

STRENGTHENING OF COMPETITIVENESS OF SMALL ENTERPRISES IN METAL INDUSTRY IN BRODSKO POSAVSKA COUNTY

Lena Duspara, B.Sc.¹

¹Polytechnic of Slavonski Brod, Republic of Croatia, lena.sigurnjak@vusb.hr

Abstract

Metal industry is one of the largest and most important industries, together with agriculture, in Brodsko Posavska County. Through history this industry was and still is one of the main drivers of the economy, but in the last two decades, this industry has experienced stagnation, decline and was neglected. Large number of enterprises does not exploit their competitive advantage. Sometimes think they have it, but are not aware that they do not. The second case is to have a strong competitive advantage that they do not know and fail to promote their service users or goods. Often small-sized enterprises do not specify its competitive advantages, which should be the basis for all strategic and operational decisions.

The main goal of this paper is to research and evaluate approaches, views and factors that determine the competitiveness of 15 small-sized enterprises in 2013 in metal industry in Brodsko Posavska County. Analysis is based on primary research by questionnaire. The targeted objectives are to understand the necessity and role of strengthening competitiveness, to evaluate current state and investigate what enterprises can do to improve and achieve better scores in future. Try to find answers what the enterprise distinguishes from the rest of the competitors in the market-why it operates, maintains and allows growth.

JEL Classification: F12

Keywords: competitiveness, metal industry, small-sized enterprises, development, strategy

1. Introduction

For majority of enterprises competitive advantage is rarely uniform and it changes over the long term. Successful enterprises constantly looking for new competitive advantages and spent a lot of time on market research- monitor what their competitors are doing. Successful enterprises are built on solid foundations, have quality, professional people, good service, tradition, authenticity, etc. But strengths of enterprise are not the same as a competitive advantage. Forces are important to be able to survive on the market, but did not influence diversity. Finding a competitive advantage is not a one-time deal. It is important to create a work culture that is constantly maintains a competitive advantage. It is necessary to constantly monitor the competition, and well informed about the competition is a kind of competitiveness. The most important is reputation as perceived by customers. Enterprises often do not care to find out what is really important to customers. If the company has a competitive advantage, which was not presented to customers or if they do not confirm it, then it's a big lack in the business.

Metal industry is a main industry in Brodsko Posavska County (BPC), but it is very poorly competitive in the market. The reason that BPC is for years one of the least developed counties in Republic of Croatia. Most perspective part of metal industry are small enterprises who try to implement new ideas, technologies, trends, support export and so on, in order to increase their competitiveness.

2. Competitiveness

One of main experts in competitiveness of enterprise is Michael E.Porter and his definition of competitiveness is: "Competitive advantage is what the company stands out from the rest of the competitors in the market". It is why how the company operates and maintains and allows growth" (Porter, M.E., 2004,p .24). Competitive advantage can also be found under different names such as: unique selling position, recognition, a favorable competitive position, discrimination, differentiation. "Competitiveness can be obtained by offering superior value to the customer through either unique benefits that offset a higher or lower price than competitors for equivalent benefits" (Wagner, S. M., 2006., p. 687).

2.1. *Types of competitive advantage*

There are two types of competitive advantages: external and internal. External competitive advantage is visible to the customer: patented products or special ser-

vices that the competition does not measure, better quality products, fast delivery. Internal benefits are not visible to customers, but because of them, the company has a big advantage over its competitors. They develop over years, if not decades. Internal benefits can be: buying power, good organization within the company, good distribution channels, advanced technology etc. Internal benefits will not affect the daily customers, but they have a great importance for the sustainability of the financial stability of the company, for suppliers, bankers, employees and business partners.

The enterprise possesses a competitive advantage when applying a strategy that is not used by other competitor. The enterprise must offer its customers more than low prices. Competitive position is defined like: "market share, the range of product lines, distribution efficiency, accounting advantages, price competitiveness, effectiveness of advertising and publicity, location, capacity, productivity, experience, cost of materials, financial position, product quality, grade level research and development, the structure of the employees, the general picture companies, consumer profile, patents and other proprietary rights, union relations, technological leadership, social reputation" (Pearce, J.A., Robinson, R.B., 2005., p. 102).

2.2. Porter's five forces for industry analysis

Competitiveness means that enterprise conducts its activities in a different way, or "perform activities that are different from competitors in order to make the market different from their competitors and to create new value" (Thompson, A.A., Strickland, S.J., 2006, p.114). The purpose of business strategy is to choose the way which will achieve competitive advantage for a particular strategic area that can be domestic or international. "Each enterprise if wants to have a competitive advantage must define which type of advantage wants to achieve" (Lazibat, T., Kolaković, M., 2004., p. 66).

Porter's five forces allow enterprise to perform better in comparison to other in same industry. It is impossible that the two enterprises in the same industry implements the same strategy, because every company has different view on future market conditions, different strategies adapt to new conditions, different strategy with their competitors. Setting strategy is reduced on two elements: the size of the market group that may have a wide range of customers, or a narrow segment of customers and a competitive advantage with respect to the products at low cost or differentiation. Five generic competitive strategies are: "competition in the indus-

try, potential of new entrants into industry, power of suppliers, power of customers, threat of substitute products“ (www.investopedia.com).

2.3. Strategies for competitiveness

When enterprise decides which of Porters 5 competitive force will use, it focuses its attention on strategic actions that can complement first choice. To achieve competitive advantage it is important to timely plan a strategic moves. Strategies that helps to achieve competitiveness are: Strategic Alliances- „partnership between two or more companies that merged to enable better implementation of its strategy“ (Thompson, A.A., Gamble, J.E., Strickland, S.J., 2004., p.130); mergers and acquisitions - often consist used in cases where strategic alliances fail; outsourcing- „process of creating a separate business entities in the company of former smaller functional units or organizational unit“(Tipurić, D., 1999., p.315); usage of e-business and Internet as new market- „benefit of computerization, not only in the use of employee knowledge, but also the development of simple systems that allow the flow of information“ (Kourdi, J., 2009., p. 178); human resources- the most important part of any organization or enterprise. People who use their knowledge, skills and creativity are most important for achieving competitiveness; and last but of most important for metal industry in BPC is international business - important because of the development of globalization, and it is difficult to imagine how the enterprise can operate nowadays if there is no international trade.

New term in competitiveness is blue ocean strategy which defines the unknown market space, untainted by competition. „The key point in Blue Ocean is making the right strategic moves. Competitions are never used as benchmarking factors instead the incumbents often create blue ocean, mostly with their current core businesses. It's also not about technology innovation, but about building brands. It rejects the trade-off between low cost and differentiation because blue ocean creators attract customers in larges scales and volumes thus they would be able to generate economies of scale very rapidly, placing the potential imitators and current rivalries at a cost disadvantage“ (Kim, W. C., Mauborgne, R., 2004., p. 76).

3. Research

Metal industry is one of the largest and most important industries in the Republic of Croatia and most important industry in BPC. This industry was and still is one of the main drivers of the economy. To be able to make the analysis of metal

industry it is important to know how it is structured. Metal industry is divided into two groups. The first group includes the manufacture of metal, and the other branches of the manufacture of metal products, except machinery and equipment. Metal production into the manufacture of welded and seamless steel pipes, reinforcing steel, wire rod, rebar net, aluminum processing, and metal casting.

In the last twenty years, this industry has experienced stagnation and decline, was ignored, and greatly changed the structure of the share of the economy. There are many social and economic changes have had a drastic reduction in metal industry in Croatia. Explanation can be given by fact that at the beginning of the transition metal industry in Croatia employed about 178,000 workers, and today from them has about 65,000. The first indications of the current poor state of metal activity started to appear in late 80s fall of the Berlin Wall. Then started to disappear, all the Eastern European market in which Croatian metal industry largely leaning on. Shortly after this event come war, and mistaken politics and transition of metallurgical complexes contributed to its collapse. In this paper will be shown the current state of the metal industry and its competitiveness based on research of 15 small enterprises on area of Brodsko Posavska County.

3.1. Metal industry in Brodsko Posavska County

Brodsko Posavska County has 176,765 inhabitants, which is 4 % of the total population of Croatia (51, 47% female and 48, 53% male). There are five international roads through which an enormous transit of goods, people and services. In the end of 2012 there was "18 548 unemployed persons" (www.soundset.hr), but highest rate of employment was in manufacturing industry-61%. Metal industry is part of manufacturing industry. The importance of income is high because Brodsko Posavska County "in 2010 had lowest rate of GDP per person in Croatia, it was 6.183 Euros" (www.glas-slavonije.hr). According to Croatian Financial Agency in Brodsko Posavska in "2010 there have been 96,4% of small-sized enterprises, but more than 93% of them is in private sector" (www.bpz.hr). Structure of industry in County is that there are: "34% of enterprises in manufacturing, 14%, in construction, 33% wholesale and trade 33% and 7% in energetic industry"(www.bpz.hr). Assumption is that all documents and fact are change negatively nowadays, because of very bad economic situation many new-time documents are not available and are little outdated and not represent current state.

3.2. Characteristics of the analyzed enterprises

According to Croatia law acts small enterprises are those that do not exceed two elements: “total asset of 32.500.000,00, total revenue of 65.000.000,00 (kn) and average number of employees during the current year is maximum 50 persons” (Accounting Law OG 109/07). The goal is to show ways of strengthening competitiveness and current state of 15 small-sized enterprises in metal industry in one of the most undeveloped region in Croatia.

Table 1. Characteristics of enterprises

Number of employees (max.50)	Number in enterprises (max.15)	Age	Number of enterprises of certain age
0-5	4	0-5	0
10-20	3	10-20	6
20-50	1	More than 20	4

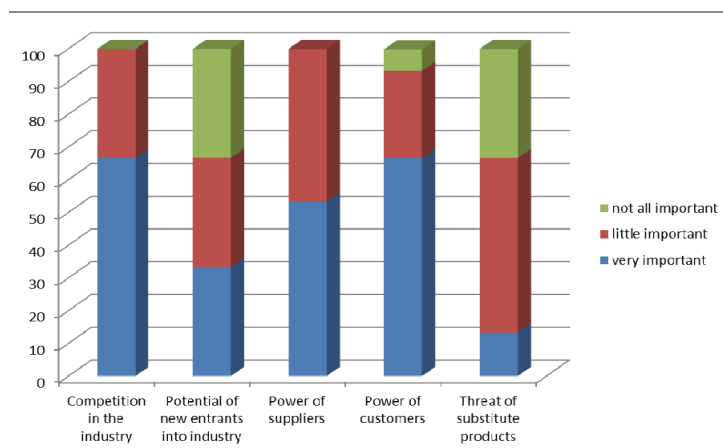
Source: Made by author

According to survey (Table 1.) there are 4 enterprises with less than 4 employees, 7 in scale from 5-10, 3 in scale 10-20 and only one enterprise in this research has more than 20 employees, precisely 41. Most of enterprises, 7 of them, operates from 10 to 20 years. Scales of age of enterprises is not higher than 20 years, because process of transition of metal industry began in the beginning of 1990s with private sector, and before that period most of enterprises were big-sized and of national property. Only 2 enterprises in private sector from this research began their business in 1986. (the only enterprise with more than 20 employees) and other in 1989. All small sized enterprises are characterized like Limited Liability Company (LLC). In this paper, survey was conducted on 15 small-sized enterprises; 11 located in city of Slavonski Brod and 4 in rest of Brodsko Posavska County. Their activities are the production, trade of metal products, engineering, but most of them doing combination of that three activities.

3.3. Achieving of competitive forces in small sized enterprises in BPC

Competitive advantage is characterized with Porter's 5 forces. The only way to strengthen and sustain a competitive advantage is to upgrade it through 5 main dimensions that are shown below in Chart 1.

Chart 1. Structural approach according Porter



Source: Made by author

According to Chart 1. it is presented how an important is for respondents that enterprises take care about the Porter's 5 forces. 66.6% of enterprises considered competition in the industry is very important for development and 33, 3% that is little important, mostly because of organizations ability to respond on negative threats or capitalization of opportunities. Potential of new entrants into industry is very important for 33, 3, little important and not important for same 33%. The reason why it is not important for some enterprises is because of bad economic situation and recession where many enterprises in BPC not operating in last few years or stopped to exist, because of high costs for starting business in metal industry- because of need of production technologies that is very expensive, and opportunities for financing nowadays are very low. That's one of the reasons why enterprises estimate that new entrants are not threat. But, moving closer to membership of Croatia to European Union can be threat for domestic enterprises with new entrants form EU market.

On the other hand, respondents answer that the power of suppliers is very important for 53, 3 and little important for 46,6. The reason fluctuations in the market conditions where, e.g. price of steel bars changed price in 2-3 month for more than 30%. It is an unfavorable situation for negotiating of future jobs. The reason is, in metal industry business contracts are entered on to a few years. 66, 6% seems that power of customers is very important for their competitiveness, 24% little

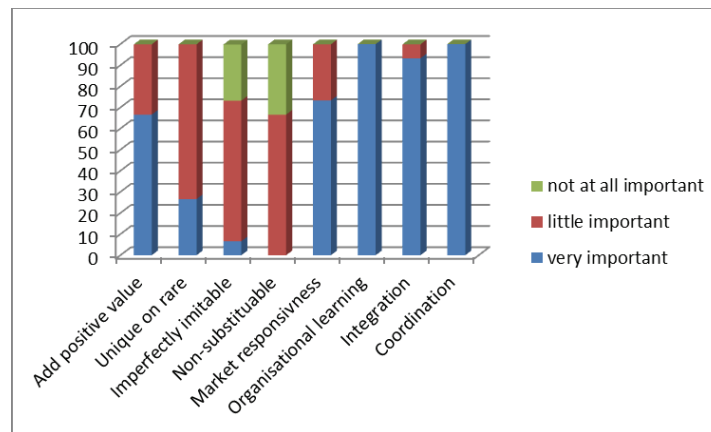
important and 6, 6 not important at all. Small enterprises are very often present as cooperators on big projects (in shipyards, construction, pipelines and so on) of big enterprises and influence of customers for most of them. And the last Porter's force is threat of substitute products.

3.4. Resource-based and dynamic-capability view

Resource base view is one of approaches of competitiveness. It can be defined: "a firm has a competitive advantage when it is implementing a value-creating strategy not simultaneously being implemented by any current or potential competitors" (Barney, J., 1991., p. 101.). Framework for using this approach has four primary attributes: value, rareness, inimitability and non-substitutability. On the other hand dynamic-capability view focuses on the development of resources with rent-generation potential rather than the possession. Organizations with dynamic capability will constantly „increase or maintain the value of the current resources or the position of the market via a flexible adaptation method in countering a dynamic competitive environment“ (Vinayan, G et.al; 2012., p.31). Attributes of this view are: market responsiveness, organizational learning, integration and coordination.

Chart 2. shows value of attributes of resource-based and dynamic-capability view which determines a competitive advantage of small-sized enterprises in metal industry in BPC. Respondents think that resource based view is important, but not so important like attributes of dynamic-capability, were results were almost 100% very important for achieving competitiveness. Enterprises prefer most innovation and creation attributes for new games, rather than fighting against competitors who are the setter of the industry standard.

Chart 2. Value of attributes of resource-based and dynamic-capability view



Source: Made by author

3.5. Production strategy and market

Almost all enterprises from research are manufacturers. So, for strengthening of their competitiveness is important to define production strategy and market where they can place their products. The production strategy is included in the strategic plan of a company as its integral component and a starting point for the formulation of business strategy. The formulation of production strategy includes a discussion about factors of influence in the production function. In order to define production strategy it needs to include several different factors that are presented in Table 2.

Table 2. Factors of production strategy

	Factor	%(possibility of multiple answers)
1.	Possibility of exports	100
2.	Product innovation	66,6
3.	Product design	33,3
4.	Diferentiation	6,6
5.	Implementation of new technologies	100
6.	Positioning of product	53,3
7.	Capacity	93,3
8.	Costs of production	100
9.	Distribution	73,3
10.	Product standardization	26,6

Source: Made by author

Table 2. shows that for all respondents possibility of exports, new technologies and cost are 100% important for creating of successful and competitive production strategy. Only with new competitive technology and low production cost enterprise can develop innovative product and become competitive on market, because domestic market is not sufficient if enterprise wants to be competitive and developed.

4. Conclusion

According this research there are many approaches, views and factors that can have influence of strengthening of competitiveness of small-sized enterprises in metal industry in BPC. The targeted objectives of this paper are to understand the necessity and role of strengthening competitiveness by given answers. Enterprises need to search valuable strategies in order to build competitive advantage and achieve business performance in environments in time of recession. To succeed, survive and sustain in the competitive environments, it is important to have innovation and technology and good position in industry. Each enterprise has to find best approach if it wants to be distinguished for other competitors in order of strengthening of competitiveness in metal industry.

References

- Porter, M.E., *Competitive Strategy*, Free press, 2004.
- Wagner, Stephan M., A Firm' Responses to Deficient Suppliers and Competitive Advantage, *Journal of Business Research*, 59, 2009., p. 687.
- Pearce, J.A., Robinson, R.B., *Strategic Management*, , Jr, McGraw-Hill/Irwin, New York, 2005.
- Thompson, A.A., Strickland, S.J., *Strateški menadžment*, Mate, 4th ed, Zagreb, 2006
- Lazibat, T., Kolaković, M., *Međunarodno poslovanje u uvjetima globalizacije*, Sinergija, Zagreb, 2004.
- <http://www.investopedia.com/terms/p/porter.asp#ixzz2NVg3GyKh> (15.01.2013.)
- Thompson, A.A., Gamble, J.E., Strickland, S.J., *Strategy*, McGraw-Hill/Irwin, New York, 2004.
- Tipurić, D., *Konkurentna sposobnost poduzeća*, Sinergija, Zagreb, 1999.
- Kourdi, J., *Poslovna strategija*, Masmedia, Zagreb, 2009.
- Kim, W. C., & Mauborgne, R., Blue Ocean Strategy. *Harvard Business Review*, 82(10), 2004., p.76

<http://www.soundset.hr/vijesti/slavonski-brod/u-brodsko-posavskoj-zupaniji-18-548-nezaposlenih> (23.12.2012.)

http://www.glas-slavonije.hr/vijest.asp?rub=1&ID_VIJESTI=137046 (17.01.2013.)

http://www.bpz.hr/opci_podaci/gospodarstvo/default.aspx (12.03.2013.)

http://www.bpz.hr/opci_podaci/gospodarstvo_i_poljoprivreda/default.aspx (12.03.2013.)

Barney, J., Firm resources and sustained competitive advantage. *Journal of Management*, 17(1), 2001., p.101. <http://dx.doi.org/10.1177/014920639101700108>

Vinayan, G et.al; Critical Success Factors of Sustainable Competitive Advantage: A Study in Malaysian Manufacturing Industries, *International Journal of Business and Management*; Vol. 7, No. 22; 2012., p. 31