Conceptual Framework of SMEs Competitiveness Factors in the Context of Globalization

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The paper aims at providing a theoretically grounded framework for researching the SMEs competitiveness factors under the pressure of globalisation forces. A review of three relevant theories (Porter's framework, RBV and related to it dynamic capability view, and configurational approach) reveals that these theories converge to some degree in their assumptions, proposals, and recommendations. Taking into account firm's tangible and intangible assets, employees' and managers' ordinary and dynamic capabilities, and the manifestation of these capabilities into respective activities, we propose the logic of "tangible and intangible assets - ordinary capabilities (expressed in generic activities) - dynamic capabilities (manifested in strategy-specific activities)" as encompassing the firm's internal sources of competitive advantages. It is shown that the concepts of dynamic capabilities, Porter's system of activities, and configuration approach underline the importance of configurations of firm's internal and and external factors. The organisational configurations are divided into ordinary (basic) and innovation-related (specific to the globalisation pressures). In fact these combinations represent two stages of the firm's adjustment to the environmental changes. That is why the distinguishing feature of the innovation-related combinations is that they assume an organizational change. Based on that a conceptual framework is proposed for investigating the firm level cpmpetitiveness factors, which attempts to combine the strong points of Porter's view, RBV, and configuration approach. It is suggested that strategies to enhance the SMEs development in a globalizing economy have to take greater account of the new roles of ICT, international quality standards, networking and clustering, specific innovations, intellectual property management, and internationalisation. The proposed framework is heuristic and opens new avenues for further research in the field.

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Introduction

The economic globalisation created a fast changing environment, which impact all types of businesses independently of their size, sector, or country location. It expressed in trade liberalization, internationalization of markets, deregulation, spread-up of knowledge based economy, new information and communication technologies (ICT), new organizational forms, etc. These changes created more complex conditions for SMEs development (Brown an Eisenhardt, 1998; Shane and Venkataraman, 2000). According to the OECD (2007), globalization opens new opportunities for a small number of internationalised SMEs, forced another SMEs to meet international standards in order to catch on export, and for the remaining SMEs that are in traditional activities, the pressure of the globalization is less immediate and urgent, but it will grow (OECD, 2007).

Thus the globalization has challenged traditional models of firms' competitiveness and caused a need for new approaches. Strategies to enhance SMEs development in a globalizing economy have to take greater account of the new roles of ICT, international quality standards, networking and clustering, specific innovations, intellectual property management, internationalisation, etc. (OECD, 2000), but there is insufficient knowledge about their effects.

Advancing the understanding of how SMEs respond to the globalisation challenges is particularly important for the competitveness of the European SMEs. It was found that even in the period of crisis (2008-2010) innovative SMEs have higher employment growth rates (de Kok *et al*., 2014, p. 9). Other data revealed that the European SMEs from hi- and medium-tech manufacturing and those from knowledge-intensive service sectors performed better in terms of productivity, employment growth, and export (Ecorys, 2012, pp. 36-38). The EU report (EC, 2010, pp. 7, 8, 9) showed that there is a *strong* link between activities on international markets and different forms of innovation. Internationally active SMEs are more active in innovations, in the e-commerce use, and report high turnover and employment growth. Based on that the report even proposed that "it is a good thing to design and present policy support measures aimed at stimulating innovation and internationalisation in conjunction" (EC, 2010, p. 9). At the same time, the competitive potential of many European SMEs suffer from insufficient access to finance, expensive procedures for intellectual property protection, attracting a small share of public budget for staff training, etc. (Blackburn and Wainwright, 2010). This situation requires more attention on factors, which enhance or inhibit the SMEs competitiveness.

Competitiveness is a multidimensional construct, which includes a combination of factors (resources, capabilities, activities, and related processes) that determine the firm's performance (Ambastha and Momaya, 2004). The major theories seeking to explain the firm-level competitiveness are the structure, conduct and performance (SCP) paradigm as a nucleus of industrial organization theory (IO), the resource-based view (RBV), including dynamic RBV, and the configuration theory (CT). Building on these theories, this research aims to further develop the understanding of SME competitiveness factors with particular accent on the globalization context. The paper contains literature review, conceptual framework, and conclusion.

1. The state of the art

1.1. Porter's framework

The starting point of Porter's framework on competitiveness is the relentless of environmental change to which firms have to respond mainly through innovation and upgrading (Porter, 1991, p. 111). He developed the concept of five *market forces*, which influence the firm competitiveness on the level of industry, strategic group, and individual firm (Porter, 1998, p. 4). Subsequently, the industry structure was systematized in four key components (Porter's *diamond*): (1) factor conditions; (2) demand conditions; (3) related and supporting industries; and (4) industry strategy, structure and competitiveness. Two additional components in the model are government effects and chance events (Porter, 1991, p. 111). The diamond is a dynamic system, because the effect of one determinant depends on the state of others. Porter (1996) considered that firm's performance depends on its strategic choices, which result in firm's *strategic* positioning in the industry structure. He describes three *generic strategies* aiming to achieve advanced product differentiation, efficient cost structures, and greater focus on a niche market as key competitive advantages (Porter, 1998, p. 12). Firms should follow only one of these strategies as the application of two strategies will bring them to "stuck in the middle" (Porter, 1998, p. 16) (the so called inconsistency hypothesis) (Peters and Zelewski, 2013, p. 149).

Porter's approach to the sources of competitive advantages relies on firm's activities, where the basic unit of analysis is a "discrete activity" (Porter, 1996, p. 62). Discrete activities are the factor, which transform the inputs, create value to buyers and hence differentiation. Based on that he considered a firm as a collection of discrete, but interrelated activities such as products assembling, sales visits, orders processing, etc. (Porter, 1991, p. 102). This system of activities forms what he calls the firm's value chain. Competitive advantage results from "a firm's ability to perform the required activities at a collectively lower cost than rivals, or perform some activities in unique ways that create buyer value and hence allow the firm to command a premium price" (Porter 1991, p. 102). Some firms perform better their activities due to activities' drivers (scale,

learning, linkages, sharing, capacity utilization, location, timing of investment, integration, institutional factors, and others). Namely these drivers explained the *sustainability* of competitive advantage (Porter, 1991, p. 104).

Porter (1996) proposed an important difference between operational and strategic firm's performance. If "operational effectiveness (OE) means performing similar activities *better* than rivals perform them…, strategic positioning means performing *different* activities from rivals' or performing similar activities in *different ways*" (Porter, 1996, p. 62). If the operational effectiveness stressed on achieving excellence in individual activities, the strategy concentrate on genius *combinations* of activities (Porter, 1996, p. 70). Striving for operational effectiveness leads to temporary benefits, because of the homogeneity of the resulting best practices (Porter, 1996, p. 63). A key source of sustainable competitive advantages is to achieve the strategy specific fit of activities, which is harder to imitate (Porter, 1996, p. 73).

Porter saw that performing an activity requires internal to the firm *tangible and intangible assets*. Performing an activity also creates both internal (skills, organizational routines, and knowledge) and external assets (tangible as contracts, and intangible as brand image, relationships, and networks) (Porter, 1991, p. 102). He considered that "the conditions which make a resource valuable bear a strong resemblance to industry structure" (Porter, 1991, p. 108). According to him the concept of activity drivers explains better the creation of resources than the RBV, which he regarded as *circular* (Porter, 1991, p. 108). He argued that resources and activities are duals of each other, but activities as logically prior, in spite that this causality became blurred (Porter, 1991, p. 109). The RBV "stress on resources must *complement*, not substitute for, stress on market positions" (Porter, 1991, p. 108).

Many researches, however, found that differences in profitability within industries were greater than differences between industries (Cool and Schendel,1988; Rumelt, 1991; Carr, 1993). Short *et al*., 2007, p. 162, 163) demonstrated that each of the three levels (firm, strategic group and industry) contribute significantly to performance, but the firm level accounts for the greater part of the variance in firms' performance. Some criticised Porter's model for its tautology (firms are successful because they operate in attractive industries) (Black and Boal, 1994, p. 131), while others contradict the inconsistency hypothesis (Miller and Dess, 1993; Ghemawat and Rivkin, 2001; Parnell, 2006; Pertusa-Ortega *et al*., 2007).

The benefits of using Porter' framework, however, outperform largely some of its shortages. A lot of studies have shown how market forces and government influence the specific industry competitiveness (Sledge, 2005; Lehtinen *et al*., 2006; Jin and Moon, 2006; Orala and Mistikoglub, 2007; Watchraversringkan *et al*., 2010; Sun *et al*., 2010; Ozgen, 2011; Bakan and Doğan, 2012; Dögl *et al*., 2012; Sumer and Bayraktar, 2012). Other researches suggested to combine Porter's framework with the achievements of the RBV, network approach, and institutional theories (Eickelpasch and Lejpras, 2010, p. 23; Carayannis and Wang, 2012, p. 288). Tavoletti and te Velde, 2008, p. 305, 315, 316) confirmed the validity of the Porter's diamond model, and simultaneously reaffirmed the importance of historical antecedents, social innovation and collective learning, which are closer to the RBV. Analysing Porter's contribution, Jörgensen (2008, p. 238) argued that his ""activity systems" reflect deployment of a firm's resources to create a differentiated and difficult to imitate competitive position. Activity systems are therefore closely related to both the resource-based view and the 1985 value chain framework".

1.2. The RBV

Amit and Schoemaker (1993, p. 42) regarded industry analysis as incomplete, because it focus on external competitive forces and treats the firm as a "black box". The emergent then RBV changed the focus on firms' internal *tangible and intangible resources* as most important sources of competitiveness (Wernerfelt, 1984; Barney, 1991). The main assumptions of the RBV are that resources and capabilities (production factors) are heterogeneously distributed across firms; at least some of them may be inelastic in supply, which is a source of sustained competitive advantage (Peteraf, 1993; Barney, 2001). A firm would have an advantage if its resources are valuable, rare, immobile and non-substitutable (VRIN framework) (Barney *et al*., 2001). These resource characteristics create "isolating mechanisms", which are analogue of entry barriers (at the industry level) and mobility barriers at the strategic group level (Mahoney and Pandian, 1992, p. 371).

Barney (1991) classified firm's resources into three groups: physical, human, and organizational capital, while Grant (1991, p. 119) suggested six types of resources: financial, physical, human, technological, reputational, and organizational resources. According to Andersen and Kheam (1998, p. 164) there is generally no disagreement what to include in *tangible resources*, which refer to physical assets, financial capital, human resources, organizational systems, and technology, and which value is reflected in the firm's balance sheet. Hall (1992, p. 136, 139; 1993, p. 611) divided intangible resources into assets (something that the firm can "has"), protected and non-protected by law, and individual and organisational competences (something that the firm can "do"), using the term of "competence" as a synonymous to capability. Following Hall's division Camelo-Ordaza *et al*. (2003, p. 97) and Galbreath (2005, p. 980) proposed an operationalization of these constructs into respective items.

Black and Boal (1994, p. 134, 135, 136) viewed the *configurations* among resources as more important than the simple list of resources. They distinguished between *contained and system resources*. Miller and Shamsie (1996, p. 523-524) also discerned between property-based and knowledge-based resources two other categories - *discrete and bundled* (systemic) resources.

The researchers found that the simple possession of resources is not sufficient - important is how these resources are organized and used (Mahoney and Pandian, 1992, p. 365; Priem and Butler, 2001, p. 33; Sirmon *et al*., 2007, p. 273). For this reason Barney (1997, p. 160) transformed a VRIN framework into VRIO model, adding the capacity of organization to use the resources. If the resources as tradable and nonspecific firm assets (inputs of production processes), *capabilities* refer to a firm's capacity to deploy resources. Capabilities are non-tradable, firm-specific (often invisible) assets, which may include executive talent, culture, reputation, relationships with suppliers and buyers, and other less tangible dimensions (Amit and Schoemaker, 1993, p. 35, 39, 42). Nelson and Winter (1982) viewed capabilities as complex patterns of coordination between people and between people and other resources, known as "organizational routines". If the skills and habits describe the individual employee's capacity to perform activities, routines are their organizational analogue (Salvato and Rerup, 2011, p. 471). According to Hodgson (2008, p. 18, 19, 20) routines reflect the *potential* to act, while behaviour is its *actual* manifestation. Other authors also defined organizational capability as a routine, which reflects the way the activity is accomplished (Grant, 1991, p. 122; Collis,1994, p. 145).

In their review of principal critiques to the RBV Kraaijenbrink *et al*. (2010) concluded that the RBV can withstand more of its eighte critics, while three critics have to be taken into account for its improvement. One of its weaknesses was the all-inclusiveness of the definition of resources (all assets, capabilities, processes, knowledge, etc.), which leads the theory to tautology (Kraaijenbrink *et al*., 2010, p. 358; Priem and Butler, 2001, p. 34). Other shortage was related to the neglection of the context of resource deployment (Kraaijenbrink *et al*., 2010, p. 365), while it shown that the value of resources depend on environmental context (Miller and Shamsie, 1996, p. 519). Some considered that the RBV misses the significance of entrepreneur/manager profile (mental models) to the firm's performance (Foss *et al*., 2007), which is particularly important for SMEs. Newbert (2007, p. 122) demonstrated that empirical researches have brought modest support to the RBV applications. Many researchers agreed that the RBV cannot explain firms' advantages in the situations of rapid and unpredictable change (Teece and Pisano, 1994, p. 537; Priem and Butler, 2001, p. 33; Sirmon *et al*., 2008, p. 275-276; Ambrosini and Bowman, 2009, p. 29). Namely to address these issues the concept of "dynamic capabilities" has been developed.

1.3. Dynamic capability view (DCV)

The RVB generated works in two directions: the measurement of firm's resources and capabilities and their relations to firm's performance ("resource - picking" theories), and how capabilities of firms change over time ("capability building" theories) (Makadok, 2001, p. 387, 388, 391). Newbert (2007, p. 124) also viewed the emergence of two approaches within the RBV - the first one related to the VRIO framework, and the second one regarded as radically new approach, namely the dynamic capabilities framework.

Tieece *et al.* (1997, p. 516) defined dynamic capabilities as "the firm's ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments". Dynamic capabilities cover three key managerial functions: coordination/ integration; guided learning; and reconfiguration/transformation (Teece *et al*., 1997, p. 518). To accomplish these functions, dynamic capability was decomposed into three types of entrepreneurial/managerial activities: identification and assessment of opportunities (sensing); mobilization of resources to capture value (seizing); and continued renewal and reconfiguration of intangible and tangible assets (transforming) (Teece, 2014, p. 18). This was done because traditional elements of business success (maintaining incentive alignment, owning tangible assets, controlling costs, maintaining quality, etc.) became insufficient for superior performance (Tiece, 2009, pp. 4, 6). Dynamic capabilities are developed inside the firm through three learning mechanisms (tacit experience accumulation processes, explicit knowledge articulation, and knowledge codification) (Zollo and Winter, 2002, p, 344).

Eisenhardt and Martin (2000) considered that the competitive advantage does not rely on dynamic capabilities themselves, but on the resource *configurations* created by them and on using these capabilities sooner, more astutely, and more fortuitously than the competition. They defined dynamic capabilities as "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). Subsequently Zahra *et al*. (2006, p. 924) also saw dynamic capability as "the abilities to reconfigure a firm's resources and routines in the manner envisioned and deemed appropriate by its principal decision-maker(s)". These views were based on the understanding that "it is what firms do with their resources that may create or destroy value" (Becerra, 2008, p. 1112).

Particularly significant was the distinction between ordinary ("zero-level") capabilities and dynamic ("higher-level" capabilities) (Collis, 1994, p. 145). Winter (2003, p. 992) argued that there is a broad consensus that "dynamic capabilities" differ from ordinary capabilities by being concerned with change. Similar distinction was made by Zollo and Winter (2002, pp. 340, 341, 344) in terms of "operating routines" and "dynamic capabilities". Teece (2014, pp. 18, 19, 33) also considered important to distinguish "ordinary" (easily replicable) from dynamic capabilities (hard to replicate). With the globalisation barriers to the transfer of ordinary capabilities have been reduced, which means that many ordinary activities even on the level of "best practices" are no longer critical to competitive advantage.

Many authors recognise dynamic capabilities in the processes of acquisitions, alliances, product innovation, R&D, absorptive capability, restructuring, etc. (Helfat *et al*., 2007). Zahra *et al*. (2006, p. 921) also "distinguish substantive capability from the dynamic ability to change or reconfigure existing substantive capabilities". They viewed, however, the new product development as a substantive ability, while the ability to *reform* the way the firm develops new products is a dynamic capability. According to Helfat and Peteraf (2003, p. 999) dynamic capabilities *do not involve* production of goods or services, rather they help a firm to adapt routines and standard capabilities to the changing environments (Salvato and Rerup, 2011, p. 473). In this sense dynamic capabilities are valuable to the extent that the newly created substantive capabilities are valuable (Zahra *et al*., 2006, p. 923). Ambrosini and Bowman (2009, p. 33) concluded that "a dynamic capability is a process that impacts upon resources", and because of that a dynamic capability is not a capability in the RBV sense (not a resource).

Based on the "exploitation-exploration" view, Pavlou and Sawy (2011, p. 242, 261) considered that operational (ordinary) capabilities would correspond to the exploitation of existing resources, while dynamic capabilities would correspond to the exploration of new opportunities. In this case firms face a trade-off between focusing on dynamic versus operational capabilities. This situation could explain why the exercise of dynamic capabilities may be costly (as having an innovative R&D that does not pay off in the presence of strong rivals who invest only in imitative R&D) (Winter, 2003, p. 993, 994). Zara *et al*. (2006, p. 942, 943) also agreed that having dynamic capabilities *per se* does not lead to superior firm performance (if the substantive capabilities upon which they operate are mediocre and remain so after reconfiguration, no advantage will accrue). The accent in the Barreto (2010, pp. 275, 277) definition of dynamic capability on the *potential* underlines the fact that firms with higher level of dynamic capabilities may not always be able to realise it. Some empirical researches tryed to elucidate the contribution of dynamic capabilities to firm's performance (Wang *et al*., 2012; Pittaway 2013). Drnevich and Kriauciunas (2011, p. 276) found support for the positive contribution of ordinary capabilities to the process and firm performance level, while dynamic capabilities did not automatically improve performance.

Giudici and Reinmoeller (2012, pp. 436, 439, 445) concluded that the dynamic capability research has become polarized between equally passionate critics (Arend and Bromiley, 2009, p. 80, 81, 83, 85) and supporters (Helfat and Peteraf, 2009, p. 93, 99). On the one hand, it seemed that dynamic capabilities have become a reified construct; while on the other hand, they accounted for an accelerating growth of researches under this framework in the last years.

1.4. Configuration approach

As the sources of a firm's competitiveness are multiple and cannot be confined to one group of resources, capabilities, or external factors (Fleisher and Bensoussan, 2003, p. 208), they can be understood in terms of *combinations*, which refer to *configuration theories*. Miller (1996, p. 508) stated that both the competitive analysis framework and the RBV can be extended by searching for the most successful configurations of organizational elements. The configuration approach views the organization as an entity of complex relationships of mutually interconnected variables, grouped in the respective domains (Meyer *et al*., 1993; Dess *et al*., 1993). Originally Miller (1987) differentiated four domains: environment, organizational structure, leadership and strategy. Subsequently, these domains have been enlarged to include resources, capabilities, and the entrepreneur's characteristics (Kraus *et al*., 2011, p. 63). Configurations can be obtained as typologies (conceptually derived ideal types) or taxonomies (empirically observed types) (Dess *et al*., 1993, p. 776).

The application of the configuration approach relies on cluster analysis, Q-sorting, and grid technique that facilitate classification into groups in function of significant differences among them. Other authors saw the set-theoretic methods as suitable for configuration researches, because they conceptualize cases namely as combinations (Fiss, 2007, 1181). The approach adopts the concept of *equifinality,* which means that "a system can reach the same final state, from different initial conditions and by a variety of different paths" (Katz and Kahn, 1978: 30). Two or more configurations may be equally successful in assuring high performance under the same circumstances (Gresov and Drazin, 1997).

The basic assumption of the configuration approach is that firms that are able to align their attributes to the environment would perform better than the others. It means that a limited number of configurations of firm's characteristics can allow describing a great number of well-performing firms. As Short *et al*. (2008, p. 1054) stated "configurational research aspires to offer accurate *prediction* of which sets of firms will be successful under a particular set of circumstances". The configuration approach aims to identify groups of firms that share common features on some important dimensions. These groups are particular organisational forms (Short *et al*., 2008, pp. 1057, 1058), the best known of which were revealed by Miles and Snow (1978). These are firms as defenders, prospectors, analyzers, and reactors, which differ significantly in their strategy, structure, and decision making.

The choice of the configurational elements depends on the theoretical orientation. If the leading theory stressed on the firm's environment, than its components will form the configurations. If the RBV is taken into account, then different resources will be parts of configurations. Wiklund and Shepherd (2005) investigated configurations, formed by entrepreneurial orientation, resources, and environment and their effects on firm's

performance. Based on the data of the US medical group industry, Payne (2006, p. 763) revealed three main configurations, while Homburg *et al*. (2008, p. 147-148) found five empirical configurations of the marketing and sales units. Gruber *et al*. (2010, p. 1338, 1347) explored data from 230 young technology firms in order to identify how resources and capabilities are configured in the sales and distribution function and how these configurations are associated with performance outcomes. Swoboda and Olejnik (2013, 145, 153) examined the relationships among culture, strategy and structure of 504 Germany-based small- and medium-sized family firms. They discovered four groups (configurations) of firms, which are clearly distinctive in respect to their structure, orientations and performance.

The configuration approach seems to suit well for studying SMEs competitiveness as it reflects the *holistic nature* of enterprises (Michor *et al*., 2010, p. 2) The major challenge to this approach, however, is the variable selection as it is not possible to include all relevant variables (Gruber *et al*., 2010, p. 1339).

2. Combining three approaches

2.1. Clarification of some basic terms

It is widely accepted that the Porter's framework focuses mainly on external (industry-level) characteristics (Jörgensen, 2008), while the RBV underlines the role of the firms' internal resources. This is necessarily a simplification as Porter talked about the system of firm's activities as a source of competitive advantage. In spite that differences in terminology reflect differences in theoretical traditions (Ray *et al*., 2004), it seems that the opposition of these theories is guided by the use of different notions, which describe similar realities (Sheehan and Foss, 2007).

If Porter (1996, p. 62) considered that the unit of analysis of the internal sources of firm's competitiveness has be the "activity", the RBV decomposed the activity into tangible and intangible resources, with an accent on "capability". The everyday notion of capability reflects the potential to act, while the manifestation of capability happens in action or activity. As the resources and capabilities need to be turned into activities, it seems acceptable to regard them as potential sources of competitive advantages, which may become real in the processes of their actual combination. Sheehan and Foss (2007, p. 457) stated that while capabilities and activities are similar, "there is a distinction between possessing the ability to do something and actually doing it" According to Kraaijenbrink *et al*. (2010, p. 360) it is necessary to distinguish capacity from action (or process). Barreto (2010, p. 271) defined a dynamic capability as a firm's *potential* to solve problems, while Ray *et al*. (2004, p. 26) stated that: "while these resources may retain the potential for generating competitive advantage…, that potential can be realized only if used in business processes".

The definitions of dynamic capability converge towards its understanding as a firm ability to *change* the resources and their configurations according to the perceived by managers requirements of the environment. These changes may relate to the improvement of the existing ordinary ("operational") capabilities (for instance to reach the level of "best practices"), to the adoption of new combinations, or both. There is an obvious similarity with a Porter's view when he argued that the operational effectiveness stressed on achieving excellence in individual activities, while the strategy aims at genius combinations of activities (Porter, 1996, p. 70). Generic activities are important, because they set the bar for competition (the industry "best practices"), but the strategy-specific activities assure sustainable competitive advantage by the creation of different combinations (Porter and Siggelkow, 2008, p. 37). Connecting two approaches leads to the conclusion that operational ("zero-order") capabilities are responsible for the operational effectiveness of firm's ordinary (generic) activities; while dynamic ("higher order") capabilities change the way these activities are performed or create new activities (or new combinations), and this way change the firm's strategic positioning.

The main differences between Porter and dynamic RBV remain in the components of organisational configurations – being generic or strategy-specific activities or resources and capabilities. These components, however, may be logically ordered. This means to take into account firm's tangible and intangible assets, employees' and managers' ordinary and dynamic capabilities, and their manifestation into respective activities. We propose the logic of "*tangible and intangible assets - ordinary capabilities* (*expressed in generic activities*) - *dynamic capabilities* (*manifested in strategy-specific activities*)" as encompassing firm's internal sources of competitive advantages. Based on the above distinctions we assume that the level of resources and capabilities (latter understood as "capacity" to act) would reveal the firm's competitive *potential*, while the accomplished activities (crystallised in respective outcomes) would refer to the actual level of firm's *performance*. Without such distinctions the terms "capabilities" and "activities" may be used interchangeably.

2.2. Combining strong points of the activity-based view, RBV, and configuration approach

Priem and Butler (2001, p. 30) noted that both the activity-based view and the RBV shared some *simplified assumption*s: "just as the prior environment-focused models simplified strategic analysis with an implicit assumption of homogeneous and mobile factor markets, the RBV itself simplifies strategic analysis with an implicit assumption of homogeneous and immobile product markets…". If the supporters of the capability view underlined the necessity of the firm to create distinctive capabilities (Mahoney and Pandain, 1992, p. 365), Porter (1991) insisted on firm's distinctive activities as a source of competitive advantage. The RBV stressed on the internal structure of production factors, which are in fact a first component of Porter's

diamond model. While Porter paid attention on difficult to imitate activities, Barney (1991) considered that only the VRIN resources can be a source of sustained competitive advantage. Porter accentuated more on advanced factors at a macro-level (created by nation), while the RBV revealed the advanced factors on micro-level (created by firm). If Porter spoke about the external (market determined) value of production factors, the RBV dealt more with the internal creation of these factors by the firm itself.

It seems more promising to regard the RBV and the Porter's view as mutually complementarity, at least because the two perspectives revealed two sides of the firm – external and internal. Wernerfelt (1984, p. 171) considered that for the firm "resources and products are two sides of the same coin", while Grant (1996, p. 379-380) stated that "competitive advantage is determined by a combination of supply-side and demand-side factors". Penrose (1959, p. 79) argued that the analysis of the environment is important since environmental change "may change the significance of resources to the firm". Collis (1994, pp. 150, 151) also considered that valuable capabilities are dependent on the *context* of the industry and the time. According to Newbert (2007, p. 122) "while a firm's performance is driven directly by its products, it is indirectly (and ultimately) driven by the resources that go into their production". Many other authors regarded the RBV as a useful complement to the Porter's perspective (Amit and Schoemaker, 1993, p. 35; Miller and Shamsie, 1996, pp. 519, 520; Mahoney and Pandian, 1992, p. 363; Priem and Butler, 2001, p. 35; Ray *et al*., 2004, p. 35; Parnell, 2006, p. 1142). Peteraf and Barney (2003, p. 312) clearly stated that the "RBT is not a substitute for industry-level analytic tools, such as 5-forces analysis (Porter, 1980) and game theory. It is not a substitute for strategic group analysis or for analysis of the macro environment. Rather, it is a complement to these tools". Sheehan and Foss (2007, p. 456) considered that "the objectives and underlying assumptions of the RBV and the activity-based view are compatible". Combining two approaches seems justifued by the fact that the two theories proposed similar recommendations on how firms can gain competitive advantage. Grant (2002, p. 139) insissted on the unique combination of resources and capabilities (brands, technology, etc.), while Porter viewed innovation and upgrading are the basis for sustained competitive advantage (Porter, 1991, p. 111).

2.3. Conceptual framework

The unifying moment of the RBV concept of capabilities (particularly dynamic capabilities) and Porter's notion of system of activities is that they all are processes, leading to specific combinations and recombination (Eisenhardt and Martin, 2000, p. 1107; Zahra *et al*., 2003, p. 166; Porter, 1991, p. 108). Thus the concepts of dynamic capabilities, Porter's system of activities, and configuration approach underline the importance of *configurations* of firm's resources, capabilities, activities, and external forces. These configurations may be seen as particular organisational genomes, which consist of interconnected individual (discrete) internal components, and which are in constant interaction with external influences.

Similar to the distinction between "zero-order" and "higher-order" capabilities, we assume that organisational configurations can be regarded also as ordinary (basic) and innovation-related (specific) ones. Strictly speaking, not the ordinary capabilities themselves, but the *basic* ("zero-order") combinations of resources and capabilities provide the firm's operational effectiveness. These combinations are basic, because they reflect the primary mix of resources as in the classical *production function*. The resulting from them ordinary activities assure the firm's reproduction and its everyday dynamic equilibrium. Unlike basic, the *innovation-related* ("higher-order") combinations are firm specific and may assure its sustainable competitive advantage, as it is difficult to imitate the whole combination (Gruber *et al*., 2010, p. 1347). They belong to a "residual element" of the classical production function, which include technological progress and innovations. In the literature these combinations have been seen as a result of dynamic capabilities (dynamic RBV) or strategy-specific activities (Porter). They may have different forms – from a reconfiguration of existing discrete factors (assets, capabilities, and activities) to the creation of new factors and new combinations. The distinguishing feature of the innovation-related combinations is that they assume an organizational change, which is particularly difficult in SMEs (McAdam, 2000). The two types of combinations (ordinary and new ones) in practice are two *stages*, reflecting the movement from ordinary to new combinations, which in turn become new ordinary combinations, etc. The transition between twese stages is difficult, and it is quite possible for the firm to lose a part of existing operational effectiveness for a short term in order to gain a higher effectiveness for a long term.

The theoretical base of this concept of organisation is given by the theory of open systems (Katz and Kahn, 1978). The organisation as an open system is based on cyclical processes: input (import of resources and energy from the environment) – transformation (into products and services) – export of outputs (products and services) – feedback – new input, etc. Thus the organisation consists of cycles of events, which form its organisational boundaries. The resistance to organisational entropy is assured by the managers' capacity to assure more input energy (revenue) compared to output (costs). As the organisation is dependent on the environment, it implies regular monitoring, selection of information, and implementation of changes. The success of organisational change depends on the degree of congruency between internal changes and external influences.

With the acceleration of economic globalisation, new sources of competitive advantages emerged from technological development (particularly ICT), quality management systems, specific innovations (product, process, and management), intellectual property management (brands, trademarks and patents), networking,

internationalisation, etc. Thus the globalisation set up new challenges, to which firms have to align their strategies. The significance of these external changes is in the fact that they indicate new *directions* to combine and recombine further the firms' resources, capabilities, and activities. The leading changes in today's globalised economy are related to different *innovations*. Entrepreneurs may introduce new combinations of production factors in the form of: 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). If we take into consideration the specific pressures of economic globalisation, we may add to these combinations the adoption of ICT, international quality standards, networking, internationalization, etc. Conditionally these new combinations may be regarded as induced by the globalisation or globalisation-specific factors for the firm's competitiveness. In general, however, they are particular *modifications* of those proposed by Schumpeter (1934).

Following the literature review, the factors of firm competitiveness can be classified as *individual* (discrete) internal, external, and linked to the entrepreneur's characteristics. In respect to SMEs, the individual *internal* components may include different tangible and intangible assets, capabilities, and activities, including the entrepreneur/manager characteristics. The *external* influences may encompass Porter's "diamond" factors and firm's external relationships. Particularly important for SMEs develpmnet are institutional factors (Welter and Smallbone, 2011). We may refer to these individual internal and external factors and their combinations as *basic factors*.

If the ordinary combinations are responsible for the firm's everyday reproduction, the innovation-related ones are strategically oriented, aiming at firm's adaption to the changing environment. Two types of combinations, however, are based on firms' individual factors. For instance, each innovation depends on some *internal* factors such as strategy, human and other capital, etc. (Wang *et al*., 2010); *external* factors such as industry sector, regulations, access to finance (Galankis, 2006, p. 1231); and factors related to the *entrepreneur's characteristics*: education, learning and market orientation, etc. (Masurel *et al*., 2003). As both the ICT and quality standards adoption are also forms of innovative combinations, the factors influencing their application in SMEs are similar to those for other innovations. Internationalization could also be viewed as a kind of innovation (Jansson and Sandberg, 2008), which explains the similarity of some factors for the two processes. Of course, each of these new combinations has specific determinants, which reflect their distinctiveness.

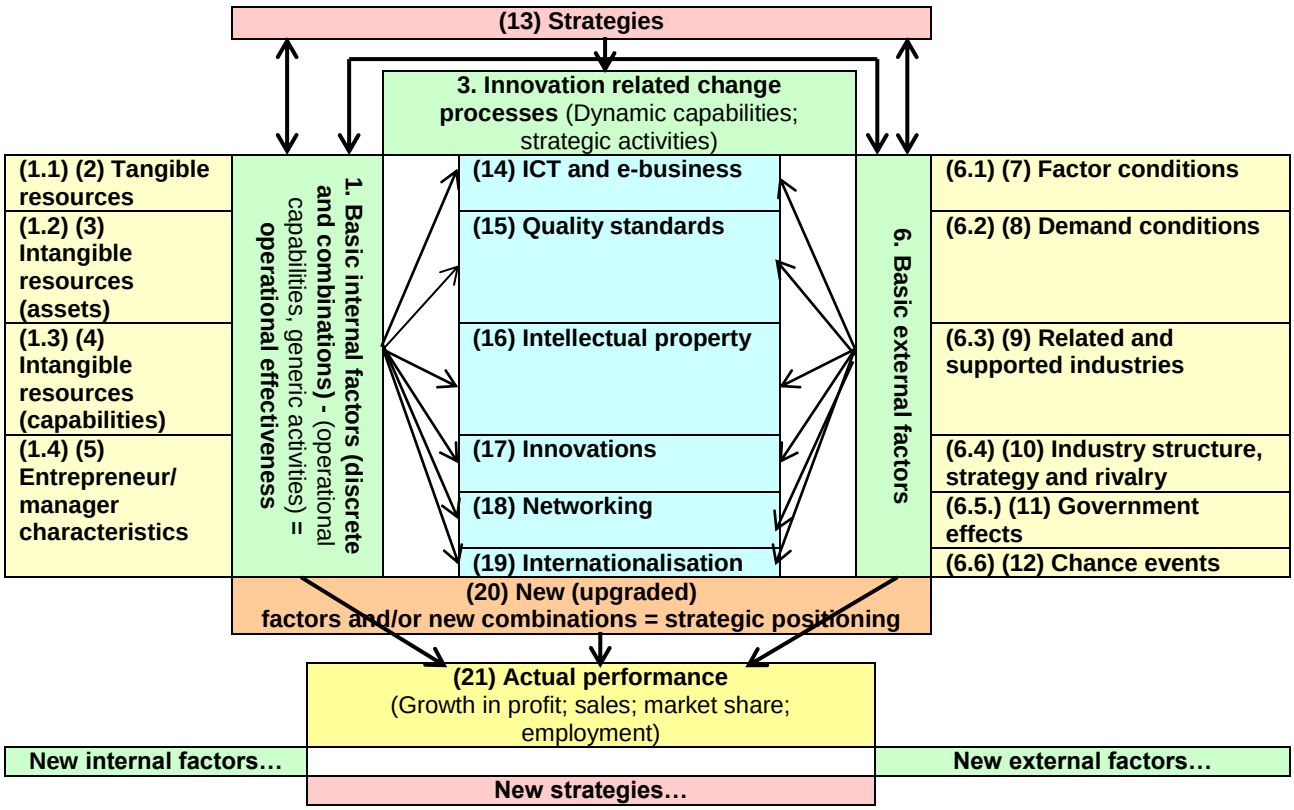
Considering firm's development over consecutive periods of time we may find that on the one hand, basic factors determine the success or failure of any new combination. On the other hand, once an innovatve combination is accomplished, it leads inevitably to a subsequent change in these factors (re-organization of processes, development of new skills through staff training or new hiring, etc.). Therefore, it can be stated that the present contents and combinations of basic factors are an outcome of previous changes. At the same time, the existing basic factors determine present capacity to innovate, which again, following a chain re-action, re-shape basic factors in future periods. Once the organisational change ends, it crystallised in relative stability of updated basic factors and/or their new (but already basic) configurations. Ray et al. (2004, p. 36) analysed in similar way the dynamic relationships between resources and activities, and Zara *et al*. (2006, p. 927) observed a similar interaction between substantive and dynamic capabilities.

There are many researches, which investigated the effects of particular new combination on firms performance Most of these combinations, however, have been analysed individually and there is a lack of study on their interaction and combined effects (Singh *et al*., 2008, p. 536). Some researchers developed relatively *complex models* of SMEs competitiveness factors. For instance, Chew *et al.* (2004) built a framework for Chinese SMEs competitive strategies, which include strategic alliances, innovation and differentiation. Szerb and Terjesen (2010, p. 8) proposed configurations of seven factors, five internal (physical resources, administrative routines, networking, human resources, and innovation), and two external (supply and demand conditions). Yan (2010) revealed the significance of competitiveness factors such as cost reduction, differentiation, innovation, strategic alliances and the environment for Chinese SMEs. Awuah and Amal (2011, p. 127) demonstrated the role of innovation, learning, and internationalization as factors for the SMEs competitiveness in less developed countries.

Based on these achievements the proposed conceptual framework attempts to combine the strong points of Porter's view, RBV, and configuration approach (Fig. 1).

Each model necessarily is a simplification of reality. For instance external factors are interrelated, which is implicitly assumed, but not reflected in the model. Changes in government policies may affect all the rest of these factors, as is the same with changes in demand conditions, factors conditions, etc. Internal factors also interact among themselves. Firms with different basic capabilities may use similar tangible and intangible assets differently, and similar assets may impose different constrains on capabilities. Upgraded discrete factors and/or new combinations also are in constant interaction, as the EU report found a strong link between SMEs internationalisation and different forms of innovation (product and process innovation, and use of e-commerce) (EC, 2010, pp. 7, 8, 9). The place of strategy in the model suggests that it mediates the impact of external conditions on firm's basic factors and their new combinations. If the individual small frim cannot influence environmental conditions, the dashed lines indicate that SMEs collectively (through their associations) may have impact on this environment.

Figure 1: Conceptual framework of SMEs competitiveness factors at the firm level



Conclusion

(Zara *et al*., 2006, p. 919) were among few authors who observed that most research and theory building has focused on established companies thus ignoring new ventures and SMEs. They found this gap in the literature to be puzzling "given that SMEs and new ventures need unique and dynamic capabilities that allow them to survive, achieve legitimacy, and reap the benefit of their innovation". This paper aimed at creating a theoretically grounded model for researching SMEs competitiveness in the context of globalization.

Based on the literature review, the factors for the SME competitiveness were classified in two frameworks. The first one covered a 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 latter ones were defined as innovation-related processes, leading to upgrating of existing factors and/or to new combinations in order to respond better to the external changes. The significance of these factors consists in the fact that they indicate the *directions* to develop further the firms' resources, capabilities, and activities in response to external environment changes. As the new combinations are induced mainly by the globalisation fources, they can be reagrded also as globalisation-specific factors for the firm's competitiveness. This can be justified by the fact, that before the globalisation these factors have not been usually related to SMEs, but nowadays are of increasing importance for their competitiveness. The organisational change is the distinctive trait, which delineates these factors from the existing ones.

Testing the proposed framework may lead to deeper understanding of configurations of SMEs competitiveness factors in different economic situations, countries, and particular sectors. Three attempts to check the interaction of the new combinations were accomplished by Bulgarian researches (Vladimirov and Ganev, (Ed) 2011, p. 109; Ganeva *et al*., 2012, p. 90; Vladimirov ***et al***., 2013, p. 11, 12). It was found that in crisis periods (2010) these factors became secondary, while some basic factors remain primary. During the crisis the SMEs survival depended mainly on access to finance and management capabilities (strategic planning and marketing and better use of human resources). In a 2011 year of modest recovery, the access to finance remained a key factor for the SMEs performance, but it was observed an increased importance of some globalization specific factors (innovations, intellectual property management, and human capital development), particularly for export oriented companies.

Being highly specific, these configurations may serve better to inform the entrepreneurs and SME policy makers. The proposed conceptual framework is heuristic and opens avenues for further research in the field.

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