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Conceptual Framework of SMEs Competitiveness Factors in the Context of Globalization

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Major theories of competitiveness at a firm level

- The structure, conduct and performance (SCP) paradigm as a nucleus of industrial organization theory (IO);
- The resource-based view (RBV), including dynamic RBV;
- Configuration theory (CT) and some others.

- Building on these theories, the **research goal** is to further develop the understanding of SME competitiveness factors with particular accent on the globalization context.

Porter's framework

- Porter's approach to the sources of competitive advantages relies on **firm's activities**:
- The firm is a collection of discrete, but interrelated activities (such as products assembling, sales visits, orders processing, etc.). This system of activities forms the firm's value chain.
- If the *operational effectiveness* stressed on achieving excellence in individual activities, *the strategy* concentrates on genius *combinations* of activities.

Porter about the RBV

- Performing an activity requires internal to the firm *tangible and intangible assets*. Performing an activity also creates both internal and external assets.
- The concept of activity drivers, however, explains better the creation of resources than the RBV, which he regards as *circular*.
- Resources and activities are duals of each other, but activities as logically prior, in spite that this causality became blurred.
- The RBV “stress on resources must *complement*, not substitute for, stress on market positions” (Porter, 1991, p. 108).

Propositions to combine Porter' model with others concepts

- Differences in profitability within industries are greater than differences between industries.
- The firm level accounts for a greater part of the variance in firms' performance (Short *et al.*, 2007)
- Many researchers suggested combining Porter's framework with the RBV, network approach, institutional and other theories.
- Porter's activity systems reflect deployment of a firm's resources to create a differentiated position, which are closely related to the resource-based view (Jörgensen, 2008, p. 238).
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The RBV

- The industry analysis is incomplete, because it focuses on external competitive forces and treats the firm as a "black box".
- The RBV changed the accent on firms' internal *tangible and intangible resources* as most important sources of competitiveness.
- The firm has an advantage if its resources are valuable, rare, immobile and non-substitutable (VRIN framework, later VRIO)

= "isolating mechanisms").

- Intangible resources are assets (something that the firm can "has"), and *capabilities* (something that the firm can "do").
- The RBV cannot explain firms' advantages in the situations of rapid and unpredictable change. To address these issues the concept of "*dynamic capabilities*" has been developed.

Dynamic capability view

- Dynamic capabilities are “the firm’s ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments” (Teece *et al*., 1997, p. 516).
- Dynamic capabilities are “the organizational and strategic routines by which firms achieve new resource *configurations* as markets emerge, collide, split, evolve and die” (Eisenhardt and Martin, 2000, p. 1117).
- “Dynamic capabilities” differ from “ordinary capabilities” (“operational routines”) by being concerned with change (Collis, 1994; Winter, 2003; Zollo and Winter; Teece, 2014).
- Having dynamic capabilities *per se* does not lead to superior firm performance (Helfat and Peteraf, 2003; Zara *et al*., 2006; Salvato and Rerup, 2011).

Configuration approach

- The organization is a combination of interconnected variables, grouped in the respective domains (environment, structure, leadership, strategy, and others).
- The sources of a firm’s competitiveness can be understood in terms of different *combinations* of resources, capabilities, and external factors.
- The choice of the configurational elements depends on the theoretical orientation (environmental components, resources, or their combinations).
- Configurations can be obtained as typologies (conceptually derived ideal types) or taxonomies (empirically observed types).
- A limited number of configurations of firm’s characteristics can describe a great number of well-performing firms.

Combining three approaches (1)

- The opposition of the RBV and the Porter’s model is guided by the use of different notions (“capability” and “activity”), which describe similar realities.
- If operational (ordinary) capabilities are responsible for the effectiveness of firm’s ordinary activities, *dynamic capabilities* change the way these activities are performed or create new activities, and this way change the firm’s strategic positioning.
- If dynamic capabilities aim to change the resources and their configurations, the same is the goal of Porter’s strategic activities (creating genius combinations of activities).

Combining three approaches (2)

- The RBV and the Porter's view are complementarity, at least because the two perspectives revealed *two sides* of the firm – external (products) and internal (resources) (Wernerfelt, 1984, Grant, 1996; Peteraf and Barney, 2003).

We propose the logic of:

"*Tangible and intangible assets - ordinary capabilities* (*expressed in ordinary activities*) - *dynamic capabilities* (*manifested in strategy-specific activities*)"

as encompassing firm's internal sources of competitive advantages.

- The level of resources and capabilities would reveal the firm's competitive *potential*.

Conceptual framework (1)

- *D*ynamic capabilities, Porter's system of activities, and configuration approach underline the importance of *configurations* of firm's resources, capabilities, activities, and external forces.
- Organisational configurations can be regarded also as ordinary (basic) and innovation-related (firm specific) ones.
- The distinguishing feature of the innovation-related combinations is that they assume an organizational change, which is particularly difficult in SMEs.
- The two types of combinations (ordinary and new ones) in practice are two *stages* of the firm's upgrading.

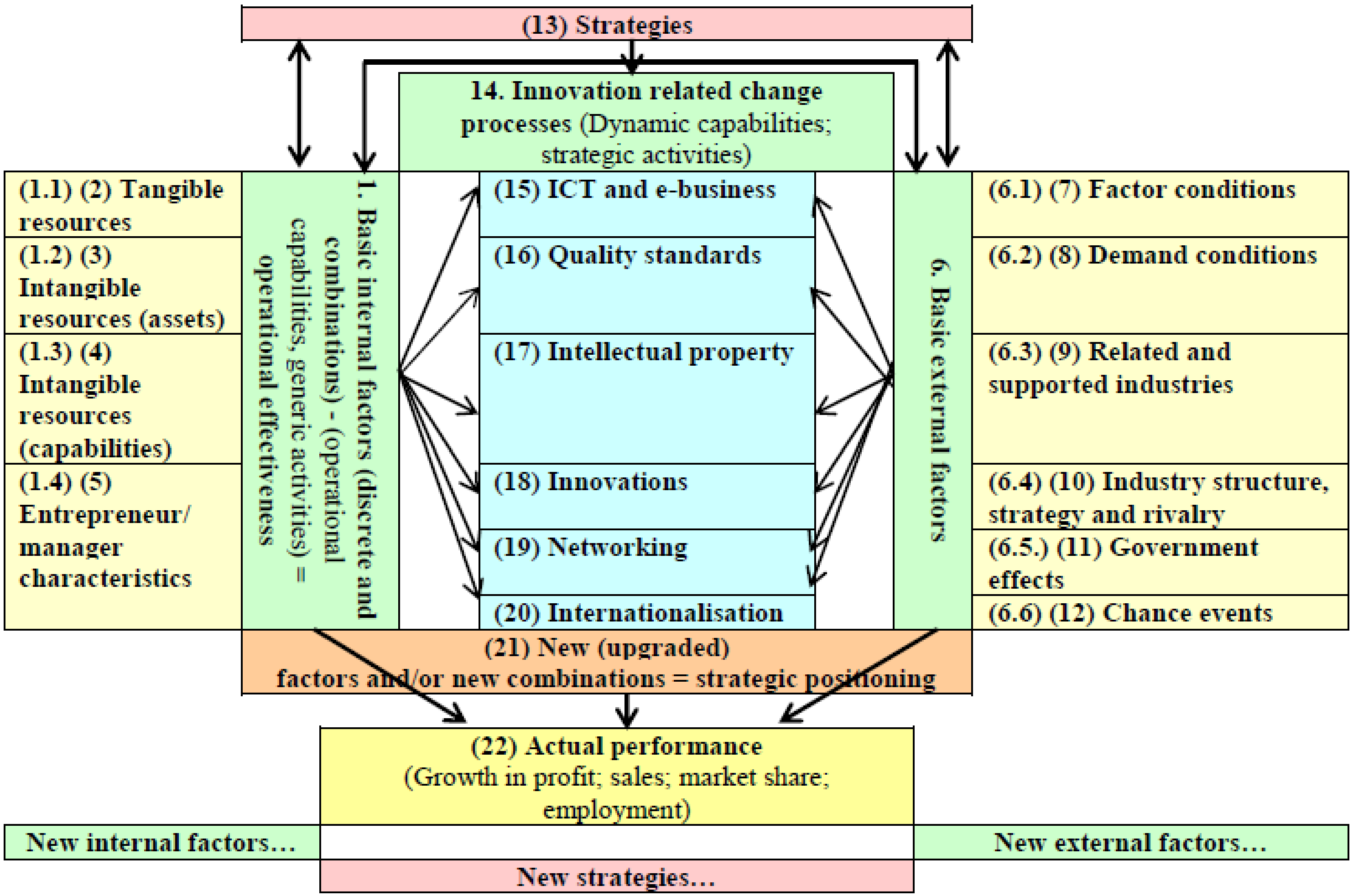
Conceptual framework (2)

- The leading economic changes are related to *innovations*: new product, higher quality of an existing product, new production methods, new markets, new sources of raw materials, or new organisational forms in the sector (Schumpeter, 1934).
- To these today we may add: the adoption of the ICT, quality management systems, specific innovations (product, process, and management), intellectual property management (brands, trademarks and patents), networking, internationalisation, etc. (OECD, 2000)
- The new combinations are *modifications* of those proposed by Schumpeter, related to the globalisation. That is why they may be regarded as *globalisation-specific factors* for the firm's competitiveness (at least before the globalisation these factors have not been usually related to SMEs).

Conceptual framework (3)

- Factors of the firm competitiveness can be classified as *individual* (discrete) internal, external, and linked to the entrepreneur's characteristics.
- The individual *internal* components may include tangible and intangible assets, capabilities, and activities, including the entrepreneur/manager characteristics.
- The individual *external* components may encompass Porter's "diamond" factors and firm's external relationships, including institutional factors.
- These individual factors form a base for both the firm's *ordinary and new combinations*.
- Based on that we propose a conceptual framework to combine the strong points of Porter's view, RBV, and configuration approach (Fig. 1).

Figure 1. Conceptual framework of SMEs competitiveness factors at a firm level



Conclusion

- Factors for the SME competitiveness were classified under two frameworks.
- The first one covered the traditional division among external, internal, and linked to the entrepreneur/manager factors, while
- The second one introduced a new division between firm's basic and innovation-related factors.
- The last ones indicate the *directions* to develop further the firms' resources, capabilities, and activities in response to external environment changes.