

# THE ENTREPRENEUR AND EXTERNAL ENVIRONMENT ROLE IN SME'S COMPETITIVENESS

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**Abstract:** The concept of competitiveness is frequently used in economics and business. In the international literature, we can distinguished four levels of economic competitiveness: national, sectorial, company and products. We discuss here about companies competitiveness. The purpose of this research (*preliminar results* of a finished grant focused on SME's competitiveness in the Western region, especially in Timis county) is a better understanding of expectations and concernings of small and medium sized enterprises in term of competitiveness. The Sme's competitiveness in our area depends on external and internal environment. The entrepreneurs with their skills are very important for business performance. The external environment, which is complex, unstable, is influencing the small and medium sized competitiveness, and of course, management decisions.

## Introduction

“Entrepreneurship is an attitude toward working; it is a way of thinking and acting. It is not about creating companies but about changing the mindset”.

In local development entrepreneurship is crucially important. Different studies about entrepreneurship, entrepreneurs and small business were conducted in our country.

Previous researchers indicates that small business development in our country has been influenced by the country's macro-economic factors (inflation rate, interest rates, price stability, the availability of economic inputs, credit conditions, financial capital and others). In related literature, we found, at firm level, some factors influencing competitiveness: the quality of technology; infrastructure; the quality of internal management; location; expectations about how business should evolve; firms history; firm structure; past investment decisions.

The purpose of this research is a better understanding of expectations and concernings of small and medium sized enterprises from Romanian Western region, in term of competitiveness.

## 1. Theoretical approach

In the related literature there are many ways in which the *firm competitiveness* can be understood. There is not an universally accepted definition of competitiveness and there is a lack of precise definition of this concept, but we know that the terminology comes from business literature.

Firm competitiveness is the basic capability of perceiving changes in both external and internal environment and the capability of adapting to these changes in a way that the profit flow generated quarantees the long term operation of the firm. There is an ongoing struggle for survival. [Chikan, 2001].

“Company competitiveness is an ability of the company to provide, on a permanent basis and in compliance with the standards of social responsibility, products and services that consumers are more willing to pay for compared to rivals products, under conditions that ensure profit for the company. A condition to this competitiveness is for the company, to be able to detect and adapt to changes in the environment and within the company by way of meeting competitive market criteria permanently more favorable than those rivals” (Chikan A., Chako, 2005).

In my opinion, competitiveness is nothing but a different way of saying productivity, taking into account the rate of growth of one firm relative to others. Krugman (1994).

Competitiveness is determined by productivity, depends on firms strategies, is, partially, the results of relationship between firms and local business environment, depends on social and economic objectives synergy and is influenced by factors from external environment.(M. Porter). “The productivity of countries is ultimately set by the productivity of their companies. An economy cannot be competitive unless companies operating there are competitive”.

A competitive firm knows how to use its strengths to exploit environmental opportunities and to reduce the negative influences of some external environment factors (Dăneș, Bibu, Predișcan, 2006).

We appreciate that a small company is competitive on the market, local and regional, if:

1. they survived more than 3 years and are able to generate profits after their start-up.
2. the rate of positive growth is between 1-5% (we named them „survivable focused competitiveness enterprise”)
3. the growth rate is more than 5% (growth focused competitiveness enterprise).

An entrepreneur is a person who destroys the existing economic order by introducing new products and services, by creating new forms of organization, or by exploiting new raw materials (Schumpeter).

W. Bygrave (2008) argued that an entrepreneur is someone who perceives an opportunity and creates an organization to pursue it.

While no single definition of entrepreneur exists and no one profile can represent today’s entrepreneur, research is providing an increasingly sharper focus on the subject” (Kuratko, Hodgetts, 1995).

## **2. Research methods**

This study presents preliminary results of a finished grant CNCSIS, 2006-2007, focused on SMEs competitiveness. The research method included mail survey, telephone, personal interviews of small business owners. Contact lists were received from official firm database, previous research of our colleagues. The sample included only firms with income statement, balance sheet (1000 firms).

We receive and process through SPSS program, 134 questionnaires with 125 valid responses. We have used an explorative research.

Research team has identified 7 *topics*:

- firms and their evolution during the last 5 years;
- the entrepreneur profile;
- the firms profile (resources);
- the characteristics of the change management process;

- the external environment analysis;
- the EU integration effects on competitiveness;
- the entrepreneur and ethic.

The firms questioned are from *different fields*: production (30,1%), trade (39,3%), financial and other services (8,3%), construction (8,35%), communications and transports (3%), others (19.5%).

The majorities of questioned enterprises are in front of *first 50% of competitors*.

We design a *questionnaire*, with 4 pages, 6 sections and 26 questions. The first section contains information about founder, firm and field. The following *section contains* information about:

1. turnover evolution in the last 5 year
2. strengths and obstacles
3. the changing management process characteristics
4. the analysis and prognoses of external environment
5. the effect of EU integration on sme's competitiveness

Our research is going on from the following *assumption*: the sme's evolution, and sme's growing is an development and change process, influenced by external environment and entrepreneur profile and competency. The sme's competitiveness in our areas depends on external and internal environment.

### 3. Results, discussion

As we said, we investigate here the *role of entrepreneur* and some *external environmental factors* (competitors, technology, government, Eu integration, banks, and other institutions) on companies competitiveness.

Starting a new business requires more than just an idea. It requires a person, named an entrepreneur who used his judgment and professional and managerial skills with his risk taking to ensure the success of his own business. Before presenting our findings, we must ask a simple question: who are entrepreneurs? Are they special people? „ Entrepreneurs are those individuals who discover markets needs and launch new firms to meet those needs” (Longenecker, Moore, Petty, Palich, 2006)

There are many *characteristics* often attributed to entrepreneur. J. A Hornaday, in his researches, identified 42 characteristics. In our research, we found many of these characteristics to *local Romanian entrepreneurs*:

- hard worker;
- risk taker;
- innovative;
- dynamics
- optimism
- confident and others.

As we know from literature, a *successful entrepreneur* should have:

- professional skills
- managerial ability
- support of the family
- ability to work productively
- ability to find useful contacts
- ability to make decision quickly.

Data processing began with company, entrepreneur and its activity. About the entrepreneur *position in company*, 7,5% are owners, 53% are also managers and 39,6%

have an other position than manager. It is important that 92,5% entrepreneurs are also managers in their company, in most than 50% cases they are top managers.

From *sexual* point of view, only 28,4% are women and 71,6% are men. This is an interesting situation in Romanian business environment, and, of course, in our region, in the last years, more women became entrepreneurs. We do not have relevant research study about this phenomena in our region but we believe that there are some environmental factors including socio-cultural and economics factors (Timis county is a well developed county, local culture, location, ) which are influencing women decisions to became entrepreneur.

We are sure that there are some similarities and differences between the types of entrepreneurial features associated with different types of organizations. New firms were founded by entrepreneurs who are young and middle-aged.

In our study, entrepreneurs according to *age*, we found the following:

- the average age for entrepreneur is 42, 4 year.
  - the younger age was 21 year and the oldest was 66 year.
  - from 21 years to 55: 29,6% , 35 to 55 years: 62,8%; more than 55 years: 7,6%
- We don't have information concerning identification of entrepreneurial typologies.

Generally, there are many *reasons to became an entrepreneur*:

- to be your own boss
- chance to fulfill oneself
- will to succeed
- chance to make better results
- gain more money

We think that these reasons were common for our local entrepreneurs. Our studies founds that the strongest motivation to start a business were independence, gain more money, respect.

Questions were asked about the education, training and business experience. The owners/managers have higher education (58,8%) and 33,6% have followed managerial training programs. There is a weakness for firms the fact that 2/3 from their entrepreneurs do not have a special degree in management field. A significant number of entrepreneurs may have had previous entrepreneurial experience.

Some entrepreneurs (30%) have some experience in the field, before starting a business. They worked in different state or private enterprises.

The managers of our research have identified some success factors for their business. One of them is related with managerial competence. They believe that the management team have good managerial competency (64,1%); only 9,6% entrepreneurs have acceptable managerial competences.

The managers of our research have identified some *successfully factors* for their business:

1. the quality of the products/services (62,7%)
2. good relationship with customers (52,6%)
3. the professional experience (45,5%)
4. managerial competencies (38,8%)
5. marketing politics (26,1%)
6. business financing (14%)

As we see, there are both internal and external factors.

For our firms, turnover is growing slowly in the last 5 years. The profitability rate was 18% (per all) with some differences: IT, (40%), industry-service (18-20%),

constructions (12,5%), trade (16%). The products are sold especially in domestic market.

In related literature, we found, at firm level, some factors influencing competitiveness:

- the quality of technology
- infrastructure
- the quality of internal management
- location
- expectations about how business should evolve
- firms history
- firm structure
- past investment decisions

We know that successfully business depends on:

1. managerial team ability, which must coordinate the companies resources, in a effectively and efficient maner, to achieve organizational objectives and
2. external environment.

Today, firms compets in an unstable, dynamic, complex environment. Sometimes, the environment is difficult to understand. In order to formulate and implement competitive strategy, firms must understand the nature of the environment. „The formulation of strategy is concerned with matching the capabilities of an organization to its environment. Over time, different environmental forces will be more, or less, important to an organization „(G. Johnson, K. Scholes, 2001).

There are some positive and negative factors in our research which are influencing firms competitiveness:

*Positive factors*

- growth demand for their products
- infrastructure modernization
- more economic favorable conditions
- small taxes
- government regulation

*Negative factors*

- raw material price raising
- utilities price raising
- competition growth
- new EU reglementation

Firms must have strengths to exploit opportunities from external environment. The identified *strengths* are the following:

- excellent organization
- workers qualification
- modern technologies
- marketing activities

Of course, there are some problems for managers concerning difficult access to know-how, and informational resources. The European Union integration bring some *consequences* for local entrepreneurs:

- new markets access
- free trade of products
- legislative rules uniformization
- new financing source access

- growing internal competition
- pressure for wages growing
- for some firms, profit reducing

Competitors are one of the important factors from external environments. The most important advantages of questioned firms are the following (we select different options):

- a very good organisation (47%)
- best qualified workers (32,1%)
- modern technology (23,9%)
- strong financial position (23,9%)

Our surveyed firms are competing in domestic markets with different Romanian and foreign firms.

In a market economy, financial institutions are critical factors in entrepreneurial growth. The banking system is perceived as one of the main obstacles of small business development in the region.

The governmental and states institutions have an important role in firms activities. Managers founds that government and non government organizations can be more involved in consulting activities, training, create a favorable environment for small and medium business. The most important communication channel between firms and government are county organizations for sme's, chambers for industry and trade.

Government can influence the market mechanisms and make them to function efficiently, and can create a favorable environment, that enables entrepreneurs to seek profits.

#### 4. Conclusions

In the European Union, entrepreneurial growth is one of priorities in these countries. Several factors contribute to private enterprise development and competitiveness. Financing growth is very important but also managerial knowledge is crucial.

Local entrepreneurs faced with many difficulties. Insufficient business skills and limited financial and non-financial assistance to entrepreneurs created important barriers.

One of the primary recommendations for assisting private enterprise development is the design of effectively programs that offer opportunities for low-cost borrowing and venture capital fund financing. Financial resources enable small and medium-sized enterprises to innovate and used advanced technology. Our entrepreneurs must innovate, invest in technology, used modern management and marketing practices

The findings of this paper contribute to the study of local private small and medium sized enterprise development.

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