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THE METHODOLOGY OF USE AND BUILDING COMPETITIVE ADVANTAGE ON THE REGIONAL LEVEL

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Abstract. The issue of competitive advantage is the actual topic in times of globalization and the global crisis. The existence of a competitive advantage in the territory affects significantly its development and success at the territory market. Research of the competitive advantage due to the nature of the territory as a product requires the multidisciplinary approach. While at the corporate and national level, the issue of competitive advantage is given considerable attention, at the regional level it has been not completely researched yet. The aim of the paper is to process the methodology of use and building competitive advantage at the regional level based on the definition of basic terms in the research area. The basic sources of the research are the secondary research of scientific and professional literary resources, the primary research realised by Delphi method among experts from different countries and a conducted primary research by the method of structured interviews with representatives of regional authorities, which aimed to identify the nature of competitive advantage and methods, how to use it in ensuring sustainable development of the region.

Keywords: competitive advantage, methodology, building competitive advantage, region.

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1. Introduction

The issue of competitive advantage is closely tied to the competitiveness, is influenced by different theories and is interdisciplinary. Facts about competitive advantage can be found in economic theory, history, architecture, sociology, culture, etc. We will pay attention to the particular knowledge, based on economic theory. The competitive advantage is a relative term (Beneš 2006: 27). According to Martin (2002, 2005), there is no single, all containing economic or economic-geographic theory, providing a generally acceptable definition and explanation of regional competitiveness and regional competitive advantage. The situation is the same in definition of the methodology for the identification and exploitation of competitive advantage in terms of regions. The paper was published by the support of research project VEGA n. 1/1010/11 Theoretical and methodological basis of planning in the public administration and possibilities of its application in the Slovak Republic.

2. Literature review

The theory provides three forms of certain benefit which an entity acquires over its competitors. This is a comparative advantage, competitive advantage and compiled, created advantage (constructed advantage). The theory of comparative advantage is mainly associated with the work of Ricardo and has the macroeconomic fundamentals. Porter (1994,1998) Competitive advantage is based on the work of Porter and diamante key factors for the development of competitive advantage. Porter also developed the idea of industry

clusters as a basis of economic development. This idea was further developed by several authors (Maskell, Malmberg 1997; Etzkowitz, Leydesdorff 2000) and led to the theory of innovation systems, which include a broad list of networked partners including universities, research centers, government agencies and businesses. This idea was adapted to the concept of compiled or constructed advantage (Cooke, Leydesdorff 2006). Skokan and Rumpel (2007) indicate that some of the key ideas of the concept of innovation systems, based on the interaction between business, universities and government formed the concept of knowledge economy and society. Two previous approaches, comparative advantage and competitive advantage, do not include the new dynamics of innovations and capacity their using in the form of human resources necessary for growth. This "new competitive advantage" emphasizes the development of regional economy and its dynamics. It is built on knowledge and requires the development linking the economy, government, knowledge infrastructure, society and culture (Cooke et. al. 2006; Etzkowitz, Leydesdorff 2000).

The findings and opinions of the authors who have dealt with or deal with competitive advantage can be divided into several groups according to common features, or theoretical disciplines that analyses the competitive advantage. Cellini and Soci (2002) argue that the theory of regional competitiveness and regional competitive advantage does not belong to the macro level (national) or the microeconomic level (business). When we speak about region, we can not say that it is a simple grouping of businesses or a subgroup of nation. Camagni (2002) adds that the regions actually compete by attracting businesses (capital) and labor, as well as by markets, but the competition is based on the absolute advantage rather then comparative advantage. We incline to the Cellini and Soci (2002) approach, that regional competitiveness and regional

competitive advantage is developed at the meso-level that involves elements of macro level and micro level.

In theory, it is also possible to find three approaches to create competitive advantage - a market-based approach to competitive advantage, which focuses on cost and differentiation, approach to the competitive advantage based on resources and marketing approach to competitive advantage, which represents a compromise between these two approaches. A specific approach can be considered creating a new advantage based on the knowledge; cooperation of public, private and non-profit sector; building networks and partnerships. The process of identification and exploitation of the region's competitive advantage will depend on the type of competitive advantage in the region (Borsekova, Vaňová 2011).

The approach of competitive advantage based on resources focuses on the region's resources and the competitive advantage is created through internal resources of the region. The unique resources help to create a unique market position. In some cases, the competitive advantage of the region can be formed by the external sources; e. g. in the form of strong foreign investment's flows into the region, which can be beneficial only in a certain time period. The procedure of identification and exploitation of competitive advantage based on resources is developed by authors Barney (1991) and Grant (1991), who designed this approach to the enterprise level. However, it can be applied to conditions in the region. According to these authors, the successful application of the theory of competitive advantage based on the resources consists of certain necessary steps. The following table shows the procedures of identification and exploitation of competitive advantage based on resources, according to Barney and Grant analogously accustomed to the terms of regions.

Table 1. Process of identification and utilization of competitive advantage based on resources

(Barney, 1991, p. 99 – 107)	Grant (1991, In West, Ford, Ibrahim 2010, p. 89)
1. Identification of the potential key sources in	1. Identification and classification of regional sources. Evaluation
the region, that create the assumption of the	of strengths and weaknesses in comparison with the competitors.
competitive advantage creating;	Identification of opportunities for better use of resources in the region.
2. Assessment the resources by four criteria: criterion of regional resource using, rarity criterion, inimitability criterion, indispensability criterion.	2. Identification of regional capacities and abilities. Answer to the question – what can the territory does more effective as competitors. Identification of inputs and capabilities, complexity of these capabilities.
3. Maintaining and protecting the values that contribute to the regional growth.	3. Evaluation of the profit generating resource's potential and capabilities in connection with the potential to achieve the sustainable competitive advantage and relevant return on invested capital or resources.

4. Choosing strategy, that best utilizes the regional resources and capabilities with respect to the external environment.
5. Identifying gaps in the resources that need to be filled. Investments into the expanding and improving the basic resources.

Source: Own workmanship by Barney (1991, p. 99 - 107) and Grant (1991, In West, Ford, Ibrahim 2010, p. 89).

We prefer the synthesis of these two approaches at the ideal methodology for the identification and exploitation of competitive advantage based on resources. The comprehensive methodology for the identification and exploitation of competitive advantage based on resources in terms of regions should include all steps illustrated in table 1.

The second approach to the competitive advantage is a market-oriented approach. It focuses on cost and differentiation. This approach to the competitive advantage, mainly represented by Porter (1998), Vaňová (2006), claims that the market and the environment identifies the entities, in our case, regions that are ineffective or which produce products for which the consumers are not willing to pay the asking price. The theory of competitive advantage is driven mainly by external factors (opportunities, threats and sectoral competition) and as the Porter (1998) writes that the sustainability of such competitive advantage means constantly to overtake the competition by "shifting target" of region and its constant improvement, innovation.

A compromise between these two approaches is an approach based on the network of values, which is a third approach to the competitive advantage (McPhee, Wheeler 2006). According to this approach, building a sustainable competitive advantage is based on positioning in the value network. If we apply this approach to the region, we understand positioning of the region as a market position that the region received in the market compared to its competitors. The region can achieve a desired market position by the competitive advantage. The base term of this approach is the expectation of customers, that compares what the customer gets (benefits that brings product and services) and what must be made to obtain the desired product or service (the direct and indirect costs that must be sacrificed in favor of obtaining the desired product) (Hollensen 2010: 28-35).

This approach to the competitive advantage is most closed to the marketing concept, especially marketing <u>places¹</u>. The marketing places is the basis of relatively

new and innovative concept of territorial development - strategic marketing planning of territorial development. It should be noted that "the management of strategic marketing planning in terms of territories is much more difficult than in terms of private companies" (Kotler *et al.* 1992).

The competitive advantage of the region is an important starting point for taking a position on the market, because it makes region more attractive. It is often the basis for the setting of marketing objectives. The superiority over the competition became the basis of marketing strategies that are not aimed only at the customer satisfaction.

Marketing concept argues if the regions want to be successful, they must provide the greater value to the customer as competitors offer (Saloner et al. 2001). The role of marketing professionals is therefore to do something more than just adapt to the needs of target customers. They must strive to achieve strategic advantage by placing own offer firmly in the minds of customers in comparison with the competitor's offers (Vaňová 2006: 83). The link between strategic marketing planning and a regional competitive advantage is so strong that the marketing strategy of development can often be defined as looking for a competitive advantage. By Vaňová (2006) "the role of strategic marketing planning in the region is to secure the efficient satisfaction of commercial and non commercial needs from the perspective view, requirements and ex-

¹ Kotler defines marketing places as "all activities to create, maintain or change attitudes and behavior to a particular location. The aim of marketing is to attract new residents, tourists and investors

to a certain city, state or country" (1982, p. 482). Hanuláková with a team of authors defined marketing places as a set of methods and tools to ensure the development of the territory and to achieve the prosperity that defines the product and prospects for location development and ensure the compliance of territorial supply and market needs. Marketing places evaluates territorial resources and contributes to the optimum utilization of the territory potential. It aims to satisfy the commercial and non-commercial needs taking into account the public interest (2004, p.10). The most comprehensive definition of marketing places is created by Vaňová. She defines marketing places as "a continuous social process that provides the possibility to influence the sustainable development of the territory more effective by building a sustainable competitive advantage, creating conformity between demand and supply of the territory at the market by using the specific marketing methods and tools. The process aims to minimize the risks of the territory associated with its entering to the market and maximize its social benefit in accepting its social role" (2006, p 36).

pectations of current and potential customers of the region, and the valuing up and optimal utilising its potential. At the same time, it must take into account the possible changes in the market, and in the external and competitive environment, to promote the region on the market through sustainable competitive advantage, with respecting the public interest".

3. Methodology and research results

The basis of our research is the assumption that competent persons and authorities at the regional level, do not enough deal with the issue of competitive advantage in region, its identification and use, respectively they do not pay attention to it at all. In our opinion, this is due to the fact that the issue of competitive advantage at the regional level is not processed in the literature in detail and there is not a comprehensive methodological approach focused on identification and exploitation of competitive advantage in the region. We assume that the summary and enrichment of knowledge in this area and developing a methodological procedure for the identification and exploitation of competitive advantage can be a sign of possible change in this unfavourable situation.

3.1. Methodology

The first part of the primary research has focused on theoretical knowledge of competitive advantage and its determinants. We chose the method of interview in the survey form conducted by the Delphi method in one round. The questionnaire included eight closed, mixed and open questions. Two questions were scaling with the assessment scale. The end of the questionnaire consists of an identification of respondents (professional field). The questionnaire was distributed electronically or personally, because we engaged in the research the experts from abroad too. The aim of the questionnaire survey was to gain the expert opinions on the chosen definitions of competitive advantage, competitive advantage factors in the region and their importance, methodology for identification and exploitation of competitive advantage in terms of regions.

Through the questionnaires, we contacted the local and foreign experts to obtain expert opinions on selected theoretical knowledge of competitive advantage and its determinants. This part of primary research involved 33 experts, in the ratio of 17 domestic (52%) and 16 foreign (48%) professionals. The foreign experts include the specialists from six countries (Belgium, Czech Republic, Finland, Netherlands, Germany and USA). The sample of respondents was composed of a deliberate choice. We focused on domestic and foreign experts from academia and research institutions, which represent an expert group dealing with the issue of competitive advantage in their work. This part of the primary research involved the experts from fourteen professional fields. The fields and proportion of respondents in % illustrates the following figure.

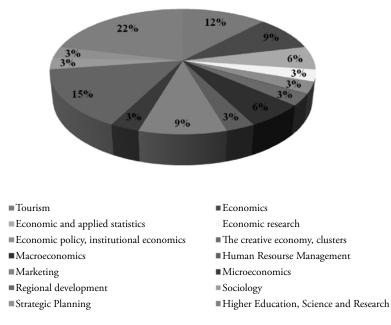


Fig.1. Proportional composition of respondents according to area of their work *Source*: Own workmanship of the primary research results.

The second part of the primary research focused on the identification and actual use of competitive advantages in terms of the Slovak regions, the factors and features of competitive advantage and the methodology for the identification and exploitation of competitive advantages at the regional level. This part of the primary research was conducted through structured interviews in all NUTS 3 regions of Slovakia in the period from October to January 2011/2012. Respondents were the expert groups including the executives and employees of departments of regional development, tourism and culture. The expert groups were set up by the heads of departments and varied in number of participating persons depending on the number of employees of each department. In all regions, we have met the professionals with the same specialisation.

3.2. Research results

In the first phase of the empirical research we target on the theoretical and practical knowledge about the methodological approach of identification and utilization of competitive advantage on the regional level. The questionnaire survey was designed to determine whether experts met in theory or in practice with the methodological approach of identification or utilization of competitive advantages in conditions of regions. Next figure shows their answers:

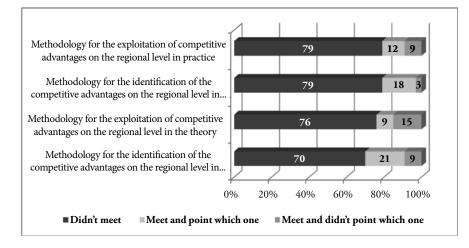


Fig.2. Methodology for identification and exploitation of CA in theory or praxis

Source: Own workmanship according to results of empirical research.

As we can see in the figure 2, the most of the experts did not meet with any methodological approach of identification and exploitation of competitive advantage in theory nor in the praxis (from 70 to 80 %). Experts from Delphi questionnaire, who said that they met with the methodological approach for the identification and utilization of competitive advantages in terms of region, mentioned the following works:

- Constructing regional advantage - final report (Cooke *et al.* 2006);

- Team of authors Martin (2002, 2005); Boschma (2004); Kitson *et. al.* (2004) who deal with issue of regional competitive advantage;

- Regional competitiveness index (Annoni, Kozovska 2010),

- Monitoring the competitiveness in tourism and tourism competitiveness index TTCI;

- Analysis of competition within the strategic mar-

keting planning (Vaňová 2006).

We study all these approaches and we use them in proposing methodological approach of identification and exploitation of competitive advantage on the regional level.

The second phase of the research was focused on the use of competitive advantage and methodical way of identification and exploitation of competitive advantage in terms of Slovak regions. The competitive advantage is viewed as important for regional development by 100 % of respondents in the expert groups. The expert groups in all regions agreed that competitive advantage is important for the development of tourism in the region, as does the region attractive to tourists. The expert group also agreed that the existence and proper use of competitive advantages can contribute to the overall development of the region. The benefits of competitive advantage are perceived in terms of development and use of cultural and historical potential of the regions, but also in the field of cultural and historical heritage. Several expert groups think that on the real competitive advantage can be built overall development of the region. In the empirical research we investigated the use of competitive advantage in the Slovak Republic. The results showed the following figure.

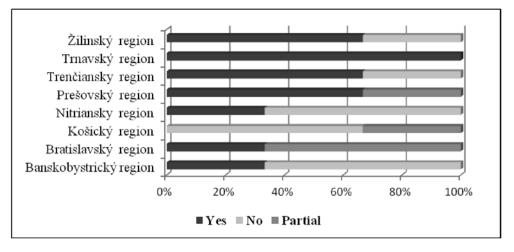
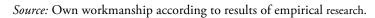


Fig.3. Exploitation of the competitive advantage on the regional level



Overall, only 50 % of respondents in the expert group said they used competitive advantage in their region. 33 % of respondents said that in their region, their competitive advantage is not used and 17 % of respondents think that their region uses a competitive advantage only partially. The causes of insufficient exploitation of competitive advantage are nearly identical in expert groups in regions. They see as reason of insufficient exploitation of competitive advantage an absence of a methodological approach for the identification and exploitation of competitive advantage, lack of financial resources and their inefficient redistribution, disinterest of regional governments to pay attention to this issue comprehensively and also the problem with correct identifying competitive advantages within the region. Based on the results of empirical research and knowledge available to domestic and foreign authors we have proposed a methodology for the identification and exploitation of competitive advantage in conditions of regional government.

Conclusions

By proposing the methodology for identification and exploitation of competitive advantage in terms of the region we appear from the available theoretical knowledge and available approaches to identification and exploitation of competitive advantage in various levels (enterprises, nations etc.). We applied that knowledge by analogy to conditions of regions and link them with aim to develop a comprehensive methodology for identification and utilization of competitive advantages in terms of regions. We also tried to incorporate comments and suggestions of experts and respondents which we have gained during the implementation of empirical research.

The first step in the process of identification and exploitation of competitive advantage is to identify a unique competitive advantage, or potential competitive advantage, if it is not possible to identify it clearly in region. In its identifying the stakeholders should understand the competitive advantage as a special, unique and exceptional quality, ability, or characteristic, which represents a value for the customers of the region (residents, tourists, businessmen, investors, etc.). This specific, unique and exceptional quality, ability or characteristic can be identified in the form of significant benefits to the region and contribute to the better position of the region in the market compared to competing regions. To identify a competitive advantage is possible through analyzing internal and external environment of the region, market analysis and competition analysis. In this process, the SWOT analysis can be helpful, mainly the strengths of the region. SWOT analysis is based on the evaluation of the internal environment in the form of strengths and weaknesses and the external environment, which identify the opportunities and threats. The purpose of SWOT analysis by Vaňová (2006) is "to gain information necessary for the strategic decisions aimed at satisfying needs of all selected market segments and pre-determine the potential competitive advantage or more competitive advantages of the region". We recommend that the items of SWOT analysis should be arranged in order of importance to identify which strengths are the strongest and thus represent a competitive advantage, or benefit, with the potential to become real competitive advantage. We recommend also evaluating the results of SWOT analysis. According to Vaňová, by this process is possible "to identify the factors of external environment that can positively or negatively affect the strengths and weaknesses of the region in case that problem areas are not predicted." In the process of identifying competitive advantages it is important to respect the features of competitive advantage. It is a uniqueness, sustainability and profitability. Competitive advantage should be in compliance with market needs and external environment. Competitive advantage is created in terms of imperfect competition. Strengths within the SWOT analysis of the region can be identified as a competitive advantage through the TOWS matrix (TOWS matrix means the synthesis of SWOT analysis) if they meet the above mentioned attributes and definition of competitive advantage. The basis of this synthesis is the evaluation of individual items in the form of points in the predetermined range in the SWOT analysis. Points are assigned according to the importance of individual characteristics, which should be obtained objectively e.g. through market surveys market, comparison with the competitors (Vaňová 2006).

The second step is to identify a type of competitive advantage, which is located in the region. The next use of the competitive advantage will depend on the type of competitive advantage and strategy that the region chose for its exploitation. The third step is to select an appropriate strategy through which will the region utilize the competitive advantage. The region can achieve market-based competitive advantage; competitive advantage based on resources or creates new competitive advantage.

A market-based competitive advantage in the region is focuses on cost or differentiation. In identifying market-based competitive advantage should be taken into account that this kind of competitive advantage is greatly influenced by the external environment (opportunities and threats). By this approach, for sustainability of the competitive advantage it is necessary to innovate constantly, improve and move the target of the region.

The first kind of market-based competitive advantage is low cost competitive advantage. Region reaches this competitive advantage if it is able to provide its customers with greater or equal value of the total product, or partial products at a lower price than competing regions. If the region has this type of competitive advantage, then needs to choose an appropriate strategy. In the case of competitive advantage of low costs, region can choose strategy of price leadership. It aims to attract to the region as many customers (residents, investors, tourists, and companies) as is possible and get the largest share of target markets. The conditions for the strategy implementation are sensitivity of target market segments to changes of prices and inability to imitate low prices by competition.

The second kind of market-based competitive advantage is the competitive advantage of differentiation. The competitive advantage of differentiation means that the region will provide a product or partial product/products, which are unique for customers, target segment. Due to the uniqueness of this type of product the customer accepts a higher price, which is given by unique supply. The competitive advantage of differentiation in terms of region, we understand as the specific or unique feature, which has a territory of the region at the level of product or sub-products and the unique feature (the ability, character) gives consumers a higher value compared to competing regions. In the case that the region has an advantage of differentiation, it should choose for its further utilization one of differentiation strategies. The choice of this strategy and its successful implementation in the region is possible in the terms: the region offers a unique product or partial product (s); the region meets the different needs of customers; the region must be able to adapt to market needs; competition of the region focuses on all segments of the market. The region may choose in the strategy of differentiation whether to focus on all target segments (undifferentiated strategy of differentiation), or choose just one or only a few target segments (differentiation strategy). Usually the costs are higher in undifferentiated strategy, but the higher is also efficiency of segment's response (Vaňová 2006).

The advantage of differentiation strategy applied to regional conditions is that the name of the region is also the brand. If the region has a good image, the region's customers are less sensitive to price changes. As a positive fact can be taken that in the case of customer's satisfaction, they like to come back to the area which creates customer loyalty to the region, which significantly limits the entry of new competitors to the territory. The disadvantage is in the case of the competitive advantages of low cost the risk that competitive region will be able to imitate this competitive advantage (Vaňová 2006).

The competitive advantage of the region based on the resources we will understand as a specific characteristic of the region, unique preferential or extraordinary ability in the quality or quantity or how to use potential of the region and its resources, which has the region over their competitors and allowing to realize greater value than achieved the competition in the same market. The higher value is based on the efficient use of resources which has the region and ensures a certain advantage over competitors by owning unique resources which can not be imitate, or that resources in the region are used in a unique way.

The competitive advantages of the region based on marketing approach, especially marketing of territories, we understand as the significant advantage of a specific preference, exceptional ability in quality or quantity, or how to use potential of the region, which has the region over its competitors and which enables region to realize greater value than achieved competition in the same market (West *et. al.* 2010).

Knowledge and proper use of competitive advantage is an assumption for success of the region in the market. Competitive advantage is the result of strategic management. Competitive advantage results from a specific and unique characteristic of the region, from choosing of markets and from the way of using regional potential. Specific, exceptional feature of the region is understood as a unique priority to the region, enabling it to achieve better results than its competitors. These may include attributes such as curiosity (something that differ the region in the opinion of customers from other areas), uniqueness (something difficult to imitate or to achieve) and utility (something that means for customers benefit).

If the region does not reach any of the above competitive advantages then can construct new advantage. This is a specific type of regional advantage, which is based on a knowledge economy and requires the interconnection of economy, government, infrastructure, knowledge, and culture (Etzkowitz, Leydesdorff 2000). In the theory of constructed advantage, instead of solving market failures, policy interventions aimed at reducing the interaction and interconnection among deficits. An approach of regional innovation systems as a key approach for the created benefit, just sees deficits as the main problem of innovation in the European Union. Regional advantage should be consciously and actively driven (constructed). This requires a new, more dynamic role for the public sector and the wider system of economic management, particularly in terms of cooperation with the private sector (Skokan, Rumpel 2007). It is necessary to consider whether the region has the necessary capacity and facilities for such treatment. If the region decides that it is going to build new competitive advantage, it should consider the following actions and recommendations developed by scientists and economists, led by Cooke (2006). For applying this approach, in the region has to operate a number of agencies that should act as carriers of the policies needed to create new regional benefits. This approach emphasizes the importance of competence on the local level (including people, business environment and the regional knowledge infrastructure), small and medium enterprises (mainly technology oriented businesses), government and its activities in building regional innovation systems as a creative and knowledge-based environment. This stresses the need for proactive and systematic approach to innovation based regional policy. To construct a regional advantage requires systematic approach to developing the internal capacity of enterprises and regions which are able to innovate. These highlights the role of knowledge creation, dissemination and its exploitation, well structured and well designed system of science and research as well as the interplay of global and local flows of knowledge. Regional innovation systems are playing and will continue to play a strategic role in promoting innovation and competitiveness of regions. This approach also emphasizes the role and importance of cooperation between industry, universities and government with aim to develop and support creative environment.

After identifying a particular type of competitive advantage it is necessary to choose an appropriate strategy for utilization and building of competitive advantage. This strategy should be consistent with other planning and strategic documents, with the vision and objectives of regional development. Finally, the chosen strategy should be implemented together with associated arrangements and activities. It is necessary to provide control and evaluation of the whole process. The following figure shows our proposed methodology for the identification and exploitation of competitive advantage in terms of regions.

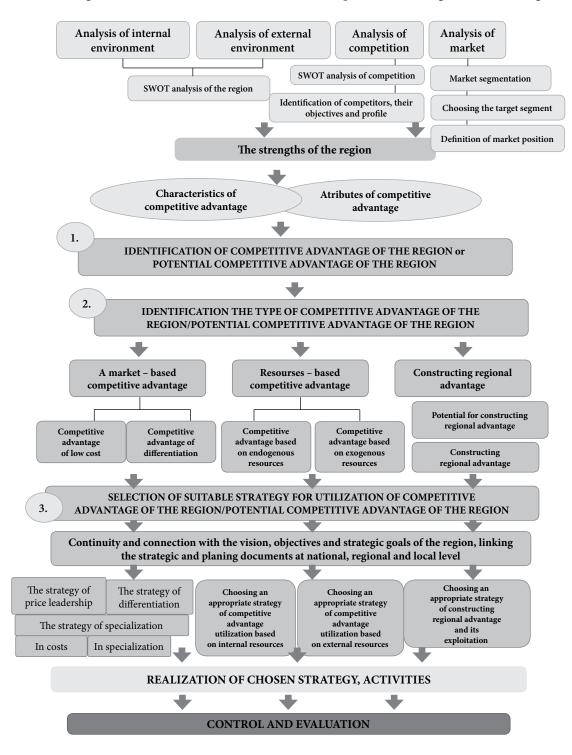


Fig.4. Methodological approach of identification and utilization of competitive advantage in conditions of regions

Source: Own workmanship.

Our suggested methodology (Fig. 4) for the identification and exploitation of competitive advantage in terms of the region is based on the available theoretical and practical knowledge of competitive advantage. In the development process, we also took into account the results of primary research and we tried to incorporate all relevant recommendations gained from primary research in the Slovak regions. We consider this methodological approach useful not only in theory but especially in the practice. We have provided it to regional authorities and we are planning to deal with this issue in the future and to continue exploring the application of this approach into practice.

We consider this topic as extremely actual and through the correct identification and exploitation of regional competitive advantage we see the possible way for solving regional development issues, for example regional disparities. This approach should be also helpful by solving impacts of financial and economic crisis.

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