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THE ROLE OF STRATEGIC MANAGEMENT IN SMES

INTERNATIONAL BUSINESS UP-GRADING

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Abstract

Strategic management is a relatively new scientific discipline, whose goal is to enable the company to work in the modern business environment and the everyday changes that businesses face, both from outside and from the inside. The main goal of strategic management is to equip the company to new operating conditions dictated by market and technical and technological changes, seize opportunities in terms of profit and avoid the threats from uncontrolled factors. So taking this into account, the challenges for SMEs development are multi-dimensional. As trade barriers, transport and communication costs fall, SMEs are required to add more value to their products to stay ahead and compete with lower cost rivals. Consumer demand is changing rapidly as incomes rise and choices increase when imported products become easily available in domestic markets. Competition within the developing world for export markets, foreign investment and resources is also intensifying.

This was motivation to focus in this paper on SMEs, its export competitiveness, business strategies, access for financing and the impact of strategic management. Enhancing SME competitiveness requires creation of enabling legal, regulatory and administrative environments and capable institutional structures, and most importantly human capital and a sustainable environment. Public and private sectors in transition and developing countries must work together to improve the functioning of markets at home, while intensifying efforts to integrate into the world economy.

Key words: SME, strategy management, internationalization, profits, competitiveness.

1. Introduction

Strategic management is a relatively new scientific discipline, whose goal is to enable the company to work in the modern business environment and the everyday changes that businesses face, both from outside and from the inside. The main goal of strategic management is to equip the company to new operating conditions dictated by market and technical and technological changes, seize opportunities in terms of profit and avoid the threats from uncontrolled factors. Strategic management is actually a kind of special long-term organizational planning, in the direction of achieving long-term positive results, with which the organization will achieve a better competitive position in the future. The main goal of strategic

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2. Literature review

Strategic management is a continuous process that monitors and controls the business and industries in which the company operates, monitors competition, and sets out strategies and goals to identify all existing and potential competitors, and then reviews the strategy on a regular basis to determine how it is implemented and whether it is successful or it is necessary to replace it. In this part of the paper, we examine a few authors and its opinion about strategic management as one of the biggest challenge today.

According this, the biggest challenge that today's companies face in the modern environment are rapid and sudden changes and the emerging conditions of operation caused by globalization (Daniels et al., 2011). The authors process several chapters as essential elements that need to be understood when solving the problems that companies face like managing the international value chain, operational goals and assets, the challenges and control of international operations and the care of the individual and the company .

David A. Ecker in his book covers the strategic elements and concepts, competition analysis, consumers and market analysis. This author provides guidance how to understand the market dynamics and the advantages of companies so that they can create winning business strategies enabling business success as well as managing strategic change and uncertainty.

Another authors focused on strategic management in a time of globalization and competitiveness (Heath et al., 2014). Their research includes inputs of strategic management, strategic actions (strategy creation and strategic actions), strategy implementation. These authors through theoretical presentations aim to establish a new standard in strategic management and provide a rich and comprehensive analysis of the concepts and tools of strategic management. Schmarmhorn (1996) helps readers about the foundations of managerial work, not only to see the basics of managerial discipline, but also to understand and foster their personal potential and develop their managerial tools and career skills. Through this analyze, the author explains the six conceptual sections that he considers to be the foundation of managerial work, such as management, environment, planning, organizing, leadership and managing.

In the era of competitiveness, some authors determinate and underline the crucial meaning of operational management (Chase et al., 2004). These authors explain the methods for effective production and distribution of products and services by the company. The book focuses on operational strategy and change management, process selection and design, as well as the design of the supply chain and its planning and control. As the main issue that is elaborated is the strategy and its implementation, where the authors state that each company must have a detailed business plan that is supported by three main strategies as financial strategy, marketing strategy and operational strategy.

3. Up-grading the competitiveness through Internationalisation of SMEs

Internationalisation has become increasingly important to the competitiveness of enterprises of all sizes. In today's environment, SMEs that start with a global strategy can move quickly to take advantage

5. Relationships between strategic management elements and business performances

Strategic management elements are essential to understand for achieving successful strategy execution. This is strongly associated with the realization of four business benefits. Four elements that play a key role in achieving successful strategy execution are (Peppard, 2007):

- engendering and reinforcing an organizational culture of continuous change,
- managing the on-going change portfolio, conflict resolution, resources and interdependencies,
- establishing accountability and governance of each change program, and
- harmonizing the strategic leadership team to support the change portfolio.

Each of the business benefits is dependent for its realization on at least one of these four elements. The relative influence of these elements in securing each business benefit is typically greatest. So, to realize business benefit, there must be an organizational culture in which accountable managers balance their optimism and motivation with realism. The strategic leadership team must encourage and support such behavior, and it must be prepared to act decisively in eliminating non-viable programs. Also this demonstrates the strong influence the strategic leadership team's behavior and organizational culture have on an organization's ability to abort ill-conceived change programs during execution (Boskov and Drakulevski, 2017).

Increasing confidence in management's ability to deliver change programs is business benefit that is unique in a way it is the only one out of the other business benefits that is dependent for its realization on the effective performance of all four key elements of strategy execution. Another important business benefit is speedy delivery of change programs. The "speedy delivery of change programs" is dependent on the effective performance of the management elements.

Minimizing variance of actual to forecast cost as business benefit is important in means that realization of this business benefit is determined by the effectiveness with which the elements "engendering and reinforcing an organizational culture of continuous change" and "harmonizing the strategic leadership team to support the change portfolio" are performed. Upon reflection, this is understandable: the forecasted costs are determined in the planning stage and, as our focus group discussions indicated, the honesty of these estimates can be questionable as they are significantly affected by the organizational culture and the "togetherness" of the leadership team.

6. Macro-economic environment in the time of strong strategic policy: SMEs position in EU

The general macro-economic environment in the EU-28 in 2016 strengthened SME activity in all industries due to the expansion of all categories of final demand. In previous years, the main driver of SME recovery was exports. The year 2016 marked the third consecutive year of steady increases in EU-28 SME employment and EU-28 SME value added. In total, employment by EU-28 SMEs increased annually by 1.6 % in 2015 and 2016 and the value added generated by SMEs rose by 1.4 % in 2016

following an increase of 5.8 % in 2015. As inflation continued to remain low over these two years in the EU-28, this increase in value added largely reflected a real-term increase in the volume of economic activity of EU-28 SMEs in 2015 and 2016. As a result of the recent upturn, EU-28 SME employment has finally recovered from the 2008/2009 economic and financial crisis and even slightly exceeded the 2008 level in 2016.

All Member States except Greece and Poland also saw SME value added increase in 2016. It rose by more than 2 % in 22 Member States and by more than 5 % in Bulgaria, Croatia, Ireland, Malta and Romania. EU-28 SME employment expanded in practically all sectors of the economy, reflecting a balanced economy-wide growth of 2016, with some sectors recording growth of 3 % or more. However, these sectors with a higher growth of SME employment account for only a small percentage of total EU-28 SME employment. Consequently, the impact of their strong performance on overall EU-28 SME employment was limited. Annual growth in EU-28 SME employment varied considerably across the main non-financial business sectors in 2016, ranging from 0.9 % in “construction” to 2.8 % in “business services”. The employment recovery in SMEs was most dynamic in services industries. Employment growth in “wholesale and retail trade”, “accommodation and food services” as well as in “business services” expanded by an estimated 1.7 %, 1.8 % and 2.8 %, respectively, while employment in ‘manufacturing’ was estimated to have increased by 1.1 % in 2016. Even with this recent upswing, SME employment in “manufacturing” was still about 11 % below the employment levels at the start of the financial crisis in 2008. Technology intensive sectors played a prominent role in SME’s growth. This refers in particular to the group of knowledge intensive services such as high tech services, which recorded the strongest SME employment growth in the EU-28.

SMEs in the European Union After declining for a number of years following the 2008/2009 economic and financial crisis, EU-28 SME employment has picked up more recently and has outshone the economy as a whole. EU-28 SME employment grew by 5.2 % from 2013 to 2016, almost 50 % faster than overall employment in the EU-28 economy over the same period.

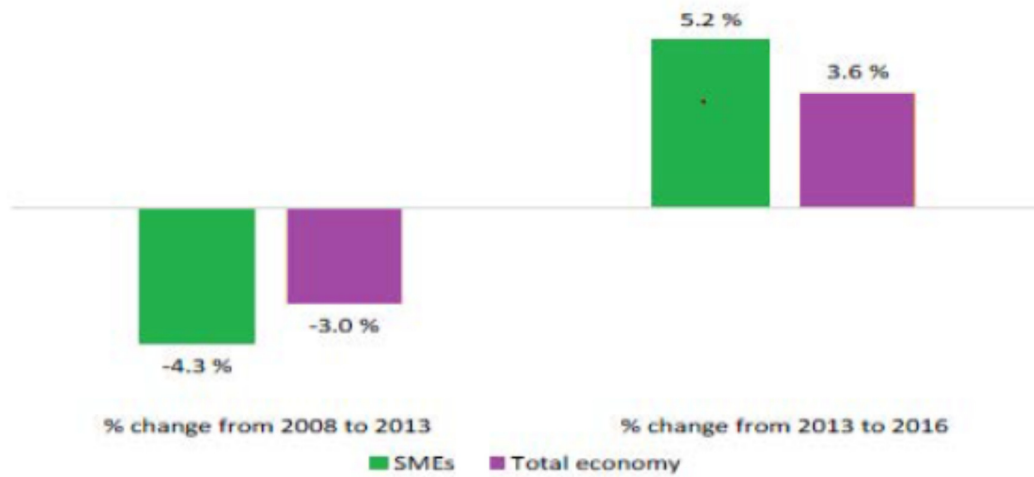


Figure 1: Change (in %) of EU-28 SME, 2008 to 2013 and 2013 to 2016

Source: Eurostat, 2017

In terms of its contribution to sectoral employment and value added, SMEs are the most important enterprise size class in the “construction” sector, and also, to a lesser extent, in ‘business services’, ‘accommodation and food services’, and ‘wholesale and retail trade’. In 2016, the contribution of SMEs in these four sectors ranged from 70 % to 88 % in terms of employment, and 66 % to 80 % in terms of value added (Figure 2). In the EU-28 manufacturing sector, where large enterprises are generally dominant, SMEs still accounted for 58 % of total employment and 42 % of total value added in 2016.

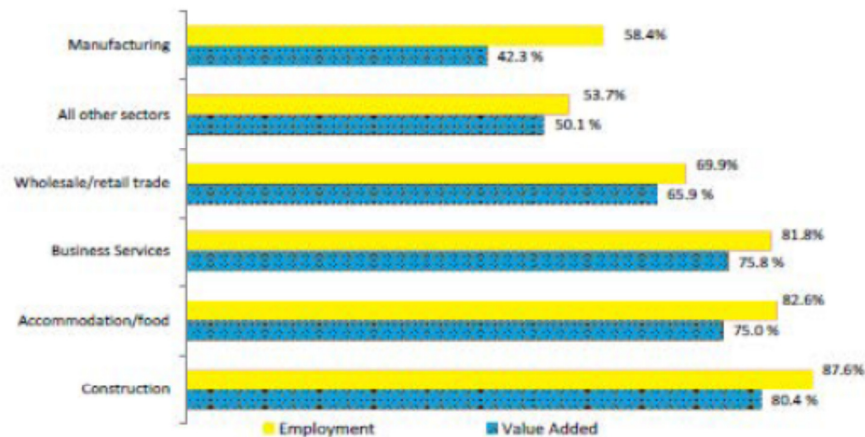


Figure 2: Contribution of SMEs to employment and value added in the key sectors of the EU-28 non-financial business sector in 2016

Source: Eurostat, 2017

Even when SMEs account for a large share of employment and/or value added in a particular

sector, this does not necessarily imply a correspondingly large share of SME employment/value added in the overall non-financial business sector. This is because the sector concerned may be relatively small. The evidence suggests that SMEs are vitally important in both high-income and low-income economies, worldwide. SMEs were adversely affected by the global financial crisis of 2008. Some have continued to struggle, with revenues and employment levels remaining subdued in the following years. Others have recovered relatively fast, indicating the resilience of the SME sector. Many have suffered from reduced access to finance and increased costs of credit. Governments around the world have responded in a variety of ways. To assist SMEs in particular, policymakers' attention has focused on supporting working capital, easing access to finance, implementing a better regulation agenda, and encouraging SME investment in new technologies or markets.

7. Conclusion

It is up to the companies to implement competitive business operating practices and strategic management. The options available to companies are also closely related to the quality of institutions, markets and organizations that constitute the business environment. It is the efficiency and effectiveness of institutions, markets and organizations that encourage or discourage companies to take their cues for learning new ways of doing business, compare their own competitive characteristics with those of their rivals, and make their decisions to invest, including the introduction of innovations into their business strategies.

Evidences show that when SMEs become internationalised, particularly when they start exporting to foreign markets, their contribution to their home economy increases. For this to happen, substantial barriers need to be overcome. SMEs can face difficulties in financing international activity, identifying opportunities and making appropriate contacts in their target markets.

Opening up a country's market to the international markets allows a country more efficient production and allocation of resources as the country can concentrate on the production of goods in which it has a comparative advantage based on its factor endowments. Thus, world trade markets allow producers and consumers of the participating countries to benefit from lower prices, higher-quality products, more diverse supply of goods, and higher growth. Export-led strategies allow an expansion of aggregate demand without much inflationary pressure and without the danger of a wage-price spiral, compared with strong domestic demand injections.

Each country has to find its own way to strengthen the legal, policy and institutional frameworks in which SMEs operate and which set the quality of the enabling environment. Strategic support should be provided for project risk analysis, business plan development support and the organisation of brokerage events for SMEs to meet with investors and other potential collaborators for fund-raising and commercialisation of output.

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