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## The concept of competition and the objectives of competitors

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### Abstract

The aim of the conceptual paper is to deal with the different meanings of competition, to systemize the versions of concepts of competition arranging these in the same unifying framework, called in this paper the field of competition, and developed in this paper. The unified concept of competition is developed showing of how its meaning depends on the objective(s) of the agents in competitive process. It can be used as the modelling device for analysis. Competition and competitiveness are the terms frequently used both in business and public discussion about the economic units, and about their ability to perform according to the strategic or policy goals. However, the meaning of the terms remain vague and to make things even more complicated, the exact meaning depends on the problem under hand. The paper contributes to the discussion on the meaning of competition and presents a model that may be used to interpret the use of concept. It also gives possibility to resolve some of contradictions between different approaches.

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### Introduction

Competition and competitiveness are the terms frequently used both in business and public discussion about the economic units, their environment and about their ability to perform according to the strategic or policy goals derived from business, economic or social objectives. However, despite the fact that, as Krugman (1994, p. 30) states, „... people who use the term „competitiveness“ do so without a second thought“, the meaning of the terms remain vague and to make things even more complicated, the exact meaning depends on the problem under hand.

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The conceptual clarity is particularly important when one keeps in mind the purposes of teaching. Students first encounter the term in their first microeconomics class when beginning their studies. After some time they arrive to strategy class where the meaning and process of competition may seem very different from the former one.

Almost infinite variety of real world situations and array of possible problems have created a continuum of views inspiring Boone (2000) to answer the question what is competition that „more than two hundred years after Adam Smith we still don't know“ and Krugman (1996) to claim that at least in the case of nations (international trade) the term competitiveness is meaningless on the one hand and still giving possibility to have detailed definition for general public in Mirriam-Webster and a precise definition of competitive markets in economics (Mas-Colell, Whinston and Green, 1995, ch. 10) on the other hand.

In this theoretical paper that attempts to clarify the concepts of and around the competition the Stigler's (1988) definition „competition is a rivalry between individuals (or groups or nations), and it arises whenever two or more parties strive for something that all cannot obtain“ is used as a starting point. While Stigler clearly speaks in his broad definition about the real world, the economics definition of (perfect) competition is focused on the model world – the most important and defining features of the „competition“ seem to be the objectives of the competition, the objectives of the analysis and the dimensions of the competition.

The first set of confusion in the use of the term may arise from the differences of approaches taken by the different interested parties. Demsetz's (1981) text where he analyses economic, legal, and political dimensions of competition may today be considered almost classical in that sense. The problem becomes even more complicated because of the fact that in addition, different languages (terminology) are used frequently.

The second important complication arises from the aims of analysis. The business analyst developing new strategy for a firm may have very different look on the market compared with the analyst from the public sector who is trying to enhance the situation with the aim of (frequently vaguely defined) public benefit. The very different tools maybe used and results obtained even in the case of exactly the same object of analysis. The ideological content makes sometime things even more problematic (Minford, 2006) in public discussion.

The third set of complications arises from the existence of number of related and partly overlapping phenomena and terms: competition, competitiveness, productivity, effectiveness, comparative advantage and so on. Vickers (1995) gives a good introduction to the variety of competitions.

The aim of the present paper is to put different views on competition into the unified framework, called here the field of competition. The first section of the paper deals with the influence of objectives on competition. The second section introduces the importance of levels of competition for the analysis. The third section presents the elements of unified framework for the competition analysis. The paper ends with conclusions.

## 1. Objectives of competition

Three important points to keep in mind when thinking about the objectives of competition are:

- underlying variable of competition (price, quantity, quality etc.);
- aimed level of achievement; and
- competitive process that is at least partly determined by the strategic objectives of agents.

The importance of variables for analysis have deep roots in economic literature beginning with Cournot (1838) and Bertrand (1883). As described in Fudenberg and Tirole (1996) the topic has important place in game theory. The variety of results that have been achieved in models based on dual variables of price and quantity shows the possibility of almost infinite number of outcomes of competitive process with varying objective variables in real world.

Neoclassical rationality with optimizing and maximizing agents is in practice possible only in cases of fairly certain economic environment when only few variables have to be taken into account. Otherwise, bounded rationality is better way to describe the decision-making and its outcomes (Fig. 1). In connection with organizational learning one can start the journey of bounded rationality from Simon (1991). The idea of bounded rationality may be considered to be a bridge from neoclassical competition paradigm to the Austrian economics (see Hayek, 1996 and Kirzner, 1978) and to business practice where the most prominent writer seems to be Porter (2004, 2004, 2008).

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