

Productivity and Competitiveness of GEA Member Companies

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The Concept of Competitiveness and Productivity

Competitiveness has various definitions:

- *The ability of a country to achieve sustained high rates of growth in GDP per capita.* (World Economic Forum)
- *Competitiveness is the degree to which a nation can, under free trade and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long-term.* (OECD)
- *National competitiveness refers to a country's ability to create, produce, distribute and/or service products in international trade while earning rising returns on its resources.* (Scott, B. R. and Lodge, G. C., "US Competitiveness in the World Economy")

The concept of competitiveness

Competitiveness as a multipronged category can be considered on several levels:

- ✓ companies
- ✓ industries
- ✓ institutions
- ✓ policies and countries

All of those standing in close relation to each other, as competitiveness of a country and its industries ultimately depend on competitiveness of companies.



The Concept of Systemic Competitiveness

The national competitiveness may be defined as the degree to which a nation can, under free and fair market conditions, produce goods and services that meet the test of international markets

The modern concept distinguishes between four levels:

- *The Meta level* of slow variables like socio-cultural structures, the basic order and orientation of the economy, and the capacity of social actors to formulate strategies
- *The Macro level* of generic economic conditions,
- *The Meso level* of specific policies and institutions,
- *The Micro level* of the firm and inter-firm networks,

The concept of systemic competitiveness

The *Systemic Competitiveness* is a pattern in which state and social actors create the conditions needed to develop competitiveness

The key ingredients of successful industrial development are:

At the *Meta* level:

- ✓ the ability of social actors to jointly formulate visions and strategies and to implement policies
- ✓ a basic consensus on the necessity of industrial development and a competitive integration into the world market

At the *Macro* level:

- a stable and predictable macroeconomic framework.

The concept of systemic competitiveness

At the *Meso* level:

specific policies and institutions to create competitive advantages. Many of the institutions that act at the meso level are typically, or can in principle be, nongovernmental entities, e.g. business associations, nonprofit entities, or firms.

At the *Micro* level:

Wealth is actually created in the microeconomic level of the economy, rooted in the sophistication of company strategies and operating practices as well as in the quality of the microeconomic business environment in which a nation's firms compete.



The concept of Productivity

- *Productivity* is the efficient and effective use of resources-labor, capital, land, materials, energy, time, information-in the production of goods and services. As an efficiency measure, high productivity implies that production inputs are fully utilized and that waste is minimized.
- National prosperity is strongly affected by competitiveness, which is the productivity with which a nation uses its human, capital, and natural resources.
- The success of productivity factor in Georgia depends on how local economy and firms learn the issue. The important element of a competitiveness strategy for Georgia is to expand exports and FDI.

Current status of Georgian economy

The data of share of Georgian economy in global economy(GDP, 2004)

- ***World Total: \$40, 887,009,837,000.0***
- #67 Bulgaria \$24,131,000,000.0
- #71 Lithuania \$22,263,000,000.0
- #72 Lebanon \$21,768,000,000.0
- #87 Latvia \$13,629,000,000.0
- #95 Estonia \$10,808,000,000.0
- #100 Azerbaijan \$8,523,000,000.0
- #132 Armenia \$3,549,000,000.00

- ***# 122 Georgia-\$ 5, 091,000.000.0 --- 0,001 % of global GDP***
- ***In 2005 - \$ 6,401***
- ***In 2006 - \$7, 669***

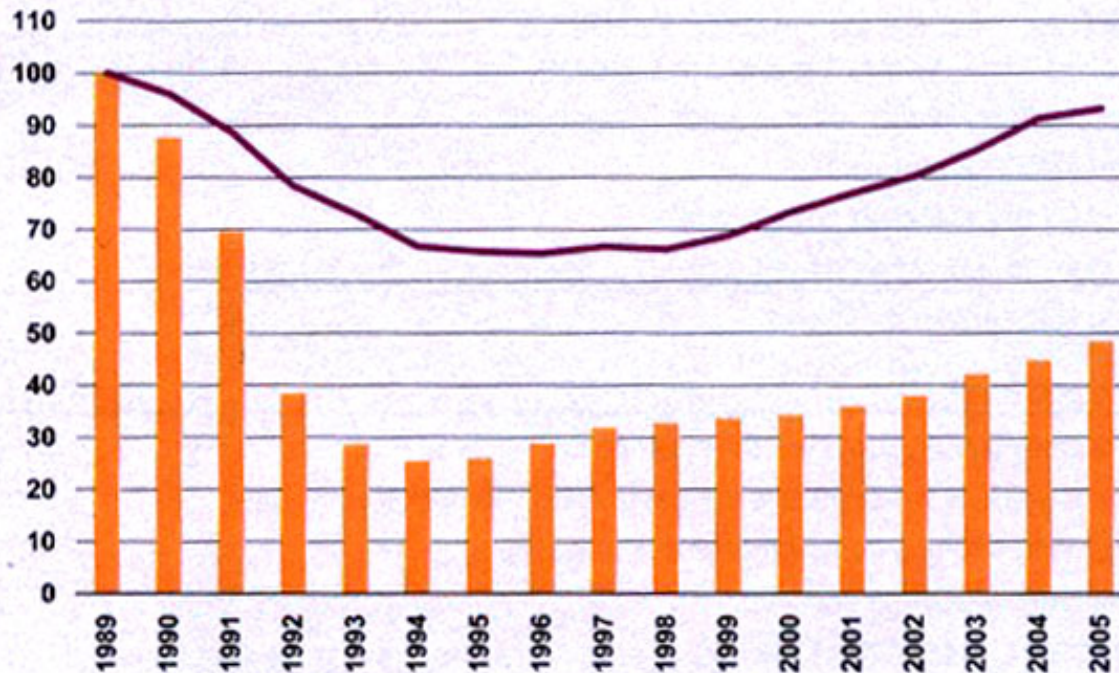


Status of Georgian economy

Contraction of economic system during last 15 years

Real GDP (1989=100)

■ Georgia — Average, transition countries



The objectives of the survey

- To Analyze of awareness and implementation by the GEA member companies Competitiveness and Productivity instruments.
- Produce recommendations on actions required to raise competitiveness of GEA Member Companies

Analysis is done through following variables:

- Productivity strategy and techniques
- Measurement of productivity
- Human Resources Productivity
- Labor productivity
- Innovations and Technologies
- Marketing
- Financial Performance, access to credit resources

Survey Samples

Based on the survey objectives, the sample size was defined as 65 respondents.

Legal forms of questioned companies

	Small Enterprise	Medium Enterprise	Large Enterprise
Sole Proprietorship	50%	33,3%	
General Partnership		16,7%	
Limited Liability Companies	40%	41,7%	63,2%
Joint-Stock Companies	10%	8,3%	36,8%

Productivity Strategy and Techniques

The research revealed that questioned companies mainly apply to two different strategies:

- The incremental, continuous strategy is reflected in KAIZEN concept, developed in Japan.
- The "Quantum Leap" strategy.

The incremental strategy that involves making continuous small improvements is more widely referred to by Georgian companies - 62.4% :

- ✓ Incremental strategy requires little or no investment
- ✓ It involves all employees in making improvements and providing structured opportunities, systems and tools for increasing productivity.

The "Quantum Leap" improvements are considered as dramatic breakthroughs in performance-it requires important technologic and other type investment requiring much more efforts and costs than the incremental, continuous strategy.

“Quantum Leap” strategy is mostly applied to by prominent and developed companies - (37.6%)

Measurement of productivity

We were interested in:

- How much the existing measurement system is understood and trusted by management and employees?
- Are all business activities and profiles included in the measurement?
- Do measurement results provide clear signals for managerial decisions and actions in improving profitability



Measurement of productivity

Total productivity measurement in Georgian companies includes the following parameters:

- *customer-related measures* such as timely deliveries, repeat orders, response time to enquiries and complaints, warranties
- *operations-related measures* such as inventories, cycle time to design and manufacturing, waste, rejects, pollutants, housekeeping, safety conditions, downtime
- *employee-related measures* such as skills and education level, satisfaction, absenteeism, accidents, training costs and impact, turnover, health and fitness, recruitment time and expense, incentives and rewards as a percentage of wages
- *business-related measures* such as market share, profits
- *improvement-and process-related measures* such as process cycle time, actual work time, technology development, contribution of improvements, new products and services, innovations, value creation

Human Resources Productivity

Enterprise management's modern conception considers human resources and their management as the basic factor for future production increase

It should be noted that growth of personnel are as follows:

- ✓ Small companies – 39.2%
- ✓ Medium companies – 23.5%
- ✓ Large companies – 37.3



Human Resources Productivity

According to survey human resources are mostly valued by companies specialized on finances, informational technologies, communication.

Companies' annual expenditure on human resources development

Investmet	Small enterprises	Medium enterprises	Large enterprises	Total
Do not spend anything	75%	46.4%	5.3%	43.1%
Up to GEL 500	25.0%	36.3%	21.1%	25.5%
From GEL 500 to 1000	–	17.3%	42.1%	19.6%
From GEL 1000 to 3000	-	-	10,5%	3,9%
From 3000 to 5000	-	-	5,3%	2,0%
From GEL 5000 and more	-	-	15,7%	5,9%

Labour Productivity

Labor productivity is one of the significant factors of productivity growth

Companies measure labor productivity mainly by two factors:

- Production/service worked out in time unit
- Production/service according to required work volume

Most widespread is the method of production produced in the time unit, used by 58.9% of companies



Labour Productivity per employee, 2004

Economic Sectors	Medium enterprises		Large enterprises	
	DS	Study	DS	Study
Agriculture	3006	3145	3051	3000
Industry	12432	12678	9453	9284
Construction	11662	11745	9782	9621
Trade	8295	8378	3114	3396
Transport and communications	7798	7458	7622	7496
Tourism, hotels, restaurants	8014	7958	5398	5123

Innovations and Technologies

The research examined entrepreneurs attitude towards innovations in connection with productivity and competitiveness.

Companies are divided into three categories:

- ✓ Companies applying to innovations - 8%
- ✓ Companies partly applying to innovations - 37%
- ✓ Companies do not applying to innovations - 55%

Questioned managers presented us different approaches to the process of innovations, however they distinguish three distinct stages of the innovation process:

- ✓ The concept stage in which the ideas are found: the stage of “invention “and free creativity.
- ✓ The development stage in which ideas are transformed into projects.
- ✓ The introduction stages in which projects are turned into new business.

Innovations and Technologies

- Mostly large and developed companies can afford to apply to innovations, possessing relevant financial resources
- The other companies, partly applying to the innovations, are mostly medium sized. Most of them (65%) changing old and absorbed technologies by new or working ones consider as innovations
- The third category of the companies think that innovations is not their primary task as it is connected with additional costs they do not have



Marketing

Market Distribution of Sales

	Small enterprise	Medium enterprise	Large enterprise	Total
Internal	85.0%	66.7%	57.9%	70.6%
Foreign	15.0%	33.3%	42.1%	29.4%
Total	100.0%	100.0%	100.0%	100.0%

Marketing

- The share of product/services provided by companies differs by markets
- Large companies express their interest to local market alongside to foreign markets
- The important part of the export products are the goods with low added value
- of Georgian companies are missing the opportunities granted by EU in export activities(*New GSP+ scheme*)



Finances

The study paid increased attention to following variables:

- *Practice of Budgeting in companies*
- *Access to credit resources*

- ✓ Annual Budgeting is important constituent part of a company's financial policy. As the research showed, forecast of 1 year expenditure are made by 21.3% of companies. The rest do not plan costs at all.

This index increases with the size of a company. If only 10.0% of small firms' representatives said they plan budget of expenditures, the same percentage among medium enterprises is 18.2% and 35.6% among big enterprises.

Thus, annual budgeting is much more favored by large companies.

- ✓ Inadequate financial base is the reason of major problems for Georgian small and medium companies.

Conclusions

- The research conducted by GEA emphasized the existing constraints in regards to awareness and appliance by member companies of Productivity and Competitiveness concepts and techniques
- The research results highlighted the motives of low productivity of Georgian companies:



Conclusions

- *Insufficient financing*
- *Low level of capitalization*
- *Low level Technologies*
- *Low spending on R&D*
- *Low capacity for innovation*
- *Non –predictability of business environment*

- *Inability to pay for staff training*
- *Unimpressive penetration in international markets*
- *Insufficient extent of Branding*
- *Complexity of Legal framework*
- *public servants that are scared*

Recommendations

Meta Level:

- Create an explicit, ongoing process of economic change and competitive upgrading which informs citizens and mobilizes the private sector, government at all levels, educational and other institutions and civil society.
- It is important to achieve common will in the society to set up model of long-term economic development strategy



Recommendations

Macro Level

It has an utmost importance to elaborate valid model of macroeconomic development that would be acceptable for leading social groups in Georgia as well as for Government and international financial institutions

- Establish a stable macroeconomic and legal environment
- Strengthen domestic financial markets:
 - Ability to finance start-ups
 - Ability to finance SMEs
 - Ease to access to loans
 - Venture capital availability
- Improve physical infrastructure

Recommendations

Meso level

- It's necessary to conceptualize special policy and build institutions that help industries and create competitive advantages:
- Network with technical and management institutions to develop productivity modules in educational and training curricula.
- Initiate exploratory studies on productivity and productivity measurement in various sectors of the economy.
- Prepare a productivity measurement trainer of trainers' training program that includes a measurement toolkit.
- Cooperate with government to set up National Productivity Strategy.



Recommendations

Micro level:

Productivity should find a prominent place in the business mission and corporate policy:

- importance and philosophy of productivity improvement;
- commitment and role of top managers;
- creation of a conducive environment;
- role of employees;
- principle of gain sharing;
- meaning of productivity, customer satisfaction, conservation of resources;
- organization structure for productivity improvement;

Recommendations

Micro level

- To improve competition at micro-level Georgian companies have to implement focused actions on various factors: capital productivity, human resources productivity, improvement of quality management and etc
- Technology, business processes, customer focus and waste reduction are the basic areas to be considered for improvement
- Productivity must be improved continuously through small-step incremental improvements (KAIZENS) and quantum jump improvements (breakthroughs) which complement each other.



GEA role to improve competitiveness

- Innovations and Competitiveness Center
- Personnel Provision Service
- Contribute to transition from factor-driven to investment driven economy through transformation of companies strategies
- Assistance for companies to provide competitive advantage through operational effectiveness and strategic positioning



Georgia's Current malaise

- Highest unemployment
- 80-90's Economic downturn
- Uncertainty of future economic relationship to Russia



Georgia's economic challenges

- Making the transition from factor-driven to investment –driven economy
- Addressing traditional weaknesses as high unemployment and low levels of technologies and of FDI



Competitiveness and Productivity of GEA member companies

Thank you

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