THE COMPETITIVE ADVANTAGES OF SMALL AND MEDIUM ENTERPRISES

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The changes in the competitive environment determined the small and medium enterprises to identify new ways to satisfy their clients and to offer them constantly value in a way much more efficient than their competitors. In order to gain competitive advantage, the firms must choose the type of competitive advantage that she is trying to obtain and the field in which she will obtain it. The choice for the competitive field or for the activities of the firm can play an important role in determining the competitive advantage because the firm aims to establish a profitable and sustainable position against the forces that determine the competition in its field of activity. The survival of small and medium enterprises in a highly globalized and competitive environment suggests that these firms have different competences and they use them efficiently.

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1. Small and Medium Enterprises situation and competitive advantage

The changes in the competitive environment determined the small and medium enterprises to identify new ways to satisfy their clients and to offer them constantly value in a way much more efficient than their competitors. In order to achieve these they must be competitive that is to have the capacity to increase their income by raising their sales and / or profit margins on the market they are operating on so they can protect their positions in the next competitive rounds as their products and processes evolve.

According to the European Union classification the small enterprises represent those firms that have less than 50 employees and maximum ten millions Euros revenues; the medium enterprises represent those firms that have less than 250 employees and maximum fifty millions Euros revenues.

OECD (Organisation for Economic Co-operation and Development), in its report regarding Small and Medium Enterprises presented some of their characteristics:

• Small and Medium Enterprises represent a large part of the economic sector
  • Small and Medium Enterprises will continue to represent a large part of the economic sector and will generate most of the profit. Even so the sector of Small and Medium Enterprises is characterized by highly dynamism and a powerful entrepreneurial activity, it must be kept in mind that many of them are small mature enterprises that serve the local market, many of them struggling to remain competitive.

• Small and Medium Enterprises represent an important source of innovations
  • According to the last researches approximately 30-60% from the small and medium enterprises from the production sector from OCDE countries can be characterized as innovative. Smaller firms tend to be more and more innovative, engaging step by step in efforts for research and development and innovation in fields related to commercialization of
the existing technologies, creation of products and services and the implementation of the
dependencies, agility to answer quickly to
the technological changes and customers needs. However, can experience problems in
acquiring the resources needed to answer to the rapid changes; some of them solved this
problem by joining to the cooperation networks in order to improve their innovative
capabilities.

- **In a global market small and medium enterprises are internationalizing progressive**
  - In a global market, the internationalization is vital for small and medium enterprises.
    Although many of them continue to focus on local market, an important part of them are
    becoming international and have to design products and services for international market.
    Market liberalization and deregulations, which contribute to the global trend of restructuring,
    are exposing small and medium enterprises to a powerful international competition making
    them to substantially cut the costs. Further more, the increasing of the technological
    complexity and higher costs related to research and developments are forcing the smaller
    firms to search for the connections and alliances on the global level. Such arrangements are
    including partnerships in international strategic alliances, participation (active or as a target)
    to the international mergers and acquisition; acting as a specialized supplier for the
    multinational corporations; involvement in the globalized networks informal and/or
    electronic.

Many small and medium enterprises are not ready for participating to this type of business connections
and need assistance to access strategic information and technology, especially IT&C; many small and medium
enterprises are also lacking of proper managerial capabilities and well trained employees in order to face
the challenges of the global market.

In final years the concept of competitive advantage started to occupy the central place in the firms’
strategies. Firms learned to speak more and more about the notion of competitive advantage like something
they must have.

In order to gain competitive advantage, the firms must choose the type of competitive advantage that she is
trying to obtain and the field in which she will obtain it. The choice for the competitive field or for the
activities of the firm can play an important role in determining the competitive advantage because the firm
aims to establish a profitable and sustainable position against the forces that determine the competition in
its field of activity.

Once gained, the competitive advantages can be eroded, can be copied or counterattacked by competitors,
therefore for a company is important to gain these advantages, but more important is keeping them over
vast periods of time, allowing the firm to situate itself in front of the competition for a long time. A
competitive advantage can be born by implementing a strategy of value creation that hadn’t been
implemented before by other competitors or can be born by realizing the same strategies by competitors,
but in a superior way. Maintaining the competitive advantages over long periods of time transform them in
strategic or sustainable competitive advantages.

In order to maintain their strategic competitive advantages firms must to constantly offer superior value for
their clients. The strategic competitive advantage allows for a firm to maintain and improve its competitive
position on the market. It represents that element that allows firm to survive for a long time in front of the
competition.

The base of the long term success of a firm is made by the obtaining and maintaining the strategic
competitive advantage. That is why the key element in strategic marketing is represented by the
identification of the resources and firm’s behavior that can lead to strategic competitive advantage.

### 2. The sources of obtaining competitive advantage

The sources of the strategic competitive advantages can be found in three categories: the first category
contain the competitive advantages seen from the point of view of the industry structure, being enounced
by Michael Porter. The second category is based on the resources and the third category is based on
relationships.

So, in the vision of Michael Porter the five competitive forces which influence the firm’s activity and
which put pressure on it, are: the threat coming from the new firms entered on the market; the intensity of
the current competition; the pressure from the replacement products; the negotiation power of the buyers; the negotiation power of the suppliers.

The resource based perspective it is based on exploring strong and weak points of the competition in order to identify the causes for a potential strategic competitive advantage. Barney defines the firms’ resources as it follow: “the firm’s resources gather all the goods, abilities, organizational process, firms’ attributes, information, knowledge etc. controlled by a firm which allow it to conceive and implement strategies that are improving its effective power and efficiency”.

The third perspective, the relationship one includes the relations between the firms as a rare, valuable and hard to imitate resource which can be a source of competitive advantage. Firms are participating to various business relationships, over their life cycle, together with the customers, clients, partners and competitors. Unavoidable the firm’s performance will be influenced positively or negatively by the business and by the entire network of relations established.

Systematically, the sources of obtaining strategic competitive advantages can be divided in:

- **Characteristic capabilities.** The strategic competitive advantage is obtained by constant development of new capabilities and resources as a response to rapid changes of the market. Among these resources and capabilities, the knowledge represents the most valuable asset.

- **Human resources.** In the modern economy, the competition is a matter of goods and services. A factor that can differentiate an organization by its competitors, producers of goods or services from public or private sector, is represented by its employees that is the way the firm administrates and use its human resources.

- **Radical innovation.** The firm’s long term success is related to its capacity of innovation. The firms’ investments in products and processes improvement are leading to profit, but the radical innovation is one that will lead the firm on new markets.

- **The externalization of the competitive advantage sources.** Recently, the attention of the researches moved from analyzing the firm alone toward analyzing its supply chain as a whole unit for gaining competitive advantage. The success key for Toyota seems to be the effective integration of the supply process which leads to improvement of the strategic management of the firm as well as the timing of the production process of the firm with the suppliers, creating the system **just-in-time**.

- **Organizational culture.** The power of the organizational culture is another competitive advantage. A firm positioned to success can built and maintain a culture oriented toward innovation, in which employees are following the cause and the mission of the organization.

- **Firm’s management.** The manager is the one shaping a group of people into a team, transforming them in a force that allows for a firm to obtain strategic competitive advantages.

- **Knowledge management.** The growth and globalization, combined with the rapidly development of the information technology had enabled firms to create sophisticate systems of knowledge management in order to create strategic competitive advantages.

- **Scale economies** represent an important quantitative factor being obtained according with the production volume, enabling to the firm to significantly reduce costs, especially the fixed ones.

- **The superior value offered to international clients.** The competitive advantages result from the firm’s ability to achieve the activities either to lower costs than their competitors either in other ways that create value for the client and allow firms to ask for a higher price.

### 3. Research on small and medium enterprises from Vâlcea County

The research on small and medium enterprises was part of the project “Identification of the small and medium enterprises’ factors determining competitiveness increasing and cluster opportunities. Methods and techniques for an European entrepreneurship”, financed by CNCSIS. It was done on 73 small and medium enterprises from various sectors. Among others problems the research was trying to establish the elements used by small and medium enterprises in order to achieve competitive advantages. The research was conducted on two ways: first, we tried to identify the elements that constitute the competitive potential from the firm point of view; second we analyzed the competitive instruments used by firms.
In the research of the elements that constitute the competitive potential from the firm point of view we used 25 elements, as it follows:

1. Possibilities of financing the current activities
2. Possibilities of financing the development from its own funds
3. Possibilities of financing the development using external means
4. The quality of production equipments
5. The advance of the production technologies
6. The flexibility of the production system
7. The technical culture of the employees
8. Research and Development spending
9. The quality of the staff involved in Research and Development
10. Possibilities to acquire modern constructions and technological solutions
11. The quality level of the management system
12. Rank given to quality assurance problems
13. Access to key resources
14. Knowledge of present and future needs of costumers
15. Knowledge of competitors
16. Rank given to marketing activities
17. Rank given to expansion on foreign markets
18. The quality of the staff involved in marketing.
19. The level of marketing spending
20. The quality of the motivational system
21. The employee attitude
22. Professional level of the team.
23. Desire to improve qualifications
24. Knowledge of the firm and its products on the market
25. Reputation (image, good recognition) of the firm

Evaluating the importance of the instrument for the firms it is interestingly to notice that in 2 of the 25 measures of the competitive potential the mean assessment of the weight exceeded 5,00, and in the weight are of bellow 3,00. The highest ranks are attributed to the following factors:

- Reputation (image, good recognition) of the firm (M=5,21),
- Knowledge of the firm and its products on the market (M=5,02),
- Knowledge of present and future needs of costumers (M=4,86),
- Knowledge of competitors (M=4,70),
- Rank given to quality assurance problems (M=4,60).

Regarding the evaluation of the situation of applying the competitive instruments compared with firms’ competitors the highest ranks were attributed to the following measures:

- Reputation (image, good recognition) of the firm (M=4,40),
- Knowledge of competitors (M=4,29),
- Knowledge of the firm and its products on the market (M=4,21),
- Rank given to quality assurance problems (M=4,02).

Attention must also be paid to the fact that the assessment of each factor of the competitive potential is bellow the weight of respective factor. Generally, it can be stated that, in opinion of the firms under study, their competitive potential looks good. Only 16 among proposed measures of the competitive potential were obtained an average score of above 3,00, which means that the firms under study are better than their average rival in those areas.
It is also significant that in 4 of the 25 factors the mean assessment of the situation exceeded 3.00, which indicated a slightly higher competitive potential than the average rivals on the markets. At the same time, we remark that the standard deviation of assessment of each factor is smaller than the standard deviation of respective factor, yet big. This fact shows that the sampling is good, since the firms work in very different terms.

For the competitive instruments used by firms, we used the followings:

1. Price
2. Quality
3. Technological advance
4. Complexity of offer
5. Packing
6. Promptness of deliveries
7. Payment terms
8. Advertising and sales promotion
9. The frequency of launching new products
10. Distribution network adapted to client
11. The range of services
12. Quality of the services
13. Price of the services
14. Warranty terms
15. The brand of the product

Analyzing the instruments of competing, the highest weights were attributed to the following instruments:

- Quality (M=4.93),
- Quality of services (M=4.58),
- Promptness of deliveries (M=4.23),
- Complexity of offer (M=4.21).

It is surprising that the launching new products were assessed as unimportant. This fact proves that the market economy is out of order.

Also, we observe that the conception of managers regarding to weight of instruments of competing diverge, since the values of standard deviation are bigger.

The evaluation of the situation of applying the competitive instruments compared with firms’ competitors show that the majority of those instruments (11 of the 15 instruments) were assessed in the interval 3.00 - 4.00. The best situation seems to be in the following areas:

- Quality (M=4.19),
- Promptness of deliveries (M=3.93),
- Quality of services (M=3.93).

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