

KEY FACTORS FOR SMEs COMPETITIVENESS IN THE GLOBAL ECONOMY ("SMEs COMPETITIVENESS")

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SMEs COMPETITIVENESS FACTORS

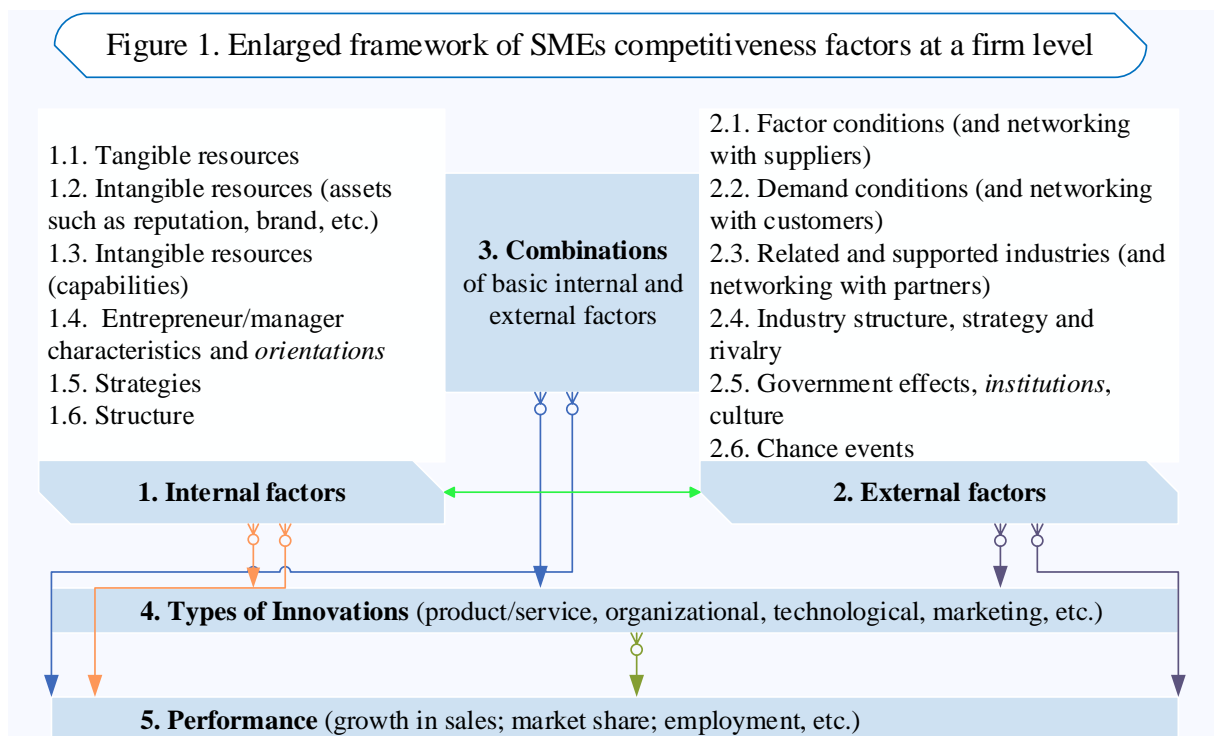
Framework of SME Competitiveness Factors

Research findings on the relationship between innovation and performance have often been contradictory, probably due to the different contributions of different types of innovations to performance, and the interactions amongst these innovations.

The literature review indicates that both competitiveness and innovation depend on similar, groups of internal and external factors. As innovation also influences performance, it is a **mediator** between environmental and organizational factors and performance. The research has therefore proposed a new, unified framework to **connect the main theories** of firm competitiveness and innovation.

The factors in the framework have **two dimensions** (Fig. 1).

- The traditional distinction between the firm's internal and external factors, and the role of entrepreneurial/ managerial characteristics;
- A new division based on the firm's primary versus innovation-related factors. The **innovation-related** factors are firm specific and lead to sustainable competitive advantages. These include product and process innovations, use of advanced technology, adoption of IT and international standards, creation of own trademarks and patents, internationalisation, networking, and new marketing strategies.



The Changing Configuration of Innovations

Some of the firm's basic factors shape both innovation and performance. Managers can use this **valuable information** to identify and use effectively these key factors (structure, staff, marketing, technology, etc.). This can result into both increased firm innovativeness and **sustainable** performance. Although some SMEs can perform well without innovations, their advantages are not sustainable. In contrast, small firms even in less favourable conditions, can use stronger innovation to achieve long lasting advantages.

The configurations of basic and innovation-related factors in respect to business success is dynamic: in times of crises basic factors are dominant, while in times of post-crisis recovery both factors are equally important for SME performance¹.

SMEs which use a bundle of innovation factors are more competitive and perform better, and SMEs which follow combination strategies outperform firms which follow a generic strategy, or have no strategy at all². The configuration approach, however, cannot reveal the interaction of different types of innovations, nor the mediating role of leading types of innovations.

Product Innovations Mediate Performance in Manufacturing SME

Another study tested a path model (on 500 *manufacturing* SMEs) wherein product innovations played a mediating role between process innovations and other external and internal factors, and performance (Fig.2).

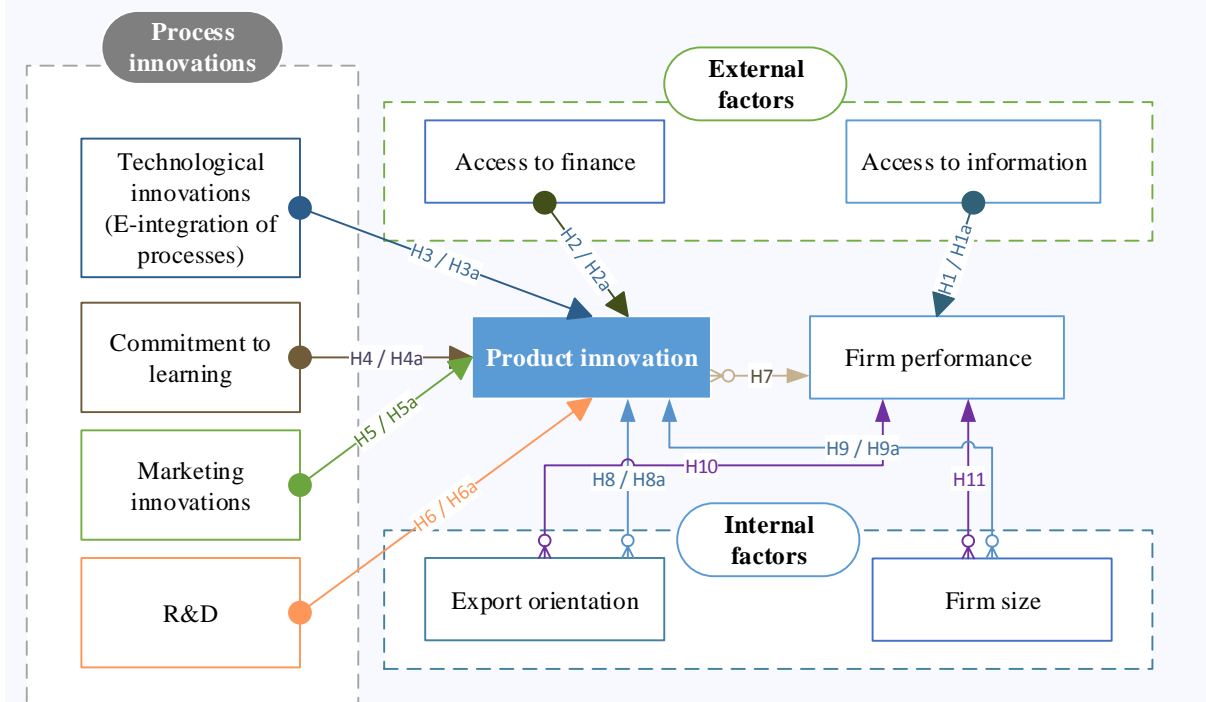
The results revealed that only **product innovations** impact directly and positively on performance, while process innovations and external factors have positive and significant, but *indirect* influence on performance. Firm size and export orientation have a direct and significant impact on both product innovations and performance. Therefore product innovations *mediate* fully the effects of process innovations and external factors and partially the effects of internal factors on performance. The positive indirect effects of process innovations suggest some important implications for managers: arriving at a successful product innovation requires significant preparatory work, which includes changes in organisational, technological, and marketing processes. All these changes have certain costs, which do not translate directly into better performance. These activities can contribute to higher level performance *indirectly* through the success of the new or improved products³.

¹ Vladimirov, Z., Ganeva, R., & Ganev, K. 2013. Significance of globalization-specific factors for SME competitiveness: a conceptual model and an empirical test. *Business Systems Review*, 2 (3), 1-25.

² Vladimirov, Z. 2014. Configurations of the manufacturing SMEs competitiveness factors under globalization. *The Journal of Small Business Innovation*, 17(4), 19-48.

³ Vladimirov, Z. SME innovations and performance: the mediating role of product innovation (Available from the author).

Figure 2. Conceptual model of the mediating role of product innovation on performance



The Critical Role of Staff Related Innovations in Tourism Service Enterprises (Hotels)

The following research project investigated innovations in the tourism service sector (hotels) and their impact on performance in two countries (the UK and Bulgaria)⁴. The exploratory factor analysis provided six factors - three hybrid innovations, two factors related to government policy and hotel infrastructure, and one factor on innovation obstacles. The hybrid character of innovations is due to the specificity of service innovations, where it is difficult to separate product and process changes. These constructs have been used in a path model of “innovations-performance” relationships which focused on the mediating role of staff-related innovations. The main findings reveal that only **staff-related innovations** impact directly and significantly performance, while other types of innovations contribute to hotel performance *indirectly* (through the staff innovations). Others internal and external factors have both direct and indirect influences on performance.

Taken together, these results can better inform the practices of entrepreneurs and SME policy makers, as they indicate specific measures and policies that can be adopted. Additionally, the finding provide an useful basis for constructing an SME competitiveness index, as they reveal the relative weights of different types of innovations and other factors on performance.

⁴ Vladimirov, Z., & Williams, A. Hotel innovations and performance - the mediating role of staff related innovations. (Available from the authors)

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SMEs competitiveness

Competitiveness research deals mainly with large firms, while there has been limited research on SMEs competitiveness, particularly in the context of globalization. This research gap has been exacerbated because economic globalization created new challenges, whereby there was a substantial increase in the importance of some SME competitiveness factors. In short, 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, quality standards, networking and clustering, innovations, intellectual property management, and internationalisation. All these factors have become critical for SMEs competitiveness in the global environment, but there is limited knowledge about their interaction and combined effects under different economic situations and in countries at different stage of development. Advancing the understanding of these factors for SMEs competitiveness will help entrepreneurs and policy makers to take context specific measures to improve SME performance. This is particularly important for the competitiveness of European SMEs, which account for 98.8% of all enterprises, two-thirds of employment, and 58.4% of GVA in the private sector. The modest recovery in 2010 showed that the export performance and the innovative capacity of an economy are intrinsically linked to the EU SME sector performance.

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