Trends in the Development of the Concept of Competition

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Abstract: **The article examines the formation and development of the theory of competition, the contributions of representatives of economics, strategic management and marketing sciences to the study of the essence and content of this phenomenon and the analysis of the main concepts of competition.**

Keywords: Competition, competitiveness, technostructure, behavioral economics, competitive strategy, institutionalism, theory of competitive evolution

1. INTRODUCTION.

In the era of globalization of the world economy, informational and technological revolution, instability of the business environment, "competition" remains the main element of the mechanism of the developing market economy. Therefore, it is possible to successfully operate and develop economic entities at all levels only by applying effective methods of competition and ensuring high-potential competitiveness. Over the past 3 centuries, the progressive development of the theory of competition has included several schools of economic thought and directions (marketing, management and strategic management) from the emergence of the first scientific hypotheses (ideas) of this concept to becoming an independent department (theory) of economics.

Competition theory to the scientific community in the 18th century A. Smith and D. Ricardo was founded by classical political and economic scientists. In order to find a solution to the problems of achieving macroeconomic prosperity, they studied the model of perfect competition and the theories of relative and absolute competitive advantages. Neoclassical economists K. Manger, F. Wieser, A. Marshals moved from the analysis of competition at the macro level to the micro level and studied the main conditions of competition.

2. LITERATURE REVIEW

The concept of competition is based on three approaches that shed light on its essence: behavioral, functional and systemic. Smith's followers paid attention to completely different aspects of this complex phenomenon.

Accordingly, the description of competition based on behavior, the tendency to compete with others according to human nature, the conflict of ideas, goals, opportunities and interests of the participants of market relations is considered as a constant of mutual opposition and conflict (competition).

Proponents of the systematic approach perceive competition as an indicator of the current state of the market, an assessment of one or another industry in the market.

Later, in **the 19th and 20th** centuries, the conflict between competition and monopoly was perceived as a primary problem. As a result of the researches of **E. Chamberlin** and **J. Robinson** , the model of perfect competition lost its advantage and imperfect, monopolistic competition theories emerged. A sharp slowdown in economic growth and the economic crisis at the beginning of the 20th century proved that the idea of non-interference in market relations was not perfect. As a summary of the situation, **J.M. Keynes** criticized the idea of self-regulation of the market and advocated the need for state intervention in the economy and competitive relations. The introduction of the state as an economic entity into the competitive relations expanded the range of problems that should be studied in the theory of competition. The influence of various aspects of social life on competitive processes became the focus of researchers' attention. Supporters of the institutional approach to economics contributed greatly to the development of these ideas. Over time, the idea of expanding their views and additionally considering the share of innovation in competitiveness was promoted by **Y. Schumpeter** and the theory of innovative development was founded.

Thus, by the middle of the 20th century, it can be seen that the framework of the main problems of the theory of competition was formed. However, practical problems remain, such as searching for competitive means and methods, creating competitive advantages, and developing an effective strategy.

J. Stigler , who studied the operation of the market economy within the framework of the theory of industrial organization in the middle of **the 20th century** , made a great contribution to the development of the theory of competition. Analyzing the actions of enterprises in competitive and monopolistic industries, Stigler emphasized the principles of survival and minimum scale efficiency as a condition for the successful operation of the enterprise. Also, according to J. Stigler, success in competition depends on the establishment of inter-industry integration. Therefore, active integration is very important in the initial and final development stages of the network, while it may not be important to do so in the middle stage. [1]

J. Stigler was one of the first to accept having economic information as a competitive advantage and a means of achieving it. According to Stigler, the lack of information is a factor that threatens the company's competitive position in the market. In order to succeed in the competitive arena, it is necessary to have modern economic information (knowledge). The benefit of using this knowledge and applying it to the development of the enterprise will always be higher than the cost of obtaining it.

At the same time, the innovative direction of the economy - the theory of behavioral economics, the influence of economic, political and psychological factors on the behavior of economic entities and decision-making, discovered a new essence of competition. According to **G. Simon ,** one of the representatives of the behavioral approach , the instability (uncertainty) of the environment in the modern world and the high level of saturation with information (isobilia) are fundamentally changing the model of economic behavior. Business entities are characterized by making rational decisions based on the requirements of the enterprise, not on the basis of profit maximization. Since the criterion of achieving the efficiency of the enterprise is achieved when it reaches the level of its claim, Simon concluded that the essence of competition has changed and that competition has social and adaptive characteristics. By studying the views of the representatives of the theory of behavioral economics, it is recommended to conclude that the essence of the competitive process within the framework of the behavioral approach is revealed through the adaptive behavior of enterprises. [2]

In the 1960s **, D.K. Galbraith** studied the processes and specific features of modern competition based on the characteristics of the activities of large corporations within the framework of the institutional theory of industrial economics. According to Galbraith, in the modern economy, large enterprises that have gained economic dominance by influencing prices, costs and consumers form a unique industrial system in the industry, while small enterprises that cannot influence prices and government policies form a market system. This distinction emphasized the importance and uniqueness of both systems, and the need for state intervention in market relations to find a solution to existing conflicts between them. The activity of such large corporations as market operators restricts free competition. In order to reveal the nature of the corporate management, which showed dominance in the market, the concept of **"technostructure"** was introduced by D.K. Galbraith. Technostructure is a group of people who have relevant knowledge, skills and experience in collective decision-making. [3] In modern conditions, economic entities serve as technostructures of large corporations, and Galbraith changed the essence of changes in the goals of economic activity from maximizing profits to maintaining the technostructure, expanding the sphere of influence, and minimizing dependence on the market. According to the scientist, in order to achieve these goals and economic efficiency, in the conditions of the rapid development of techniques and technologies, careful planning of industrial production and adaptation to the requirements of the era is a necessary factor.

Around this time, representatives of the Austrian school made a great contribution to the development of the theory of competition. They focused on the role of the entrepreneur in competition and economic development. According to **I.Kirtsner** , an entrepreneur seeking to make a profit can influence the competitive environment and conditions in the existing industries, increase the mobility and activity of entrepreneurship in the market, and shift the price structure in order to achieve his goal. Lack of complete ownership of information is a driving force behind competitive market processes. Therefore, I. Kirtsner advocated making the right business decisions as the main function of competition.

"Human capital" , which had a significant impact on the concept of competition, developed in the 1960s and 70s as a result of **G. Becker 's scientific work.** The main idea of G. Becker's book "Human capital" is that the costs for the development of knowledge and skills of employees are equal to the investments aimed at the introduction of new equipment and technologies and will bring high returns for the company and society in the future. According to Becker, investments in the development of special skills of employees will increase production productivity in the enterprise and, as a result of positive changes in these indicators, additional income will be achieved. [4] In the process of substantiating the compliance of any capital enterprise focused on the education and training of employees with the purpose of economic development, Becker came to the conclusion that special training of employees serves to form special advantages of the company's product, market position, know-how, brand and image. From Becker's views, it can be seen that training and training of employees can be one of the main advantages of the enterprise in the competitive struggle.

Over time, as the leaders of the theory of competition, it was studied by supporters of the neoclassical direction of economics. Neo-institutionalists focused on transaction costs such as information gathering, negotiation, and contract conclusion as efficiency of market economy. Supporters of neo-institutionalism **, O. Williamson, R. Coase, D. North, M. Olson,** believed that the competitiveness of economic entities is evaluated by their ability to save transaction costs . Therefore, O. Williamson accepted the merger of enterprises and vertical integration processes, which were used as a means of strengthening monopolistic dominance, in fact, as a strategy for increasing the efficiency of enterprise activity, that is, as a means of saving transaction costs.

Conditions for the interests of the parties allow them and the society to make minimal transaction costs, thereby creating an environment of civilized competition. These factors encourage many entities to start production. As a result, civilized (honest) competition uses its power for the benefit of society and leads to economic development, rejecting the destructive power of competition. [5]

3. ANALYSIS AND DISCUSSION OF RESULTS

In 1980s, a new trend emerged - evolutionary institutionalism or the theory of the evolution of competition. Representatives of this trend, **R. Nelson** and **S. Winter,** in their work entitled "Evolutionary analysis of economic changes" presented the concept of **"organizational procedures" - a stable pattern, stereotypes, extract of actions used by company members on a daily basis.** As the authors point out, changes in the business environment lead to changes in organizational procedures established in enterprises. The combination of changes in procedures under the influence of external factors is considered as a strategic action of the enterprise. R.Nelson and S.Winter emphasized that in order for the enterprise to choose an effective strategy, it is necessary to have a constant relationship with the surrounding people. [6] Organizational procedures can be considered as one of the assets of the enterprise and can be considered as a factor causing competitive advantage.

Due to the globalization of the world economy and the acceleration of integration processes, considering the new reality in business, the pursuit of competitive advantage and leadership in the market by enterprises became important aspects of the theory of competition. Market, resource and institutional concepts of competitive advantages were formed, not only the representatives of the modern economic school, but also the representatives of the field of marketing and strategic management made a great contribution to their development.

In the theory of competition, for the first time, the concept of the market was formed based on the model of imperfect competition in the market, the approaches of the theory of industrial organization and strategic planning. According to this concept, the company's position in the market is considered in terms of its competitiveness and competitive advantages. Therefore, it is important to focus on the type of market and available resources when choosing an effective strategy.

M. Porter is recognized as a leading representative of the market concept. He was one of the first to systematize the theory of competition. The strength of the competitive environment in the network, competitive strategy and competitive advantages - the essence of Porter's model was the formation of the theory of competition with the embodiment of these three factors. According to him, the intensity of competition and expected profit in any industry and sector is determined by the interaction of the following competitive forces that shape the industry structure [7].

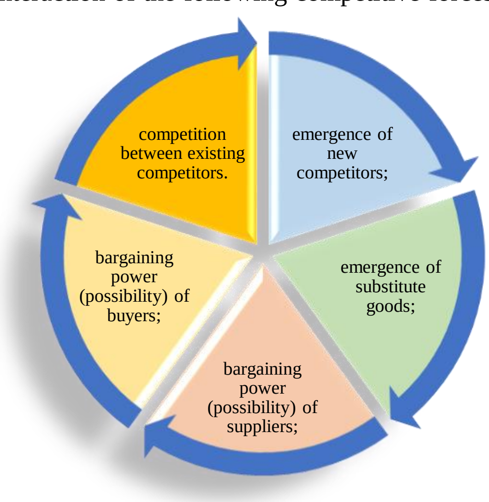

Figure 1. Competitive forces shaping industry structure**[8]**

According to Porter, **competitiveness (success in competition) is determined by the choice of competitive strategy (costs, leadership in differentiation or the attention allocated to them) depending on the situation in the network.** The competitive strategy is organized on the basis of competitive advantages, their deepening and improvement, and enables the enterprise to take a strong position in the market and achieve high financial results. Taking into account the current state of the external environment and the internal capabilities (resources) of the enterprise, the activity of M. Porter, dedicated to determining the competitiveness of enterprises (competitive advantages) and the competitive forces of the network, is undoubtedly of great importance for the effective operation of the enterprise and success in the competition.

The need to adapt to the conditions of variability and uncertainty of the market environment caused the active development of the resource approach in determining the sources of competitive advantages (competitiveness) . **B. Wernerfelt, E. Pentrose, R. M. Grant, S. Montgomery, R. Ramelt, K. K. Prakhalad, G. Hamel** and others contributed greatly to its development . According to the resource approach, the intensity of changes in the network leads to a decrease in the existing structure and market position of each enterprise, thereby increasing the role of internal resources. Based on this, the researchers came to the conclusion that the company's internal unique (unique) and hard-to-repeat combination of resources is the source of competitive advantage. Creation, development and use of a set of internal resources will become a factor determining the competitiveness of the enterprise in the long term.

Representatives of the resource concept **G. Khamelom and K. Prahalad** developed a theory of core competencies that serve to achieve and maintain a leading position in the network. The main competencies are created on the basis of knowledge about the technologies used, ownership of information, skills, relations between structural units and the reputation of the enterprise. [9] The uniqueness of core competencies is their intangible, long-term and exclusive (unique). This allows the enterprise to gain an advantage over the competition. Acquiring the competencies that are important for the enterprise and constantly improving the existing ones is the most important condition for a successful strategy, and as a result, it creates an opportunity to enter new markets and prevent competitors from entering the market.

Within the framework of the approach developed by **M.Tresi and F.Virsema, the "theory of unique (unique) values"** appeared. In this case, the unique value of the enterprise in the eyes of buyers is considered as an advantage in competition. According to M. Tresi and F. Virsema, unique values can be found by dividing them into the following directions (Figure 2):

Figure 2. Directions that form unique values**[10]**

In order to succeed in the competition, the enterprise must turn its unique value into a long-term strategy.**K. Vig, P. Senge, I. Nonaki, H. Takeuti, T.** contributed to the development of the concept of competition. **The "knowledge management theory"** related to the work of **Davenport and L. Prusaka** also made a significant contribution. The main idea of this theory is to consider knowledge as a business asset. According to the effectiveness of knowledge application in relation to other production factors of the enterprise, it is considered to be a multiplicative force. According to this theory, knowledge is considered as a basis for creating competitive products and services offered by the enterprise to the market. Knowledge management becomes an effective technology used to gain a competitive position of the enterprise in its place. Thus, the source of competitive advantages in the modern economy is not a favorable market position, but knowledge, which is considered as an asset, and its action in the enterprise.

In the mid-1990s, due to the emergence and development of enterprises characterized by a high level of flexibility, there was a need to reform the enterprise strategy. According to him, the enterprises were required to harmonize competition and cooperation between market participants. This, in turn, became the basis for the development of the institutional approach of the theory of competition, which considers long-term relationships with consumers, cooperation and strategic alliances as the main source of competitive advantages. According to this approach, the enterprise's ability to effectively integrate into the information space, which ensures quick ownership of important information with minimal costs, is considered one of its competitive advantages. The goal of such integration is the formation and use of collective competitive advantages that generate special relational rents. [11] We will touch on the main aspects of the theories formed within the framework of the institutional approach that combines competition and cooperation.

According to the theory developed by **J.F. Moore , cooperation (along with competition) is considered as the driving force of the economy.** By comparing and simulating the business environment to an ecological system, Moore described the enterprise as an element of the system that develops and evolves its competitiveness at the same time as the ecosystem. He called this system **"co-evolution" .** Since the traditional strategy aimed at creating competitive advantages has ceased to be effective in the new environment (ecosystem), now enterprises need to develop a new strategy that combines the elements of cooperation and competition that are compatible with the external environment and ensure the evolution of all enterprises in the ecosystem.

A.M. Brandenburger and B.J. Neilbaff on competitive advantages and competition were reflected in the theory of **"mutual competition" (socompetition)** developed by them . Changes in the conditions of doing business as a result of the increase in the number of enterprises producing one type of product have been perceived by economists as a source of competitive advantage in the production and marketing chain. This point of view changed the nature and place of competition in modern economic relations. A.M.Brandenburger and B.J.Neilbaff, based on the concept of establishment of mutual relations of market participants, emphasized the need for the company's strategy to include competition and cooperation, i.e. "mutual competition".

In recent decades, emerging concepts have begun to emerge focusing on emerging markets as a factor of success and advantage in the competitive struggle. Based on this, the concept of **"disruptive (advanced) innovations"** affecting enterprise activity was founded by K. Christensen. The concept divides the concept of innovation into two types (Figure 3):

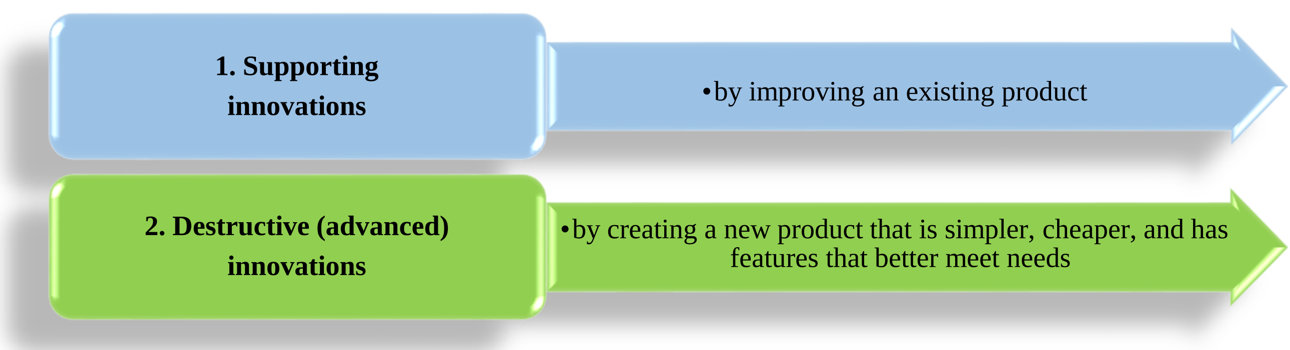

Figure 3. Variation of the concept of innovation (according to the concept of K. Christensen)

According to Christensen, disruptive innovations fundamentally change the parameters of competition, because leading enterprises using supportive innovations are also defeated by enterprises using disruptive (advanced) innovations. As a result, old products lose their competitiveness, and the company that introduces disruptive innovations gains significant competitive advantages in the fight for customers. Based on this, K. Christensen emphasizes that in order to be competitive, enterprises should look for and use the opportunities to introduce disruptive innovations.

The "blue ocean strategy" developed by **W. Chan Kim and R. Moborn,** the only way to win the competition is to stop competing. This can be achieved by creating **"blue oceans"** representing segments of the market that currently do not exist and competitors do not exist . In contrast, **"red oceans"** (all existing industries) represent low-growth, low-margin activities. Unlike "red oceans", "blue oceans" allow businesses to grow and achieve higher financial results by expanding network boundaries. Chan Kim and Moborn concluded that in order to compete, enterprises need to create new markets and market opportunities by introducing innovations in the production process and business organization.

It should be noted that the second half of the 20th century was the impetus for the active development of the theory of competition due to the evolution of scientific thinking and the contradictions during the development of the world economy. Institutional and behavioral economics, economic sociology, and human capital management theories have greatly influenced this development. As a result of scientific and practical research conducted in the middle of the 20th century, by the end of the 20th century, three main directions of competition theory were formed: market, resource and institutional.

4. CONCLUSIONS

The diversity of approaches and the absence of a single point of view once again emphasize the complexity and versatility of this concept. The practice of effectively managing competition and achieving competitiveness required the integration of marketing, management, strategic management and economics approaches. This combination helped scientists to study the true essence of competition theory.

The development of the modern economy, which includes the globalization of the economy, the increase in the level of uncertainty, the decrease in stability, the information revolution, the development of innovative technologies and services, has also raised the competitive relations to a new level. Enterprises that aim to operate efficiently will need to take into account the requirements of the new era, such as practical methods that give competitive advantages and increase competitiveness developed by researchers, concepts of cooperation in business, management of knowledge and advanced innovations, and creation of future markets.

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