EMPIRICAL ANALYSIS ON STRATEGY AND HYPER - COMPETITION WITH SMES

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ABSTRACT

In the context of globalization, markets are becoming more competitive and more complex, determining competition to intensify on the verge of becoming hyper-competitive. Hyper-competition can be viewed as the competition that has escalated to the point where the advantages are created quickly, but the competitive advantage is temporary. This is a hostile business environment, where the value is eroded by uncontrolled competitive growth, which reaches the level of hyper-competition. The main findings and conclusion of the paper are generated by a thorough literature review and by an in depth analysis of the research undertaken in the field. Companies and industries do not naturally choose hyper-competition, but they are driven to hyper-competition by factors such as intensive innovation on the value chain, global consumers, new market savings, international cooperation, political openness, low entry barriers or capital mobility. The main obstacle to SMEs in their concern for innovation is represented by the high costs involved in this process. This situation could be overcome by increasing the cooperation and participation of these enterprises in innovation networks.

KEYWORDS: *competitive advantage, hiper-competition, innovation, SMEs, strategy.*

1. INTRODUCTION

Researchers and policy makers apply the definitions of SMEs in terms of the universality and standardization related to the sector specialization. Although the criterion of the qualitative characteristics of the SMEs easily distinguishes them from the big companies, the quantitative criteria are used mainly to achieve a dimensional classification of them (Berisha and Pula, 2015).
Therefore, the definition of SMEs as components of the national economy has represented, over time, a questionable and difficult endeavor, without a certain definition currently being accepted internationally.
An employee number below 250 defines a small and medium-sized enterprise. The European Commission established that a company can only be considered medium if it fulfils two conditions simultaneously: the number of employees is between 49 and 250, and the annual turnover is less than 40 million euros or the total assets does not exceed 27 million euros.
Small businesses are those with a maximum of 50 employees and an annual turnover of at least 7 million euros or assets under 5 million euros.
In addition to the criteria presented above, a fundamental condition was represented by the principle of independence from large enterprises. It is required that the participation of a large enterprise in the shareholding of a small or medium-sized enterprise should be no more than 25% of the share capital of the SME. The purpose of this criterion is to differentiate SMEs from the legal status of large enterprises. Given the fact that the competitive advantage created by SMEs in relation to the market has a decisive influence on their performance and how they are operationalized, it is very

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important to highlight the most significant competitive advantages that the entrepreneurs consider to have in relation to the competition.

2. LITERATURE REVIEW

The notion of competitive advantage refers to the advantage registered by an SME regarding the market of the product or service, acquired by offering it, and this gesture will lead to the consolidation of the competitive position occupied by the entity (Liu, 2003).

On the broad, the competitive advantage highlights the ability of an SME to rely on all the strengths specific to its internal environment in the administrative and functional area, thus obtaining a distinct, specific element that competitors cannot have or cannot imitate.

In a strictly practical context, the competitive advantage concerns the satisfaction of the clients' needs, their respective desire to buy a particular product or service (Stevenson, 2007). It is said that an SME has a competitive advantage when it has the ability to be the best in marketing and financial management, issues that are a priority in general management, and whose foundation is represented by the competence of top level management in identifying the needs and aspirations of clients (Evans and Collier, 2007).

Regarding the sustainable competitive advantage, it is assimilated with the ability of SMEs to maintain a rate of profitability above the average rate of profitability of the industry in which they operate, over several years, through their ability to provide products or services at a price lower than that offered by competitors (Hill and Jones, 2008).

Furthermore, it can be appreciated that the competitive advantage is a reflection of the SME's ability to attract customers, to build its organizational or product prestige and to permanently raise the value that customers perceive (Deac et al., 2016), together with the satisfaction their needs, which also highlights the ability to provide value to their clients (Khresat et al., 2008).

The competitive advantage cannot be quantified. It is an attribute that implies continuous development, necessary to be in step with the economic, political, social and technological development of the society (Diab, 2014). Achieving the competitive advantage involves both an internal dimension, related to the management of human and material resources, and an external dimension, reflected by the customer needs and competition related knowledge. Another way of obtaining the competitive advantage is the high efficiency use of the material resources, the qualifications, skills and experience of the employees (Gaynor and Haas-Wilson, 1999).

The measure of the competitive advantage lies in the evaluation of the quality of the products or services offered, which is based on quantifying customer satisfaction.

The dimensions or components of the competitive advantage are the cost, the flexibility, the time of delivery, the quality, the innovation and the responsiveness (Dranove and White, 1994). Without a doubt, the most well-known dimension of the competitive advantage refers to costs, the concern of any SME being their reduction, especially in the markets where the clientele is price sensitive.

The main factors that can generate the cost reduction are the experience and qualification of the employees, the efficient exploitation of the available resources, the successful investments, as well as the functioning of effective and efficient production and distribution policies (Haas-Wilson and Gaynor, 1998).

In other words, an SME has a competitive advantage, given that the accumulated costs corresponding to the productive activities are lower than those of the competitors (Baranes and Bardeyöõ, 2004). Usually, SMEs either compromise on the costs and attributes of products or services, or seek to reduce costs by reducing fixed ones or increasing productivity.

Flexibility refers to the ability of SMEs to offer a diversified range of products or services by permanent calibration to technical and technological innovations, respectively by adopting a design of products or services in accordance with customer expectations (Russell and Taylor-Iii, 2008). In this way, to obtain a competitive advantage, SMEs need to respond quickly to changes in customer

requests, much faster than direct competitors can. Flexibility involves a series of procedures that allow SMEs to respond to changing customer needs quickly and efficiently (Krajewski and Ritzman, 2005).
The adaptability of offering products or services can be a source of the competitive advantage (Girneata, 2014), as the SMEs reduce the time that elapses between receiving and accepting an order, respectively its delivery. Of utmost importance is the speed with which the after-sales service activities are started. If the SME manages to respond quickly and very quickly to the needs and requirements of the customers in a much shorter time period than the one offered by the competitors, it is considered to have a competitive advantage.
The quality of the products or services provided is another aspect of the competitive advantage, problematic intensely debated in the economic literature. Offering quality products or services is equivalent to obtaining customer satisfaction and offering the expected response from them in the aspect of product or service design in conjunction with their intrinsic quality (Dobrin et al., 2015).
Approaching quality as a tool of competitive advantage makes it necessary for SMEs to perceive quality as the main variable of customer satisfaction, not just as a way to solve problems or to reduce costs (Baker, 2014). By providing customers with superior products or services from a qualitative point of view, any SME can achieve a high market share and a high rate of return on investments, while ensuring customer satisfaction and controlling the prices of the products or services offered (Kotler et al., 2018).
Innovation is an aspect of the competitive advantage provided by the human resource, as the main source of new ideas. Hiring high-performing individuals leads to increased efficiency and productivity of SMEs. If the staff of an SME has sufficient time, training and resources, individuals will experience job satisfaction, will gain confidence in their personal capacities, will be efficient and thus each individual will contribute to the growth of innovation.
Customer satisfaction can be considered the key element in gaining the competitive advantage (Fornell et al., 1996), being decisive in repeating sales, disseminating positive product information, training loyal customers (Oliva, 1992). It is not to be overlooked that due to its importance, the concept of customer satisfaction is part of even the main variables used by modern methods of managerial accounting.
The following figure summarizes a model of the determinants of competitive advantage within an SME.

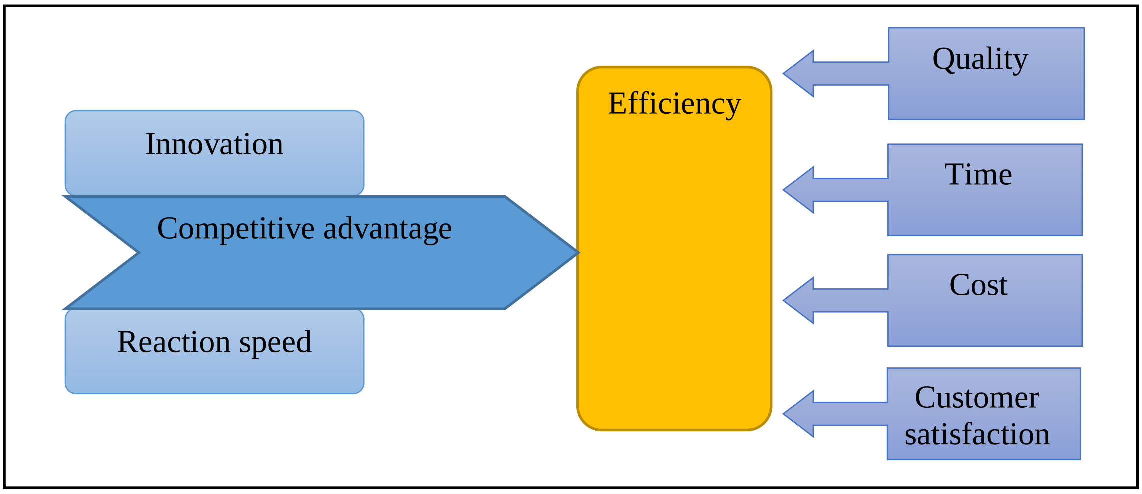

Figure 1. Model for the determinants of competitive advantage within an SME
Source: Created by authors, based on literature review

By associating the notion of competitive advantage with added value, the chances of survival of an SME can be established (Adner and Zemsky, 2006). As added value is determined by a high level of performance (Greve, 2009), the former becomes the link between performance and competitive advantage.
SMEs stimulate competition and, as a result, entrepreneurship generates external benefits on overall economic efficiency, innovation and global productivity. The latter are in fact the main vehicles through which new entrepreneurs provide the economy with a continuous and permanent source of ideas, skills and innovations.
At the global level, there is a common view that micro-enterprises hold the key to economic growth based on the rapid development of enterprises and the role of SMEs in generating jobs. There are also opinions that the concentration of SMEs is closely dependent on the dominant economic activities (Karaev et al., 2007). SMEs dominate the world economies in terms of employment and number of companies, but their true potential remains unexploited (Schlogl, 2004). This situation it is caused by a number of aspects that make the role of SMEs on economic development different from one country to another and even from one region to another.

3. RESEARCH METHODOLOGY

The purpose of the current paper is to analyze the concepts of strategy and hyper-competition within SMEs. Therefore, the methodological tool of the present research is literature review, conducted to evaluate the state of knowledge in the mentioned topic. In this respect, articles and books undertaken by researchers in the field were studied and based on the analysis carried out, a series of findings were presented in the last section of the paper. These may prove useful for further research targeting the field of SMEs in general and hyper-competition in particular.

4. FINDINGS

In the last years in the SME sector there has been constantly a higher growth rate compared to the industrial sector globally. In this context, a general consensus has been drawn between scientists and policymakers that the major advantage of the SME sector is the very high potential for employment at low capital costs. According to the data recorded at the level of the EU, small and medium-sized enterprises prove to be particularly important both economically and socially, as they represent almost 99% of the total number of enterprises in the EU. At EU level they provide around 90 million jobs and make a significant contribution to the development of entrepreneurship and innovation.
Globally, economic growth in developed countries such as Japan, Korea, Taiwan and many others has been overwhelmingly generated by the activities of SMEs. In this regard, it should be noted that the percentage contribution of SMEs to gross domestic product (GDP) relative to gross added value varies from 60% in China, 57% in Germany, 55.3% in Japan and 50% in Korea respectively. Also, SMEs have played a particularly important role in China's economic development, where over 10 million SMEs currently operate, accounting for 99% of the total number of Chinese enterprises. The explosive development of the Chinese economy is also due to the fact that SMEs in this country contribute 60% of the volume of industrial production and 40% of the total taxes. Compared to these values, SMEs in Japan contribute 65% of industrial production, Germany with 48%, while the United States accounts for about 45%. SMEs in the United States, however, generate more than half of the nation's gross domestic product GDP.
As mentioned, SMEs are the most important drivers of innovation and competition. The SME sector is very innovative and adaptable, skills generated by the need to survive the recent economic crisis and recessions. Empirical studies in this area show that new firms play a significant role in generating employment, in the process of innovation, in economic growth and in reducing

unemployment. There is a direct and very strong correlation between the degree of poverty, unemployment, economic well-being and the standard of living of the citizens of a country and the degree of concentration of SMEs in the respective country. In the vast majority of economies, SMEs represent the largest proportion of enterprises. SMEs account for over 90% of the total number of enterprises in most economies and are credited as generating the highest employment growth rates, making them the most important part of industrial production and exports.

In Western Europe, Japan and the USA, SMEs account for between 55% and 80% of the total workforce. In the US, there are approximately 23 million SMEs, which use more than 50% of the workforce and generate more than half of the nation's gross domestic product. Entrepreneurs in America are respected for their role in creating new jobs, ensuring business competition, improving product quality, reducing prices, introducing new goods and services through innovation, innovation and advanced technologies (Chittithaworn et al., 2011).

SMEs must face a multitude of challenges that impede their progress, growth and even their contribution to overall economic development. The most important problems relate to: lack of political stability, fluctuations of law and order, the existence of financial constraints, energy crisis, taxation, labor problems, lack of coordination and periodic information on the exchange mechanisms between institutions. SMEs do not have the ability to research and take significant risks or any other advantage of expansion. Many SMEs do not even have the capacity to take out insurance to cover them against possible risks. In most SMEs, the entrepreneur is the person who explicitly or implicitly sets the goals. Sometimes the influence of the entrepreneur's values and experiences is conscious and deliberate. Of course, the cumulating of the business owner status, with the manager one, largely explains the aforementioned attitude.

The entrepreneur's attitude towards risk also has a considerable influence on the strategy. Thus, those with a low risk-taking capacity will predominantly opt for so-called *safe strategies*, which minimize the impact of environmental threats, but the profits are simply acceptable and not spectacular. Frequently, the risk-averse businessman insists on approaching from a financial perspective of the business, preferring financing from own resources, to the one with borrowed resources. It avoids, as much as possible, significant financial commitments, until the probable effects of uncertainty become minimal. At the same time, innovations of any kind are interpreted by the entrepreneur as too risky, compared to the existing situation. Such an entrepreneur places great value on *conservative* or *defensive strategies*, meant to minimize risks. The entrepreneur with a high risk-taking capacity, is more inclined towards offensive strategies, with higher chances of profit, more demanding, challenging, but at the same time riskier. For him, innovation is preferable to imitation, and offensive is preferable to defensive.

4.1 Hyper-competition and the competitive wave

Hyper-competition is a motivation, a result and an initiator of dramatic changes in the competitive environment. This environment has been characterized as being discontinuous (Prahalad, 1998), dynamic (Sanchez, 1995) and also uncertain (Ilinitch et al., 1996). In this context, the term new economy was introduced, characterized by at least eight discontinuity factors, of which we mention the volatility of demand, convergence of technologies, competitive indeterminate limits. This external environment is turbulent, and competition for customers and resources is increasing. There is a new competitive environment characterized by non-linear and slightly predictable changes, discontinuities of industrial and technological boundaries, all of which are specific to hyper-competitive markets. In hypercompetitive markets the traditional objectives related to cost and quality, terms and know-how, welfare and poverty are less important because they are addressed in an environment where competitive advantages are only temporary. Time has eliminated the traditional competitive cycle, and the balance is impossible to sustain (d'Aveni and Gunther, 1995). Also, in a hyper-competitive industry, change is very fast and continuous. In hypercompetitive environments, a strategic advantage is temporary, that is, the only advantage is the permanent

replacement of the benefits, including their own. This is why, at present, the term is generally used to refer to highly competitive and turbulent markets, industries and competitors of this type.
Although some economists consider this structure to be self-mutilating (Porter, 1996), it pursues efficiency rather than establishing a defensive strategic position. In the context of globalization, markets are becoming more competitive and more and more agitated, which is why competition can intensify until it becomes hyper-competitive. In other words, hyper-competition is the competition that has escalated to the point where the advantages are created quickly, but the competitive advantage is temporary. This is a hostile business environment, where the value is eroded by uncontrolled competitive growth, which reaches the level of hyper-competition.
Hyper-competition is associated with the lower average, where the frequency of interruption is high and the effects on the creation of competences and the damage are large. Although disruptive strategies can be applied in any environment, the industry of leading technologies and new deregulated industries are more likely to exhibit hyper-competition.
Three types of hyper-competition can be assimilated with strategy games, judo competitions and boxing. Strategy games are typical of mature or declining industries, where demand is declining and there is excess supply. In judo competition, the industry is growing, but there are agile competitors who are always looking for an advantage. In boxing, the market is declining, but the oversupply leads the market to hyper-competition.
Companies and industries do not naturally choose hyper-competition, but they are driven to hyper-competition by a number of factors summarized in the following table.

Table 1. Factors generating hyper-competition

Main researches	**Factors**			
	Technology	**Production**	**Markets**	**Policy**
Thomas and D'aveni (2004)	-	Intensive innovation on the value chain	-	-
D'aveni (1994)	Prices / Trade	Industrial know - how	Aggregated demand	Low entry barriers
Thomas (1996)	Innovation rate	Trade liberalization International cooperation	Decreased demand	Political openness Low entry barriers
Harvey et al. (2001)	Speed of technical changes	Universal availability Easy access	-	-
ADBank (2003)	A fragmented and scattered value chain	Production complexity	Search for new markets	Mobility of capital
Huyett and Viguerie (2005)	-	Specialization of the value chain	Global consumers New market savings	Consolidated compensation marketplace

Source: Developed by authors based on literature review

The value chain analysis represents a way to approach the problem of cost optimization. This method is based on the product life cycle stages, namely product development, manufacturing procurement, actual production and after-sales services.
In general, SMEs tend to lean on the later stages of product development in an attempt to find ways to optimize costs because a large part of the costs are those with raw materials and production. This

is why it is impossible to reduce the costs, because they are not very flexible having technical specifications and a qualitative level established. In this context, an effective optimization strategy must be initiated with the new product life cycle, respectively in the design phase, having to be based on an identification and evaluation of all the cost factors involved.
The development of each component activity of the value chain is dependent on two types of factors:
- Structural cost inductors;
- Execution cost inductors.

The benefits generated by SMEs as a result of using the value chain analysis methodology aim at evaluating and improving their strategic position by contributing to:
- providing a generic framework for evaluating competition or hyper-competition in terms of costs and improving the strategic positioning on the market;
- increasing the quality by satisfying the needs of the clients;
- decreasing the costs by polarizing the areas that impose a reduction and by re-profiling the value chain.
- The main stages of implementation of the value chain analysis are:
- the recognition of the component activities and the division of the SME into distinct activities;
- fixing the relative importance given to the different activities in the structure of the total cost of the products;
- cost comparison by activities;
- recognition of cost inducers;
- establishing the links and interdependencies between the value chain links and identifying the chances of diminishing costs and maximizing the value.

In differentiating the component elements of the value chain, it is necessary to pay attention to aspects that influence the success of the method, respectively to identify the answer to the following questions:
- What are the activities that hold the most important percentages in the total cost?
- What are the activities that involve different behavior costs or include different cost inducers?
- What are the activities with high potential for creating differentiation?
- What are the activities carried out by the competitors in different ways?

After identifying the answers to the above questions, the costs per activity are allocated. Cost systems must be designed in such a way as to create a system of relationship between the costs of all value-adding activities and not between the purely accounting classifications of costs. Also, allocating costs to specific activities, activities that are included in the value chain, is not at all easy because the current systems do not provide the information needed to analyze the value chain.
Particular importance should be directed to the identification of the connections and interdependencies between the components of the value chain, because the reduction of costs for some activities will generate an effective reduction of all the costs of the entity. Moreover, usually the costs dependent on the operation of an activity are influenced by the way the other activities are carried out, and the behavior of one sector of the entity can influence the costs and performance of the other sectors. Therefore, cost reduction initiatives should not focus on value chain links in an arbitrary and independent manner, but should try to optimize all activities that are interconnected.
Another aspect that seems to be an advantage of applying the value chain analysis method in cost optimization is the identification of those activities that can be outsourced. When making such a decision, entrepreneurs must evaluate how an activity can be performed better or less costly by a third party, whether the activity provides a cost advantage, or whether it is involved in differentiating the products, which is the magnitude of the technological risk involved and whether the outsourcing of the respective activity will lead to the improvement of the technological process by reducing the total time, offering greater flexibility or smaller stocks (Tayles and Drury, 2001).

Opportunities for cost minimization may arise from the redefinition or reconfiguration of the value chain, made possible by the introduction of new production processes, the use of new technologies, the use of unexploited distribution channels up to that moment, the use of new raw materials, an approach to different and innovative marketing strategies, changes of the destination of some spaces according to the productive needs (Porter, 1998).

Many SMEs face strong pressure on the market they are operating on. But each product or technology follows a life cycle, and the price of competition is dynamic and may start to dominate the market at a certain point in time. When the products or services are balanced, the price of competition becomes predominant and results intensively, the market begins to shake. As a rule, SMEs do not have the size and scope to compete effectively in price and have no choice but to find new ways to differentiate their offers or take advantage of new growth opportunities.

5. CONCLUSIONS

The main obstacle to SMEs regarding innovation is the very high costs involved in this process. This situation could be overcome by increasing the cooperation and participation of these enterprises in innovation networks.

In general, SMEs are not open innovation supporters, and the results in their case are significantly different from those obtained by large companies that are adept at this concept. Large companies have sufficient resources, while SMEs are looking for resources to direct them to research and development. By their very nature, SMEs are not formalized, which calls for another way of configuring the innovative process of SMEs.

Despite these aspects, open innovation does not entail significant risks or the initiation of major investments, which can be the driving factor of a company's success. However, this is dependent on the organizational culture, the characteristics and structure of the innovation process, but also on the adopted business model. An organizational culture open to innovation is based on a series of principles of fruitful collaboration between the company and experts outside it, based on valuable research and development activities.

SMEs are an essential source of economic growth, dynamics and flexibility both in highly industrialized countries, as well as in emerging or developing economies. SMEs are very important in promoting competitiveness and in introducing new products or techniques to the market. Also, SMEs increase their productivity mainly through financing. Investments offer access to technologies and support the expansion of business, thus ensuring competitiveness at the company level, but also at the general economic level. That is why it is not wrong if we consider that the performance and level of development of the national economy are highly dependent on the ability to create an enabling environment for SMEs, which can provide quality services and competitive products at a reduced cost and in market adjustable quantities. Regardless of the degree of development and the standard of living of the population of a state, SMEs contribute significantly to the growth of the gross domestic product. Also, SMEs have a special contribution in terms of employment.

The challenge of the future for SMEs is global competitiveness. This means that customers must constantly be provided with reliable and quality products and services, while the market is becoming globally competitive. We live in a world that is in constant movement and change. SMEs are small companies that can adapt quickly to each fluctuation of the environment. This gives them a great advantage in the context of the globalization and revolution of the information society. Although their size offers them advantages in terms of adaptability, not the same can be said about the possibility of obtaining resources and external financial assistance. Although the economic crisis has affected SMEs around the world, their ability to adapt quickly has turned them into a lever to support the fight against this phenomenon.

The main obstacle to SMEs in their concern for innovation, more than in the case of large companies, is the very high costs involved in this process. This situation could be overcome by increasing the cooperation and participation of these enterprises in innovation networks.

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