Study on the competitiveness of Small and Medium-sized Enterprises (SMEs) in Vâlcea County

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Abstract. Small and medium-sized enterprises represent an essential economic agent, on whose activity and performance depend large segments of the population and of the economy. To study the competitiveness of SMEs were pursued issues in these areas: management of the company, marketing, strategic planning, company's products/services, labor, activity on international market. The research was based on direct interviews, conducted with managers of companies through questionnaires. Information was collected during February-March 2012, the sample consisting of 348 small and medium enterprises in Vâlcea County. The study summarizes the responses of managers on issues that characterize the company's competitiveness.

Keywords: competitiveness, small and medium enterprises, competition, market, Vâlcea County.

JEL Classification: L19, O10, L11.
REL Classification: 18B, 14A.
1. Introduction

Competitiveness is a complex concept, long debated in the worldwide specialized literature. There are noticed many ways in which there is defined competitiveness of the company, but no definition is universally accepted.

Being inseparable from the notion of competition, the concept expresses at general level, the ability of individuals, companies, economies, regions etc. to remain in the internal and/or international competition and to obtain economic benefits from it. For the company, the competitiveness concerns its ability to increase profits in market shares where it operates, context in which firms seek strategies to adapt to business environment and try to identify their competitiveness factors: improving quality standards, developing new products and production processes, adopting modern technologies etc.

As interior feature of an economic entity, the competitiveness is defined by company’s potential and occurs in relation with the environment in which it operates. Competitiveness means, essentially, “the liability and skill for market contention and the skill for position gain and permanent commitment that are indicated especially by expansion of business successfulness, market share and profitability” (Markovics, 2005).

Competitiveness is “determined by productivity, and depends on firms strategies, it is partially, the result of relationship between firms and local business environment, depends on social and economic objectives synergy and is influenced by factors from external environment” (Porter and Ketels, 2003).

Labor productivity is “one of the most important synthetic indicators of the enterprise economic activity efficiency which reflects the effectiveness or the fruitfulness of labor expended in production”, and its growth represents “the most important factor to increase output, reduce production costs and increase profitability and product competitiveness on domestic and foreign market” (Bondoc and Hagiu, 2011).

Enterprises competitiveness is “the ability to sustain a market position by supplying quality products on time and at competitive prices”. This ability is reflected by “acquiring the flexibility to respond quickly to changes in demand and by successfully managing product differentiation by building up innovative capacity and an effective marketing system” (UNCTAD, 2005).

Since the company has to face both domestic/indigenous competitors and foreign/international ones in each market where it penetrates, an analysis is needed to identify the behavior of these competitors of the company and in this context, a more accurate assessment of their potential. Clearly, the number, size and quality of competitors influence the firm's ability to enter and compete profitably in a
particular market and its competitiveness requires strengthening of its activity in a particular market, the existence of a strategy to maintain or increase market share through marketing elements which allow maximizing the strengths that distinguish it from the other competitors.

2. SMEs competitiveness

Lately, the importance of competitiveness has increased more and more both as force and magnitude. In the context in which the European Union strategic guidelines give priority to competitiveness and require the mobilization of all national and community resources, SMEs have the freedom to develop a basis of resources and to gain a competitive position, competitiveness roots being found, generally, in the environment in which they operate. In the long run, Europe, as a whole, is faced with the population decline (from 730 millions in present to 632 millions in 2050) and with an emphasized aging process (persons aged over 60 up come to have a share of 32% in 2050), problems that affect its competitiveness.

With the global economic crisis, uncompetitive firms are disappearing or are forced to undergo drastic restructuring. The current development of business environment has produced already considerable losses to the small and medium enterprises.

Within the Cohesion Policy, it is „particularly important to support SMEs in times of economic crisis. SMEs provide about two-thirds of all private sector jobs and most of jobs in creation activities. The success of the Europe 2020 Strategy for growth and jobs is critically linked to SMEs. In 2007-2013, within the Cohesion Policy were invested approximately 70 billion EUR in business support – most of this being dedicated to SMEs” (European Commission, 2012).

Small and medium-sized enterprises form „the backbone of the EU economy, because they are representing about 98.9 percent of non-financial enterprises in 2012” (Ecorys, 2012).

The latest Annual Report of the European Commission (2011/2012) emphasizes that “the best performing countries have a relatively high proportion of SMEs in high-tech and medium high-tech manufacturing and knowledge-intensive services”. It also shows that “universities have an important role in stimulating the research activity of the knowledge-intensive and high-tech SMEs and creation of a bridge between the public-sector research and the business world”.

Regarding the company's competitiveness strategy, it configures the reorganization of the firm's portfolio of foreign markets. In light of this, “the firm will always look to concentrate on those markets that allow gaining and maintain
its competitive advantages. These competitive advantages allow firms to maintain the gained market position and to have a solid foundation in the competitive battle” (Ciochină et al., 2011).

Competitiveness strategy is characterized by the following instruments: “price; quality; technological advance; complexity of the offer; packaging; timeliness of deliveries; terms of payment; advertising and sales’ promotion; frequency of launching new products; distribution network adapted to client; range of services; quality of services; price of services; terms of warranty; brand of product” (Nisipeanu, 2013).

„The challenge of the 21st century for SMEs is global competitiveness”, which means that „customers need to be provided with constant and reliable products and services having a recognized quality, while the market environment is characterized by global competition. SMEs are able to cope with the global challenge only if they are carrying out reliable, balanced and high-standard operations within their businesses” (Kadocs and Borbás, 2010).

Development of SMEs requires a determined effort to reduce the gap between their productivity and the productivity of large companies. In this context, it is indicated “to move forward in four interrelated areas of support: innovation to strengthen productive and managerial capacities, market access, production linkages and cooperation between companies and access to financing for implementing the first three policy areas. Along with the identification of the priorities, it is necessary also the consensus of public and private powers and responsibilities that must oversee the defining and the implementation of the policies. It is extremely important that the institutional system to respond to the characteristics and level of development of the country” (Bárcena et al., 2013).

„The external environment’s influence on SMEs is very strong. The world is changing, the environment is more uncertain, the competition is strong, and the protective regulations are more restrictive. All this require rapid, efficient and effective answers. Firm’s competitiveness must be shown like a part of territorial, local competitiveness. Economic development is a cooperation process between government, local administration, firms, research institutes and education” (Bibu et al., 2009).

“Governments are responsible for establishing an environment that contributes to the competitiveness of SMEs. This can result in policies that reinforce commercial environment. Policies that encourage the development of SMEs include: consulting services for business insurance, the simplification of the registrations and other legal processes, implementation of a favorable income tax, implementation of a favorable trade policy, support linkages between SMEs and the large companies, ensuring the SMEs’ funding” (Uden, 2007).
Into another paper (Mandl and Dorr, 2007) there are studied the implications of corporate social responsibility (understood as “voluntary initiatives of private or public organizations going beyond legislative requirements and contractual obligations for the benefit of one or several specific target groups while, at the same time, not disadvantaging other groups) over the SMEs’ competitiveness. The report shows that corporate social responsibility (CSR) “positively contributes to SMEs’ competitiveness as it leads to a competitive advantage, particularly by improving the company’s image, increasing its customers’ loyalty and stimulating the employees’ motivation and workplace satisfaction. Nowadays, SMEs do not take full advantage of the economic potential inherent in CSR”.

In order to study the competitiveness of regions or states, composite indices are calculated. In a recent paper (IRECSON, 2012), in order to assess the competitiveness of the regions of our country, there were calculated the competitiveness indices of those regions based on the analysis of 171 indicators.

When we talk about the firms’ competitiveness, particularly the SMEs, things are different. We cannot measure competitiveness based on a set of indicators because this complex concept involves a lot of aspects that can be measurable only partially or not at all. Also, even if we consider certain indicators for which we have the values, aggregating them (in a certain way), we obtain a value that does not tell us much, since we must consider that the company acts on several markets where it competes with other companies.

3. Research methodology

The research method was based on direct interviews with managers of companies using questionnaires containing questions from the following sections:

- Management of the company;
- Marketing;
- Strategic planning;
- Products/services of the firm;
- Labor;
- Activity on international market.

Data collection was performed on a sample of 348 small and medium enterprises from Vâlcea County, during February-March 2012. The general collectivity surveyed was represented by the small and medium companies, active (with at least one employee), in Vâlcea County, accounting for 5374.

The study has the following objectives related to the firm’s competitiveness: knowledge of the extent to which the owner/owners of the company provides the management; knowledge level of training and experience in leading positions of
the company’s manager (management of the firm); determining the percentage of the firms which have a marketing department in all SMEs, knowledge of the extent to which firms perform marketing research, identification of information sources of the company related to: market conditions, competitors, the change in the structure of consumers segments, in the external environment of the company (marketing); determining the percentage of firms that have a business plan, determining the percentage of firms that have a strategic plan (strategic planning); knowledge of company’s satisfaction level related to the current level of its range of products/services, determining the percentage of firms that have a research and development department (products/services of the company), determining the share of firms that have problems in finding employees, determining the percentage of firms which are training the personnel (labor); determining the exporting firms’ percentage in all SMEs, identifying the main problems faced by exporters, identification of information sources about foreign market development (activity on international market).

The main hypotheses tested were: most managers are the business owners, the vast majority of managers graduated an institute of higher education, most SMEs don’t have a marketing department or they’ve been having it for no more than 5 years, most companies do not perform marketing research (in their own department or with help of a specialized company), most firms have a business plan, most companies develop a strategic plan, most SMEs’ managers consider that the range of products/services should be improved, most SMEs do not have research and development department, most companies had difficulties in finding employees, the vast majority of companies trained the personnel, most companies have no export activities.

Sample representativeness, essential for any selective survey depends significantly on population characteristics, sample size, sampling procedure or technique selection, quality of the sampling framework, final non-responses (Săvoiu et al., 2004: pp. 88-89). Sizing samples must incorporate a compromise between two aspects: representativeness and efforts (Manole, 2007: pp. 165-166).

For the sampling without replacement, (the units drawn from the reference population are not reintroduced back, so they can not be drawn again), to dimension a sample we use the formula (Manole, 2007: pp.167-168):

\[
n = \left(\frac{z_{a/2} \hat{p}(1-\hat{p})N}{(N-1)\hat{p} + z_{a/2}^2 \hat{p}(1-\hat{p})}\right)
\]

(1)

where

- \(n\) – the sample size;
- \(N\) – the overall population size;
\( \Delta \) – error limit; 
\( \alpha \) – significance threshold; 
\( z_{\alpha/2} \) – the critical value corresponding to a given significance level \( \alpha \); 
\( \hat{p} \) – estimator of an alternative feature’s share.

For sampling with replacement, in determining the sample size it is used the formula (Manole, 2007: pp. 167-168):

\[
n = \frac{z_{\alpha/2} \hat{p}(1 - \hat{p})}{\Delta^2} 
\]

When the overall population size is large, as in the present case, the formulas (1) and (2) provide very close results. Therefore, for sizing the sample, we can choose the most convenient one, namely (2).

The estimator of an alternative feature’s share \( \hat{p} \) is the proportion of an alternative feature obtained from a previous selective survey. As in a previous similar study developed using a survey basis, having the reference population the SMEs in Vâlcea County, in which the questions addressed to managers had inserted also the assumptions made above, the lowest value of the share (related to these assumptions) was 70.2\% (Manole et al., 2008), we have \( \hat{p} = 0.702 \).

Also, we choose the significance threshold \( \alpha = 0.05 \), which means that the sample will be representative with a probability of \( 1 - \alpha = 95\% \). The critical value \( z_{\alpha/2} \) is \( \alpha \) - bilateral quantile of standard normal distribution and for \( \alpha = 0.05 \) we find \( z_{0.05/2} = 1.96 \). For error limit, we choose a value equal to 5\%, namely \( \alpha = 0.05 \).

Using the formula (2), we obtain:

\[
n = \frac{1.96^2 \times 0.702 \times (1 - 0.702)}{0.05^2} = 321.46 
\]

(3)

Taking into account the non-responses we have to increase the value previously determined. Thus, considering a non-responses’ rate of 8\%, we have:

\[
n = 322 \times (1 + 0.08) = 347.76 
\]

(4)

which justifies the choice of sample size \( n = 348 \), to ensure its representativeness for small and medium enterprises active from Vâlcea County.

It was also intended that the sample of small and medium-sized enterprises to be representative in terms of: ownership, field of activity/industry and company size. Thus, the structure of the sample was: a) by ownership: private enterprises: 96.3\%, public enterprises: 2.2\%, companies with mixed public – private capital:
Active small and medium-sized enterprises from Vâlcea County were placed into several groups according to the criteria outlined above, in order to develop a stratified sampling. Then there was picked up randomly without replacement a certain number of companies. Nevertheless, approximating this survey with the simple random sampling in order to use formula (2), we made a pretty small error so the representativeness of the sample is maintained.

4. The results of the research

4.1. Management of the company

Management is a key factor of the competitiveness of small and medium enterprises. When we talk about this factor, we should consider its two functions: the tactical and strategic management. These two functions must operate simultaneously, even if they require different qualities from the manager. Therefore, a good manager must have the pragmatism necessary for optimal solutions to current problems of the company, but also to have the vision needed to solve the strategic development problems (Kadocsca and Borbás, 2010).

Company’s management is provided, most often, by the owner. Thus, for 85.7% of the firms from the sample, the owner is also manager and only for 13.1% of them, the manager is a person employed in this function.

Another issue of interest is the level of education of the company’s manager. In this respect, the situation is as follows: 27.2% of managers have even post-university degrees, 63.8% have higher education and only 6.5% have secondary education (Figure 1).
Regarding managers’ experience in leading functions, the situation varies significantly from one firm to another (Figure 2). However, we can say that most managers benefit from such an experience, because 67% of them have more than 10 years in management. However, 12% of them have been in management positions for a period of maximum 5 years.

Figure 1. The level of education of companies’ managers

Figure 2. Manager’s experience in leading functions
4.2. Marketing

Related to this field, we are interested if there is anyone – for a small firm or a department – for a large company dealing with marketing activity. Also, we pursue if the company performs marketing researches to obtain information about market conditions, competitors, changes in the structure of the consumers segments and in the external environment of the firm.

According to the research, only 46.9% of the companies surveyed have a marketing department. This shows that more than half of SMEs consider marketing, namely management of the market activities, very important. The focus of these companies on marketing activities is explained by the direct use of market activities oriented primarily towards advertising and sales incentives.

In addition, most companies have been holding a marketing department, for a short or relatively short time (Figure 3). Thus, this department has been functioning for more than 5 years in 60.5% of cases and for more than 10 years only in 17.1% of cases (related to companies that have a marketing department).

![Figure 3. Time of existence of marketing department](image)

Thus, it can be noticed that 81.5% of SMEs don’t have a marketing department or they have been holding it for less than 5 years, which confirms one of the hypotheses formulated above and shows that the vast majority of managers are not interested in marketing or, if they are, this is a matter of recent date. The low rate of interest in marketing for many companies in the county could be explained by the fact that they operate in local markets, where they are known and do not intend to enter on other markets and therefore they spend less on advertising, image.
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Marketing researches don’t represent common activities for companies, since 70% of them haven’t pursued them. Firms can proceed marketing researches on their own in the marketing departments (if there are specialists), or can appeal to specialized companies. As the costs for a complex marketing research are quite high, companies cannot afford to spend money for this purpose.

Analyzing the results for company’s information sources related to the market situation, competitors, changes of customers segments’ structure, and of the external environment of the firm, we find that, somehow surprisingly, the direct observation of these changes in the level of sales, without undertaking a research activity is used by more than half of the companies (55.6%). Also, only 25.9% of companies perform market studies and only 28.7% of them use as source of information the studies and articles published in specialized magazines.

4.3. Strategic planning

Planning is analyzed on the basis of strategic planning and of business planning. After processing the results, we find that 85.5% of the small and medium enterprises surveyed have a business plan, and 83.3% have a strategic plan. For both aspects business plan and strategic plan, the percentages are more than acceptable. The planning activity for many businesses analyzed is based on the belief that both the strategic plan and business plan are very useful for an enterprise, regardless the market share on which it operates.

At the same time, in most cases (93%), managers themselves have established the strategic plan (Figure 4).

![Figure 4. Who is in charge of formulating the strategic plan](image-url)
4.4. Products/Services of the company

Quality of products/services of a company is an important instrument of competition (competitiveness strategy). The term quality is complex because in addition to the index of physical quality of the product it also includes other aspects, such as: product’s availability, quality of after-sales services, quality of delivery, product’s specificity etc. Broadly speaking, by quality of products/services we understand the satisfaction provided by these products.

Given the importance of the quality, managers were asked to comment upon the company's satisfaction related to the current level of their range of products/services. To this question, 22.2% of them considered this level as normal, while the others, 77.8% thought that the range of products/services should be improved.

The introduction and certification of quality management system brings important benefits to the company: improved quality awareness, improvement of the company's image, attracting new customers, facilitating participation in auctions, simplifying export procedures etc. Despite these considerations, only 77.2% of SMEs in the sample have implemented a quality management system of products/services.

Innovation is a capital factor of competitiveness. We consider not only technological innovation, but innovation in marketing, management, in organization, communication etc. SMEs compared to large firms have the advantage of "being more mobile" more receptive to changes, more able to capitalize on innovation.

The success of innovative activities undertaken by firms should be reflected both in markets’ development by obtaining new or improved products and in improvements of specific organizational and technological products of the company, including distribution processes (Voiculescu, 2000: p. 23).

In terms of technological innovation, we note that starting with 2007, Managerial Agency for Scientific Research, Innovation and Technology Transfer (AMCSIT) - Politehnica launched the National Plan for Research - Development and Innovation 2007-2013, Program 5, which had as overall objective increasing the capacity of innovation, technological development and the assimilation in production of the research results to improve the national competitiveness. This program of research founding was targeted on research projects auctioned by a consortium and the coordinator was an enterprise. Unfortunately, in 2009 and 2010 weren’t held competitions under this program. In 2011, the National Development and Innovation Council together with the Executive Unit for Financing Higher Education, Research, Development and Innovation launched the
competition for Applied Research Collaborative Projects – the Program Partnerships. By this funding instrument is aimed to support and promote applied research in priority areas, inter and trans-disciplinary relevant for improving competitiveness in research-development and innovation at national level, in line with global knowledge-based economy. However, only 12% of companies analyzed have research and development departments.

Participation to fairs and exhibitions with own products/services was one of the questions in the questionnaire. The results of the processed answers show that a percentage of 59.6% of the companies surveyed participated to fairs and exhibitions with own products/services and only 26.1% had periodic participations (Figure 5).

**Figure 5. Participation to fairs and exhibitions**

4.5. Labor

The labor force is an important production factor which, because of migration and of inadequate schooling, creates difficulties for firms. Despite layoffs caused by the economic crisis on the labor market for certain professions, there is a shortage of personnel. This statement is supported by the fact that three quarters of SMEs in the sample (exactly 74.7%) stated that they had difficulty in finding employees.

Respondents who had difficulty in finding employees were asked to specify the main (one) of the causes of the vacancy positions. According to the results, the main cause was the lack of qualified personnel in most cases (77.7%), followed by payroll for 10.7% (Figure 6). Lack of qualified personnel is caused by massive migration of people with higher education in certain fields (engineers, IT staff etc.) or by specialization of persons in certain occupations, by youngsters’ orientation towards certain universities (law, economics) at the expense of others which after
graduation award specialization in fields of activity where wages are lower (some technical profiles), by the reduction of schooling number in vocational activities, by the salary level in Romania in many sectors etc.

![Figure 6. The main cause of job vacancy](image)

Improvement of personnel training, which allow companies’ employees to enrich their knowledge, methods, skills, abilities and behaviors in areas in which they already have a basic qualification in order to achieve at a higher level the objectives and their tasks, represent an important issue for the vast majority of the companies surveyed (92%). Thus, half of the companies surveyed organize the training for their personnel (51.9%), a percentage of 40.1% appeal to a specialized training company and only 8% are not interested in personnel training (Figure 7).

![Figure 7. Improvement of personnel training](image)
4.6. The activity on international market

Globalization, a recent process, tends to lead to the achievement of a global market. Thus, the distinction between domestic competition and the competition on foreign market becomes weaker, since foreign products enter into the domestic market. “The differentiation between competing on the home market and on the foreign market is particularly important when shaping an economic policy as the question arises whether exports should be supported with special means of the economic policy or treated in the same way as the output meant for the home market” (Gorynia, 2001).

Based on responses to the first requirement of this section of the questionnaire, it can be noticed that only 10.2% of small and medium-sized enterprises from Vâlcea County carry out export activity. We can also note that 45.5% of the exporting firms have the share of their exports in turnover of at least 81% and only 24.2% have this share of maximum 20% (Figure 8).

![Figure 8. Share of exports in turnover](image_url)

According to this study, the main problems faced by the exporting companies in their export activity are the next:

- difficulty in finding foreign partners - for 43.7% of them;
- foreign competition - for 42.5% of them;
- difficulty in finding funding - for 25.3% of them;
- lack of information related to foreign markets - for 23% of them.

At the same time, for information about foreign market development, were used the following sources:
• publications of various institutions in the country (ministries, Chamber of Commerce and Industry etc.) - for two-thirds of exporting companies;
• market reports purchased - for a third of exporting firms;
• articles in specialized journals - for a quarter of exporting companies

5. Conclusions

The research provides some aspects about the competitiveness of small and medium-sized enterprises from Vâlcea County. According to the study, all assumptions regarding SMEs from Vâlcea County proved to be true.

In the majority of cases (85.7%), manager of the company is the owner. Therefore, it can be said that in most cases, the owners can not afford or do not consider it necessary to hire managers or even would not be necessary. Also, the survey shows that the majority of managers (93.5%) has higher education degree. With reference to the experience in management, two thirds of respondents also have been occupying such positions for more than 10 years.

Marketing activities are less present in SMEs activities from the county. Besides, more than half of companies do not have a marketing department and 60.5% of companies have been holding such a department for less than 5 years. Many of the SMEs from Vâlcea (more than two-thirds) do not perform marketing researches and more than half of them use direct observation (from the sales level) to assess the changes in the external environment, without performing a research activity.

In a large extent, firms in the sample have business plan and strategic plan, and the last one in most cases is developed by the company’s manager.

With reference to the current level of their range of products/services, more than three quarters of respondents believe that this should be improved. Also, around three quarters of SMEs has implemented a quality management system of products/services. On the other hand, only one eighth of SMEs has research and development departments. Also, around 60% of the companies participate to fairs and exhibitions with own products/services.

Nearly three quarters of companies had difficulties in finding employees and a little over three-quarters of them believe that the main cause of the vacancies is the lack of skilled personnel. More than nine-tenths of companies organize personnel training, but half of the companies surveyed do so with their own people.

Export activity is carried out by around a tenth of the companies, and almost half of the exporting firms has a high share of exports in turnover (over 81%).
The main source of information about foreign market developments consist in publications of various institutions in the country (for two-thirds of exporting companies).

The study shows that SMEs from Vâlcea County, although badly affected by the austerity period they passed through, they proved some strength and flexibility. To become the engine of the economy, small and medium enterprises need a dynamic business environment, competitive and full of ideas.

Research could be deepening by increasing the number of issues pursued in each section. Also, extensive development could be achieved by inserting new sections, such as: Financing of business activity and Participation of the company to public procurements.

References


