Comparative analysis of small and medium enterprises organizational performance in clothing industry

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REZUMAT – ABSTRACT

Analiza comparativă a performanțelor organizaționale ale întreprinderilor mici și mijlocii din industria de confecții

Conceptul de capabilitate organizațională a devenit o "modă" a ultimilor ani în literatura de specialitate privitoare la strategia organizațională. La nivel internațional și cu atât mai puțin național există doar câteva cercetări academice care tratează interdependențele dintre capabilitățile organizaționale și performanța organizațională în întreprinderile mici și mijlocii din industria confecțiilor. Lucrarea de față își propune să investigheze legăturile dintre strategia organizațională, capabilitățile întreprinderilor mici și mijlocii din industria de confecții, mediul real și perceput al acestora și performanțele organizaționale din patru țări ale Europei Centrale și de Est, pe baza utilizării abordărilor metodologice relevante furnizate de Porter, Miles și Snow. Rezultatele confirmă existența unor diferențe și asemănări semnificative la nivelul IMM-urilor analizate din aceste țări în ceea ce privește definirea și utilizarea instrumentelor specifice managementului strategic.

Cuvinte-cheie: strategie competitivă, capabilități, performanța IMM-urilor, Europa de Sud-Est, antreprenoriat

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The concept of organizational capability has become a "fashionable" one in recent years in scientific literature regarding strategy. Unfortunately, there are only a few academic researches that treat the links between organizational capability and performance in the small and medium companies from clothing industry. This paper aims to investigate by using econometric and statistical specific techniques connections between strategy, capability, organizations internal and external strategic environment and performance of the in SMEs from clothing industry in some countries form South-East Europe by using relevant methodological approaches provided by Miles and Snow and Porter theories. The results confirm the existence of peculiarities between the concepts involved in SMEs from clothing industry in all analysed cultures.

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Keywords: competitive strategy, capabilities, SMEs performance, South-East Europe, entrepreneurship

INTRODUCTION

Recent research regarding strategy emphasizes links between competitive strategies and other organizational and environmental elaborates [1–3]. The most frequently analysed and cited papers on strategy and organizational performance were carried out in developed countries in Western Europe and North America, while comparatively few studies have focused on developing countries such as Romania and other countries in South-East Europe. In addition, most studies have focused on large companies, while little attention has been paid to small and medium companies [4–5].

On the other hand, management research in developing economies such as Romania has expanded in recent year [6–9]. Compared with their EU counterparts, majority of Romanian SMEs are struggling to survive in the complex and unfavourable environment. An estimated two-thirds of the Romanian new 140,000 SMEs don't survive in the first year since establishment [10].

This article investigate the literature correlations between organizational capabilities, SME environment

(internal and external) and organizational performance in countries from South-East Europe. While the economies of these countries are at different stages of development, the comparison is important for academics and entrepreneurs from these countries for several reasons. First, entrepreneurs can easily understand and interpret ongoing weaknesses, strengths, challenges and opportunities of their companies and management by reviewing the national and regional comparisons. Secondly, academics can better understand both the benefits and the obstacles associated with the application of strategy models in countries from this part of Europe.

LITERATURE REVIEW

The concept of organizational strategy is connected within the evolution of strategic management as a scientific discipline. During the crystallization of the concept of strategy, experts have various typologies, "some distinctive and others based on prior developed frameworks" [11]. Of the various strategic typologies that have been proposed during the last decades, those of Porter [12] and Miles and Snow



[13] have received the most academic attention [14]. Event today, both Porter's and Miles and Snow's original typologies remain amidst the most widely cited, tested, and refined [15]. Porter underline that organizations must develop either cost or differentiation strategies, making no distinction regarding strategy focus. According to him, businesses that endeavour to combine differentiation and cost typically become "stuck in the middle" an idea that received considerable advocacy [11, 16–17]. Recent studies questioned Porter's controversy and suggested that businesses adopting combination approaches might outperform business with single strategy orientation [4, 18–19].

The notion of capabilities emphasizes the uniqueness of each organization. To be fully used, resources must be "coupled with complex skills, capabilities and knowledge that enable organizations to coordinate activities" [20]. On the other hand, a number of studies have suggested links between organizational capabilities and strategies [21-25]. Entrepreneurs are charged with the tasks of collecting and linking capabilities to material, human, financial and informational resources and adapting to the changing environment [26]. The literature review supports a connection between capabilities and performance [27-29]. Bowman and Gatignon emphasize the direct impact of technical and marketing capabilities on initial advocates' of change and performance [30]. lansiti and Clark [31] found that "knowledge integration capability in product development correlated positively with firm performance and its improvements over time". The amplification of various organizational capabilities is also believed to have a strong assertive influence on business performance [24, 32].

Thompson viewed managing SMEs environment as one of top management's primary challenge [33]. SME environment "influences strategies, which in turn influence performance" [34]. Therefore, in some respects, a firm's success is a function of its environment [35]. Environmental complexity and dynamism can limit company "ability to assess the environment at any given time" [36]. Even today, it remains a decisive issue in SME strategy research because it forms a basic part of the interpretive thinking regarding formulation, implementation and evaluation of strategy [13, 37–38]. Consequently, we consider that organizations design their strategies and attempt to shape the competitive environment as one means of addressing IEE [39].

METHODS

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In order to achieve our research objectives, we develop a series of hypothesis presented below.

The first assumption considers the connection between strategy and performance among SMEs from clothing industry, and is important as a basis for the remaining assumptions:

A. Entrepreneurs in reactor SMEs will report less satisfaction with performance.

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The second assumption was based on Porter [40] approach who suggested that successful businesses follow either cost or differentiation, but not simultaneously. In addition, Miles and Snow [41] suggested that firms adopting a focus strategy typically outperform those without one. A similar finding is anticipated herein:

B. Businesses with moderate strategic focus will perform poorly.

The third set of assumptions emphasizes the connection between capabilities and business performance. Research examining the direct connection between capability development and performance has risen in recent decades [42]. Therefore:

C.1. Capabilities regarding marketing and business performance it is positive.

C.2. Market linking capabilities and business performance it is positive.

C.3. Capabilities regarding technology and business performance it is positive.

C.4. Capabilities regarding management and business performance it is positive.

The fourth set of assumptions emphasizes the relationship between IEE and business performance. IEE influences strategy formulation, which in turn influences business performance [34]. Therefore:

D1. IEE and business performance it is negative.

D2. IEE about technology and business performance it is negative.

D3. IEE and business performance it is negative.

The fifth set of hypotheses concerns strategic capabilities with regard to marketing, market linking, technology and management. Businesses pursuing a single, focused strategy will be more focussed in their pursuit of high performance and will tend to outperform reactors:

E1. "Defenders" in analysed SMEs will report the highest degree of market linking capabilities.

E2. "Prospectors" in analysed SMEs will report the highest degree of technology capabilities.

E3. "Analysers" in analysed SMEs will report the highest degree of marketing capabilities.

E.4. "Reactors" in analysed SMEs will report the lowest degree of management capabilities.

The final set of assumptions concerns the relationship between IEE and strategy. We intend to identify relationships between:

F1. "Defenders" in analysed SMEs will report the lowest degree of competitive IEE.

F2. "Prospectors" in analysed SMEs will report the lowest degree of technology IEE.

F3. "Analysers" in analysed SMEs will report the lowest degree of market IEE.

Businesses were categorized in the Miles and Snow typology amended by Zajac and Shortell's [43] and James and Hatten [44] scale.

In order to verify the hypotheses research, we identified a representative sample of entrepreneurs from small and medium enterprises (fewer than 250 employees) from clothing industry from the surveyed four countries (table 1).



| | | | | Table 1 |
|------------------------|------------------|---------------------|---------|-----------|
| Variable | South-East Europ | e countries (n=171) | Romania | a (n=170) |
| Management level | | | | |
| Lower management | 22 | 12.87% | 29 | 17% |
| Middle management | 61 | 35.67% | 65 | 38% |
| Top management | 88 | 51.46% | 76 | 45% |
| | | Background | | |
| Accounting/finance | 28 | 16.37% | 22 | 12.94% |
| Management/HR | 31 | 18.13% | 28 | 16.47% |
| Marketing/sales | 48 | 28.07% | 42 | 24.71% |
| Production/engineering | 64 | 37.43% | 78 | 45.88% |
| | | Gender | | |
| Male | 73 | 42.69% | 69 | 40.59% |
| Female | 98 | 57.31% | 101 | 59.41% |
| Firm size | | | | |
| Micro and small (1-49) | 112 | 65.50% | 121 | 71.18% |
| Medium (50-249) | 59 | 34.50% | 49 | 28.82% |

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Source: own research

Reliability was rated for the performance, capability and enterprise environment scales. We found out that factor loadings and coefficient α 's were supportive (table 2). Factor scores were utilized as surrogates for each construct (tables 3 and 4). In order to reduce method bias we use Harmon's single factor test to employ test for potential influence.

FINDINGS

Next, we will briefly present the main findings identified as a result of processing and interpretation of data from questionnaires.

- F1 was supported in other S-E European countries but was not supported in Romania.
- F2 was not supported in the S-E European but was supported in Romania.
- F3 was not supported in either nation from S-E Europe.
- First assumption was substantiated in all national involved. Issues regarding performance were significantly lower in "Reactors" than in "Defenders", "Prospectors" and "Analysers".

| | | Table 2 |
|---------------------|---|----------------------|
| ltem | South-East Europe countries (α=0.95) | Romania (α=0.861) |
| 1. Sales growth | 0.692 | 0.690 |
| 2. Profit growth | 0.570 | 0.745 |
| 3. Market share | 0.812 | 0.714 |
| 4. Return on assets | 0.875 | 0.655 |
| 5. Return on equity | 0.804 | 0.769 |
| 6. Return on sales | 0.855 | 0.667 |
| 7. Overall | 0.871 | 0.711 |
| 8. Composite | 0.868 | 0.751 |

Source: own research

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|----|-----|------|-----|------|----|
| | | | | | |

| | | | Table 3 |
|----|---|-----------------------------------|--------------------------|
| | Item | South-East Europe countries | Romania |
| | Marketing capabilities | (α=0.938) | (α=0.76 <mark>2</mark>) |
| 1. | Customers knowledge | 0.781 | 0.697 |
| 2. | Competitors knowledge | 0.786 | 0.641 |
| 3. | Marketing activities integration | 0.705 | 0.785 |
| 4. | Skill to segment and target markets | 0.788 | 0.616 |
| 5. | Effectiveness of pricing programs | 0.769 | 0.611 |
| 6. | Effectiveness of advertising programs | 0.777 | 0.702 |
| | Market linking capabilities | (α=0.880) | (α=0.821) |
| 1. | Market sensing | 0.761 | 0.658 |
| 2. | Customer linking | 0.840 | 0.777 |
| 3. | Creating durable supplier relationships | 0.735 | 0.724 |
| 4. | Ability to retain customers | 0.800 | 0.789 |
| 5. | Channel-bonding | 0.749 | 0.776 |
| 6. | Relationships with channel members | 0.854 | 0.655 |
| | Technology capabilities | (α=0.925) | (α=0.811) |
| 1. | New product development | 0.891 | 0.747 |
| 2. | Manufacturing processes | 0.830 | 0.767 |
| 3. | Technology development | 0.862 | 0.779 |
| 4. | Predicting technological change | 0.840 | 0.571 |
| 5. | Production facilities | 0.833 | 0.789 |
| 6. | Quality control systems | 0.882 | 0.671 |
| | Management capabilities | (α=0.882) | (α=0.821) |
| 1. | Integrated logistics systems | 0.768 | 0.720 |
| 2. | Cost control capabilities | 0.792 | 0.769 |
| 3. | Financial management skills | 0.840 | 0.691 |
| 4. | Human resource management | 0.835 | 0.800 |
| 5. | Profitability and revenue forecasting | 0.834 | 0.754 |
| 6. | Marketing planning process | 0.699 | 0.624 |

| Item | South-East Europe countries | Romania | |
|--|-----------------------------------|--------------------|--|
| IEE regarding markets | (α=0.821) | (α=0.829) | |
| 1. Changes in customers' product preferences | 0.745 | 0.711 | |
| 2. Customers look for new products | 0.827 | 0.685 | |
| 3. Sensitivity to price | 0.794 | 0.852 | |
| New customers different from existing ones | 0.609 | 0.704 | |
| 5. Cater to same customers | 0.626 | 0.771 | |
| 6. Difficult to predict marketplace changes | 0.751 | 0.672 | |
| IEE regarding technology | (α=0.944) | (α=0.852) | |
| 1. Rapidly changing technology | 0.882 | 0.796 | |
| 2. Technological changes create big opportunities | 0.891 | 0.782 | |
| 3. Difficult to forecast technology | 0.880 | 0.731 | |
| Technology creates new products | 0.912 | 0.752 | |
| 5. Technological changes are minor (recoded) | 0.876 | 0.745 | |
| Technological changes are frequent | 0.876 | 0.760 | |
| IEE regarding competitors | $(\alpha = 0.825)$ | $(\alpha = 0.774)$ | |
| 1. Competition is cutthroat | 0.741 | 0.672 | |
| Many promotion wars in the industry | 0.734 | 0.743 | |
| 3. One competitor can readily match another | 0.719 | 0.575 | |
| Price competition is a hallmark | 0.797 | 0.761 | |
| 5. Competitive moves are frequent | 0.729 | 0.586 | |
| Competitors are relatively weak | 0.670 | 0.748 | |

Source: own research

| Table : | | |
|-------------------------------------|---------------------------------------|----------------|
| ltem | South-East Europe countries 171 | Romania 170 |
| "Defender" | 0.021 (n=7) | 0.288 (n=8) |
| "Prospector" | 0.262 (n=12) | -0.041 (n=4) |
| "Analyser" | −0.162 (n=8) | 0.016 (n=8) |
| "Reactor" | -0.374 (n=5) | -0.850 (n=2) |
| F-value (significance) | 3.243 (0.023) | 7.738 (0.000) |
| F-value (significance) | 4.876 (0.003) | 2.890 (0.037) |
| Micro and small (1–50 employees) | 0.091 (n=18) | 0.047 (n=54) |
| Medium (51–250 employees) | −0.082 (n=14) | -0.009 (n=7) |
| F-value (significance) | 1.369 (0.243) | 0.100 (0.746) |

Source: own research

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| Item | South-East Europe countries | Romania |
|--------------------------------|-----------------------------------|---------|
| Capabilities on marketing | 0.271* | 0.327* |
| Capabilities on market linking | 0.197* | 0.422* |
| Capabilities on technology | 0.348* | 0.251* |
| Capabilities on management | 0.341* | 0.582* |
| IEE on marketing | 0.120 | 0.176* |
| IEE on technology | 0.083 | 0.112 |
| IEE on competitors | 0.100 | -0.038 |

Note: *Significant at 0.05 levels Source: own research

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| | | Table / | |
|----------------------------|-----------------------------------|---------------|--|
| ltem | South-East Europe countries | Romania | |
| Marketing capabilities | | | |
| "Defender " | -0.199 | -0.144 | |
| "Prospector" | 0.037 | 0.191 | |
| "Analyser" | 0.132 | 0.196 | |
| "Reactor" | 0.000 | -0.448 | |
| F-value (significance) | 0.791 (0.492) | 3.247 (0.019) | |
| Market linking capabilitie | S | | |
| "Defender " | -0.093 | 0.315 | |
| "Prospector" | 0.267 | -0.144 | |
| "Analyser" | -0.120 | -0.021 | |
| "Reactor" | -0.279 | -0.640 | |
| F-value (significance) | 2.638 (0.047) | 5.684 (0.001) | |
| Technology capabilities | | | |
| "Defender " | -0.187 | 0.198 | |
| "Prospector" | 0.129 | 0.314 | |
| "Analyser" | -0.075 | -0.152 | |
| "Reactor" | 0.087 | -0.607 | |
| F-value (significance) | 1.021 (0.375) | 5.389 (0.001) | |
| Management capabilities | | | |
| "Defender " | 0.172 | 0.301 | |
| "Prospector" | 0.237 | -0.121 | |
| "Analyser" | -0.529 | 0.011 | |
| "Reactor" | -0.161 | -0.772 | |
| F-value (significance) | 4.929 (0.002) | 7.044 (0.000) | |

Source: own research

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- The second assumption was demonstrated. Entrepreneurs from businesses with moderate strategic orientation reported lower levels of performance than did businesses with a single focused strategy (table 5). Firm size did not appear to play a role in generating performance.
- C1-C4 assumptions were substantiated for all countries (table 6). Either of the capability factor scores was firmly associated with performance.

| | | Table 8 | |
|---------------------------|-----------------------------------|---------------|--|
| Item | South-East Europe countries | Romania | |
| IEE regarding markets | | | |
| "Defender " | 0.076 | 0.168 | |
| "Prospector" | 0.042 | -0.591 | |
| "Analyser" | -0.209 | 0.071 | |
| "Reactor" | 0.075 | 0.147 | |
| F-value (significance) | 0.769 (0.500) | 4.537 (0.002) | |
| IEE regarding technology | y | | |
| "Defender " | -0.291 | 0.021 | |
| "Prospector" | 0.074 | -0.542 | |
| "Analyser" | 0.044 | 0.037 | |
| "Reactor" | 0.153 | 0.601 | |
| F-value (significance) | 1.511 (0.209) | 6.255 (0.000) | |
| IEE regarding competitors | | | |
| "Defender " | -0.411 | -0.162 | |
| "Prospector" | 0.277 | 0.101 | |
| "Analyser" | -0.232 | 0.008 | |
| "Reactor" | 0.281 | 0.291 | |
| F-value (significance) | 5.772 (0.001) | 1.307 (0.269) | |

Source: own research

- D1-D3 assumption was rejected. We identify only one strong association between a factor score and performance, a positive link with IEE about markets in Romania (table 7).
- E1 assumption was rejected in the South-East Europe countries, but was substantiated in Romania. In the South-East Europe countries, "Prospectors" declare the utmost market capabilities, but the difference was not important. In Romania, "Defenders" declare the greatest market capabilities (table 8).
- E2 assumption was rejected in all countries from South-East Europe countries, except Romania.
- E3 assumption was rejected in all countries from South-East Europe countries, except Romania.
- E4 assumption was substantiated in Romania but not in other involved countries from South-East Europe countries.

DISCUTION AND CONCLUSIONS

Results lend general support Miles and Snow typology in all nations involved. Findings concerning firm environment (IEE) and capabilities remain elusive. We found out that business strategy selected by an organization could influence the IEE perceived by its entrepreneurs for two reasons. First, entrepreneurs in businesses employing strategy might tend to perceive particularly IEE in a given domain. We refer to this notion as entrepreneurial real and perceived environment [45]. On the other hand, if a strategy is designed in a manner that minimizes the external environment risks, it could imply that organization might not allocate sufficient resources (material, financial, human or informational) to reduce other type of risks in the future. From this point of view, the business strategy is selected as a means of managing the firm risks.

The findings generate a number of implications.

First, capability regarding development can help SMEs address some of the challenges associated with enterprise environment (IEE). The different economies of Romania, Bulgaria, Serbia and Republic of Moldova present contrasting pictures of IEE that occurs during the time as an economy develops. The challenges differ across nations, but Romanian SMEs can benefit from comprehension of how these firms are coping with a quite different competitive environment.

We found out that Romanian SMEs from clothing industry prefer cost-based approaches because the growth of the national economy has been progressing for a moderate period of time, and most entrepreneurs are trying to obtain middle-class revenue. A differentiated approach of the market is difficult to generate in most Romanian economy sectors due to the low level of wages for most of the jobs and specific consumer behaviour of the population.

We identified opportunities for future research. First, this study could be multiplied in Central Europe countries (Visegrad Group), which in terms of cultural and entrepreneurial behaviour match with our sample. However, without additional research, the generalizability of the findings remains subtle. Second, we must acknowledge the difficulties generated by constructs and surveys which are employed in different cultures [46]. The results incline to be less reliable were we identified strong barriers in education, economy, culture or language [47]. We consider that it is important to maintain methodological consistency in cross-national researches, although some economic and managerial notions and constructs - i.e. capabilities and performance - may be interpreted differently for every country.

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