KEY FACTORS FOR SMEs COMPETITIVENESS IN THE GLOBAL ECONOMY (“SMEs COMPETITIVENESS”) 

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University of Surrey, SHTM 
Marie Curie Fellow Prof Zhelyu Vladimirov 
Principal Coordinator Prof Allan Williams 

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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.

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

1. Internal factors
   1.1. Tangible resources
   1.2. Intangible resources (assets such as reputation, brand, etc.)
   1.3. Intangible resources (capabilities)
   1.4. Entrepreneur/manager characteristics and orientations
   1.5. Strategies
   1.6. Structure

2. External factors
   2.1. Factor conditions (and networking with suppliers)
   2.2. Demand conditions (and networking with customers)
   2.3. Related and supported industries (and networking with partners)
   2.4. Industry structure, strategy and rivalry
   2.5. Government effects, institutions, culture
   2.6. Chance events

3. Combinations of basic internal and external factors

4. Types of Innovations (product/service, organizational, technological, marketing, etc.)

5. Performance (growth in sales; market share; employment, etc.)
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-crises recovery both factors are equally important for SME performance.\(^1\)

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 all.\(^2\) 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 products.\(^3\)

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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). 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). Other 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 findings 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.

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Prof Zhelyu Vladimirov
Marie Curie Intra-European Fellowships
(FP7-PEOPLE-2012-IEF)

GA-2012-327405, University of Surrey, SHTM
Principal Coordinator Prof Allan Williams

SMEs Competitiveness

Competitiveness research has widely used SIs, while there has been limited research on SMEs competitiveness, particularly in the context of globalisation. This research gap has been overlooked because external globalisation related challenges, which have a substantial increase in the importance of some SME competitiveness factors. In short, globalisation has caused notable trends in these competitiveness and created a need for new approaches. Strategies to enhance SMEs’ development is a globalising business have to take proper account of the new risks of low quality standards, networking and cheating, innovation, intellectual property management, and internationalization. All these factors have become critical for SMEs competitiveness in the global environment; but there is limited knowledge about these interactions and combined effects under different economic structures and in countries at different stages of development. Advancing the understanding of these factors for SMEs competitiveness will help entrepreneurship and policy makers to take control of specific measures to improve SMEs performance. This is particularly important for the competitiveness of European SMEs, which account for 50% of all enterprises, two-thirds of employment, and 60% of GDP in the private sector. The project outcome is in 2013 showed that the export performance and the innovative capacity of an economy are remarkably linked to the EU SME sector performance.

The project SMEs Competitiveness has investigated the following aspects of SMEs competitiveness:

- Network and innovation
- Internationalisation
- Entrepreneurship
- Knowledge management
- Human resources
- Environmental sustainability
- Innovation and growth

The project has been funded by the European Union under the framework of the Seventh Framework Programme (FP7), and the results are available at the project website:

http://sme.feb.uni-sofia.bg/

Sofia University St Kliment Ohridski

Faculty of Economics and Business Administration
1504, Sofia
20 Tzar Osloboditel St
Phone: (003592) 8738123
Fax: (003592) 8721181
E-mail: jeve@feb.uni-sofia.bg