

A Research Related to the Factors Affecting Competitive Strategies of SMEs Operating in Turkey

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Abstract

In the last quarter of 20th century, accelerating globalization changed everything in the balance of the World Trade. As the degree of globalization increases, global competition gives the opportunity of opening to international markets to SMEs from Developing Countries, both as a supplier and a competitor of giant multinationals. This situation compelled local SMEs to reconstruct new strategies, in order to compete more effectively with global firms in local and global markets. According to related literature, SMEs develop their strategies as a result of global competitive pressure levels in their industries, level and transferability of their competitive assets and their existing and potential collaborative activities. In this survey, it was aimed to model the strategic choices of SMEs operating in Turkey (as an example to Developing Economies) regarding the factors affecting this process and to analyze the differences between recommended and existing strategies and reasons of differences.

Keywords: SMEs, Strategy, Competitive Assets and Global Competitive Pressure

1. Introduction

The purpose of this study is to model the strategically choices of SMEs in Turkey based on the factors that affect the process and to analyze the differences between current and recommended strategies and the possible reasons of these differences. As the strategy typology Dawar and Frost's classification was used in the research model. According to this classification, while the determinants of the competitive strategies are global competitive pressure and the transferability of competitive assets, based on Grant's (1991) study which examines the role of the competitive assets on strategy determining, the level of competitiveness was recognized as one of the determinants.

This study is a first research analyzing the differences between suggested strategies (in regards of the determined factors) and implemented strategies by the SMEs in Turkey and the reason of these differences. This feature is thought to contribute to the business literature.

2. Literature Review

In the last quarter of 20th century developing countries have become an important player in the world trade. This new competitive environment revealed that for SMEs in developing countries to be able to compete effectively against their global rivals in global markets, they need to adapt new strategies. Different from Miles and Snow's (1978) typology focusing on targeted products market exchange rate and Porter's (1985) typology which focuses on cost leadership, differentiation and focus, Namiki (1988) and Dennis (2000) defined different strategy types for SMEs. Furthermore, in order to determine the strategies of local enterprises against international competition; Porter (1998) have made a strategy classification on operation area and product diversity, Dawar and Frost (1999) on global competitiveness pressure and the ability of transferability of competitive assets of local enterprises and Ramamurti (2012) on competitive advantage of local enterprises.

As seen in Figure 1, Dawar and Frost (1999) in their articles named “Competing Giants Survival Strategies for Local Companies in Emerging Markets” stated that based on the transferability of competitive assets of local enterprises and global competitiveness pressure, local businesses in developing countries may adapt four different strategies; Dodger, Defender, Contender and Extender.

Global Competition Pressure: With globalization, although the competitive environment has increased in much industrial area, it is observed that this environment is more intense in some areas. It can be said that the global pressure is high for the standard products and low for products for local needs.

Transferability of Competitive Assets: In case of opening up to overseas, deciding whether the elements of competitive advantage will be used or not is also a determinant of business strategy. For example; it is possible for a business that has a wide distribution network won't have this advantage in overseas business, or having important knowledge of local businesses may not provide any advantage in international business. Advantages such as product quality, research and development skills, marketing skills, low cost production can create significant competitive advantage for international operations.

(1) Dodgers: If in an industry the competitive pressure is strong and the competitive assets of a business active in this industry cannot be transferred that business does not have the freedom to move on their own in neither local nor international market. These businesses are called dodgers. To dodge the strong competitive pressure, these businesses may create a “joint venture” with a stronger foreign enterprise or as a last solution they can be sold to an international enterprise to live. However, these businesses can “re-define their core business”, while doing that they may focus on the weaker markets or international competition free markets. They may turn to complementary products of their rivals. Finally, they slide the value chain on the advantages of being local (such as superior local distribution network, after services based on the sales demand). In Russia, a computer company named Vist who is competing against international companies such as IBM and Compaq has managed to lead the market with a 20% market share by giving longer warranty period and establishing a service network all over Russia (Dawar and Frost, 1992, 125). In Turkey, although the number of global and local hospitals is increasing, ŞifaHastanesi has managed to dominate the large part of the market by providing specific needs of the locals and expanding their local service network. On the other hand, Turkey Water Market, which is the 11th biggest in the world, has managed to grow 20% in 2012. Because of the growing intense competitive environment, Sirma Su solved the problem by selling their 50,1% shares to Danone.

(2) Contenders: While in developing countries high global competitive pressure is making strong local businesses even stronger, it can erase the others completely from the local market. In developing countries, if businesses active in a high competitive pressure sectors have transferable competitive entities, they have the opportunity to be able to further strengthen them. In this process the business focuses on developing skills and resources in order to compete with international rivals. They focus particularly on improving research and development, production and management. Buckley and Ghauri (1999) advised that SMEs should be directed to export as an entry strategy to the markets. This way, after getting the appropriate skills and resources or improving the current ones, they advised them to invest in the market.

Additionally, in this process, primarily, they advise instead of appealing to the whole market they should focus on a single niche. For local businesses to take one step beyond of being an exporter and to be able to compete effectively against international rivals, they should reconfigure themselves to be giant enterprises by improving their skills. They make great effort to reach the international competition standards. They give importance to quality, human resources, process and system development and R&D. Acer which is an enterprise established in 1976 in Taiwan has become a global computer business. From the beginning of 1990's they have been reconfigured 3 times and changed their corporate strategy. In this process, being a local computer hardware manufacturer during this process, at the end of it they have become a global business that provides IT technologies, products and services. In the sectors that have high global competitive pressure, Turkish brands in the household appliances market such as Arçelik, Beko and Arzum; in the textile and garment market such as Mavi Jeans, LCW, İpekyol, Silk & Cashmere are considered to be in contenders category.

(3) Defenders: In a developing country, in sectors that have weak global competitive pressure, if the competitive assets are not transferable, business can survive by maintaining their current status in the local market against international rivals. Defenders do not have a tendency to reach all clients or imitate the international businesses.

These businesses prefer to avoid the client that demands global brands by focusing on clients that cares more about the local needs. The most fundamental competitive advantage of defenders is the low cost production. This advantage is caused by lower labor costs, simple product design and low operational costs.

Low cost advantage also allows local businesses to be cheaper against the global rivals. This continues as long as international business doesn't establish a local production unit. Other determinants of advantages that local businesses have against global rivals are having knowledge of local needs, pleasure, traditions and customs. Even though the global businesses adapt "Think global act local" behavior, they can never have advantage of local businesses. Finally, global business may not be as successful as the local ones in these not yet developed markets in terms of guiding informal relationships. Local business can own an advantage thanks to having strong distribution network, good customer relations, long term close ties to government institutions while global business struggling with problems such as distribution network that has not been institutionalized, lack of information. Since food culture vary in every countries, the global competitive pressure in this industry is rather weak, doner and Turkish pizza chains in Turkey have a defender attitude against the global fast food chain labels.

(4) Extenders: This strategy is formed to allow the business to open up to international markets if the competitive assets of the local business are transferable in the industries that have low global competitive pressure. Under these conditions businesses may follow three ways;

1. Local business may target similar markets in the same country that they have not reached before.
2. Because the global competitive pressure is not intense, they focus on expanding towards similar international markets thanks to their improved skills in the local market. International markets with characteristics means, having sources and conditions such as customer preferences, geographical proximity, distribution channels and government applications (Dawar and Frost, 1999, 124).
3. They can get into markets in developed countries using their current advantages.

At this point, Ramamurti and Singh (2009) highlighted the importance of focusing on a similar market and defined these businesses as "local optimizers". They argued that, while the low cost vehicle designed for India's bad roads can be also sold in low income countries with similar characteristics, products and services developed for developing countries won't be able to sold in developed countries without similar characteristics. Ramamurti (2012) states that in developing countries thanks to knowing local customers and good government relationships local business are more successful than the international rivals. He explained how these businesses become global labels from being local SMEs after the experience of local competitiveness, getting into international market and then global market. Labels like Huawei, Haier and Chery were given to explain this. A similar competition strategy is followed in Turkey for drama series for mass media. Series liked by Turkish people are firstly marketed to Middle East and Turkic Republics which have similar cultural features. In long terms, producers have started to have the opportunity to market their series even in South America countries.

Dawar and Frost (1999) mentioned the importance of strategic collaborations for local businesses threatened by the international competition. Adding strategic collaborations to Dawar and Frost's (1999) 2 dimensioned model, Zhang (2008) defined 8 alternative strategies. Zhang associated the ability to gain the necessary advantage against international rivals with strategic collaboration and offered examples for each strategy. However, did not do an empirical study to show the effects of collaboration on the strategies. The strategic differentiation developed by Zhang (2008) can be seen in Figure 2.

3. Methodology and Findings

3.1. A Model Proposal for Determining the Competitive Strategies of SMEs: Research model is developed originated from Dawar and Frost's differentiation of competitive strategies for local businesses under the global competitive pressure in developing economies and also the relevant models in the related literature taken into account. However, the model has been used for determining competitive strategies towards SMEs in Developing Countries with the idea that it represents 90% and higher part of SMEs initiatives in developing countries referring to the study of Cansız (2008) and the 2011 SMEs statistics of TURKSTAT. Apart from Dawar and Frost's views and also from the Grant's (1991) standpoint of skills and sources that gives advantage guiding the business strategies, the level of competitive assets in developing countries are also added. SMEs may wish to strengthen their competitive position increasingly with collaborations. Businesses create their strategies according to the global competitive pressure, the level of competitive assets and the transferability of these assets.

According to the research model, the process of evaluation of the business strategies participated in the survey was carried out in three steps (Figure 3).

The first step is determining the industry's global competitive pressure. Second step is questioning the competitive assets that create advantage in local market. If there is no advantage, it is to research whether the company focuses to improve the customer relations management, distribution, service network in local market or not. Third step is to research whether the international transferability of the competitive advantages is possible or not, if there is competitive advantages in local market. Businesses can internationally transfer their advantages acquired in the local market such as product quality, cost advantage and innovation. Depending on the structure of the target market, advantages such as customer relations, supplier relations, label popularity can also be transferred internationally. Although it is possible for these assets allowing having competitive advantage in the local market to be internationally transferred businesses may not prefer open up to international market. In this case, the business will remain deprived from the increase in performance. In the research process, depending on the transferability of the competitive advantages if the position of the business does not match with the supposed position after these 3 steps, in the sub segments of the business, because different competitive pressure can be felt, the global competitive pressure felt by the sub sectors was studied separately.

3.2. Sample and Data Collection: Because of the purpose of the study, it is thought that to examine the situation of the enterprises under different global competitive pressures, the type of the global pressure of the survey participants should be selected from different industries. This is why, the participants are chosen from Textile and Garments Industry where the global pressure is high and from Food and Beverage Industry where the global pressure is low. During the selection, to see which sectors are under how much pressure, considering the written literature, firstly the share in total production of import and export and from the sectors that high and low ratio sectors that have the most SMEs in them have been selected. In 2011, in Textile and Garments Industry, foreign rivals' share is 21% in the local market while in the Food and Beverage the share is 6,5%. After the selection of sectors that will participate the research, the names and the contact information of the businesses that will form the sample have been obtained from platforms named iste.kobi.net and kobiadres.com. 700 random Textile and Garments and Food and Beverage businesses have been selected randomly. According to the basic criteria primarily of accessibility and then the willingness to engage in conversation, the surveys have been done as meeting with the business owners or managers by requesting face to face interviews. 220 businesses have been interviewed.

Structured interview method was used for the collection of data. The survey used during the meetings has three sections. First section consists of questions about defining the business strategy. Second section has questions about perceived competitive pressure and process, the level of competitive assets and the international transferability. Last section consists of questions to determine the demographic features of the business managers and the businesses themselves. In the research, if the applied strategy that is formed after putting together the dimensions that form the business strategy does not match with the strategy that is needed to be selected, the answers about the perceived competitive pressure and global pressure during the process have been evaluated separately.

3.3. The Findings of the Research: From the 220 participants of the research, it was later found out during the meeting that 3 of the businesses have been sold completely but continuing their activities under the same name and was excluded later from the research. Sample consists of 217 businesses. 48% of the meetings have been held with the owners and 52% with the senior executives. 81% of the businesses are commercial businesses, the rest 19% are individual businesses. The annual revenue of all the businesses are less than 40 million TL. 82% of businesses surveyed are composed of small and medium-sized enterprises. The average age of enterprises surveyed is 20.4. 22% of the participant businesses are young, 78% are old. 50,7% of the businesses are active in Food and Beverages Industry and 49,7% are active in Textile and Garments Industry. The even distribution is important for the examining the research model that is considered one of the determinant of competitive strategy.

Businesses that are active in Textile and Garments stated they have been seeing international labels as rivals for 11,4 years and for Food and Beverage sector the year is 7, 1. The perception of global competitive pressure of businesses in Food and Beverage Industry is 2,72 while the ratio is 3,74 in Textile and Garments Industry, these values are also supporting the decision criteria of the industry is right. During the face to face interviews key findings obtained about the perceived global competitive pressures are summarized below:

- Although Textile Garment sector is under an intense global competitive pressure, businesses that focus on specific products and customer range are able to say “I don’t have many rivals” or “I don’t feel local or global pressure” (including home textiles, sportswear, middle-aged industrialist naval attire, etc.)
- It is observed that, in the sectors that are under low pressure like food and beverage industry, from businesses that invest in local needs or in areas that the international rivals are not yet be able to get in and had the opportunity, the executives stated that they do not feel any pressure and degree the level of pressure as “0” (1,9). While businesses that focus on local needs consists of restaurants and producers that completely focus on local food or drinks, cheese and milk etc., frozen food sector can be an example for the entrance for global rivals to get into the market since it thought that it is rather hard to prepare the physical conditions to contain the food.
- Beverages, all kinds of mineral water, chocolate and confectionary producers have stressed the fact that they have been subjected to global and local pressure from the moment of establishment (global competitive pressure = 4,4). However, they have stated that technology makes everybody rivals towards each other since the customer can provide themselves the product from anywhere through computer. In short, technology has an accelerating effect on competitive pressure.

Table 1 shows the distribution of the strategies of the participant businesses based on the Dawar and Frost’s classification. While 35,5% of the businesses adopt the defender strategy, 26,7% adopt contender, 20,7% extender and 17,1% adopt dodger strategy. Also, while 54% of the contenders focus on a single niche, 36% of them are active in the international market disregarding the distinction. While 20% of extenders focus on a specific country or niche, 80% of them show activities in international markets without making any distinctions. The adopted (realized) strategic distinction among the participant businesses shows some differences than the literature ones. The expected distribution of the competitive strategies regarding the transferability of competitive assets and global competitive pressure are as the following; 10% dodger, 40% contender, 27% defender and 23% extender. The expected and the adopted strategies are summarized in figure 4. The reasons between expected and adopted are;

- (1) Although businesses can transfer their competitive assets they have no desire to take place in international markets. They see themselves financially insufficient or plan doing international projects in the future,
- (2) Some of the businesses in the food and beverage industry which accepted that they feel low global pressure (especially local soda and wafer businesses) see themselves at the top of the intense competitive environment and adopt dodger strategy.

Wu and Pangarkar (2006) related businesses’ adopted competition strategies with scale with a weak significance level (10%) and determined that the businesses with the extender strategy have a bigger scale. Similarly, the relation between the competitive strategies and scales has been researched by Anova test, however, a statistically meaningful result could not be found ($p=0,927$). On the other hand, when the distribution of the businesses adopted different competitive strategies according to their scale is evaluated, it is seen that they match with the related literature information. 49% of the businesses that adopted contender strategy and 50% of the extenders are medium scaled businesses. 16% of the contenders and 15% of extenders are micro businesses. These data can be interpreted as local businesses benefit from their economies of scale and therefore cost advantage to expand into international markets. Pangarkar (1998) stated that the reason for local businesses that are active in developing countries is that they are more focused on the cost rather than the ability to make innovations in the market. Moreover, Dawar and Frost (1999) defined businesses with defender strategy as businesses that do not want to expand and focused on a single niche.

4. Conclusion

The strategy classification of Dawar and Frost model which states that local businesses in developing countries will show different strategies under different competitive pressure is used in this study for determining the strategies of SMEs in Turkey as an example of a developing country. Differences between classification of businesses’ adopted strategies and the classification of formed strategies according to the strategy literature. The findings intended to explain these differences are summarized in the following:

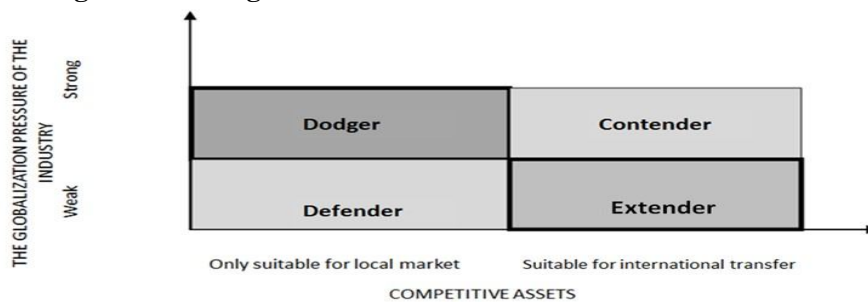
- Dawar and Frost (1999), Wu and Pangarkar (2006), Gorgynia et al. (2005) and Ramamurti (2012) etc. evaluated global competitive pressure on a sectoral basis taking cosmetic and food industry as an example for low competitive pressure and taking technology sector for intense competitive pressure.

In the research, if the applied strategy that is formed after putting together the dimensions that form the business strategy does not match with the strategy that is needed to be selected, the industry they are in is evaluated separately based on the perceived global competitive pressure and subjective comments.

This is why, it is decided that global competitive pressure should not be evaluated only based on sectors, according to the sub units of the sectors there can be different levels of pressures. For example, in the sectors that are under low pressure for example, food and beverage industry, from businesses that invest in local needs or in areas that the international rivals are not yet be able to get in and had the opportunity, it is observed that the executives they do not feel any pressure. While businesses that focus on local needs consists of restaurants and producers that completely focus on local food or drinks, cheese and milk etc., frozen food sector can be an example for the entrance for global rivals to get into the market since it thought that it is rather hard to prepare the physical conditions to contain the food. On the other hand, beverages, all kinds of soda, chocolate and confectionary producers have stressed the fact that they have been subjected to global and local pressure from the moment of establishment and manybusinesseshavesaid that theycarried outthe sale withall theroyalty and rights to global businesses. Most of the businesses work in this sector has stated that technology makes everybody rivals towards each other, since the customer can provide themselves the product from anywhere through computer. In short, technology has an accelerating effect on competitive pressure.

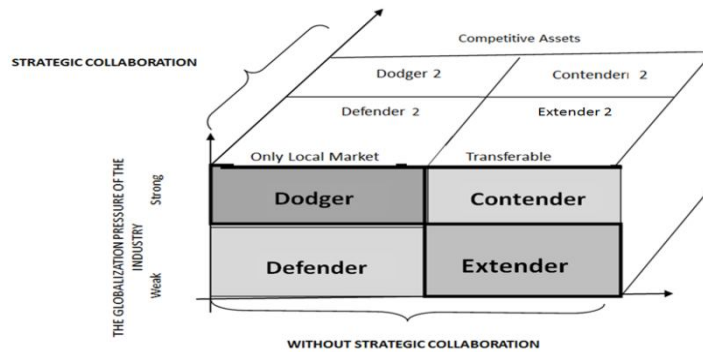
• One of the two dimensions of Dawar and Frost model used for determining strategy, an important finding about the transferability of competitive assets is that the fact *that businesses do not expand to international markets although the businesses have competitive advantages in their local market and are transferable, because of the hesitation towards international markets.* This step back during the selection of strategy, as Dincer et al. (2011) has stated, is related closely to the managers / entrepreneurs' tendency of taking risks, personality types and the culture of their businesses. In this case, it is decided that interpreting the dimension of transferring competitive assets as "businesses that transfer their competitive advantages" will make the strategic distinction healthier. In order to generalize the findings of this research, it is useful to take into account the limitations of the research. In later studies, it is recommended that doing the research in other countries and also in different sectors which will be useful to generalize those findings.

Figure 1: Strategies for Local Businesses: Dawarve Frost Model



Source:Dawar, N ve Frost, T (1999), 'Competing Giants Survival Strategies for Local Companies in Emerging Markets' Harward Business Review. March-April 1999.p.122

Figure 2: Strategic Alternatives for Local Businesses in Developing Economics (With Strategic Collaborations)



Source: Zhang, L. (2008). “Options for resistance strategies of local Chinese companies against foreign competition in the Chinese consumer goods market”. Bremen :Staats- und Universitätsbibliothek.p.108.
<http://elib.suub.uni-bremen.de/diss/docs/00011046.pdf>

Figure 3: The Formulation of Strategy Determination Stages for the SMEs in Developing Countries

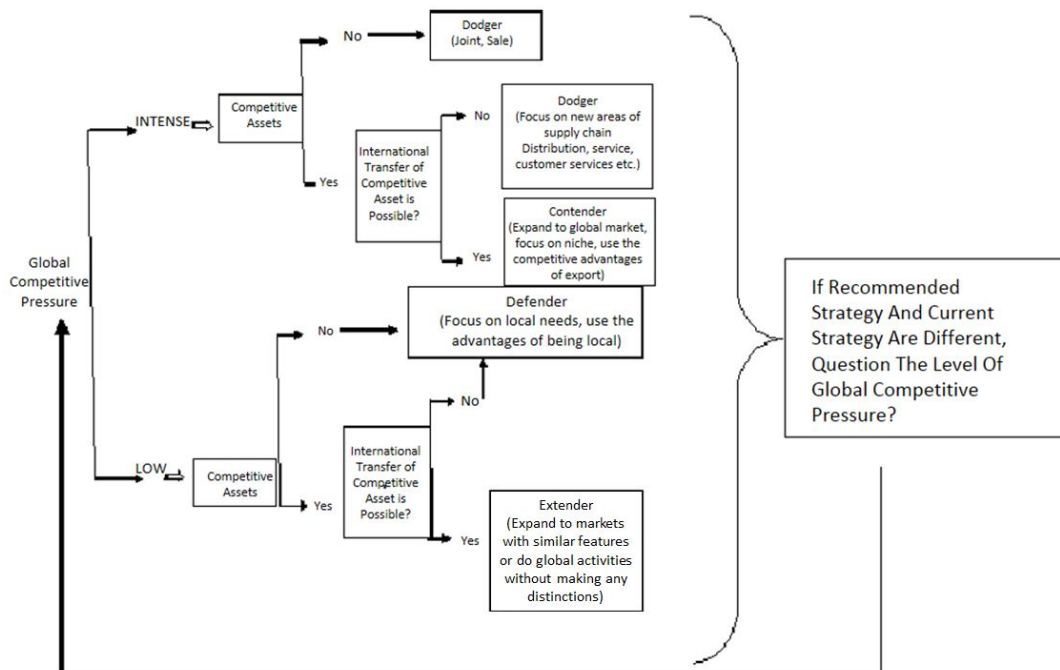


Figure 4: The Distribution of Business According to Their Recommended and Adopted Strategies

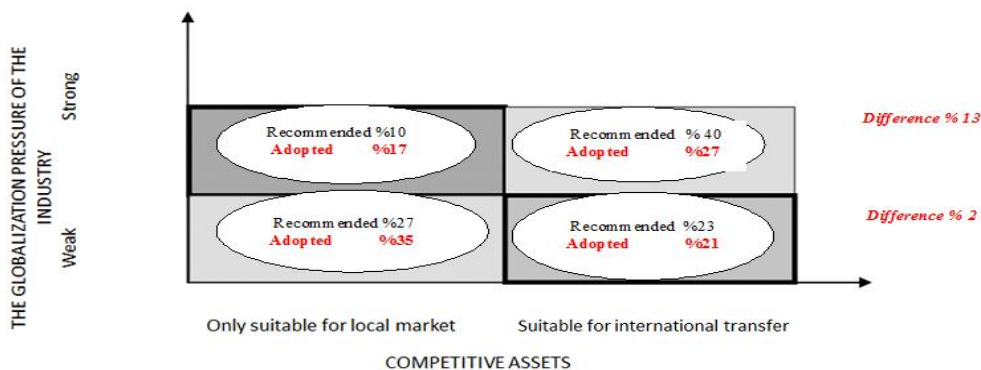


Table 1: Distribution of Businesses According to Their Competitive Strategy

Strategies	Food and Beverage	Textile and Garments	General
Dodger	%4,6	%29,4	%17,1
Defender	%53,7	-	%35,5
Contender	-	%70,6	%26,7
Extender	%41,7	-	%20,7
N	108	109	217

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