efficient manner, which means achieving the final desired results, i.e. achievement of competitive advantage. The enterprises need to maximize their competitive advantages and minimize the competitive weaknesses. The need for formulating a strategy is motivated by the need to set a direction and thus to enable the company to maneuver easily in the turbulent environment. The strategy is necessary for rational use of the resources and for promotion of the coordinated course of the operations. However, each strategy depends on the working conditions of the enterprises, on the available resources, and on the goals set. The strategy is defined for a longer period of time and is the basis for decision-making in the enterprise. In fact, the strategy is a way to meet the expectations and achieve the goals.

From the foregoing, to be able to formulate a quality strategy for the export-oriented manufacturing enterprises, an analysis of the environment where the enterprises are operating must come first. The analysis of the environment should include (Danar, Frost, 1999):

- recognition of the specific, perceived or latent, needs and requirements of the target groups to which the enterprise is oriented or intends to be oriented to,
- recognition of the trends that are present and affect the shaping of the future needs and requirements of the current or potential target groups,
- recognition of the activities of the competition, i.e. the related businesses which are focused on the same or similar target groups,
- objective recognition of the possibilities and resources of the company related to the current and potential or desired product supply.

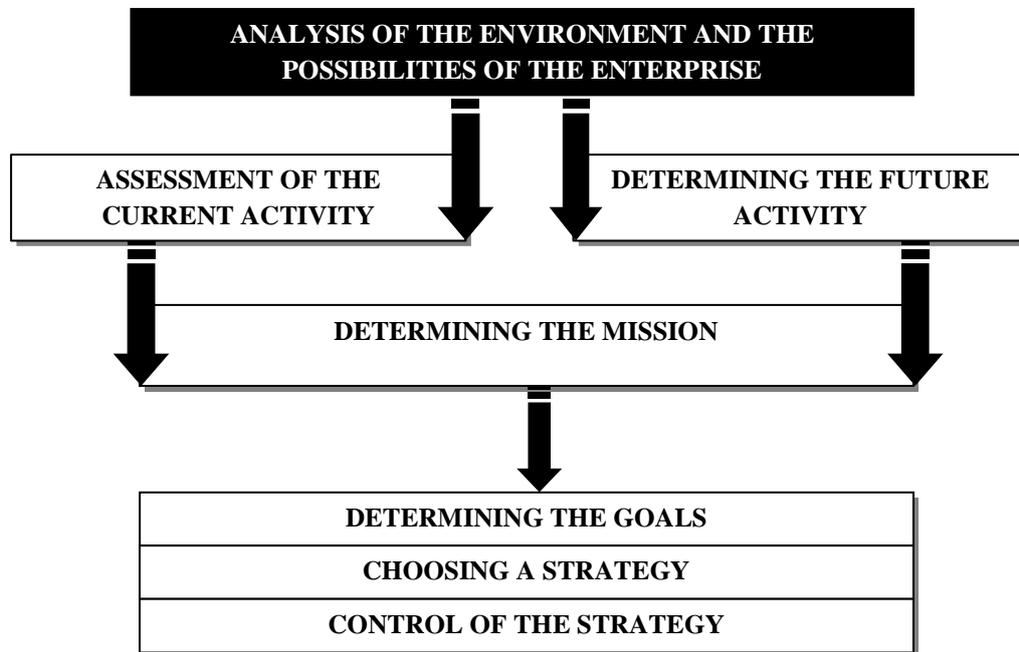
The assessment of the current activity of the enterprise, as well as the shaping of the strategy, primarily involves real and objective analysis of the product supply. Hence, it is important to achieve (Johansson, 2003):

- objective recognition of the overall current product supply of the company in order to meet the needs and requirements of the target group, as well as identification of the possible weaknesses,
- recognition of the balance between the total current and potential product supply and the mission, goals and the overall marketing strategy of the other export-oriented enterprises,
- recognition of the causes and consequences of the possible companies or other problems related to the current product supply.

Besides the assessment of the current activity of the enterprise, it is indeed necessary to determine the future activity or the possibilities of that enterprise. Determining the future activity of the enterprise and the direction of its development is important in shaping the overall product supply because only in this way compliance can later be achieved of these two important elements of the overall strategy, where the products offered to the target

users are practically the basis of all future activities of the enterprise and determine the purpose of its existence.

Figure 7. Stages in Shaping a Strategy



Source: P. Kotler, *Marketing management*, 2003, p. 379

Here, it is vital to consider (Johansson, 2003):

- the strategic goals that the enterprise wants to achieve,
- the strengths, weaknesses, opportunities and threats for the enterprise and the overall product supply,
- the current and/or potential new target groups to which the enterprise should orient itself in the future,
- the potential problems facing the company in shaping the future product supply.

All these planned future activities are performed by the export-oriented manufacturing company after conducting a proper SWOT analysis. This analysis determines the position of the company in relation to the other competing companies. The SWOT analysis is very important. By analyzing the S-strengths, W-weaknesses, O-opportunities and T-threats, answers to a number of questions, important for the export-oriented manufacturing companies, can be obtained.

The major benefits that can be derived from the SWOT analysis of the enterprise may be presented as an opportunity for the enterprise to (Grant, 1991):

- become aware on time of the economic, political, legal, socio - cultural and technological influences that currently affect or may affect its operations in the future,

- identify the current movements in the market where it is operating, including the market size, the trends which are present, the distribution channels of the destination product and the promotion of the enterprise,
- become aware of the competition and its condition,
- to assess its resources in terms of current and future development (its current status on the market and the prospects for the future).

The SWOT analysis determines the current status and the position of the company. Based on the findings obtained from the SWOT analysis, the strategies that need to be implemented in the future can be identified so that the export-oriented manufacturing companies can become more efficient and renowned. Mullins, Walker, Boyd, and Larreche (2004), say that the mission of the enterprise enables the use of the targeted actions and strategic coverage of activities, and it should answer the following questions:

- What is our task?
- Who are our customers?
- What values do we offer to our customers?
- What should be our task in the future?

The answers to these questions should be related to the possibilities of the competitive advantages of the company and their proper guidance. It can sometimes be considered as a competition in achieving the goals and mission of the enterprise, as well as in achieving competitive advantage (qualified staff, available financial means, motivation, etc.). In these modern operating conditions, the company is facing with steadily growing number of companies that produce the same or similar products, lack of resources for operations and threat to the original intent in their operations.

### **2.3.1 Criteria for selection of appropriate strategies**

The strategy is a rational way of the enterprise to respond to the developments in the environment. As there is no single approach to competition so there is no single strategy that can be applied in particular cases. There are more strategic options between which the enterprise should choose and decide. The corporate strategy, however, aims at finding appropriate guidelines and benchmarks for successful maintenance and development in the turbulent environment. According to Mullins, Walker, Boyd and Larreche (2004) every strategy includes five components, namely: scope, goals and objectives, resource deployments, identification of sustainable competitive advantage and synergy.

**Scope** - when it comes to the scope of the strategy, most often it is thought of the aspects of the managers in relation to the mission of the enterprise. The scope is the range of activities and operations performed by the enterprise, i.e. its business.

**Goals and objectives** - as already pointed out, they are related to the strategies and refer to the future projections regarding the products and markets within the specified planning period.

**Resource deployments** – it refers to the resources the enterprise avails of (both human and financial). As part of the strategy, the available resources should be taken into account for their appropriate allocation and utilization.

Identification of sustainable competitive advantage – it is achieved by thorough analyses of the market opportunities, examining the capabilities and strengths of the enterprise and researching the market positioning in terms of the competition. Sustainable or satisfactory competitive advantage is achieved through the strategic influence and use of differential opportunities in the competition with the competitors.

Synergy – it is achieved by cooperating with other similar companies which eventually results in unity or alliance. By acting synergistically, more positive results and greater success of the affiliated companies are achieved.

### **2.3.2 Functional characteristics of the strategies**

As already mentioned in the preceding paragraphs, the strategy of the company is defined as a decision which determines the direction of actions taken with prior identification of the opportunities and threats coming from the environment, as well as of the strengths and weaknesses of the company. The strategy enables the company to reach, at a certain point, the desired position. The manager must be aware of the positive aspects of the strategy and understand how it can be used in creating the future of his team or company (Williams, 2009).

The strategy defines the main long-term goals and objectives, as well as tasks of the company; it selects and adjusts the directions of the activities, while allocating the resources needed for the achievement of the set goals. It presents a unified, clear and integral plan aimed at achieving the fundamental goals and objectives of the company. Henry Mintzberg does not perceive the company strategy only as a product of rational planning, but he believes that it occurs even without formally setting up a plan, that it is not only an intent to do something, but what is actually done – a process. According to him, the strategy is a roadmap of intentional (planned) and unexpected (unplanned and forced) developments (Mintzberg, 2005). He defines the strategy with five Ps, namely: plan, pattern, position, perspective, and ploy.

- The strategy is a **plan** – a direction, an indicator of the direction, an indicator of the future activities, a path which will lead from one position to another for the purpose of achieving the vision, mission and objectives of the company.

- The strategy is a **pattern** of behavior in a specific time period. After defining the strategy, one must be consistent in its implementation and monitoring. Deviations from the default pattern are not allowed; the set patterns must be followed.
- The strategy is a **position** which implies locating certain products in a particular market. Michael Porter stresses that the strategy is creating a unique and valuable position that involves different activities.
- The strategy is a **perspective** in which the company operates.
- The strategy is also a **ploy**, a bluff, a way to trick the competition, a specific maneuver intended to outwit the opponent or competitor.

In theory and in practice, some typical characteristics can be identified that can be defined as targets of the strategy. In addition, the most important are mentioned here (Mintzberg, Lampel and Ahlstrand, 2005, p. 15).

- **The strategy determines the direction of the company** - the main role of the strategy is to determine the course of the company for the purpose of aligned movement in its environment, which is certainly a priority. However, defining the strategic directions may circumvent the potential hazards. Although it is important to have a direction, sometimes the precisely defined direction can contribute to confronting many uncertainties, which is a weakness if it is not timely responded to.
- **The strategy focuses the efforts of the employees within the company** – the strategy provides coordination of the activities and avoids the chaos that could ensue if the employees follow irreconcilable directives and thus positively affects the timely execution of the company goals. Sometimes, too much focus on the tasks and the efforts of the employees can be an obstacle for the potential peripheral visions that would open up new opportunities.
- **The strategy defines the company** - the positive side of the strategy is that it allows the employees to understand the company they work in, its primary activity and what distinguishes it from the other companies and thus makes it different. However, the strong and precise defining of the company may lead to a very simplified analysis thereof, sometimes to the level of stereotype and thus the complexity of the overall system may be lost.
- **The strategy provides consistency** – the strategy is needed to reduce uncertainty and to ensure order in the company, which is seen as an advantage. However, it should be borne in mind that the strategy and the theory are not a reality per se; they are a reality only in the minds of the people. Nobody can touch and see the strategy. This means that the strategy has the effect of false display and that is the price of having a strategy.
- Every strategy should be determined by the following elements: production - market orientation, competitive advantage, synergy and flexibility (Simonchevska, 2008: 225).
- **The production - market orientation** suggests that in defining the areas of business operations of the company, the strategy should determine the products, i.e. the goals, markets and technology, whereas attention should be paid that there is coordination between the customers and their requirements and the production potential of the company.

- **The competitive advantage** means that the strategy should determine the strategic course of actions that will ensure advantage of the company over the competition.
- **The synergy** suggests that the strategy should create synergistic effects from the interaction between the companies units.
- The **flexibility** indicates that the strategy adjusts the company and its activity to the changes of the factors in the external and internal environment.

Generally accepted characteristics of the strategy are:

- The strategy refers to the company and the environment;
- The content of the strategy is very complex;
- The strategy affects the overall welfare of the company;
- The strategy includes information on the capacity and the processes of the company;
- The strategy exists on different levels;
- The strategy includes various considerations on the processes;
- The strategy has long-term orientation;
- The strategy is influenced by the values and interests of a wide circle of shareholders of a particular company;
- The strategy ensures advantage over the competition;
- The strategy determines the area of business operations;
- The strategy affects the adoption of tactical and operational decisions.

When a strategy is chosen, it needs to be functional. This means that all the strategies of the company should primarily ensure: quality segmentation of all target groups to which the operations are oriented and quality positioning in the minds of all those to whom the company is oriented: customers and employees.

The first assumption stems from the fact that the needs of the consumers of non-profit companies are not homogeneous, but heterogeneous. Because of that, in order to meet those needs, it is necessary to implement market segmentation. This means that every market which is big needs to be divided into small homogeneous units to which the company may apply different marketing programs.

Market segmentation should be understood as a facilitator in the marketing research, but also as a way of applying certain marketing strategies. Hence, market segmentation is a process that allows certain market space to be divided into smaller parts, which are representative and homogeneous at the same time. As a result of the implemented market segmentation, the companies can, by using specific marketing programs, satisfy the customers' needs. In other words, we should know that every segment set for the company may represent a separate unit (a target market) to which the company should focus its marketing efforts, ranging from setting goals to marketing control.

## **2.4 Selection of Strategies by the Export-Oriented Manufacturing Companies Aimed at Improving Their Competitiveness**

The strategy can be defined as a way to achieve long-term goals, by which the export-oriented manufacturing companies would be able to achieve the desired position. In other words, only appropriately selected and correctly operationalized strategy can lead to achieving the set goals, provided that those goals are realistic and attainable. In case the company has more options when choosing a strategy, it is necessary to choose the strategy that will be the most effective in achieving the overall mission and strategic goals. Thus, there are different and even contradictory approaches in the selection of alternative strategies.

Given the specificities of the companies which often lack resources for sophisticated methods of selection, it is possible to use Aaker's approach, which stipulates that there are five basic universal criteria for selection of the strategic alternatives (Aaker & Joachimsthaler, 2000):

- review of the scenario - the consequences of the possible use of certain strategies,
- opportunities to achieve specific advantages (especially in insuring the company's financial assets),
- compliance with the mission and goals of the company,
- feasibility,
- relationship towards the other strategies implemented by the company (allocation of resources and balance of the cash flows, flexibility, use of synergistic effects).

However, the previously mentioned criteria are only a theoretical basis from which it is not possible to find out which strategies can be considered as available strategic options. The experience of domestic experts says that in the operations led by the domestic and foreign companies, there are often dilemmas pertaining to the following: which strategies should be chosen, at what level they should be applied, how to shape the strategy of particular marketing functions, how to combine the strategies and so on.

The studies conducted over the years confirm that there are no perfect companies, just as there are no permanently perfect industries. As a goal to improve the possibilities of success, it is necessary to know what has been done to achieve a positive difference and to understand how to replicate that action systematically. This, in other words, is called making smart strategic moves and refers to the strategic move that is very important, and it is creating blue oceans.

## **2.5 Planned and Strategic Options of the Non-Price Factors of Competitiveness of Export-Oriented Manufacturing Companies**

When it comes to the non-price factors of competitiveness, i.e. the product, its distribution and promotion, it is of paramount importance to outline their specific treatment in the development of the economic life, at a time of rapid change, both in the domestic and in the foreign markets. Especially when it comes to the foreign markets, the complexity of this issue increases, because of the scale and diversity of the factors in the international markets, as well as of the conditions and the environments in which the business entities must adjust. Hence, the successful policy making of the non-price factors in the foreign markets requires more creative, more operational approach and greater seriousness in making optimal decisions, which is indeed enabled by the planning-strategic approach.

The planning-strategic approach represents the marketing orientation of the companies, by aligning all activities it pursues. This set of activities gives optimal results. This approach in implementing the activities of the non-price factors of the export-oriented manufacturing companies is aimed at improving the quality, methodology and effectiveness of the decision-making process in terms of these instruments for the purpose of improving the competitiveness.

The first and primary phase in the management of the marketing activities of the non-price factors of the companies is the planning process (Petkovska, 2001). In this phase, decisions on policies, goals and strategies are adopted so that the company is allowed to pragmatically perceive and determine the goals of its own development, as well as the behavior patterns in order to attain the set goals, which would enable more realistic performance of the company on the foreign markets. The process of planning and defining the strategic orientations for the international market is of particular importance, and therefore it must be based on more complete and extensive information as opposed to the national marketing. Since the strategy is always planned on the product-market ratio, it is necessary to analyze a larger number of strategic alternatives in order to find the optimal marketing strategy for the entire company. It is important to note that the strategy which is successful in one environment may be totally inadequate and unsuccessful in others, since the leading role in the national mainstream marketing does not guarantee success in the international scale. Therefore, each company must create its own identity on the international market and establish mutual trust with foreign customers, business partners and government institutions if it expects to achieve bigger success. For successful implementation of the international marketing strategies, it is important to make a decision on the optimal combination of instruments that the company will utilize in its performance on particular markets, i.e. to make a decision on the marketing mix.

### **2.5.1 Strategic approach regarding the product performance in the international market**

Product planning is the starting point in the preparation of the program for performance in the international market. The specificities of the planning of the product in the international arena result from the multiple-market aspect of its confirmation, which is conditioned by the influence of the factors in the international environment (Petkovska, 2001, p. 228).

Every internationally-oriented company, in order to be successful in the performance on the foreign markets, must realistically assess its own capabilities in meeting the demands and needs of the consumers in the target market. The starting point here is the mix of products, i.e. the production program the company uses in its performance in the domestic market. It should be determined whether the products meet the quality standards of the same or similar products on foreign markets, whether appropriate, contemporary, technology is used in the production, whether modern design is applied, whether the packaging is attractive to the foreign buyers, etc.

In order to be able to manage the production program, the position of the product should be determined, as well as of all production lines in terms of the current situation and future market, technological and competitive trends. Changes in the production program in the future will be caused primarily by technological innovation in the production. The immense power of some famous companies from the developed countries is based precisely on thousands registered and applied patents. Furthermore, the examples of some enterprises in the country, which, in this difficult time of economic reforms, overcame the difficulties owing to the innovative work of their employees, should be instructive for those enterprises which use foreign licenses and thus sink deeper into losses. Innovation is not a kind of a fashionable slogan, but it is a cornerstone of international competitiveness. The process of defining a policy, including the policy of products, is a complex and challenging task in every company. Special attention should be given to the policies of products intended for foreign markets.

In creating the policy of products and of the production program as a whole, of utmost strategic importance is the concept of product life cycle - international scale market. It successfully predicts the sales, the propaganda and the production. The knowledge of the international product life-cycle by the companies provides for placement of the existing products internationally. There are a number of strategic options for creating a policy of products in the international marketing which would allow resolution of the following dilemmas and issues (Kotler, 2002):

- What products that meet the same needs as the product of a particular company are sold in the target market?
- What features do these products have?
- To what extent do these products meet the needs of the consumers?

- To what extent do the consumers of these markets expect the products of the company to meet their needs?
- What kinds of modifications are needed to improve the process of meeting the needs and differentiating the product from those products of the competitors?
- What is the relationship between the expected gross and net income and the expected costs in the process of adjusting the product?

### **2.5.2 Strategic approach in conducting distribution activities in the international market**

Distribution is one of the important aspects of the marketing strategy and an important tool in the fight to attract consumers. To be able to contribute to achieving the strategic marketing goals, it is necessary to permanently adapt the policy of distribution to the changes that occur both in the manufacturing company and in its environment. The inclusion of the company in the international marketing flows also implies planning of appropriate strategy of distribution abroad. The distribution component consists of specific policy and strategy through which the best ways of selling the product on the international market are chosen. The alternative strategies for performance and operation on the foreign market represent an area to which great attention is paid, both in the literature and in the practice of the international marketing (Rakita, 1989, p. 125).

The distribution system is consisted of several sub-strategies which allow certain combinations for selection of the best ways of distribution to be made (Kotler, 2002):

- ways of performance on the international market,
- choice of ways for placement of products and services in the international market
- ways of international physical distribution.

When it comes to the activities performed on the foreign market, in accordance with the marketing approach, it is necessary to establish a production-business relationship, so that, starting from this criterion, it is possible to identify three main production-business relationships towards the foreign market as possible ways for performance on a particular market, including (Petkovska, 2001):

- strategy of market operations,
- strategy of cooperation arrangements with foreign partners, and
- strategy of manufacturing investments abroad.

The market or export operations, as a form of internationalization of the enterprises through the exchange (market) function, are characterized by the transfer of products through classic export in specific export arrangements. The classic export is a way of direct or indirect sale of products abroad, while the specific export arrangements, in addition to the direct sales, deal with and solve other issues such as payment methods, import-related

problems, financial and credit problems in exports, problems related with excessive employment, etc.

The strategy of cooperation arrangements with foreign partners relates to all forms of transfer of technology, knowledge and experience as unique and relatively homogeneous production-business relationship the companies, more or less, opt for when they decide to perform on the international market. Those countries and their business entities that decide to apply this strategy and have understanding for these vital factors of the modern technical progress have a significant advantage, while the marketing that has universal significance and adaptive strategies can only increase their market and competitive advantage. The strategy of manufacturing investments abroad, as a form of direct internationalization of the production process of the enterprises, is characterized by the transfer of production units or transfer of the enterprise in a foreign environment, by engaging its own capital. Such manner of operation on the foreign market provides for easier adaptation to the needs and desires of the customers, better contact with the end users, avoiding resistance to foreign goods, achieving a better quality of supply, and a better reputation in the foreign market.

When creating the policy of distribution in the international marketing, there is a dilemma in determining the independence of the company of physical distribution or marketing logistics. When organizing the international physical distribution, it is necessary to gather relevant information about the positive and negative aspects of each solution, to prepare staff and to provide funds for possible integration of the physical distribution into the optimal international marketing system.

### **2.5.3 Strategic approach in conducting promotional activities in the international market**

Like the other elements of the strategy of marketing performance on the market, the promotion is also a very complex area of strategic decision making. Although each strategic activity leads to a coordinated approach for making optimal decisions, promotional activities specifically indicate the importance of this approach in harmonizing all factors, in order to achieve optimal results. The successful promotion is an integrated communication concept, which is enabled by the planning-strategic approach in its implementation (Belch & Belch, 2006).

Although the role of the promotion is the same regardless of whether it is about a local or foreign market, promotional activities within the international marketing have greater importance than promotional activities within the national marketing, while, on the other hand, they are characterized by a range of specificities which make them different. It stems from the complex communication barriers that reflect the internal and, especially, external environmental dimensions and factors.

The thorough implementation of promotional activities within the international marketing must be based on appropriate research, regardless of the manner of implementation. Focal points targeted by the research activities for promotion in the international marketing are the market and the market environment of the foreign country. There may be similarities between two or more markets, but it does not mean that they are the same after all the features, since every national market is characterized with its own individuality. Especially important information is the one about the level of living standards of the population and the individual segments, as well as the cultural and social characteristics of the foreign environment.

While researching the foreign market, it is also necessary to pay particular attention to the legal and political circumstances that often have a direct impact on the planning of promotional activities. Crucial factors in achieving greater competitiveness in the foreign markets may be the availability and structure of the communication media. Even the best created promotion that achieves success in the sales of the product in a particular market, due to the absence of media coverage or lack of appropriate media forms in other markets, cannot be achieved efficiently and effectively (Belch & Belch, 2006).

Special attention should also be paid to the product and its features when planning individual promotional activities. The nature of the product has great decisive influence in the selection and implementation of promotional activities, but also the characteristics of the product play a role in choosing the type of promotion. The process of establishing an international promotion strategy should consist of the following stages (Kotler, 2002):

- defining the unique objectives and strategy of communication that are consistent with the international marketing,
- determining the promotional mix,
- creating the basic idea and communication constants,
- planning the promotional means and media,
- monitoring and measuring efficiency.

A precondition for success of the promotional activities in the international marketing is the well identifying of the audience that the company wants to communicate with, which requires appropriate knowledge and creativity to formulate the message and find adequate subject matter and method of presentation. One of the critical factors of success is adapting the message to the cultural characteristics of the target market, as well as the barriers to successful communication, namely the language, state control, availability of media, economic disparities, tastes and attitudes, as well as the availability of agencies (Petkovska, 2001).

## 2.6 Strategic Options in Relation to the Price Performance in the Foreign Markets

Despite the great importance of the non-price factors that include a wide range of activities in increasing market competitiveness and export promotion, in formulating the strategy of marketing performance on the market, prices however should not be neglected. Starting from the basic concept of marketing – to meet the needs of the consumers, the price reflects the degree of possibility for realization of the concept, and that is the reason why it has a special importance in the strategy of marketing performance on the market. Meeting the needs of the consumers means offering a product with certain quality according to the technical and technological features, design, aesthetics, functionality, etc., but also according to the time of distribution and price level, which is especially important in conditions of strong competition. The price as a factor of competitiveness is a tool of the marketing program, specific in relation to the other tools. “Basic specifics of the price within the marketing program are (Rakita, 1989):

- it is a financial requirement for the exchange,
- the price is directly related to the profits of the enterprise,
- it is an element of competition that could be easily copied,
- the price does not cause the costs, but it expresses the costs,
- it is an important conjectural indicator.

Price planning in the international arena has its own specificities arising from the long-term behavior of the basic factors that influence its formation; their impact is of different nature and intensity, due to the different structure of the markets. Factors that influence the formation of the price policy are different and numerous, but as basic determinants the following are considered (Petkovska, 2001):

- costs
- market demand
- competition
- measures of the economic policy of the state

The costs, unlike the other factors, fall into the group of the so-called internal factors, which are the starting point in the analysis of the price competitiveness and are a very important factor in the adjustment of the demand. The primary role of the costs in the formation of the price is to set a lower limit which should not be exceeded, while maintaining the main purpose of the company, which is profit. The other factors are external factors. In planning the prices, a number of strategic options can be used; particularly strategies on price formation that should enable adaptation to the requirements of the demand and achieving greater competitiveness. The possibilities to adjust the prices are directly dependent on the price determinants coming from three directions: the subjective conditions of the enterprise, the general economic conditions and the conditions in the international market (Petkovska, 2001).

## **3 RESEARCH**

The purpose of this chapter is to present the results obtained from the survey conducted through the questionnaires distributed to the respondents in Alkaloid AD Skopje.

### **3.1 Research Objectives**

In order to meet the goals of this research, the quantitative approach is used, intended to prove the hypotheses and give relevant results for proper studying of the causes and effects and for drawing satisfactory conclusions.

The main objective of the following paper is to highlight the importance and the role of the strategies that affect the increase of competitive position of the companies in the Republic of Macedonia. The importance of properly formulated strategies is high in the creation of a positive image of the company, and hence of the overall success of the export-oriented companies.

### **3.2 Research Methodology**

This section covers the methodology used to prove the theses posed in this paper. For the purpose of studying the subject of this paper, as well as the goals set forth therein, several scientific and research methods and techniques are being used in parallel.

Hence, the statistical method is hereby used as general scientific method, whilst the method of analysis and the method of synthesis, but also the method of inductive and deductive reasoning, are applied as special scientific methods and scientific procedures. Moreover, the method of observation, the method of case study and the test method (through surveys and questionnaires or in-depth interviews) are applied as research methods. The statistical method and the method of observation are closely related to the need for adoption of final conclusions, which are related to the successful operation of the company Alkaloid AD Skopje.

In order to prove the hypotheses, a questionnaire was prepared which was distributed to the management team at different levels in the Macedonian export-oriented manufacturing company Alkaloid AD Skopje. Special attention in the research is paid to the determination of the strategies affecting the increase of the competitiveness of the companies in the Republic of Macedonia when entering new foreign markets, as well as to the identification of the factors that influence competitiveness. Hence, relevant results will be obtained with regard to the strategic options used by the export-oriented companies in Macedonia in achieving competitive advantage, with special focus on the company Alkaloid AD Skopje. These results are expected to provide information whether the companies successfully adapt to foreign markets under conditions dictated by the market, i.e. by the competition in

that market. The final report contains statistical data with relationships, comparison of means, including the statistical significance of the findings, which is not presented as a narrative report with contextual description and quotations of the research participants.

As mentioned before, for the purpose of this research, a questionnaire is prepared, composed of 12 questions, where the first 4 questions refer to the profile of the company, as well as the working experience of the management team of the company and the management level of the respondents within the company.

The second set of questions in the questionnaire is structured so that the respondents answer the questions with given answers, ranging from strongly disagree to strongly agree. This section consists of 5 questions. In this type of questions, the respondents give answers about the current situation of the company in the foreign markets, namely how they assess the competitiveness of the company.

The third part of the questionnaire consists of questions pertaining to the explanations given by the management team regarding the conditions to be met by the company in achieving competitive advantage in the foreign markets and what further steps need to be taken to improve the competitive position of Alkaloid AD Skopje

The questionnaire was distributed to 24 respondents who are part of the management team at different levels, from top management level, middle management level to managers of different sectors within the company. The respondents answered the questions in the company's premises.

### **3.3 Researched Company Profile**

Alkaloid AD Skopje is a company which, for nearly eight decades, has been operating in the field of manufacturing drugs, cosmetic and chemical products and processing botanical raw materials. Alkaloid AD Skopje is a joint stock company that consists of two profit centers: Pharmaceuticals and Chemicals, Cosmetics and Botanicals; there are two subsidiaries in the country, as well as 14 subsidiaries and 4 representative offices abroad (in Serbia, Montenegro, Kosovo, Albania, Bosnia and Herzegovina, Croatia, Slovenia, Switzerland, Bulgaria, Turkey, Ukraine, the Russian Federation, and the USA). The company operates with around 1,250 employees in the country and around 350 employees in the subsidiaries and representative offices abroad. Alkaloid AD Skopje shares are owned by 5,110 shareholders, both natural and legal entities, while around 8% of the total number of issued shares is possessed by foreign shareholders.

Guided by the motto for a breakthrough on the world market, the company's investments were intensified in the course of 2002 with the start of the new industrial unit for solid dose forms and the other one for semi-synthetic cephalosporines, as the only one in the region

with all GMP standards introduced. According to the latest data, Alkaloid AD Skopje exports over 70% of its production to foreign markets - a fact that confirms the export orientation as a dominant orientation of the company. In the meantime, Alkaloid AD Skopje has become recognizable by its new, proactive marketing concept and corporate European image. Among its priorities remains the care for its employees, shareholders, environment, business partners, health system, and, above all, human health.

### **3.4 Ethics**

In general, ethics is important in every research; therefore this aspect will also be carefully considered in this quantitative research, in all phases and in every step. Namely, the participation in the survey is not mandatory for the employees. Data submission, after answering the questionnaire, is anonymous, as is the processing of the collected input. The data collected and the results of this research are confidential, therefore the participants are asked for discretion.

### **3.5 Implications of the Study**

The impact of this study is first on the company that is subject to data collection and then on this research. The study will show the results which will be obtained to stress the importance of the competitive advantage of the Macedonian manufacturing companies which are export oriented, as well as to define the strategic directions of the companies to improve their competitive advantage.

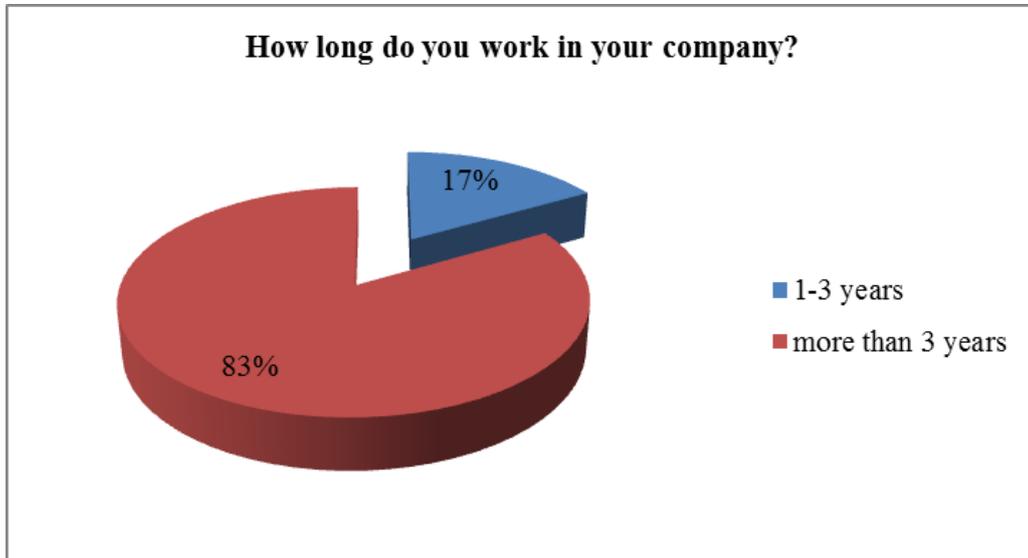
### **3.6 Result Analysis**

The research was conducted in the company Alkaloid AD Skopje, where experienced employees working within the company were selected to explain the goals and tasks for successful performance of the company in the foreign markets. Moreover, the respondents are directly involved in determining the strategies and factors contributing to the increase of the competitiveness of the company's products in the foreign markets. 24 employees with different working period and experience in the company Alkaloid AD Skopje took part in the survey which was implemented as a questionnaire. The data of this questionnaire is qualitative and the goal is to replenish the final results from this research. A statistical analysis of the results obtained from the distributed questionnaire was conducted in order to see the research variables.

The research was conducted by using questions and also by reviewing the possible future steps and strategies that should be implemented by the company's management and employees. Each of the presented variables consists of a set of hypothesis tested in this paper.

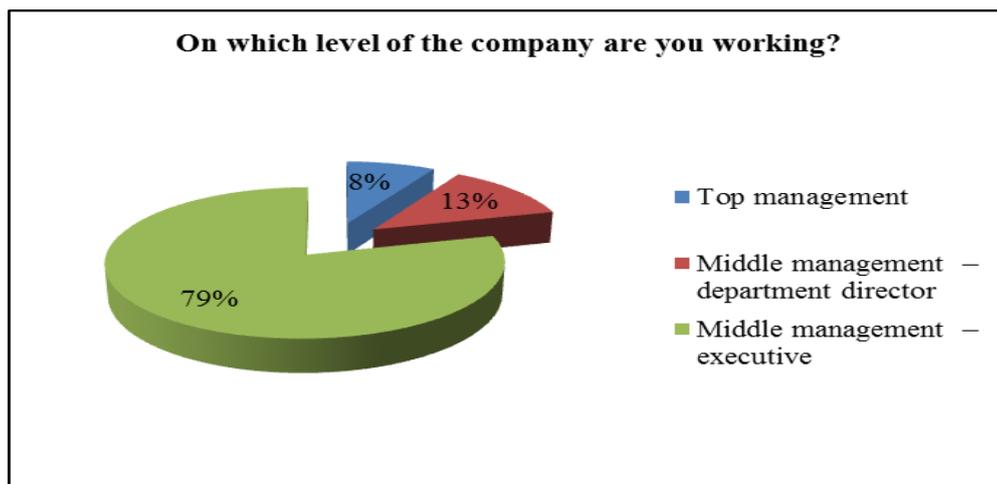
The first question refers to the period of employment of the respondents within the company. The results are shown in Figure 8.

Figure 8. Working Experience



The biggest percent of the respondents, i.e. 83% of the employees, by the time of the survey, are working in the company for more than 3 years, and 17%, less than 3 years. The working position of the respondents in the company, compared to their engagement according to the managerial levels, is analyzed in the following pie-chart.

Figure 9. Management Levels



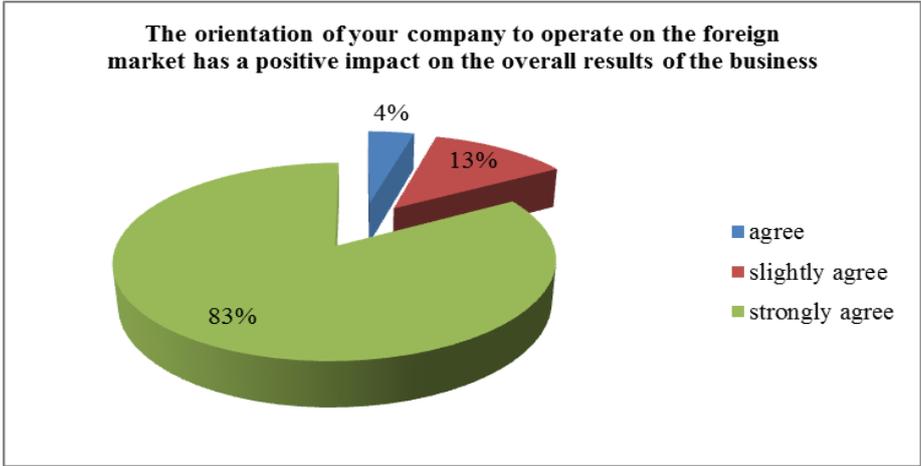
From the processed data, it can be seen that 8% of the respondents structures the top management level of the company. This group is represented by the general managers of the company, who are actually those who delegate tasks and also control the final result through the input of each of the employees engaged in determining the strategies contributing to the successful performance and placement of the products on the foreign

markets. The second category is represented by the representatives of the middle management level, namely coordinators/directors of various sectors within the company and regional operating managers, responsible for the business operations of the company in the foreign market and for the control of the competitive advantage of the company.

The percentage of respondents that belong to the middle management level, executives of certain tasks, is the biggest. 79% of the respondents represent the middle management level of the company, responsible for implementing the plans for a successful presentation on the foreign market. Since the objective of this research is related to the business operations on the foreign market, the next survey question reveals the orientation of the researched company in terms of its prospects for expanding its operations in foreign markets (Figure 10).

The majority (83%) of the employees assessed the company's operations on the foreign market as positive. 83% of the respondents answered with *strongly agree*. They believe that this trend of business positively affects the overall operations of the company. The research reveals that Alkaloid AD Skopje is practicing certain business activities for a longer period of time in several international markets and is experiencing positive effects. The support of the team in charge of making business decisions, the business streams and directions established and the plans implemented are fully focused on increasing the competitive advantage of the company in the foreign markets.

Figure 10. Company Orientation for Operating in Foreign Market



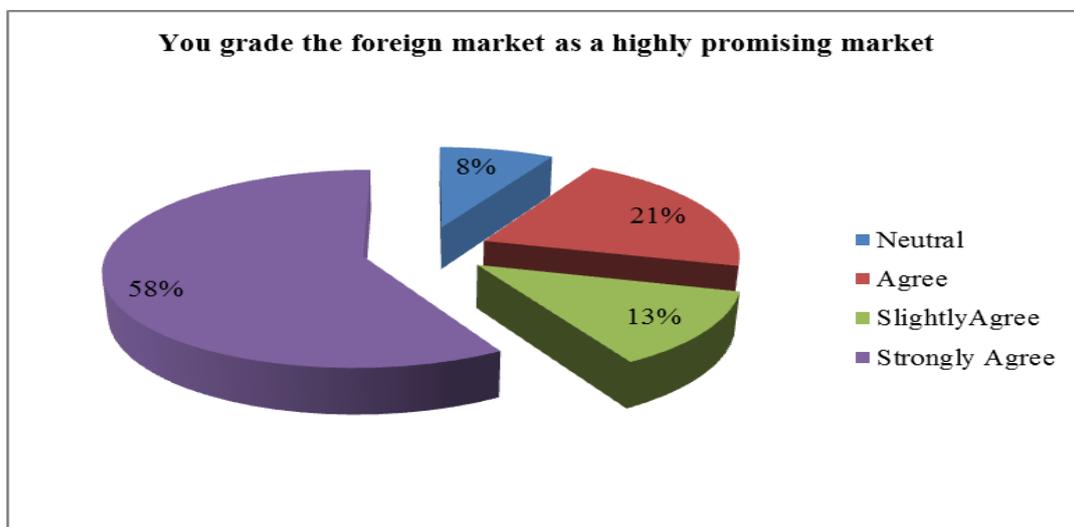
The next question (Figure 11) intends to identify the position of the respondents on the operations of the company in the foreign markets, particularly their support for such strategic activities.

Figure 11. Support for the Business Operations in a Foreign Market



Almost 92% of the employees, who are affected by the issues related to the performance on the international market, support these operations. Employees working in Alkaloid AD Skopje, from their past working experience, have concluded that the international market offers a vast variety of opportunities for progress of their company. Very small number (8%) of the employees is neutral when it comes to the international market opportunities. The answers to this question show that the management team at various levels supports the overall initiative and strategy of the company Alkaloid AD Skopje to compete in the international market. This is a representative data for the intentions of the company and its management for their strong dedication to take any further action in this direction. Product development, adjustment to market conditions and establishment of strategies for entering foreign markets is one of the company's strategic objectives. Thus, the company will attain its competitive advantage.

Figure 12. Opportunities Offered by the Foreign Market

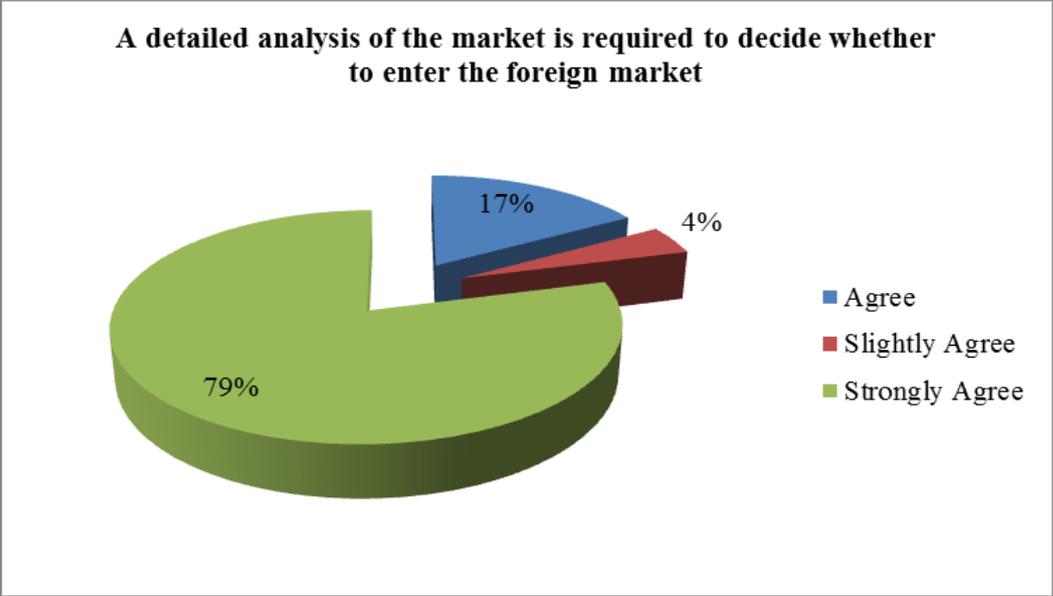


In general, the company has divided its operations into two divisions: domestic market offer and foreign market offer. Therefore, the next question is intended to acknowledge the views of the respondents about the opportunities offered by the foreign market (Figure 12).

The answers to this question relating to the opportunities offered by the foreign market show a different, opposite, image from the opinion of the management team of Alkaloid AD Skopje. Even though more than a half of the respondents, i.e. 58%, answered this question with strongly agree, there are however employees who answered the question with neutral (8%), slightly agree (13%) and agree (21%). This shows that part of the respondents are not entirely sure about the opportunities offered by the international market, because some of them are directly engaged in dealing with the problems that arise in the operations led in the foreign markets. They fully understand the need to increase the resources necessary for the company’s performance, for customization of the products to the needs of the consumers, as they are aware of the great competition that exists in these markets. Hence, if the company is not fully ready to compete in the foreign market, then the international market is definitely not highly perspective for it and thus the competitiveness decreases.

Because the strategic option for entering a foreign market requires detailed preparation, Figure 13 presents the views of the respondents regarding their contributions in preparing the analyses before making a final decision.

Figure 13. Detailed Analysis for Entering a Foreign Market

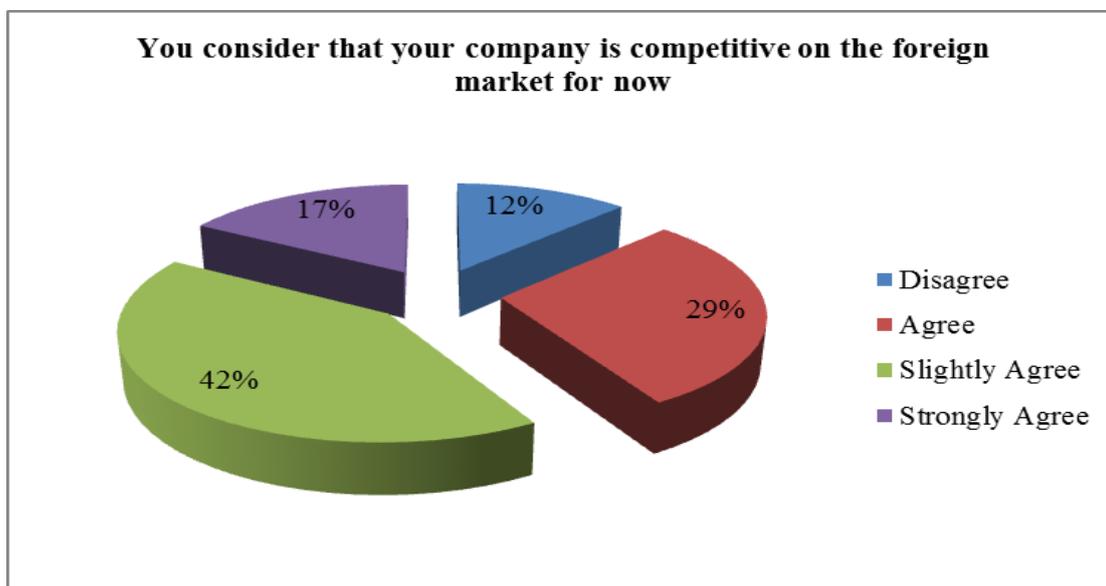


The highest number of respondents, representatives of the management team at various levels of Alkaloid AD Skopje, answered this question with *strongly agree*, or 79%. Their experience shows that, before proceeding with any business operation, a detailed market analysis is necessary. The market analysis or research includes the conditions that govern

the market, the competition and pricing of its products, as well as the needs and demands of the consumers. It is possible to draw a general conclusion from the results obtained that the exploration of the foreign markets can contribute a lot to the international success of the companies. For this to be possible, accurate and precise information is needed that will provide a clear picture of the political, economic and cultural factors that affect the company's operations in the selected market. Market research is the key to understanding the capabilities of a company or industry. It can confirm that there is an objective possibility to give an insight into how the new market can be developed and thus help in establishing the features that are important to the potential customers. The research of the international market is based on three simple steps: identification of potential markets, evaluation of the targeted markets and making conclusions about the analyzed markets. Once the research is done and is determined what kind of market it is, then the strategies that may contribute to increasing the company's competitiveness in the foreign markets can be determined.

Since Alkaloid AD Skopje is indeed an export-oriented company, this study attempts to define the position of the employees in terms of the company's competitive position in the foreign market. The results are presented in Figure 14.

Figure 14. Company Competitiveness in the Foreign Market



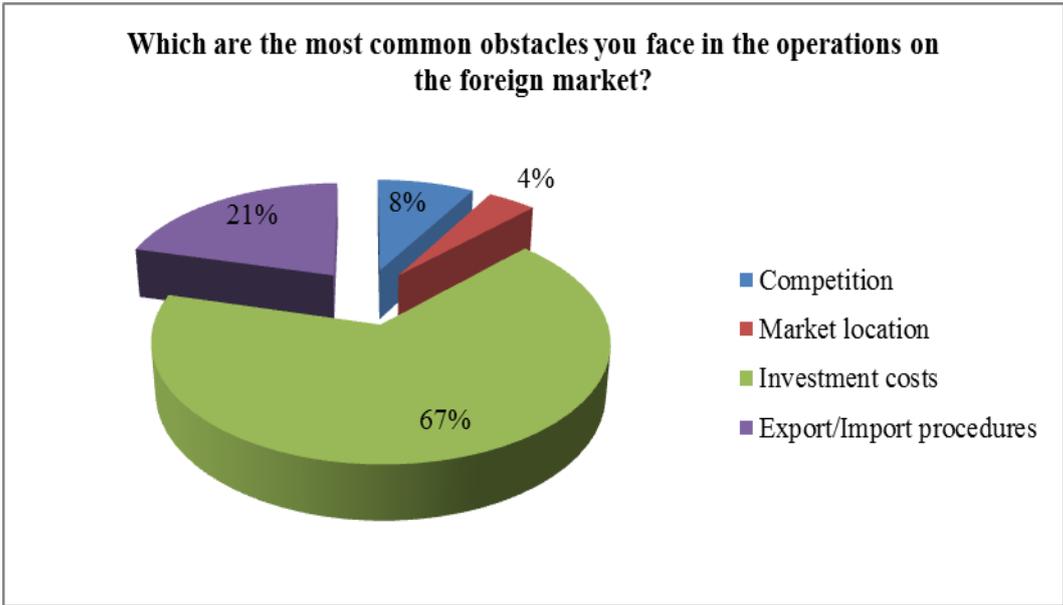
This question as well, which relates directly to the company's competitiveness on the foreign markets, received different answers from the respondents. Namely, 42% of the respondents answered this question with slightly agree, 29% with agree, 12% with disagree and 17% with *strongly agree*. According to the results obtained, several conclusions can be drawn. The respondents who are regional managers of the company in various foreign markets perceive the situation on the foreign markets realistically. Despite the quality of the products and the high standards for production of pharmaceutical products, the

competition is harsh and the market is large. The most common cause of non-competitiveness of the company lies in the domestic companies that perform the same activities as Alkaloid AD Skopje. Namely, it is about large pharmaceutical companies with long tradition, whose products are recognized by the domestic consumers.

This is a particular problem for the multinational companies that invest in building brands on the long-run and Alkaloid AD Skopje, as a company, cannot deal with such a competition on the foreign markets, especially because it cannot attain the same level of recognition as the domestic companies. A bit different is the situation with the markets in the Balkans, such as Serbia, Croatia and in some other countries, where the relative market share of Alkaloid AD Skopje is at a higher level. But, it takes time, costs for marketing activities and compliance with the regulations for production and sale of pharmaceutical products in these markets to secure reliable competitiveness of the company.

Figure 15. Shows the results relating to the obstacles faced by the respondents, employees of Alkaloid AD Skopje, in the operations in the foreign markets.

Figure 15. Obstacles in the Foreign Market

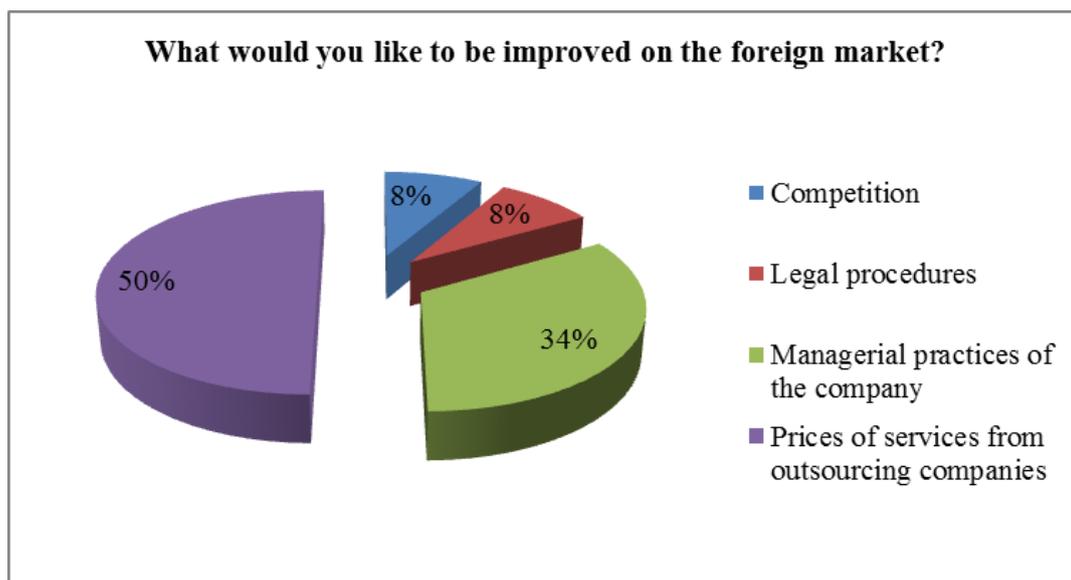


Depending on the respondents' managerial level and the activities they perform in the foreign markets, it is inevitable the answers to this question to be different. According to the respondents, the location of the market is a minor obstacle encountered, i.e. only 4% of the respondents answered that this is a barrier for entering foreign markets. The largest percentage, 47% of the respondents said that the investment costs are one of the main obstacles faced by the company in the foreign markets. The construction of facilities for production and sale of pharmaceutical products requires large investments in all areas (human resources, logistics centers, production, marketing, etc.). The vast resources needed to invest in marketing activities in order to familiarize the consumers with the new

products, would justify the investment after a certain period of time. The export and import procedures, according to the respondents, are also an obstacle facing the company. This is because all countries are governed by different legal procedures. The time for completion of the full documentation is the enemy of the company, as is the ability to meet all procedures that require engagement of additional human and material resources. As a matter-of-course, because of the specific business operations performed by Alkaloid AD Skopje, the number of surveyed respondents that see the competition as an obstacle is small. 8% of the respondents answered that competition is an obstacle for the company's business operations in the foreign markets. Certainly, the employees and the management team of Alkaloid AD Skopje are not completely free from the problems that might occur from the possible potential players with the pharmaceutical products on the international market. The legal codes, according to the respondents (25% of them), are also an obstacle faced by the company in the foreign markets. Because the company deals with specific products subject to state control, the company is facing problems such as registration, compliance with the legal regulation of the country in which the company is placing its products, as well as quality control of the pharmaceutical products. The state is the one that regulates the production and sale of pharmaceutical products, hence, the company, before entering the foreign market, must study the overall legal framework, meet the requirements, prepare the documents, and then proceed to the business activities. All these problems are limiting the speed of the operations, but also the volume of production, and thus reduce the competitiveness of the company in the foreign markets.

Figure 16. presents the results of the research relating to the respondents' views on the need to improve certain features on the foreign market.

Figure 16. Improvement in the Foreign Market



Among the answers of this question, competition received the smallest percentage, namely only 8% of the respondents' answers. What is the reason for that? The change in the

competition least depends on the company's operations, i.e. the company on the foreign market can least affect the competition. Despite the possibility of existence of unfair competition in terms of price and quality, Alkaloid AD Skopje cannot affect the behavior of the competition, and thus the achievement of competitive advantage. The same refers to the legal procedures, as it cannot affect the country or the market it places its products in. There are certain rules and regulations that must be observed, and competitiveness does not depend on this variable. But the respondents, or the highest percentage of them (50%), answered that they would like to change or impose their influence on the prices of the services provided by the outsourcing companies. This has a direct impact on the company. If the prices for certain services that they use from the companies on the foreign markets, such as marketing services, accounting services, legal services, distribution services, etc. change or are reduced, it would directly affect the competitiveness of the products on the foreign markets. The reduction of the prices of these services would indeed reduce the costs, and thus would increase the company's profitability. The savings from these services would mean reallocation of funds for investment, improvement of the quality and reduction of the prices of the products, which would mean competitive position of the company. The respondents also believe that the managerial practices of the company have certain impact on the competitiveness of the company on the foreign markets. 34% of them answered that they would like to see these practices changed. They say that experienced and well-trained managers should manage all business activities. Human resources, being the basic assets today along with technology, knowledge and its impact on creating technology directly influence the increase of competitiveness of the company. Especially important is the highly educated work force with experience in doing business. In such case, success is guaranteed.

Figure 17. Next Steps of the Company

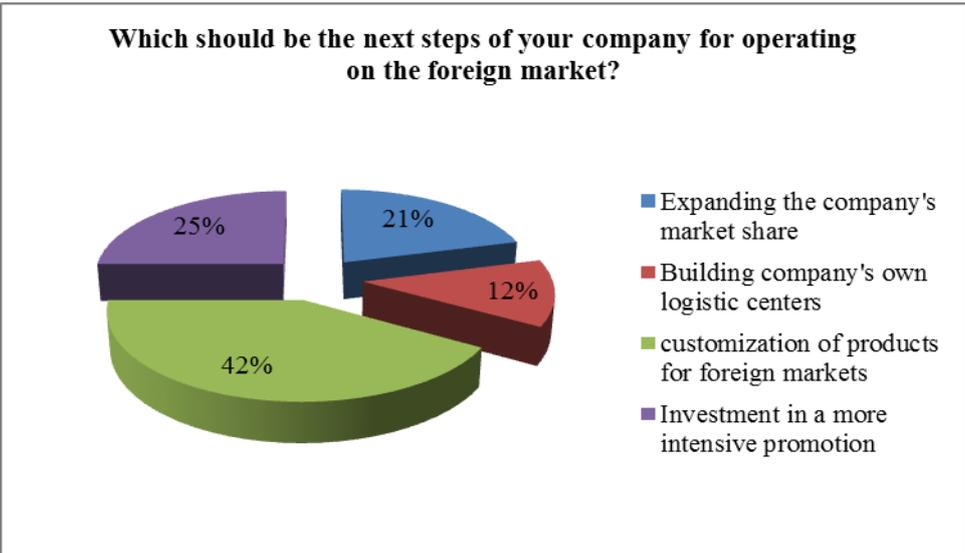


Figure 17 shows the results which reveal the position of the respondents regarding the priority in the future activities of the company related to the performance on the foreign markets.

This question was answered by 42% of the respondents, i.e. the highest percentage, with customization of products for foreign markets. The driving force in the pharmaceutical industry, which is concentrated on research and development, determines the focus of the industry of the superior functional characteristics of the products, primarily in the therapeutic superiority, which is defended with the right to patent protection. Because patent protection on chemical compounds, which makes the active ingredient of the drug, has a limited shelf life, usually up to 20 years, the life cycle of the innovative pharmaceutical product is destined in advance. Since the launch, as well as throughout the entire life cycle of the product, the innovative pharmaceutical companies in different ways and with different methods try to extend the life of their product. They proceed with research that could indicate the existence of new indications, i.e. use of the product in the treatment of other diseases, or work on improving the formulation of the product (new dosage, new form and extended effect). Hence, when it comes to the pharmaceutical products, investment in pharmaceutical products is justified, as well as their development and customization to the needs of the consumers. Therefore, according to the respondents, the company needs to develop its products, i.e. their differentiation in terms of the competitors is necessary, which also implies selection of an appropriate target segment.

Moreover, the other answers in terms of the next steps of the company should not be neglected, because 25% of the respondents said that the company should invest more in promotional activities. This is of particular importance for a company that performs on a foreign market because the consumers have to become familiar with the new products launched in the market, what are their characteristics and what is the benefit of using such products for the customers. According to the new economic logic, the pharmaceutical companies cannot rely solely on patent protection. Most respondents agree with the view that in the future, the marketing segment of the pharmaceutical companies must pay more attention to the branding of the products and their promotion. From the moment of choosing a name, even before the license for the drug circulation, through the visual attributes of the pharmaceutical product, its packaging and promotion, everything should be subordinated to the idea of creating a strong brand, which should enable rapid diffusion in the acceptance of the product by the prescribers, patients and financiers, and secure survival of the product, when alternative therapies and new competitors emerge. Therefore, developing a marketing program that corresponds to the product, which in turn implies an appropriate combination of tools of the marketing mix, and continuous management of branded products in foreign markets, monitoring the perception of the products by consumers, as well as solving potential conflicts in the relationship expected position of the products and consumers' perception, should be the future primary activities of the company aimed at achieving competitive advantage in the foreign markets.

The results obtained from the research also show the firm dedication of a bigger number of employees for expanding their market share on the international market through moderate and reasonable business strategies. This was the answer of 21% of the respondents. Building its own logistics centers that would help the company's future activities in the foreign markets was the answer of 12% of the respondents. Such logistics centers would enable the management team to solve everyday problems in real time. These logistics centers should facilitate the work of the company on the foreign market, which would increase the capacity with well-trained staff, familiar with the work of the company, as well as a faster and easier supply of the market with its products.

### **3.7 Discussion and Recommendation**

This part of the survey deals with the key points that were obtained through the analysis concerning the strategic decision to enter a foreign market. The results of the research conducted in one of the most successful companies in Macedonia, the pharmaceutical company Alkaloid AD Skopje are hereby analyzed. The objective to obtain a representative picture of successful performance in the foreign markets is attained with the research carried out in the company with tradition and financial results achieved through strategic operations outside the territory of its domestic consumers.

The purpose of the survey is to establish a general picture of the most essential issues related to the strategies for entering foreign markets. Therefore, a few key points can be drawn that would certainly serve as a guideline for future strategic activities for the domestic business community, for the companies in Europe and the world and for the academic community. In general, the findings reveal that the company sees positively its strategic decision to expand its business operations in the foreign markets. If the research is put into the context of the Porter's model of competitive advantages, several interesting conclusions can be drawn by observing the structure and the reports pertaining to the operations of Alkaloid AD Skopje. However, the company, in the domestic market, is recognized as a company that builds its work on sound strategic plans and superiority over the competition. The company operates on the basis of long-term planning and setting individual goals in the markets. When the factor "conditions" is examined, the company is permanently focused on providing the necessary resources to manage its targeted activities. The financial reports show firm commitment and expertise to manage the cash flows. The company has a separate department for human resources, which carefully and constantly recruits quality staff for the purpose of more efficient and successful implementation of the marketing strategies. The company applies strategies for cooperation with domestic and international companies with similar profile. Evident is the company's ability to secure adequate raw materials for production, know-how and expertise in offering a finished product that would be accepted by the consumers in the market. Due to the specificity of the assortment offered, the demand for the products of Alkaloid AD Skopje in the domestic and international market is medium to high.

This concept of organization of the company shows a match with the concept proposed by Porter. This is particularly evident when it comes to the internal factors of the organization. On the other hand, the company can make use of the advantages offered by the state institutions in terms of export benefits and international business. The majority of respondents are employees with many years of experience working in the company. Respondents with different managerial profiles within the company were surveyed.

The results are confirmatory when it comes to the question relating to the determination of Alkaloid AD Skopje to implement the strategy for business operations on the international market with its own product range. 83% of the respondents fully agree with regard to the positive effect of the operations on the foreign market. In terms of the competitive position, most of the respondents agree that the company has a competitive advantage in the foreign markets. A small percentage of respondents disagree with the view that the company is competitive on the foreign markets. The survey also indicates that the managers see opportunities from the operations on the foreign markets. 58% of respondents strongly agree that the foreign market is a promising opportunity for the company. 8% of the respondents have neutral position on this issue. Furthermore, the results obtained confirm the position of the management about the necessity of a strategic entry on the new foreign markets. 79% of the respondents strongly agree that, before making a decision to expand the market share by entering a foreign market, a detailed analysis of the target market must be made. The next part of this research attempts to identify the key obstacles that affect the export operations of the company. The largest is the percentage of respondents who consider the costs of investment a key obstacle in the export operations.

Moreover, the export procedures are identified as obstacle when investing in a foreign market. This is in direct correlation with the geographical and political position of the country. The company is established and has its main seat as parent organization in the Republic of Macedonia, a country which is still not a member of the EU, and therefore difficulties in selling the products to foreign markets are possible. Among the other things, the company is also placing its products in markets that are not EU member-states and it is thus expected the company to encounter difficulties due to the existence of specific legislation in each market. Hence, the next question reveals the opinion of the respondents regarding the focus has to be necessarily put on certain segments that need to be improved. According to the results obtained, half of the respondents believe that the prices for the outsource services on the foreign markets should be improved, i.e. alternatives must be found that would make those procedures financially more cost-effective. What is characteristic for the results obtained for these two questions is the low percentage of respondents (8% in both questions) who give importance to the competition. The reasons for this can be the following: first, the management of the company in charge of the operations on the foreign market is more sales-oriented, by attributing much less attention to marketing activities; second, the management of the company aims to improve the segments that can actually sustain change. Competition is a market phenomenon and a complex development that cannot be removed or corrected in a short time. Competition is

a market factor the company constantly competes with which requires long-term strategies and activities. The survey ends with the question related to the necessary future activities of the company Alkaloid AD Skopje. It can be concluded that most of the respondents agree with the position for adjustment of the assortment of products to the needs of the foreign markets. 25% of the respondents agree with the position that there is a need for greater promotion on the foreign markets.

Several managerial implications can be proposed based on the findings of this research. Special attention should be paid to the middle management, which is in a direct communication with the international market on a daily basis. According to the results obtained from the research, it can be concluded that the need for intensifying the promotional activities of Alkaloid AD Skopje is necessary in every segment of the operations of the company in the international market. Building a positive image for the company will strengthen its market position and will also create credibility among the clients.

In summary, it can be concluded that the management of the company which is subject of analysis is firmly committed to internationalization of the business. Several conclusions can be drawn from the research that would provide an adequate response to the key issues of interest to the research.

If we look at the first question which reads: **Which are the industries that are/could be competitive globally**, according to Michael E. Porter (2008), international competitiveness of the countries can be estimated according to two groups of indicators: existence of a significant and continuous export in various countries and significant investments in other markets, according to the abilities and resources generated in the domestic market. Therefore, the commitment to internationalization of the business must not be declarative only. It is evident that Alkaloid AD Skopje invests in human resources that would create appropriate strategies for international business development. It is the foundation for global success of the company. Alkaloid AD Skopje continues with its investments aimed at increasing the market share in the existing and new markets abroad. Certain investments in the foreign markets will strengthen the presence of Alkaloid AD Skopje in the international market, which, in turn, will increase the exports in the total sales of the company. To be competitive in a particular market, it is necessary to invest in local staff, in production portfolio, in marketing. The competition is huge and Alkaloid AD Skopje faces strong local competitors, powerful multinational and generic competitors with vast product portfolios in various markets. But the company opted for a strategy for performance and sustainability on foreign markets, focused on quality of export, which is the path to growth and development. Depending on the market conditions, as part of the short-term business plan and development strategy of the company which is being implemented actively, the future steps, the countries of interest and the forms of investment will be defined. The business climate in our country cannot be viewed separately from the overall developments in the world, primarily in the region. In this context, it is not possible to look for and

expect “ideal solutions” or solutions which might have short-term effects without investing any effort by the businesses or without accepting the risk of success or failure. Because of the uncertainty present and felt in all European markets, companies face increased risk of loss of placement and business partners, as well as delay of the planned implementation of part of the deals. Alkaloid AD Skopje remains optimistic and, most importantly of all, focused on the intended positive results and socially responsible activities.

The second research question: **Which are the key strategic factors determining the global competitive position of these industries**, refers to the factors affecting the increase of the competitiveness of the companies in the foreign markets? Integrated strategic approach with a number of predefined activities for entering new foreign markets is the only formula which leads to success. The strategic approach represents a chain of related activities which need to be timely planned and implemented. According to the research, a detailed analysis is a necessary factor for defining the competitive position of the company on the foreign market. The pharmaceutical industry is daily confronted with the challenge of an innovative offer. To be competitive means to offer something new, with a price acceptable to the consumers and recognizable on the market. The pharmaceutical industry is turned to innovation, i.e. the essence of success is directed towards research and development, which is expected to deliver a better pharmaceutical product - therapeutically superior and safer product, which will be easy to use and will cause less troubles to the patients to whom it is administered. Patients want a swift recovery, prescribers want optimum health results and promotion of their own professional success, while financiers want these targets to be achieved by controlling the healthcare costs that escalate daily and result in budgetary holes. This industry spends enormous resources on research, development, technology, knowledge, personnel ..., and the risk of failure is huge. Investment and monitoring of new technologies must never stop in the pharmaceutical industry. Otherwise, it would affect the level of competitiveness of the company. Over the past four years, Alkaloid AD Skopje is successfully maintaining the balance between its goals, consumer, community and stakeholders' needs. Its everyday activities are aimed at promoting investment, implementing new technologies and procedures, introducing new products and services, with an ultimate aim to increase its value for the benefit of all stakeholders. The steadfast commitment to top quality and perfection in every segment is the driving engine of the company at this time of great dynamism and rapid change. The continued business success and sustainable growth of the company is a direct result of the contribution of the entire management team which strives to continually improve and promote the company's values, integrity and professional approach.

The third research question reads: **How do they determine the competitive position of these industries?** The companies are under pressure of the strong competition on the foreign market and the success lies in identifying the right product for the target market. The product needs to be differentiated from the rest products on the market by its characteristics. The success at the end of the current year is measured by the profit earned by the company. Hence, the research, in part, points to the need of reasoned cost

management and appropriate choice of strategic partners as a necessary factor for successful business operations on the foreign markets. It is necessary for the company to undertake activities that would ensure support to the pharmaceutical product and encourage recognition of the brand, and later confidence. The establishment and maintenance of brand awareness is the step which is seen as indicator of the appropriate response to the competition and overcoming the barriers to confidence in the product offered. Griffiths (2008), in his study on the prescribers/doctors in the UK, confirms the existence of loyalty to the brand of the product, and the fact that the promotion in the media affects the habits of the prescribers/doctors in prescribing a particular drug or therapy. The author believes that the branding of the products in pharmacy is reasonable and desirable, and that the trend of DTC promotion (direct-to-customer) in the future will be further strengthened and may cross the borders of the United States and New Zealand, where it is legally permitted. Some authors do not share this opinion and argue that the DTC promotion has not given the expected results yet.

**What is the importance of these factors** is the fourth research question. The growth and development of the companies and, along with that, the growth and development of the countries, can be determined by analyzing some of the factors which contribute thereto. There is a growing importance of international trade and investments, where the countries that have the biggest growth of the export are also the countries with the biggest growth rate; the size of the market, which is the main force of expansion of the business activities in the international market, also plays an important role; to survive in the cruel international competition, the owners feel the need for strategic alliances, with an aim to reach an optimal usage of the global knowledge and skills. The high competition in the open and integrated world of economy has become a central matter and goal (Porter, 2004). In a modern, more open and integrated economy, the competition has a central position in the economic thought, both in the developed and in the developing countries. Thus, the need for conquering new markets where the companies can present themselves appears as inevitable.

Some authors propose an active approach to the lifecycle of the pharmaceutical product, and their logic is based on the principle "... to begin earlier, to sell more, to sell longer ...". With the ten steps that these authors propose, it is expected the lifecycle curve of the pharmaceutical product to change its appearance. These steps, inter alia, include (Daly and Kollasa, 2004):

- establishment of a multifunctional team which will monitor the product/brand from the discovery of the active ingredient throughout the entire course of its lifecycle. It is a fact that, in managing the lifecycle of the product, profiles of individuals who are dealing with the scientific and medical segment of the development of the medicament should be included, but also experts in the field of marketing (market research, product planning, sales), finance, legal affairs (protection of intellectual property, regulation), pharmaco-economy and even organized groups of patients, if possible.

- from the very idea or an indication which requires treatment and therapy, it is necessary to follow the idea of unfulfilled needs and desires of the market and expectations of the new product. The scientific aspect of the pharmaceutical job offers a specific product, but the customers/patients buy a solution to their problem on the market. A scientific solution without paying attention to what the market requires as a solution may be inappropriate.
- identification of the most influential stakeholders and their impact on the market success of the product.
- the messages that the pharmaceutical companies send to the stakeholders must be strongly based on the data obtained from the clinical examinations, which undoubtedly must support the efficacy of the medicament in a given indication and its safety.

This list does not end here. It incorporates monitoring of competition, its actions and market results, which is aimed at shortening the time spent in the research and development process, extending the time for the product to give above-average profit, and prolonging the lifecycle by delivering real added value. The difficulty in achieving a secure competitive advantage of the company in the foreign markets results from several factors:

- high level of regulation in the industry, with a strong influence of the state and politics;
- constant cycle of improvements which leads to the introduction of new pharmaceutical products at the expense of the existing ones. The brand of the existing products cannot be transferred to a new active pharmaceutical ingredient, because the new entity must be registered under a unique name;
- the manufacturers of innovative drugs compete through their activities in research and development rather than through marketing and price. The companies in the pharmaceutical product market are primarily oriented to patents or patent protection, which guarantees a period of exclusivity in a particular market. After the expiry of the patent protection, there is a period of generic erosion and appearance of many producers that offer a bioequivalent product. Another reason lies in the very nature of the industry which is oriented towards a constant search for more efficient and safer products, therefore, often, even before the expiry of the patent protection, a pharmacologically superior product may occur that will automatically put an end to the lifecycle of the inferior medicament;
- wrong assumption that consumers are interested exclusively for the technical characteristics of the products;
- there is an “extra layer” between the pharmaceutical industry and the end user/patient: prescribers, pharmacists and financiers.

### **3.8 Limitations**

The purpose of this chapter is to demonstrate all possible weaknesses and to explain that the results should be interpreted with the regard to the limitations of the study. A single case study approach is used which implies inductive conclusions. Next, I will elaborate the problems I encountered during the research, which mainly arise from the reticence for scientific research of the companies and their lack of interest. If it was not for this obstacle

and if there was permission for research, there would have been a much clearer image for the organizations that have any connection with the subject of research. General conclusion is that the effort for a scientific research is hard to fulfill because of the overall condition in the companies. Because the Alkaloid is one of the most successful export oriented companies, this is an explorative, qualitative study based on a single case of firm in the pharmaceutical industry. The findings are not intended to be generalized to all companies. Some scholars are convinced that the selection of cases can always be criticized, even if based on a theoretical background. The second limitation is that I decided to focus the research on a relative small number of relevant respondents in a case study firm. The third limitation is that I focus the research on a single industry.

The limitations that further hindered the implementation of the research are:

- small number of companies that perform business operations in the international market, which made their objective selection more difficult (i.e. difficulty in providing representative sample).
- ignorance for scientific research among a great number of companies due to the overall negative condition of the economy.
- lack of means necessary for researching the representative sample.

All this prevented the research of a representative sample and decreased its meaning, especially from the aspect of the possibility for generalization of information. Thus, the results and the conclusions of this research can only generate premises for further research and determination of general trends in this segment of the economy. However, it must be admitted that Alkaloid AD Skopje has indeed understood the goals and the efforts of the research and, thanks to this company, the thesis got its empirical basis.

### **3.9 Contributions and Further Research**

Regarding the research that was conducted to see the opinions of the employees in Alkaloid AD Skopje, it is concluded that there are several types of strategies and models applied that contribute to the realization of the targeted goals, seen in the increase of the competitiveness of the export-oriented manufacturing companies in the international market.

This paper can be used in future research as a starting literature that could help in collecting information on the issues elaborated therein. Namely, it provides detailed data on the possibilities how to increase the competitiveness of the export-oriented companies that have intention to develop their businesses globally.

This thesis opens possibilities for improving the business operations by increasing the competitiveness of the export oriented manufacturing companies. Because of this, the expansion of further researches would be positive. It would be preferred if the future researches are regional: companies from more countries would be included which would

also enable a comparative analysis of all identified obstacles for entering new markets. In an analysis like that, it would be possible to make key points that would be corrected. Hence, a guide for more efficient and more successful implementation of the key business goals – increasing the competitiveness of the export-oriented manufacturing companies – could be drafted. At the same time, it would be of great help for the companies to determine their position in the domestic market, the possibility to perform and be competitive in the international market and the chances to increase their competitive advantage in the foreign markets. It is of great importance for the manufacturing companies that qualify to be export-oriented to establish strategies for market performance, to face the factors that affect the international market and to find ways of improving the competitive position. This research can indeed be used to achieve those goals.

## **CONCLUSIONS**

From the previously presented results, it can be acknowledged that the employees in Alkaloid AD Skopje have dominantly positive attitude towards the decision for undertaking business operations in the international market. It is correlated with the numerous up-to-date researches for the increase of the economy in the foreign markets, which makes these markets highly perspective for the companies that plan their performance and expansion internationally.

The intention of the thesis is to draw conclusions on the perspectives of the decision to perform in the international market and thus increase the competitiveness of the export-oriented manufacturing companies in the Republic of Macedonia, such as Alkaloid AD Skopje. The conclusions on the meaning of the international performance are underlined in the theoretical segment of the thesis. Therefore, the company takes initiative to enter the market by cooperating with other business partners and acquire a good position for attaining its business goals. Namely, the research reveals the strong effort of the employees for business operations in the international market, but also their positive attitude towards this decision.

They identified the importance of visiting the foreign market in order to understand their culture and language. They argued that personal visits are necessary to create trust between the relevant business parties. As the company has grown, it has built up a global reputation for producing the highest quality pharmaceutical products, always perfectly tailored to the needs of the clients. These standards of excellence have allowed Alkaloid AD Skopje to secure long-term relationships with many clients in the international market and to ensure achievement of competitive advantage in the pharmaceutical industry in the foreign markets, by preserving the quality of the products in the long run. Thus, during the research, the strong dedication of a bigger number of employees for expanding the market share on the international market through moderate and reasonable strategies of the business became evident. They impose the need for more intensive promotion as an

important activity in the following period, aimed at improving the company's reputation for the potential partners. Those are the challenges that the company sees as key steps for success.

Because the international market is big and specific, there is no doubt that the need for anticipation of the possible problems on time is necessary, but also the possible options for more successful development of the company in the foreign market. The employees in Alkaloid AD Skopje have no doubt that there is a need for a detailed market analysis before making major decisions that refer to business development. The key intention of the company is to overcome the barriers that hinder the overall processes. The competition, the related legislation and the export/import procedures are the company's weakest points at the time, and therefore additional efforts will be made in the future for their improvement. The company's dedication for implementing numerous strategies, aimed at implementing the targeted key points that promise winning of the international market, is also clear. According to the findings of the research, the most important factors for the success of the export-oriented manufacturing companies in the contemporary world economy such as Alkaloid AD Skopje are the services the customers receive, the quality of the products and the expertise of the employees. However, these three factors depend on human capital: education, training and motivation. In the modern economy, it is not only difficult to create, but it is also difficult to maintain a lasting competitive advantage. The erosion of the types of competitive advantage is however an important feature of the modern international market. Not only the price and quality, but also the important technological innovations are immediately imitated by the competitors, therefore the strategic position is weakening and it has to be protected from the aggressive competitors. One way of strengthening the competitive position is creating a coalition or alliance between enterprises from different countries. The companies which used to be fierce competitors and fought for the same market segments are now pairing and thus become partners in the existing business areas or jointly search and open new business areas. Coalition or alliance of enterprises is one but not the only way for the company to be able to adjust the features required by the targeted segments of the international market.

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## **APPENDICES**

## **LIST OF APENDICES**

Appendix A: List of Abbreviations.....	2
Appendix B: Distributed Questionnaire -Strategies for Increasing Competitiveness of the Export-oriented Manufacturing Companies in the Republic of Macedonia.....	3
Appendix C: Answers from Employees.....	5

## **Appendix A: List of abbreviations**

TQM - Total Quality Management

IMD - The International Institute for Management Development

GCI - The Global Competitiveness Index

WEF - World Economic Forum

BCI - Business Competitiveness Index

WCY - World Competitiveness Yearbook

GCR - The Global Competitiveness Report

**Appendix B: Distributed Questionnaire -Strategies for Increasing Competitiveness of the Export-oriented Manufacturing Companies in the Republic of Macedonia**

**QUESTIONNAIRE**

Dear respondents,

This questionnaire is part of the research project named Strategies for increasing competitiveness of the export oriented manufacturing companies in the R.Macedonia. The purpose of the research is to determine the strategic basis that contribute for increasing competitiveness of the export oriented manufacturing companies such as yours.

Your participations in this survey is anonymous. All your responses will remain confidential and will be used only to enhance and improve the survey. Only the researcher of this project can access to the data collected in the survey. You voluntarily agree to participate in this research project by filling the following questionnaire.

The time required for filling out the questionnaire is no more than 10 minutes.

Please be sure that you have responded to every question.

Thank you

1. Name of the company \_\_\_\_\_

2. Activity of the company \_\_\_\_\_

3. How long do you work at your company?

1-3  more than 3

4. On which level of the company are you working?

- Top management
- Middle management department director
- Middle management executive

5. The orientation of your company to operate on the foreign market has a positive impact on the overall results of the business.

Strongly Disagree	Slightly Disagree	Disagree	Neutral	Agree	Slightly Agree	Strongly Agree
1	2	3	4	5	6	7

6. As a representative of your company, you support the business operations on the foreign market.

Strongly Disagree	Slightly Disagree	Disagree	Neutral	Agree	Slightly Agree	Strongly Agree
1	2	3	4	5	6	7

**7. You grade the foreign market as a high perspective market.**

Strongly Disagree	Slightly Disagree	Disagree	Neutral	Agree	Slightly Agree	Strongly Agree
1	2	3	4	5	6	7

**8. A detailed analysis of the market is required to decide whether to enter the foreign market.**

Strongly Disagree	Slightly Disagree	Disagree	Neutral	Agree	Slightly Agree	Strongly Agree
1	2	3	4	5	6	7

**9. You consider that your company is competitive on the foreign market for now.**

Strongly Disagree	Slightly Disagree	Disagree	Neutral	Agree	Slightly Agree	Strongly Agree
1	2	3	4	5	6	7

**10. Which are the most common obstacles you face in the operations on the foreign market?**

competition	Market location	Legal codes	Export/import procedures
1	2	3	4

**11. What would you like to be improved on the foreign market?**

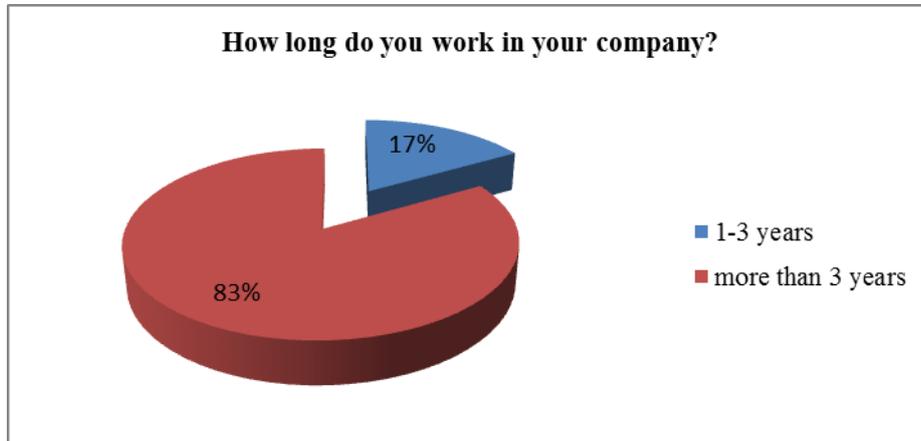
competition	Legal procedure	Managerial practices of the company	Prices of services from outsourcing companies
1	2	3	4

**12. Which should be the next steps of your company for operating on the foreign market?**

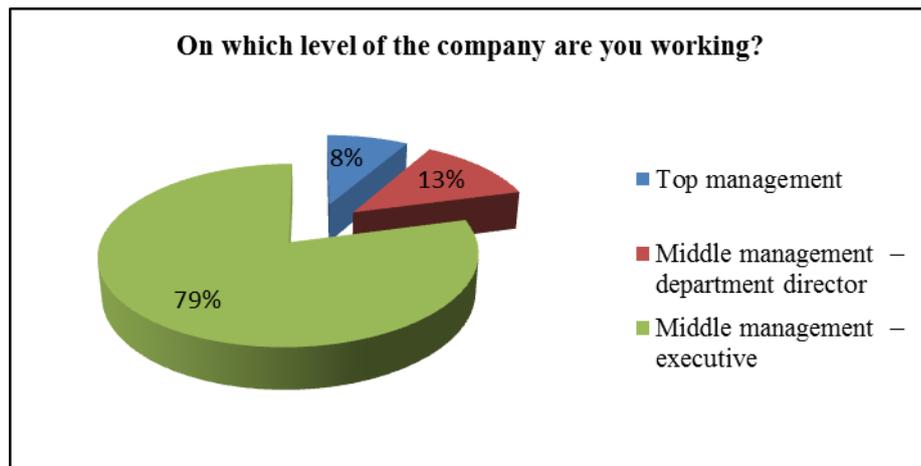
Expanding the company's market share	Building company's own logistics centers	customization of products for foreign markets	Investment in a more intensive promotion
1	2	3	4

## Appendix C: Answers from Employees

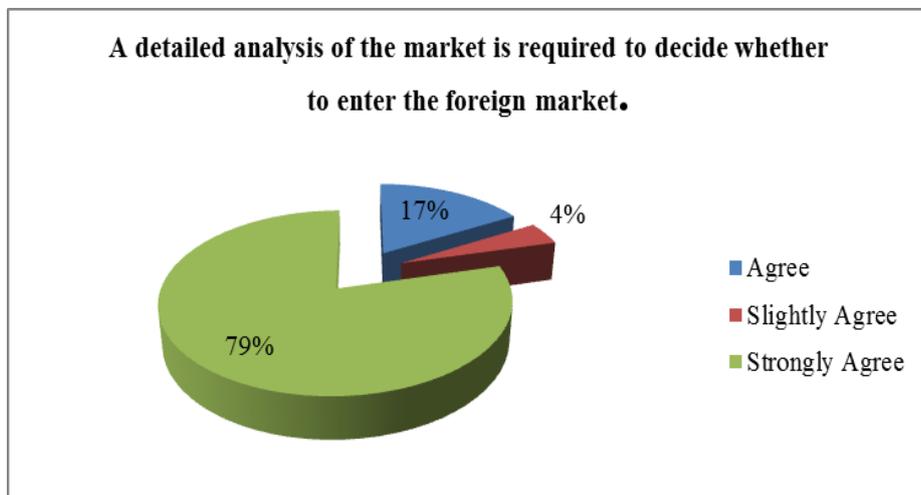
### Working Experience



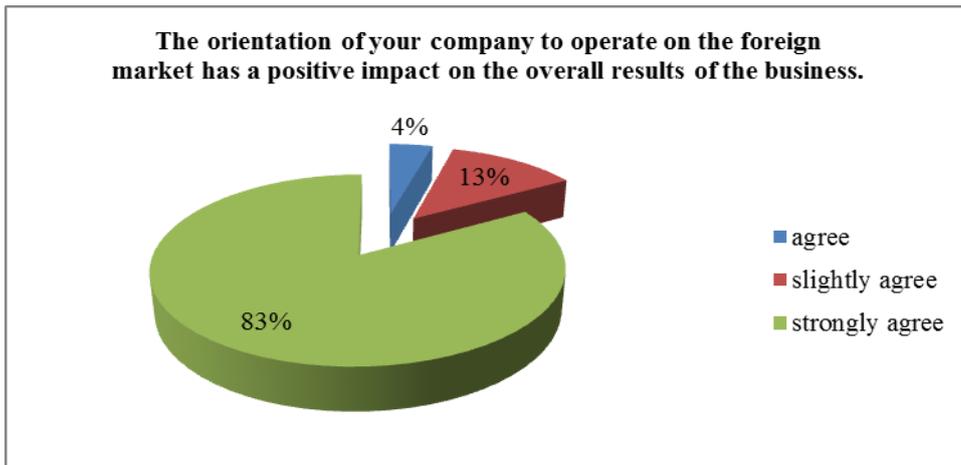
### Management Levels



### Company Orientation for Operating in Foreign Market



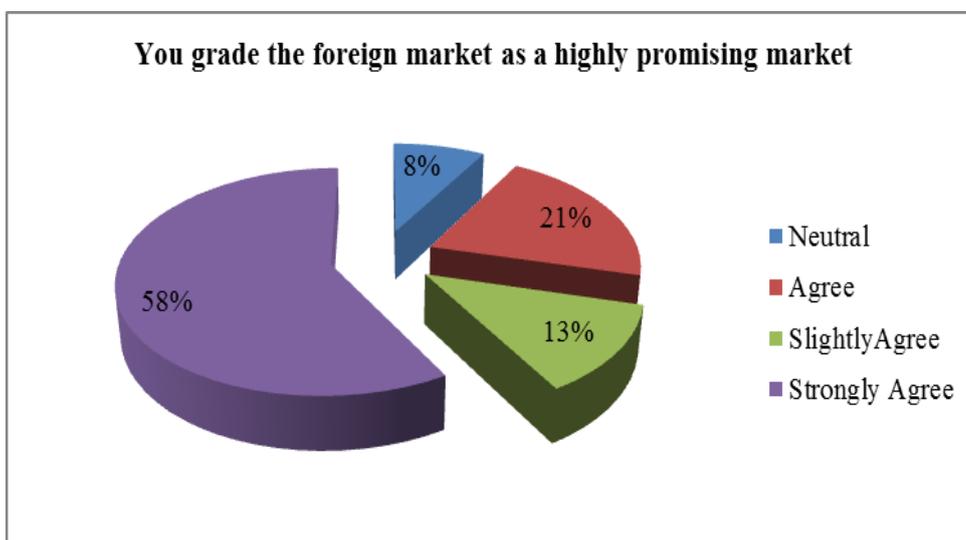
## Detailed Analysis for Entering a Foreign Market



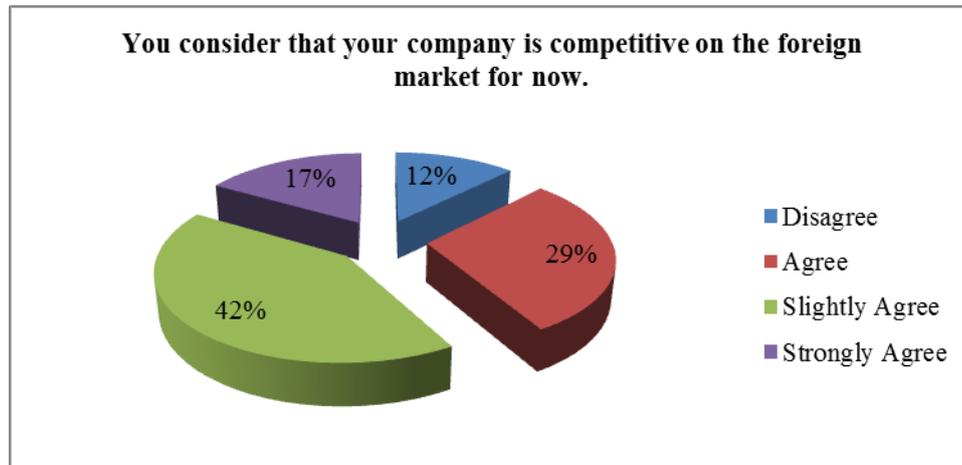
## Support for the Business Operations in a Foreign Market



## Opportunities Offered by the Foreign Market



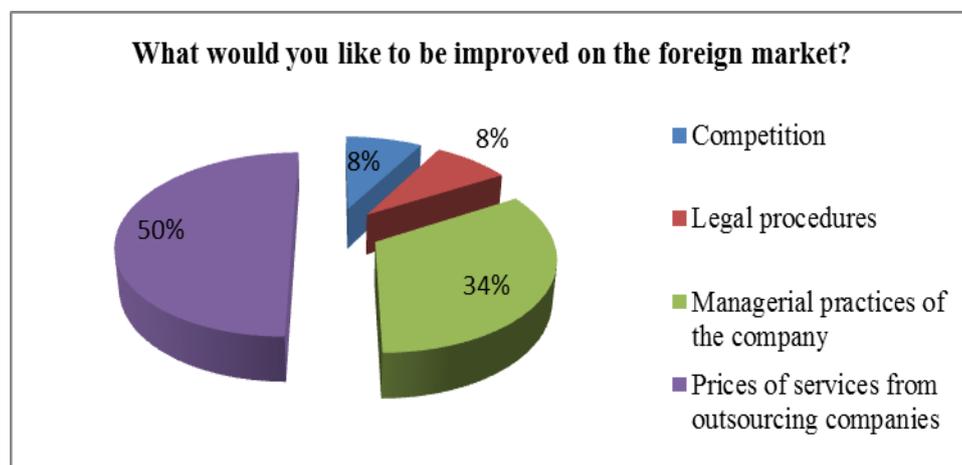
## Company Competitiveness in the Foreign Market



## Obstacles in the Foreign Market



## Improvement in the Foreign Market



Next Steps of the Company

