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**SMEs and International Competition:  
Empirical Evidence for Romanian SMEs**

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**Abstract:** One of the issues covered by the current debate concerns the future of the national economy in a world in an accelerated process of globalization. It is, in fact, the transition from national economy to the global economy as homogenous global space in which national economies are melting and whose background includes a variety of positions since the companies compete globally and not states, and structuring is determined by the dynamic global economy industries and firms efforts to create competitive advantages. This paper has as main objective to understand and to approach the topic of the SMEs in the international competition, which, being considered a significant resource for those an organization is fundamental for the creation of the wealth since an appropriate administration takes place a series of benefits. Is it important to improve innovation potential, quality and operational excellence?

**Keywords:** competition; SMEs; internationalization; economy

**JEL Classification:** F23; D22; O12

## **1. Introduction**

Michael Porter argues, in turn, in his “Competitive advantage of nations”, the effort to assess the competitiveness of a nation must consider the standard of living result, because we can not talk about a competitive nation without that country's population has a level high standard of living. Definition, for example, strictly as part of market competitiveness, worldwide, which covers a country's exports bring limited and unproductive approach, because it takes into account the economy's ability to create the nation's welfare.

Increasingly, we are witnessing changes in the business world does not resemble the past. This is why practitioners advocate for small and medium reinvention from that recognized principles have no relevance today. Competitiveness crisis facing the sector has not transient. Adam Smith's world and how it did business are a paradigm of yesterday. It turned out that a gradual transformation is illusory moment when radical transformation cannot be postponed.

Recent theories and show new aspects related to the internationalization of business and, especially, the internationalization of SMEs, which raises a growing interest in academia and business in Europe and worldwide, while the transformations taking place in the economy beginning XXI century tend to bring small and medium enterprises at the forefront of economic development, giving them a new status.

As regards SME internationalization motivations, the literature associated to the two established categories of motivations for reactive and proactive type: The first category of motives which are reactive response to the pressures coming company in the business, such as: competitive pressure, lower domestic sales, excess capacity in relation to market opportunities at home, over-determined by off factors, the availability of foreign markets, etc.;

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The second category of motivations underlying voluntary commitment to international business in order to capitalize on competitive advantages, among them including: access to material and financial resources abroad, reducing costs by harnessing the benefits of economic or trade policy or foreign countries increasing the production scale, technological advance capitalizing held in some areas, management of external market orientation, etc.

In our opinion internationalization and innovation besides Romanian SMEs lack the periodic review evaluation of their position in the market, according to the results of these tests, setting medium and long term strategies. This refers to how powerful the SME market position, if this position is expected to improve or contrary to deteriorate, which is the position stands firm against rivals from the market (usually the local market) and each important competitive variable, which is the company's capacity to defend its position opposite the probable changes in the field of trade and competition anticipated movements.

## 2. The Romanian SMEs in the International Competition: Stakes, Advantages and Limits

Increasing competition is the reality of sharp pressure on small and medium enterprises worldwide. To compete in niche markets for these companies bring unique balance resources, values and managerial capacities. The distinctive competencies they strive to build a competitive advantage relative to competitors and achieve superior financial performance, to ensure their access to some of the resources available to society. Capacity of larger firms to reduce costs through economies of scale effect, to support expensive research programs, SMEs oppose them greater flexibility and adaptation to market changes occur, greater mobility in the satisfaction of personal needs.

Innovation can be defined as new or innovative solutions in international competition. It provides small competitive advantage in that it provides, for a period of time, a monopoly to exploit unique trait obtained as a result of innovation. Furthermore, systematic innovation is probably the only indispensable lever for sustainable competitive advantage for small and medium enterprises.

To form an overview on SMEs in Romania, knowledge of nature in their innovation activities carried out are a starting point in analyzing the competitive advantage. Statistical data (Figure 1) for 2008 showed that innovation efforts of SMEs have focused mainly on new products (37,49%), new technology (28,75%), management and new marketing approaches (24,02%). These figures illustrate how Romanian entrepreneurs are becoming more aware that, in the context of growing competition in all areas of activity, innovation is the most effective way to ensure competitiveness.

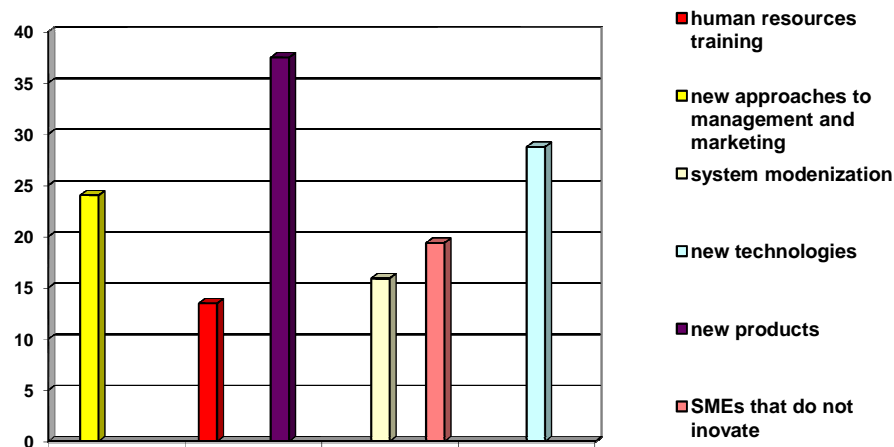


Figure 1. Nature of innovative SMEs

Given the size of firms on innovative efforts is found that the extent to which companies aimed at improving staff training system and amplification increase with size businesses. Activities to introduce new products and improved uptake of technologies are more common in small organizations and small for micro-enterprises. Medium enterprises recorded in greater managerial and marketing approaches us.

Considering these aspects, it can be concluded that the processes of renewal of products and services are relatively common in most SMEs in Romania. Analysis by the results obtained in 2009 compared to 2008 reveals that companies with superior performance in innovation level is higher than the rest of economic units, which means that the business potential is influenced by the call to new technology and concerns to the managers compliance with the acquisition communitarian.

If small and medium enterprises in Romania, however, the emphasis is on motivation proactive type, and in particular on management involvement.

I also raised a number of essential changes in typology and structure of small and medium enterprise sector, which have a more pronounced international dimension - its leading companies in sectors of the economy, virtual enterprises; integrated enterprises value added chain of large enterprises, business networks or clusters that raises a growing interest in literature.

Internationalization of SMEs is achieved, in principle, gradually, by going through several stages, which define as many types of companies with international activity and expressed specific motivations to participate in the global market. Studies from the 90s of last century shows that some firms, namely SMEs, there is a gradual process, the stage of internationalization, they have international activities since its establishment right to enter the market under the large geographical distance, to penetrate in several countries simultaneously, to form strategic alliances and joint ventures without the benefit of previous experience, etc. Therefore developed a new theory to explain the current process of internationalization, which is based on these developments and is centered on small and medium enterprises, which is currently in the process of consolidation. It is also generally agreed that none of these models alone can explain the dynamics of internationalization of SMEs, especially those leading sectors of the economy, whose main resource tends to be more represented by knowledge. It is often suggested a comprehensive approach that takes into account several models and theories to allow deepening phenomenon. However, most studies devoted to prioritize one of the models and the approach is still dominant stage. At the same time essentially notes and changes in typology and structure of small and medium enterprise sector, due to these new developments.

If the European Union special attention was given to the following types of SMEs: SMEs in the sectors of top technology and media have affinity with nature developed Internet business and new market developments, small and medium exploit the opportunities offered by electronic commerce, especially in services - sometimes called cyber-companies, small and medium-sized integrated value-added chains of large companies are forced to innovate under pressure from major customers.

An analysis by the European Commission to member countries in May 2009 showed that 33,3% of medium firms and 32,2% of small generating over 10% of their turnover from new or renewed during the last two years. These weights are close to that of large enterprises (35,8%), which prove that European SMEs are becoming increasingly innovative.

In the U.S., SMEs account for 86% of all exporting firms. In the last 10 years, the number of small and medium exporters tripled, contributing 31% of total exports.

Studies by the OECD show that the share of innovative SMEs in the total national companies varies between 30% and 60%, depending on the member country. On average, they perform research and development at a rate and a lower level of large companies, but prove more innovative redesign of products or services to better meet market demand, the introduction of new organizational forms that increase productivity or in inventing new techniques to expand the market.

Worldwide, can be identified a small segment with an exceptional growth rate, which is positioned within the first 5-10% of companies in the world expanding. In many countries, the volume of jobs

created by these SMEs is higher than that achieved large size firms. They are based on new technologies and developing impressive research activities. These SMEs are found in industries knowledge-based high-tech and in regions where there is an intense economic activity. They play a pioneering role in developing new products and markets, bringing an outstanding contribution to the creation of a new type of global economy, one based on quality, professionalism and creativity of the workforce.

So, in their haste to gain new markets or being forced to constantly reduce costs and increase quality, large corporations left uncovered important market niches that can be filled more effectively by small and medium enterprises. Therefore, intelligent strategies allow small businesses to grow despite increasing competition worldwide and marked the growing strength of large companies. SMEs can achieve this either independently, by promoting products / services differentiated from those of large companies, either by working with large companies as subcontractors, or by building alliances to multiply their potential.

On the other hand, local or international alliances with big companies, strong SMEs can attract financial capital or material resources, distribution channels and internationally recognized brand names, which would not otherwise have access or would be had to make costly investments. In these alliances, small firms gain market niches, assimilates new technology or new equipment purchases performance. Access to capital is also an important benefit of this collaboration, many SMEs managed lately to obtain significant funding from sales to large firms of property rights for inventions that were made, but not had its own resources necessary to implement them.

Alliances of SMEs but is not limited only to those with big companies, they carried with companies of similar size. The sharing of infrastructure, technology and supply and distribution channels, allied SMEs manage productivity, competitiveness and ultimately profitability.

But, it is necessary to be taken into account that innovation is a prerequisite for survival in the market for both companies in countries with advanced economies and for those in process development, it can change quickly today rankings that seemed unshakable. Dynamics dizzying technical progress in the current era is that companies and economies that until recently have excelled in certain areas they could lose global primacy over night the rate of introduction of innovation falls.

Relevant aspects of the table are evaluated in terms of implications for business strategies, supplemented or restricted and used under the terms of each company. This type of analysis allows the positioning of the SME in relation to the competition, highlighting both their strengths and those of rivals.

**Table 1. Competitive position of SMEs**

Pluses(+):	Minuses(-):
<ul style="list-style-type: none"> <li>- Competitive advantages;</li> <li>- High customer loyalty;</li> <li>- Well defined market strategy;</li> <li>- Well differentiated product offer;</li> <li>- Increasing market share;</li> <li>- High flexibility to changes in demand;</li> <li>- Other.</li> </ul>	<ul style="list-style-type: none"> <li>- Poor competitive advantage;</li> <li>- Target of rival attacks;</li> <li>- Inadequate distribution system;</li> <li>- Poor response to changes in demand;</li> <li>- Bad reputation among customers;</li> <li>- Other.</li> </ul>

Once the mission enterprise, assess business potential and positioned against the competition, the next step is to transpose the general objectives of the mission, to measure company performance. These general objectives that are established for longer periods of time vary depending on the specific terms of reference, usually focuses on SMEs: profits, turnover, market share, etc.

A rigorous system for measuring their achievement, supposedly basic parts: expressing indicator (turnover, profit, market share, etc.) unit (lei, %, units, etc.) and the (actual size). The general objectives of the Romanian SMEs can be ranked in relation to their scope of reference and hierarchical

level to which they are established, the following sequence:

- Strategic overall objectives set out in the entrepreneurial SME, explicitly (usually in medium-sized companies) and implicitly (in the micro and small class), in relation to key areas of activity, they constitute the starting point objective in establishing the network of the company;
- Tactical objectives (derived) regarding the allocation of resources, they also usually set by the developer in micro and small and mid-level managers respectively of medium-sized companies;
- Operational objectives (operational) that set the business in micro-firms respectively lower level managers in medium-sized companies, they relate to specific activities, current, which serve to achieve strategic and tactical objectives.

However, the objectives are the starting point in formulating strategies, providing the criteria against which, will be evaluating and measuring the results. These companies would be beneficial to gravitate as far as possible, around strategies difficult to imitate and / or offset, while starting from the premise that whenever one or more of the competing SMEs initiated by one nine “offensive” strategy, competitive pressures will be activated in November.

Basically, the behavior of each “actor” in the market, that market influences, and this in turn affects their behavior. An important role in this regard plays various rivalries between SMEs, which appear in different market sectors. Extrapolating observations made by A. Thomson and A. Strickland on Romanian SMEs can formulate the following conclusions:

- Rivalries between SMEs tend to increase as the number of competitors increases and firms are close in size and potential;
- Rivalries are usually stronger when the growth rate of demand for our products is slow;
- Rivalries become more volatile and unpredictable, the more diversity of SMEs according to priorities and resources, etc., is higher.

Design strategies will match the specific conditions under which each company operates. In this sense, scientists have developed various classification schemes; to better define the types of strategies. Experience has shown that the wide range of strategic options can be grouped according to the general objectives set out in a few basic types known: growth strategies, maintenance strategies, defensive strategies and combined strategies, most of themselves and making their own choices achievement.

Basically Romanian SMEs are very poor offensive strategies involving:

- Anticipating issues that may create a competitive advantage;
- Planning of movements designed to surprise the opponents and give them less time to launch similar initiatives.

In preparing their strategies, SMEs can take account of a famous series of principles, which although does not guarantee success, increases the likelihood of:

1. Principle of critical masses - the concentration of actions in times and places critical to achieve a decisive effect;
2. Offensive principle - that exploiting the weaknesses of “enemy” to maintain control of the situation;
3. Principle of surprise - that such a choice of when and where action to capture the opponent unprepared.

In a highly competitive market as one that enables SMEs generally, each of which can become not only the subject, but also the object of attack rivals, be they companies or new entrants existing companies. Therefore, the purpose of defensive strategies is to minimize the risk of SMEs to be attacked, or decrease the intensity of the attack.

Arsenal defensive strategies is vast, from those aimed at blocking access routes to competitors (which lends itself to a small extent but small and medium enterprises), to those designed to convince potential attacker, the effort is too high in relation to the effect (announcement intent to preserve

market share, maintaining the profit share less attractive to outsiders, etc.). The benefits of successful defensive strategies are difficult to measure.

Design strategies are a necessary condition but not sufficient to ensure survival and even growth of SMEs. It is therefore important that the developer be able to translate strategic vision into practice. It should be noted, however, that in a small and medium enterprises, implementation is facilitated by its structural and functional flexibility, the concentration of power in the entrepreneur and the exercise by it of an active role authoritatively on his subordinates. The implementation of the various strategic options presented, concerns mainly the development of market strategies and financial strategy specific to each category of firms analyzed. Algorithm strategic management of SMEs can be developed on two vital directions listed: marketing and finance.

Attitude towards risk entrepreneur also has a considerable influence on strategy. Thus, those with reduced capacity to take risks will opt for so-called strategy mostly "safe", which minimizes the impact of environmental threats; the profits are not spectacular, but acceptable. Often, the entrepreneur with risk aversion insists on addressing the financial perspective of the business, preferring financing from own resources or borrowed resources. He avoids as much as possible, significant financial commitments until the likely effects of the uncertainty is minimal. Moreover, innovations of any kind of business are interpreted as too risky, compared with the situation. Such places great value on entrepreneurial strategies "conservative" or defensive, designed to minimize risks.

A small entrepreneur with a high capacity to take risks, more proactive strategies "offensive", with increased chances of profit, more demanding, challenging but also risky. For him, innovation is better imitation and offensive defense is better. The Romanian economy is already operating in an open and competitive. There are a number of measures that can help maintain the competitiveness of SMEs continue to operate on the domestic market more competitive and increasingly important, although often neglected in unrealistic. It would be beneficial for Romania's economic development undertakings in the sector to succeed domestically and at the same time, turn to international markets through appropriate strategic approach to find niches, avoiding direct competition with large companies on field market segment that it dominates.

### **3. Conclusions**

We believe that a more general level, the shift from internationalization to globalization of economic life - one of the defining characteristics of the evolution of global business in the second half of the twentieth century - has a strong influence on SMEs and their internationalization. The influence is mixed, both negative, the top competition, increased business turbulence, but positive, facilitating access to new markets, supply and sales, accelerate the transfer of know-how, access to new technologies, partnerships and strategic alliances at international level, etc. Literature and actual developments of SMEs shows that it lies rather in a position to counter the negative effects of economic internationalization and to capitalize on the positive, especially in the peak areas of the economy.

In conclusions, the competitiveness of SMEs is therefore interdependent national business environment developments and political environment, business clusters, and development of industrial zones and internationalization of economic processes of globalization. Moreover, the internationalization of SMEs internationalization evolves with the national business environment.

In the context of competitive markets XXI century, it becomes imperative need for strategic approaches to entrepreneurial survival and success of SMEs soliciting effective business strategies and actions. Strategic entrepreneurship is applicable to new SMEs and existing firms in the market, thereby facilitating the positive impact of the efforts of companies to identify the most advantageous opportunities with profit potential of the highest, according to available resources.

According to Strategy 2020, Romania will harmonize legislation so as to enable promotion of the internationalization of SMEs and improve access to the single market. Entrepreneurship would need to

be developed by concrete policy initiatives, including a simplification of company law (bankruptcy, the status of private companies, etc.) and initiatives to enable entrepreneurs to restart after bankruptcy. This gives in particular small means to participate fully in the Single Market.

After going through old and new concepts about the company and its competitiveness, conclusions can be drawn are very simple: from small and medium enterprises has been a competitive power market, whose springs are less predictable, but requires that any business that wants to survive to develop into a feature some form of uniqueness. Ultimately, the only sustainable competitive factor is innovation, which in turn depends on the quality of human resources and management.

It is difficult to place small and medium enterprises in domestic and foreign competition because they are less developed than in other transition countries. Their contribution to the growth performance of the Romanian economy is still needed. The influence is mixed, both negative, by the superior concurrence, the increase of the turbulence of the businesses environment, and positive, facilitating the access at new markets of provision and sale, the acceleration of the know-how transfer, the access at new technologies, partnerships and strategic alliances at international level, etc.

The full potential of the SME sector contributing to employment growth and competitiveness policy requires consistent and favorable development in general. In some moments, it is necessary for the state to intervene to offset the adverse consequences of market registered small businesses. A condition for the success of Romanian SMEs is that those who decide its fate to look into the future, not past.

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