

COMPETITIVE ADVANTAGES OF CROATIAN SME'S AN ENTREPRENEURIAL PERSPECTIVE

KONKURENTSKE PREDNOSTI HRVATSKIH MALIH I SREDNJIH PODUZEĆA – PODUZETNIČKA PERSPEKTIVA

KROLO CRVELIN, Anita; PLAZIBAT, Ivana & SUSTIC BAKULA, Ivona

Abstract: *Competitiveness of the firm, as well as entrepreneurship, is the subject of conceptual and empirical studies. SME's business environment in Croatia is very complex, with fierce competition. Statistics shows that most of Croatian entrepreneurs (with the exception of Zagreb region) have high school level of education, or even less. Academic theory is abstract, generalized and explicit and in many cases not understandable or applicable to the most entrepreneurs. The purpose of this work is to get entrepreneurial perspective on the problem of competitiveness, and to link it with the well developed theory findings and similar studies from other countries.*

Key words: *Competitive Advantage, Entrepreneur, SME, Research*

Sažetak: *Konkurentnost poduzeća i poduzetništvo predmet je teorijskih i empirijskih proučavanja. Poslovno okruženje malih i srednjih poduzeća u Hrvatskoj vrlo je složeno s oštrom konkurencijom. Statistički podaci ukazuju na to da većina hrvatskih poduzetnika (s izuzetkom zagrebačke regije) imaju srednjoškolsko ili čak i niže obrazovanje. Znanstvena teorija je apstraktna, uopćena, eksplicitna i u mnogo slučajeva nerazumljiva i neprimjenjiva za većinu poduzetnika. Svrha ovog rada je predstaviti poduzetnički pogled na problem konkurentnosti i povezati ga s dobro razvijenim teorijskim rezultatima i sličnim studijama drugih zemalja.*

Ključne riječi: *konkurentna prednost, poduzetnik, mala i srednja poduzeća, izučavanje*



Authors' data: Anita **Krolo Crvelin**, Mr.sc., University of Split, University Centre for Professional Studies, Split, akroloc@oss.unist.hr; Ivana **Plazibat**, dipl.oec., University of Split, University Centre for Professional Studies, Split, iplazibat@oss.unist.hr ;Ivona **Šustić Bakula**, dipl.oec., University of Split, University Centre for Professional Studies, Split, isustic@oss.unist.hr

1. Introduction

The core element of the political and economic transformation of any country in transition is the creation of a sound private sector and further development of SME (Small and Medium Sized Enterprises) and entrepreneurship (CEI & UNECE; Declaration on SMEs, Budapest, 2000). SMEs promote private ownership, stimulate innovations and develop entrepreneurial skills. Their flexibility enables them to match quick changes in market demands. They generate the majority of jobs, promote diversification of economic activities, support sustainable development and make a significant contribution to exports and trade. The enterprises are the major players in the market economy and through their activities one could speak about the competitiveness of an economic sector or a country. Competitiveness is a central preoccupation of both advanced and developing countries in an increasingly open and integrated world economy. Despite its acknowledged importance, the concept of competitiveness is still misunderstood, and remains focused on the macroeconomic, political, legal, and social circumstances that underpin a successful economy. Progress in these areas is necessary but not sufficient. Productivity ultimately depends on the microeconomic capability of the economy, rooted in the sophistication of companies (both local and subsidiaries of multinationals), the quality of the national business environment, and the externalities arising from the presence of clusters of related and supporting industries. Unless microeconomic capabilities improve, sustainable improvements in prosperity will not occur.

2. Competitiveness

Competitiveness is a complex subject that has been analyzed by many scholars using different conceptual approaches. In free and open markets, a firm will enjoy an advantageous market position, or competitive advantage, only if its customers perceive that the firm offers the highest value proposition available in that market. Entrepreneurship is one path for creating superior value in the marketplace by leveraging innovation to create products, processes, and strategies that better satisfy customer needs (Covin & Miles, 1999). Miles (2005) suggests that the ability to effectively and efficiently harness entrepreneurship to create superior value offerings for customers determines which firms succeed in the marketplace. If a firm has a superior market position, or competitive advantage, it will generate superior financial returns over its competitors (Hunt, 2000; Hill & Jones, 2004).

According to Tipurić (1999), competitive advantage is basis for firm's strategic actions, and having it is the key to differentiate successful from unsuccessful companies. It is realized by creating and sustaining particular specialty that customers want and accept, and which differentiate organization from its competitors. Some authors view competitiveness of the firm in terms of productivity. The concept of sustainable competitive advantage is long-term based, i.e. that is such competitive advantage that is easily carried through long period of time for the main reason that competitors can't match it quickly and easily (Renko, 2005). Sustainable competitive advantage contributes above average level of income that secures what is the

imperative of today's competitive business world: self-preservation and continuous growth and development of the business entity.

Day (1994) argues that there are two sources of competitive advantages: (1) Assets – include everything that firms have created, and (2) Competencies – that connects assets and enables them to be used for creating advantages. Further literature (Deshpande, Farley & Webster, 1993; Slater & Narver, 1994; Han, Kim & Srivastava, 1998; Appiah-Adu & Singh, 1998; Wang and Lo, 2003; Caruana, Pitt & Ewing, 2003; Webster, 1992) emphasize four basic sources of competitive advantages: (1) advantages that come out of products – innovation and quality, (2) customers – loyalty, relationship, knowledge base, satisfaction, (3) employees – investments in employees and employee empowerment and (4) competencies – abilities to learn fast, firm culture and values.

2.1. Achieving competitive advantage in SMEs sector

By merging the concepts of mass versus focus (niche) marketing and superior performance versus cost leadership, Porter (1985) evolved a competitive advantage matrix that is a visual representation of four possible generic competitive advantage options available to organizations: cost leadership, differentiation, focused cost leadership and focused differentiation. Both large and small firm marketers and managers can significantly increase the number of competitive advantage options available to their companies by considering the opportunities offered by the dual options of combining cost leadership with differentiation and product customization. Since small firms can't compete with large firm sector in the area of cost leadership, it is often recommended for SMEs to create their competitive advantage based on differentiation. To do so, owner/manager of the SME has to know the industry he operates in, since it is much harder to differentiate within mature industry. Thus many SMEs have always based their philosophy of operations on the promise of offering their customers both value for money and superior service quality.

The purpose of this study is to understand how entrepreneurs build and renew competitive advantage. Management scholars suggest three alternative approaches, or tenets, of competitive advantage that include:

- (1) the firm's resources;
- (2) the firm's, ability to identify an advantageous opportunity and establish a superior market position; and
- (3) the firm's decision rules and processes that drive the pursuit of opportunities.

Competitive advantage requires that resources are most effectively and efficiently deployed to create a superior market position that generates superior financial returns. All competitive advantages are dynamic and dependent on a specific set of market and environmental conditions. For example, when competitors perceive that a firm is enjoying superior financial performance, they enter the market with innovative or lower cost products (resulting in a superior value proposition). Over time, competitors will dissipate a firm's competitive advantage unless the firm harnesses proactive radical innovation in order to pursue attractive opportunities that will create new positions of competitive advantage. Therefore, the entrepreneurial decision

processes and rules that enable firms to recognize and or create entrepreneurial opportunities, evaluate entrepreneurial opportunities, and the resources used to successfully exploit opportunities, as well as the firm's position, are all sources of competitive advantage.

Adaptability is especially important if the environmental changes are fast and crucial as in transitional economies where enterprises face systemic changes accompanied by a deep economic decline. Empirical evidence suggests that environmental changes in transitional economies cause a fast differentiation of enterprises into viable and non-viable ones.

The viable firms are able to face the changes in demand, the hardening of budget constraints and increasing competition by adjusting their activity to a new market requirement, while nonviable firms go bankrupt. Thus, the ability to adjust to the environmental impact is an essential characteristic of company competitiveness.

Previous studies (Shama, 1992; Akimova, 2000) in transitional economies showed that while environmental impact was high, adjustments were quite low. Shama called this phenomenon the "high impact/low adjustment paradox".

3. The SME Sector in Croatia

Sector of small business is a significant part of the general Croatian economy, both by the number of business subjects, and by the share of employees in respect to overall economy.

According to the OECD and USAID Final Report, there were around 68,000 registered SMEs in the country in 2006. This represented 99% of all registered companies, and their employment amounted to around 424,000 people: 53% of the employed population. In addition, the crafts sector comprised a further 105,000 people in self-employment, in turn employing an additional 145,000 workers. Overall, the small business sector accounted for over 65% of total employment in Croatia in 2006. It contributed 55% of national GDP, 27% of exports and 38% of total assets. SMEs are clearly a significant sector within the national economy.

The results of the 2006 Global Entrepreneurship Monitor revealed some additional features of how the SME sector in Croatia is performing:

- the level of business start-up grew significantly between 2002 and 2006;
- the motivation for setting up in business remains, however, predominantly necessity- rather than opportunity-based;
- the survival rate of new businesses also remains low; and
- the proportion of businesses that exhibit growth potential is also low.

There is therefore evidence of a large and growing SME sector in absolute terms. But the evidence also suggests that the survival and growth potential of the sector remains limited, with insufficient SMEs displaying the characteristics of high growth, modern, diverse and international businesses. The "pipeline" of SMEs from start-up to high growth is a narrow one, with few businesses travelling through it to become genuinely high growth contributors.

4. Entrepreneurial perspective – The main findings of the empirical research

Initial reason for conducting this research was perceived problem in most of the SMEs and that is the lack of adequate business and especially marketing strategies for positioning of small enterprise in turbulent market environment. The fact, which was later established in research, is that the majority SMEs in Split-Dalmatian County is using so called ad-hoc approach and seize market opportunities when they appear with no systematic business planning, what so ever. The most of them working energy, entrepreneurs spent on merely surviving and struggling with un-solvency. Yet, the problems occur even in start-up stage whereas the great number of ventures begin with vaguely vision, non defined range of products and services, strange market segments and market position, with no clear attitude towards competitors and likewise basically entrepreneurial issues. Previous researches (Buble, et al., 2003) showed that three types of strategies that are implemented by the SMEs in Croatia can be identified: (1) Those oriented on innovations, (2) Those oriented on networking either among entrepreneurs and managers or with government officials, and (3) Those oriented on boundary blurring either between the state and private sector (tax and government controls avoidance) or between the legal and illegal. But what most entrepreneurs use as their strategy is so-called "minimalist" strategy – an orientation on muddling through or aiming at survival and nothing more. The results of the other research (Krolo & Šustić, 2007) considering managers or owners identification of the sources of competitive advantages in their business showed that majority of them on the first place emphasize their product or service with its specifications and quality, and relationship with their buyers and suppliers as the second source of their competitiveness. Significant data is that none of them finds government legislative or promotion activities as sources of their competitive advantages. Accordingly, 56% of respondents find government legislative and promotional activities as the main weakness of their business and 44% consider price and economy of scale which does not allow them to compete in price manner, as their main business problem. It is rather disturbing that the most of the respondents (61%) claims that their business is lead by some kind of informal strategies which are in most cases the invention of the entrepreneur. Comparing the results with selected countries with similar economic conditions (as emphasised by the National Competitiveness Council), Croatia shows bellow average results of the entrepreneurial performance, as well as of the quality of the national business environment (Porter, et al., 2007).

	Bosnia and Herzegovina	Croatia	Czech Republic	Hungary	Slovak Republic	Slovenia
Company operations and strategy						
Rank (out of 131 countries)	119	63	31	56	45	29
Score (out of 7)	3,20	4,11	4,71	4,35	4,26	4,65
Quality of the national business environment						
Rank (out of 131 countries)	105	61	32	46	44	34

Table 1. Global Competitiveness Index of selected Countries 2007-2008

Analysing problematic factors for doing business, respondents were asked to select the five most problematic ones from a list of 14 factors, and to rank them between 1 (most problematic) and 5. Entrepreneurs from Bosnia and Herzegovina (18.10%), Croatia (21.30%) and Slovak Republic (20.90%) find inefficient government bureaucracy the most problematic one. Entrepreneurs in Czech Republic have difficulties dealing with high tax rates (13.70%) and inefficient government bureaucracy (13.30%). Similar problems with tax regulations have 16.70% of respondent entrepreneurs in Hungary, and 19.70% entrepreneurs in Slovenia.

5. Conclusion

The productivity of a country is ultimately set by the productivity of its companies. An economy cannot be competitive unless companies operating there are competitive. Therefore, it is very important that the owners of small and medium sized enterprises become aware of the meaning of planned approach to their business and the role and relevance of gaining competitive advantage. In addition to that, creating marketing strategies in SMEs is usually the invention of the entrepreneurs. Their approach is highly intuitive and often orientated on the aggressive chance hunt. Therefore it is not surprising that the resulting marketing strategy represents the entrepreneur's vision and often is reflection of his or her personality, which was shown in this research.

Most of the managers and owners are still identifying their products or services as the main source of their competitive advantages, and are still not aware of other sources such as human capital and relationships as their opportunities and new potentials in turbulent market environment. They still try to compete with price instead focused differentiation which is further more appropriate strategy for SMEs (Chaston & Mangles, 2002). Small number of enterprises competes in international market and introduces new technologies.

As with all research, the study has many limitations whose deficiencies can only be corrected by further research in different contexts with varying methodologies. We have tried to challenge a major marketing dogma in a nation undergoing economic restructuring with imperfect measures and methods. It is our hope that future research will rise to this challenge and address this critical issue with new conceptual structures and more fully developed instrumentation.

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