

# Specificities of Strategic Management of Small and Medium-Sized Enterprises in Countries of Transition

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*'Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment. The new SME definition, which entered into force on 1 January 2005, represents a major step towards an improved business environment for SMEs and aims at promoting entrepreneurship, investments and growth. This definition has been elaborated after broad consultations with the stakeholders involved which proves that listening to SMEs is a key towards the successful implementation of the Lisbon goals.'*

Günter Verheugen,  
Member of the European Commission  
Responsible for Enterprise and Industry

*Small and medium enterprises (SMEs) are of great importance in all economies, especially in countries in transition, which are changing to the new entrepreneurial market way of entrepreneurship. Therefore, important changes are necessary in forming and development of the economic structure, so that these countries could reach the appropriate level of development and could be incorporated into European economic and overall development trends. One of the key levers, in the past few decades, in the total transformation of the economic structure are SMEs, whose status, treatment and impact is very different in various countries in transition. One of the preconditions of their efficient functioning is to formulate a strategy for the development i.e. selection of such strategy that will enable their survival and development in the long term. Since these conditions are different there are specificities in the formulation of each strategy. If under the strategic management, establishing relationships of business system with the environment for the mutual influence and effective implementation of the formulated objectives is understood, then SME should very carefully formulate their strategies in order not to jeopardize their survival and to secure, for themselves, some growth and development. This paper considers research of certain aspects of strategic management of SMEs and comparative analysis of countries in transition.*

**Keywords:** Transition, SMEs, specificities, strategic management.

In the seventies of the last century there were significant changes in the economic reasoning regarding the role and importance of small businesses. In fact, in the earlier period, industrially developed countries attributed the contribution of the economic development exclusively to the effects of large systems, since small enterprises weren't regarded as that important. In the seventies, however, due to the oil crisis comes to the changes in economic relations and to the awareness that the adaptability and flexibility in business is needed, which has become a factor of competitiveness, so that the solutions were sought in small and medium-sized enterprises (SMEs).

During the eighties and nineties in the last century, a number of programs were accepted, that dealt with issues of importance to SMEs. The turning point in EU policy regarding the SMEs occurs in 2000 when the Lisbon strategy or European Charter for small-sized enterprises are adopted, which encompasses ten sectors of development. From 2007 to 2013 the FP7 program and CIP4 were adopted which have given programming framework for technological developments and innovations related to SMEs. The main objective is directed towards the creation of the economic environment and financial support as well as the development of entrepreneurial thinking that would facilitate the creation of SMEs. In the above-mentioned Charter it was pointed out that SMEs are the driving force for the development of innovation and solving employment. Based on previously mentioned in the current period in a series of EU documents, considerable emphasis is placed on the clustering of SMEs in order to increase the innovative potential that will increase the competitiveness of enterprises.

Hence the task of the European Commission that the members incorporate the cluster policy into programs of reforms, since it is believed that in the future development of integration into clusters is one of the important pillars of development of the economy.

Creating the favorable economic and social environment assumes greater overall support to the creation and development of SMEs so that they are actually able to operate in the entrepreneurial conditions, which involves assessing the business risk. Beside adoption of new legal regulations it is most certainly needed to gradually change or adjust the market infrastructure, banking mechanism, stock market operations, credit, innovation and investment policies which would promote the development of SMEs in transition countries.

Strengthening the role and importance of SMEs in the EU countries and their experiences have given the impulse to the countries in transition that used different methods and dynamics in order to switch to a market economy by implementing structural changes in the economy, so that the formation of SMEs can create more effective economy.

Based on the author's research, the paper elaborates some problem, the advantages and limitations of the strategic management of SMEs in countries in transition.

## *A review of the development of SMEs in transition countries*

Countries in transition are called the countries which are in the process of transformation of the economic structure towards a market economy with the transformation of ownership structure. This has for the result the creation of economic environment for development of private sector, entrepreneurship and SMEs. In some countries, these processes were started at different times with different dynamics and hence the pace of development was different. If the different levels of development of the current situation of economic development is considered, it is evident that the countries in transition differentiate. However the beginning of the transition can be dated to the end of eighties and the beginning of early nineties of the last century. Having this in mind, according to some sources (Avlijaš, 2008) the countries in transition can be grouped into the following groups:

The first group of countries are countries that have achieved rapid growth and are members of the EU. This group includes: Hungary, Poland, Slovakia, Czech Republic, Slovenia, Croatia and the Baltic countries - Estonia, Latvia and Lithuania.

The second group of countries are countries with slower growth, of which two are EU members - Bulgaria and Romania- This group includes the Russian Federation, Kyrgyzstan and Uzbekistan.

Countries with the slower development are: Albania, Bosnia and Herzegovina, Armenia, Azerbaijan, Serbia, Montenegro, Macedonia and most of the CIS countries (ten countries of the former Soviet Union).

At the very beginning of the transition, most countries were facing a series of problems and constraints for the implementation of structural changes of ownership transformation and liberalization which is followed by an increase in unemployment.

The main obstacles arouse from the lack of adequate legislation, which even if adopted to regulate and facilitate the formation of SMEs, could not be applied since the lack of favorable business environment. This has caused an insufficient possibility of revivification of development and the impact on SMEs on development tendencies, although declaratively all countries accepted the concept of entrepreneurship and forming the SMEs.

In most countries in transition, especially in the countries of Central Europe the transition from centrally planned economies to market economies takes formal character. Companies which have so far operated under the "protection" of a centralized state were supposed to perform ownership and organizational transformation in a short period of time, and focus to competitive market economy. Maybe there was some political will, however, it is understandable that in the absence of sufficient knowledge, inherited economic structures, scarce financial resources, the overall transformation could not be properly implemented in all sectors of economic activities. That is the reason that today we have a differentiation in the development opportunities of individual countries in transition. Although, the most transition countries adopted the European Charter for SMEs, many countries are to improve the business environment for development of SMEs and their impact on development.

The intentions of the European Convention relating to the development of SMEs, particularly emphasize:

- Education and training of entrepreneurs,
- Faster start up,
- Available resources,
- Technological capacities,
- Changes in the legal regulations,
- Changes in tax and financial systems,
- Protecting the interests and adequately representing the interests,
- The development of e-business.

Many countries in transition formed the National Agency for SME development, business incubators and technology parks that are working with greater or lesser success, as well as certain segments of SMEs. In order to monitor the evaluation of SME development UNCE introduces Index SME based on three basic indicators (Avlijaš, 2008):

- The share of private property,
- The share of SMEs in GDP and
- Share of employed in SMEs in regards to the labor force in the country.

Based on this, countries are classified into three categories: the first category are the countries where the level of transition is between USD 500-2200, in the second category this is USD 500, and the third, the countries with the slowest growth up to \$ 100.

One of the key limitations is the funding system, especially in the initial stage of starting a business. Another important limitation is the choice of area - economic sector, region, target market and others due to inherited relationships, lack of knowledge and uncertainty.

However, the fact is, that most countries in transition accepted the concept of entrepreneurship and development of SMEs and it can be concluded that it significantly influenced the transformation and development especially in countries that, based on existing criteria, are classified into the first group of countries in transition.

As an illustration, the data of the European Commission of the presence of SMEs in the industrial sector in some EU countries are shown below, which include some countries in transition (according to 1):

Table 1. Partitipation of SMEs in industrial production of EU

COUNTRY	SMEs in industrial sector (%)
EU 27	13
Austria	10
Belgium	6
Bulgaria	12
Czech Republic	15
Denmark	14
Estonia	10
Finland	7
France	26
Greece	14
The Netherlands	5
Irland	16
Italy	13
Cyprus	7
Latvia	16
Lithuania	11
Luxembourg	4
Hungary	13
Malta	18
Germany	9
Poland	12
Portugal	15
Rumania	14
Slovenia	17
Slovakia	15
Spain	10
Sweden	12
United Kingdom	10

The table shows that small and medium enterprises are large source of employment of the workforce in the EU, as well as a significant source of wealth. Over 60% of employees in the private sector of the European Union works in small and medium-sized enterprises, and over 50% of new jobs are created in this sector. It is interesting that over one million SMEs in the European Union brought an innovation in business. Indicative is the fact that many countries in transition have achieved, even exceeded the EU average (13%).

### *Problems of strategic management of SMEs in transitional countries*

Management in SMEs, unlike large enterprises, has its own peculiarities. The Problem of strategic management of SMEs is very broad and complex. Therefore the author, on the basis of research on the issue, focuses the problem of limitations and the formulation of growth factors as a target function of the SMEs and their flexibility and adaptability to the environment.

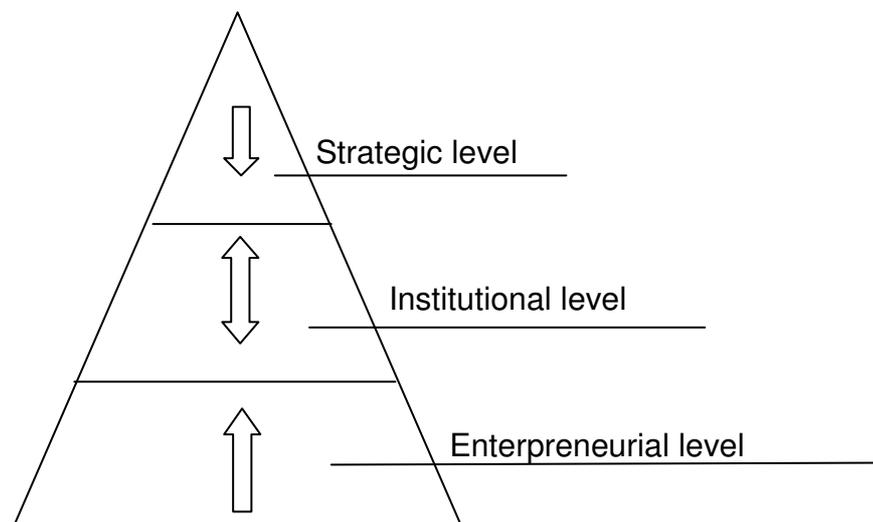
A process of feedback occurs, in which SMEs become factors of transformation of the economic structure, and on the other hand, there are a number of limitations of an institutional nature, starting with the procedural steps in starting a business till system support, i.e. creating conditions for financing, changes in credit conditions, changes in the fiscal system, etc. If we start from the role and task of strategic management as an effective way of realizing formulated business goals, then we can conclude that the path to growth and development of SMEs as it is formulated in the above mentioned documents of innovation and increase of employment, as well as the willingness to take risks.

Specifics of formulating strategies stems right from the identification of those limiting factors that hinder the development of SMEs, i.e. the objective identification of factors of growth. Confronting the limiting factors with the growth factors would enable the formulation of such a strategy that would focus the control process on eliminating as many as possible limiting factors and maximizing the impact of growth factors. According to previous researches as already mentioned, basic barriers can be identified in the following areas:

- Institutional,
- Financial,
- Market,
- Personnel,
- Promotional.

Primarily it is necessary to locate the level of strategic management in order to perceive the possibility of implementing those management activities that allow using the advantages of SMEs. The recent development of SMEs shows that the synergy between at least three levels is needed as shown in the following figure (Avlijaš, 2008):

Figure 1. Pyramid of the development of SMEs



These levels of Pyramid of the development of SMEs can effectively operate if there is full cooperation and synchronization among them. As it is evident central place is dedicated to institutional level, while at the top of the pyramid is strategic level which plays a key role in synchronization, in order to enable the third level the efficiency of the entrepreneurial business, flexibility and transformation.

The basic question that faces the strategic management in SMEs is how to be competitive and to achieve and maintain a competitive advantage. Certainly, taking into account the mentioned advantages and SMEs must incorporate in their strategy the concept of benchmarking, reengineering and TQM. But, primal role plays the determination of mission of the company, as well as formulating its vision. Formulating the vision is operationalized through strategic planning. Starting from a variety of well-known formulation (Asnof and Mac O'Donnell, Drucker et al.) basic task of strategic planning is to determine the position and future orientation of the company. Strategic planning can be viewed through two important processes:

1. Orientation on basic issues of efficient and effective business, through which all relevant influential internal factors of limitations and weaknesses and external factors of threat and opportunities are analyzed, as well as the assessment of certain future developments. For this purpose, it is suitable to use known applications and models as PEST, SWOT analysis and application of BSC,
2. Orientation to change, which is reflected in the willingness of the implementation of innovation and risk-taking.

The quality of strategic planning can be assessed based on the following indicators:

- What is the objectivity in identifying and confronting the advantages and disadvantages,
- The reality in the formulating the alternatives and opportunities and their consequences,
- but above all, risk assessments and
- The reality of the assessment of internal synergy and co-existence in the implementation of the strategy.

Research shows that, unlike in large systems specificities occur in the choice of a strategy of growth and development that are linked to investments in innovations. The question is, to what extent the mentioned benchmarking in SMEs can be implemented, how much they are willing to use some aspects of reengineering and how much they can invest in the promotion of TQM, which makes them competitive. Therefore, occur the specificities in the formulation of financial strategy, which relate to the selection of variants of financing and capital investment. However, according to the authors, based on research, the

competitiveness of SMEs is in innovation. The following table shows the advantages and disadvantages of SMEs in terms of innovation (Deakins, 2009).

Table 2 Strengths and weaknesses of innovations in small enterprises

<i>Strengths</i>	<i>Weaknesses</i>
<b>Management</b>	
Absence of bureaucracy; accepting higher risk; swift decision-making	Absence of formal management technics and skills
<b>Marketing</b>	
Closeness to the market enables swift reacton as changes in market conditions; possibility of dominance over the market	Small or total absence of market power; bad distribution and logistics; expanding on other markets can be very costly and inefficient
<b>Organization</b>	
Smaller routines and inertia	Greater uncertainty and higher costs
<b>Finances</b>	
More efficient I&R work; cheaper innovation process	Difficulties in obtaining external financial resources; capital costs are high; use of short-term loans, inability to diverse the risk
<b>Growth</b>	
Potential for growth through commercial niche or strategy of differentiating	It is difficult to ensure financial means for the growth; entrepreneurs are often incapable to manage the growth
<b>Human resources</b>	
Flat management structure	Big fluctuation; lack of formal training
<b>Technical personel</b>	
Work several business tasks simultaneously and are involved in work of all sectors	Lack of experts; insufficient competency for I&R activities
<b>Communication</b>	
Efficient and unformal internal communication enables swift problems solving	Insufficient time and resource to create external technological relations
<b>Institutional support</b>	
Agencies for support of small companies; advices, trainings, aid programs	High transaction cost in order to access support centres; lack of financial means to participate in support programs; there is no awareness of importance of institutional support
<b>Regulation</b>	
Some regulations are less strict for small businesses	System of patent protection is costly and complexe for small enterprises
<b>Cooperation</b>	
Flexibility and swift decision-making makes the company an attractive partner	Asymmetry of power and influence in cooperation with big partners, small or total absence of any influence in the chain of supply

The unique advantage of SMEs in terms of innovation is the speed, flexibility and proximity to markets depending on the life cycle. However, the main limiting factors are:

- 1) Financial constraints and
- 2) Qualification of human resources.

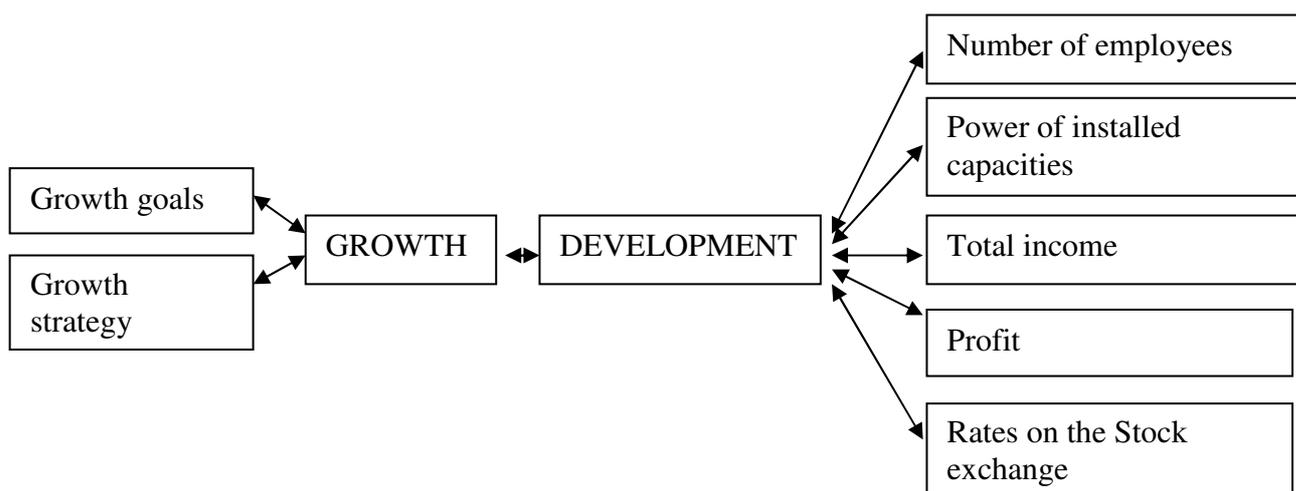
### *Comment*

In choosing a strategy of SMEs it is necessary to make a difference between the two aspects of the strategy:

- 1) Strategy of choice of alternatives of type and development and
- 2) Choice of alternatives of realization.

Correlation and development can be displayed with the following feedback (according to 1, modified)

Figure 2. Interdependence of growth and development and their expression



Strategic plan of the growth can have more alternatives, as shown in the following table

Table 3. Different methods and directions of growth (Stoner & Freeman, 1989)

<i>Direction of the growth</i>	<i>Rate</i>	<i>Risk</i>	<i>Potential</i>	<i>Financial means</i>
- Penetration on the existing market with existing products	small	low	strictly limited	scarce-high
- New markets	moderate	low	limited	scarce-high
- New product/ service	moderate	middle	limited	scarce
- Diversification	moderate-large	high	high	high
Methods of growth	Rate	Risk	Potential	Financial means
- Merging/Aquisition	high	high	unlimited	scarce-high
- Taking licenses	moderate	low	reasonably high	moderate
- Licensing	moderate-	low	high	scarce
- Franchising	high	low	limited-high	scarce-high
- Rationalization	high	low	limited	scarce
	moderate			

In the choice of strategy the essential question is the optimal accordance of the alternatives and methods of their realization.

## *Conclusion*

The aim of this paper was to point out the necessity of development and adequate location of the strategic management within the SMEs with regard to currently spread understanding that the strategic management is needed only by large systems. For SMEs it is necessary to develop effective competitive strategy. Research shows that the generic strategy is the basis and important frame for formulating the elements of SMEs.

In the end it is needed to emphasize the importance of education and expert competent human resource.

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