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COMPETITIVE STRATEGY AND COMPETITIVE ADVANTAGES OF SMALL AND MIDSIZED MANUFACTURING ENTERPRISES IN SLOVAKIA

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Abstract: In order to be successful, organizations must be strategically aware. The need for all managers is to by able to think strategically. Decisions by managers have a strategic impact and contribute to strategic change. Strategic management is a highly important element of organizational success. Strategic success requires a clear understanding of the needs of the market, and the satisfaction of targeted customers more effectively and more profitably than by competitors. Real competitive advantage implies companies are able to satisfy customer needs more effectively than their competitors. It is achieved if and when real value is added for customers. Small and midsized enterprises which understand their customers can create competitive advantage and so benefit from lower prices and loyalty of customers. Higher capacity utilization can then help to reduce costs.

Thinking Strategically

Today's organizations have to deal with dynamic and uncertain environments. In order to be successful, organizations must be strategically aware. They must understand how changes in their competitive environment are unfolding. They should actively look for opportunities to exploit their strategic abilities, adapt and seek improvements in every area of the business, building on awareness and understanding of current strategies and successes. Organizations must be able to act quickly in response to opportunities and barriers.

Managers operating in organizations perform a number of activities including planning and organizing the work of their subordinates, motivating them, controlling what happens and evaluating results. Decisions by managers have a strategic impact and contribute to strategic change. The organization is shown as one of a number of competitors in an industry; and to a greater or lesser degree these competitors will be affected by the decisions, competitive strategies and innovation of the others. These inter-dependencies are crucial and consequently strategic decisions should always involve some assessment of their impact on other companies, and their likely reaction.

To succeed long term, organizations must compete effectively and out-perform their rivals in a dynamic environment. To accomplish this they must find suitable ways for creating and adding value for their customers.

Strategic management is a highly important element of organizational success. The need to know what the business is about, what it is trying to achieve and which way it is headed, is a very basic requirement determining the effectiveness of every member's contribution. Every successful entrepreneur has this business self-awareness and every successful business seems to have this clarity of vision, even though it does not arise from a formal planning process. [6]

Managers who made long-range plans generally assumed that better times lay ahead. Future plans were merely extensions of where the organization had been in the past. But a number of environmental shocks undermined this approach to strategic planning: rapid technological developments, the maturing or stagnation of certain markets, increased international competition. These changes forced managers to develop a systematic means of analyzing the environment, assessing their organization's strengths and weaknesses, and identifying opportunities for competitive advantage.[7]

In the case of some small businesses external forces can dictate whether the business stays solvent or not. A major problem for many small businesses concerns the management of cash flow. To succeed, a business must have clearly defined objectives and fully developed strategy for achieving them. In short, what is needed is a business plan. A business plan shows the purpose of the business and what it intends to accomplish. A good business plan helps to give form and substance to an entrepreneurial vision, providing a mechanism that enables owners, managers and workers alike to function effectively.

The Competitive Environment

Whilst it is essential for all managers to have some insight into how their organization is affected by the environment, it is also desirable for them to consider how some of the environmental forces might be influenced and managed to gain benefits for the organization. This is less possible generally in the case of small businesses as they are relatively less powerful. However, small companies should examine their environment for opportunities and threats in order to establish where they can gain competitive advantage and where their resources might most usefully be concentrated.[10]

Thinking strategically requires an awareness of alternative strategic purposes and objectives and the ability to recognize critically different environments. In addition it requires the ability to diagnose an organization in terms of various critical characteristics and to be able to shape those characteristics so that the organization is best fitted to its environment in order to achieve its strategic purposes and objectives.

A complex and dynamic modern environment is inevitably difficult to forecast, the inherent uncertainties can make it highly unpredictable and potentially chaotic. Individual managers would develop their environmental and strategic awareness through experience and perception, and by thinking about their observations and experiences. It is particularly important to assess the significance of what happens and what can be observed to be happening. However, in considering future strategic changes there will be an additional need to supplies, customers, competitors, demand, technology, government legislation and so on. Managers who are encouraged to think about future changes, to ask questions and to query assumptions will increase their insight and awareness and this should help decision making.[10]

Effective strategic management involves more than just a few easy steps. It requires managers to thing strategically, to develop the ability to see things in motion, and to make sense out of a cloudy and uncertain future by seeing the interdependency of key factors. This ability requires more than a passing awareness of significant social, political, legal, economic and technological trends.

Managers who think strategically are able to envision their organizations in the context of world trends and events and to spot important interdependencies. They focus on how their organization should act and react to emerging opportunities and barriers.

For any organization certain environmental influences will constitute powerful forces which affect decision making significantly. For some manufacturing and service businesses the most powerful force will be customers; for others it may be competition.[10]

According to Ansoff, the extent to which the environment is changeable or turbulent depends on six factors: changeability of the market environment, speed of change, intensity of competition, fertility of technology, discrimination by customers, and pressures from governments and influence groups. He suggests that the more turbulent the environment is, the more aggressive the firm must be in terms of competitive strategies and entrepreneurialism or change orientation if it is to succeed.[10]

The competitive environment is affected by market structure and profitability; the intensity of competitive rivalry and the degree of differentiation; market growth; the stage in the life of the products or services in question and the frequency of new product launches; capital intensity; and economies of scale. It is important for managers to appreciate where the greatest opportunities and threats lie at any time and focus attention on those areas which are currently affecting the organization and which require strategic attention.

Strategic Approach

Strategy is not about planning, but about thinking and doing. It is not a technique, but a way of managing the business according to a strategic understanding and perspective.[6]

Strategic management is concerned with understanding, choosing and implementing the strategy that an organization follows. Managers should be aware of the issues which must be addressed if changes in strategy are to be formulated and implemented effectively. In addition, they should be aware of the managerial and behavioral processes which take place within organizations in order that they can understand how changes actually come about. Strategic management is the ongoing process of ensuring a competitively superior fit between the organization and its ever-changing environment. Strategic management is the process that defines the organization's mission, scans the environment to ascertain opportunities, then merges this assessment with an evaluation of the organization's strengths and weaknesses to identify an exploitable niche in which the organization will have a competitive advantage. This process also includes implementation. The best strategy can go awry if management fails to translate that strategy into operational plans, structural designs, systems of motivation and communication, control systems, and other necessary means of implementation.

Strategic management involves awareness of how successful and strong the organization and its strategies are, how the effectiveness of these strategies might be improved, and of how circumstances are changing.

The important issues are:[10]

- the ability of the organization to add value in meaningful ways, which
- exploit organizational resources to achieve synergy and at the same time
- satisfy the needs of the organization's major stakeholders, particularly customers and owners.

The selection of new strategy must take account of these criteria.

The studies of small manufacturing firms competing in a wide variety of industries suggest that obtaining information on several aspects of specific environmental sectors (for example, customers, competitors, suppliers) facilitates alignment between some competitive strategies and environments (that is, industry life cycle stages) whereas the frequency of scanning has no effect on such alignments.[2]

Environmental scanning is generally viewed as a prerequisite for formulating effective strategies. Moreover, effective scanning of the environment is seen as necessary to the successful alignment of competitive strategies with environmental requirements and the achievement of outstanding performance.

Environmental scanning is viewed as the important step in the process linking strategy. Scanning the task and general environment allows a firm to learn about opportunities that it may be positioned to take advantage of and conditions or events that threaten its performance or survival, thus enabling the firm to formulate a competitive strategy congruent with critical environmental conditions.[2]

Organizations must be able to understand the complexity and trends of the changing environment. Some of the changes will be the result of external forces. Others will be the outcomes of actions taken by organization itself. From this learning, organizations must be able to manage change successfully, changing technologies, processes and architecture to maintain a successful match with the environment. In turn this should create positive and beneficial competitive outcomes.

Therefore strategic management in small organizations should involve the following:[10]

- a clear awareness of environmental forces and the ways in which they are changing
- an appreciation of potential and future threats and opportunities
- decisions on appropriate products and services for clearly defined markets
- the effective management of resources to develop and produce these products for the market – achieving the right quality for the right price at the right time.

Strategic management is effective when resources match stakeholder needs and expectations and change to maintain a fit in a turbulent environment. The external environment consists of suppliers, distributors, customers and customers as well as bankers and owners. If organizations want to be successful and in many cases, profitable, they have to meet the needs and expectations of their stakeholders. Their relative demands determine what it is that a business must do well.

Therefore, if organizations are to satisfy their stakeholders, especially their customers, whilst outperforming their rivals, their competitive offering should comprise:[10]

- the ability to meet the recognized key success factors for the relevant industry or market
- distinctive competencies and capabilities which yield some form of competitive advantage, and
- the ability and willingness to deploy these competencies and capabilities to satisfy the special requirements of individual customers, for which a premium price can often be charged.

Strategic success requires a clear understanding of the needs of the market, and the satisfaction of targeted customers more effectively and more profitably than by competitors.

Competitive advantage

Real competitive advantage implies companies are able to satisfy customer needs more effectively than their competitors. It is achieved if and when real value is added for customers.

A business must add value if it is to be successful. The important elements in adding value are:[10]

- understanding and being close to customers, in particular understanding their perception of value
- a commitment to quality
- a high level of all-round service
- speedy reaction to competitive opportunities and threats

Small organizations which understand their customers can create competitive advantage and so benefit from higher prices and loyalty of customers. Higher capacity utilization can then help to reduce costs.

While it is important to use all resources efficiently and properly; it is also critical to ensure that the potential value of the outputs is maximized by ensuring they fully meet the needs of the customers for whom they are intended. An organization achieves this when it sees its customers´ objectives as its own objectives and enables its customers to easily add more value or, in the case of final consumers, feel they are gaining true value for money.

Business strategy in an Organization

Business strategy is all about competitive advantage. In general, strategy is to do with long term prosperity. It is concerned with long term asset growth, not short term profit. Thus businesses need strategy in order to ensure that resources are allocated in the most effective way. This is particularly important when it comes to major resource allocation decisions.

The purpose of strategy is therefore not best conceived in terms of its impact on "the bottom line". Instead it can be identified in more operational terms as setting the direction of a business and achieving a concentration and consistency of effort. In this way inconsistent flitting from short term opportunity to short term opportunity is avoided and business expertise and leadership can be built up. Finally, the purpose of strategy must also be to ensure an awareness of when change is necessary and thus the ability to be flexible.[6]

Business strategy is concerned with how to make an individual business survive and grow and be profitable in the long term.

The main considerations are as follows:[6]

- the creation of customers
- the identification of appropriate market niches where no competition exists
- the identification of customer needs and how best they can be satisfied
- the application of technology and its future development or substitution
- the understanding of competitors and how direct competition may be avoided
- the motivation of people to put their efforts and enthusiasm behind the strategic aims of the business.

According to Henry Mintzberg, business strategy could follow one of three modes: planning, entrepreneurial, and adaptive. He argues that the right choice depends on contingency variables such as the size and age of the organization and the power of key decision makers.[7]

The planning mode is a strategy approach that includes a clear statement of objectives, a systematic analysis of the organization and the environment, and a plan of action to reach those objectives. Managers should follow the planning mode when the organization is mature and well established, resources are adequate to engage in opportunity analysis, senior management is in agreement as to the organization's objectives, and environmental uncertainty is at a low level. Different conditions may favor one of the other modes.

The adaptive mode is a strategy approach characterized by both the organization's objectives and the means to achieve these are continually adjusted. The organization moves ahead timidly in a series of small disjointed steps. The adaptive mode of strategy making will be most effective when environmental uncertainty is at a very high level, thus focusing management's attention on the short term, and when internal power struggles make it impossible for senior management to agree on where the organization should be going.

The entrepreneurial mode presents a strategy approach in which, a strong leader, usually the organization's founder, draws on personal judgment and experience to form an intuitive image of the organization's direction. This strategy is characterized by bold decision making in which periods of pause are followed by periods of sprinting. The entrepreneurial mode is more likely to be effective when the organization is young and small, when a single, powerful leader has an intimate knowledge of the business, or when crises occur.

Small businesses produce relatively few products or services. Their resources and capabilities are limited. Their strategic options are comparatively simple and narrowly focused. These conditions do not require the sophistication inherent in the planning mode. Strategic planning practices in small firms have been found to be unstructured, irregular, and incomprehensive. They are best described as informal; they are almost never written down and are rarely communicated beyond the chief executive's closest associates. Moreover, the strategic focus in small businesses takes on a more limited time horizon than in large organizations, usually covering periods of two years or less. Based on Mintzberg´s analysis, we might expect the strategic planning process in small business firms to resemble the entrepreneurial mode more than the planning mode. This is what surveys indicate.

Entrepreneurship and Strategic Management

There are numerous examples of entrepreneurs, who, by reason of considerable success early on, thought they could rely on their intuition only, and failed. In other words, good ideas and visions are necessary but not sufficient; they must be complemented by rational analysis. Strategic management provides for a method, and an attitude to filter the visions of entrepreneurs through rational analysis and decision-making.[11]

The main objective of strategic management is, therefore, to guide the flow of ideas and visions, and convert them into business decisions.

The Strategic Entrepreneurship Concept of Strategic Management in Small and Midsized Organizations

The concept of strategic management in small organization should be the strategic entrepreneurship concept. This concept incorporates both the intuitive-creative and the rational elements. The strategic process is kicked off by the entrepreneur in the firm, presenting his view on how the organization should develop and what quantitative targets he has in mind. This leads to a vision statement which outlines how the company should develop and which targets should be met in time. The vision statement is the expression, in business terms, of the entrepreneur's intuitive views.[11]

Following this, a rational process starts with the well-known internal and external analyses, because business decisions require and internal as well as an external situations, as well as the vision of the entrepreneur. In this way the internal and the external analyses provide the criteria by which the final decision can be chosen from a range of options and implemented including controlling.

The process of finding options for the issues is, once more, intuitive. Selection is a rational process, using criteria derived from the vision statement, especially its quantitative targets. The option which best satisfies the criteria will be selected as the decision concerning the issue. This is the way in which entrepreneurs make their major decisions.

Strategic approach and Small and Midsized Firms

Small business managers´ experiences with strategic approach and strategic management point to the need for possible modifications in this process.

First, the process need not be as detailed or lengthy as practiced by large organizations. It could involve simply responding to the questions:[8]

- Where are we?
- Where do we want to go?
- Can we get there?
- How can we get there?
- What decisions must be made to get there? How do we monitor performance?

Second, because of an organization's small size, most if not all key employees can make inputs into the process. This allows the company to use important expertise and contribute to the development of employee commitment and communication. In essence, it becomes a valuable learning experience for all involved.

Finally, top management, or the top manager must be willing to give strategic management a chance. The manager must recognize that his or her company has become a growing enterprise. There is a need for taking the planning out of the mind of a single person and spreading the responsibility around. The benefit of this is that the process of transforming a company into a formal organization is enhanced.

Strategic approach in small firms offers some unique advantages and disadvantages.[8]

On the positive side, an organization's small size may not present the complexity and detail faced by strategic planners in larger firms. In fact, the small business may be considered simply a strategic business unit. Other advantages include limited products, services, and markets served, the relatively small resource base, and a limited number of options.

On the disadvantage side, some equally significant issues exist. First and foremost, the executive team is usually small, sometimes only one person. This executive, or entrepreneur, may have always operated the firm from his or her own instincts and sees little use in formalized procedure. Second, information and data to prepare an external and internal analysis may be limited, if they exist. Third, key employees usually have gained their skills through experience rather than with the use of systematic procedures, and resistance to change may develop. Other problems may include the constraint of limited resources and the issue of company ownership.

Planning for Competitive Advantage

If the organization gains an advantage, the business will survive. If that advantage is significant, the organization will thrive.

According to M. Porter, companies can choose between three general strategy types to build competitive advantage: a differentiation strategy, a low-cost strategy, and a third approach, frequently used by entrepreneurs, is focus, or a niche strategy.

A firm that uses a differentiation strategy competes on the basis of its ability to do things differently than its major competitors do. A firm that uses a low-cost strategy builds competitive advantage by producing goods or services at the lowest possible cost. And if entrepreneurs persist in their ability to keep costs lower than others, their organizations thrive. In contrast to the cost leadership and differentiation strategies, which are based on the creation of competitive advantage over an entire market segment, Porter´s focus, or a niche strategy recommends focus on market niches – on specific target groups, particular portion of the product spectrum or a narrower geographical market. Competitors using niche strategies are specialists. They serve a narrow market segment that can be local or national. Niche strategists build special skills that are uniquely matched to a specific market; they are rewarded with high profit margins. Effective entrepreneurs are aware that establishing and maintaining a competitive advantage is a great challenge. Without careful attention, competitive advantage can be easily lost.[1]

The Competitive Specialization

Though an understanding of the business mission is the key to survival, it is not in itself sufficient for high performance. That is achieved by exploiting the competitive specialization.

There are three ways in which the competitive specialization can be exploited. [6]

Firstly, it can be strengthened or intensified so that it is more readily perceived by customers or so that customers accord it a higher value and are therefore prepared to pay a higher premium. Thus, for example, a specialization related to product quality could be intensified by increasing the quality of the product further and/or promoting the quality of the product more effectively. The result will be to increase the actual and perceived level of quality and reduce the price sensitivity of the product.

Secondly, the specialization can be broadened so that it satisfies the needs of more customers. The most obvious way that this can be done is by geographic broadening, but any product which is focused on an arrow segment of the market can potentially have its focus broadened to appeal to other segments.

Finally, the specialization can be prolonged, so that it survives through developing technology and changing consumer tastes.

Intensifying the specialization must only be done with care and on the basis of hard information about customer perceptions. Broadening the specialization also has its dangers. Widening that focus to encompass more market segments risks losing its perceived value to the existing customers. Similarly with prolonging the life of a specialization, some specializations are related to single products, or to single clearly defined markets, which have finite lifetimes.

The Implications for the Slovak Republic

Slovakia was a part of Czechoslovakia which was founded in 1918. Since the fall of the communist regime in Czechoslovakia in 1989, the country has been developed as democratic state. The Slovak Republic as an independent country originated on January 1, 1993. The year 2006 is the fourteen year of existence of the Slovak economy within an independent Slovakia. This time can be characterized as the process of transformation of the Slovak economy into a market economy. A transition effort comprises deep economic changes as well as social, cultural, legal and institutional changes. The impact of these changes on the Slovak economy is varied.

New environment, especially economic changes like restructuring the economy, industrial restructuring, membership in the European Union, reorientation of the export, increasing competition brought new opportunities, foreign investments into the Slovak Republic with creating new jobs, economic growth and expansion of domestic demand.

On the other hand restructuring the economy brought unemployment (with an unemployment quota of 16,4 % in 2005), in some regions a high unemployment with slow-down in living standard. Also with regard to the labor market hourly labor costs in the manufacturing industry are lower than in mature economies and labor costs in the SR are the lowest among new accession CEE states (20% of the EU 15 level). The SR thanks to its productivity level offers a cost competitive environment.[12]

The short and mid-term macro economic (GDP-wise) outlook for the SR is probably better (economic growth is expected to be around 5.4 % in 2006). The country's economic policies comprising industrial policies, fiscal policies as well as monetary policies focuses on the reduction of state deficits, the generation of economic growth, reduction of unemployment and the enhancement of industrial competitiveness.[12]

Admission of the Slovak Republic in the European Union has resulted in important changes in the intensity and structure of our relations with the EU. A simultaneous flexible adaptation of Slovakia to a new demanding business environment is a basic condition of Slovakia's economy successful performance.

In the Slovak Republic is very important the role of small and medium businesses. Small and midsized enterprises provide 50 % of output on the base of added value and 60 % of employment. Economic restructuring in Slovakia increases still more the role of small and medium businesses in this economy. Small and midsized enterprises are very important elements of Slovak market economy. They fill many gaps in the economic structure and so they are the source of new work places and employment with positive social and psychological impact on the development of society. They inspire business spirit and creating new visions and therefore they can stimulate competitiveness and employment.[12]

In connection with the entry of Slovakia into the European Union and adjustment of Slovak business sector to the Single Market of the EU it is very difficult especially for small and medium sized enterprises to establish themselves on the internal European market. For small and medium businesses, entry of Slovakia into the European Union has created on the one hand new opportunities offered by the EU market. On the other hand treats to doing business on the EU market are associated factors of external European environment. Firms are threatened by the arrival of foreign competition. The process of adaptation to new conditions is associated with much more higher fear of risk and considerably higher requirements on financial resources. This group of enterprises is facing new problems associated with the need to increase their competitive position.

Competitive Strategy

In connection with the entry of the Slovak Republic into the Single Market there appears a need to adjust to the EU market. Adjustment to the EU Single Market is a permanent process, which has to consider create a more favorable environment for doing business and from the viewpoint of enterprises to be prepared for rising competition on the Single Market. In terms of expectations enterprises are aware of pressure on cutting cost and increasing quality to be more competitive on foreign and domestic market.

The macro-economic transition and industrial restructuring has lead to a changing context for competitive strategy. These changes comprise of

- changing customers
- changes and more competitors
- necessary basis of competing
- changes of the cultural and institutional context

Internationalization and globalisation were the dominating mega trend influencing business and small and midsized enterprises in Slovakia over the last decade. Following the enlargement of the EU these trends probably will accelerate in the Europe and European industry. New environment will be affected by technological change, liberalization of markets, an ongoing transition of non EU-member CEE states, diverging factor conditions as well as a pressure of Western European industrial firms to increase competitiveness. Firms operating in these conditions want to have complex strategies combining growth, customer focus and innovation.

Strengths of Slovak small and midsized enterprises to doing business on the EU market are associated with high quality, certification (ISO Standards), flexibility and low price, especially cheap labor force. From the viewpoint of weaknesses, enterprises are facing high costs associated with the increase in the prices of raw materials and energy, shortage of own financial resources and the need of a new modern technology. The development of small and midsized enterprises is inhibited also with information barriers and educational system to support knowledge and skills. There appears that managers with foreign experience can solve problems much better and take into account a lot of multicultural aspect.

For Slovak firms as well as for Slovak small and midsized firms will be necessary to spread their operations functions to more sophisticated and high value added activities.

In the Slovak small and midsized industrial firms seem to be more frequent low cost segment specialists. Many firms produce at low prices with little services accompanying the core product. The firms are increasingly exposed to an exporting and price pressure.

In the small and midsized industrial firms in SR is developed also the hybrid strategy as the type of combined strategy focused on improving product benefit and reducing production costs. Hybrid industrial firms offer product at relatively low prices but provide perceived added value on the basis of mutual problem solving and services which requires the establishment of partnerships with customers. Hybrids range in size from 100 to 600 employees and compete by offering higher perceived added value at the competitor's price level.

Critical Factors of Small Midsized Enterprises in Slovakia

In small and midsized enterprises, the key resources are financial resources, the entrepreneur's time and people who work for the firm.[1] Financial resources are essential. Many unsuccessful entrepreneurs blame their failures on the lack of adequate financial resources. Yet, failure attributed to a lack of financial resources indicates either an actual lack of money or the failure to adequately use the resources available. Non-financial resources are also crucial to the success of the new business. Well-planned management of time and employees allows the new small firm to counteract the advantages of large firms. The entrepreneur can realize efficiencies by using a network composed of suppliers and customers.

With regard to critical resources, the entrepreneur must demonstrate sensitivity, control, delegation, and creativity. The successful entrepreneur is sufficiently sensitive to the needs of the business to identify the proper allocation of resources, has the good sense to control the use of those resources, delegates work to others, and uses creativity to expand the resource base. The entrepreneur then plans developmental benchmarks for the new business.

Pursuit of an effective entrepreneurial strategy is mainly through information. Identifying the competitive advantages has to be mapped through the collection and analysis of information from existing and potential customers. Developing needed information base is, in practice, a process of selection and concentration on pertinent issues. The extent to which information should be maintained depends on circumstances.[2]

Sources of published information are under-utilized because firms, especially small firms, are reluctant to involve themselves in what at first sights appears to be an information jungle which it might be felt is more properly the field of specialist marketing researchers. But published research on existing and potential technology, on markets and on individual competitors and customers is easily identified and accessed through an increasing number of indexing and abstracting services.

In addition to published information strategic management also requires new information about the perceptions of existing and potential customers. This includes very specific and limited items relating to how customers perceive the products available to them and why they buy what they buy. This information too is available to even the smallest firms and the techniques involved in its collection are not unduly sophisticated. Sustaining customer focus and innovation is clearly a real challenge for small and midsized enterprises.

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