

IMPORTANCE OF EXTERNAL AND INTERNAL ENVIRONMENT IN CREATION OF COMPETITIVE ADVANTAGE TO SMEs. (CASE OF SMEs, IN THE NORTHERN REGION OF ALBANIA)

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Abstract

External and internal factors have crucial impact to SMEs environment. Nowadays business environment is more global and competitive than it has been in the past. A broad range of business factors are connected to SME' competitive advantage. The aim of this research is to show the importance of external and internal factors in creation of the SME's competitive advantage. The resource – based view of the SMEs, such as capabilities, competencies etc., and the threat of new entrants, rivalry, threat of substitutes, supplier power and buying power; the combine of these factors are in the center of this study. Firms need to better understand the competitive environment and develop strategies that create sustained competitive advantage. Then we present our study methodology used on this study which consists in a combination of qualitative and quantitative method. To realize the aim of this study are determines some objectives and research question pertaining the impact of the external and internal factors, such as Porter's five forces or, tangible and intangible assets in the creation of competitive advantage etc. Based on the research questions are made hypothesis. The empirical analyze is done to understand the potential sources of competitive advantage for SMEs. Study consists on a final sample of 460 participant from different small and medium enterprises in Northern Albanian Region. It is used regression analysis. The result revealed that both, external and internal factors have positive affect in competitive advantages of SMEs. Based on the result of this analyze are done conclusions. Findings support the idea, within limitations, that external environment have greater impact than internal environment on SME's success. Results strongly suggest some important academic and practitioner implications and some suitable recommendations.

Keywords: Competitive advantage, external factors and internal factors, SMEs, Resource -based view, strategies

Introduction

SMEs are vital for the development and growth of the economy all over the world. Small and medium enterprises contribute significantly in Albanian economy. They are considered flexible, effective, progressive and important in an economy (Gal, 2007). Firms, regardless of size, location and type of economy in which it evolves need to face the overwhelming competitive phenomenon (Coplin, 2002). Successful SMEs and oriented toward increase are vital for economy (Analoui& Karami, 2003).

Focus of study are SMEs from Northern Albania Region. This paper offers the model of the creation of competitive advantage, through external and internal factors.as an important factor for SMEs success.

Today things have changed. Globalisation has changed the way that business is done. Managers should be oriented by strategies. Bettencourt, (2010) showed that strategy is not the only choice of what the company can do well but also it determines what companies can do different by each other's. We are trying to show here that a host of external and internal factors affect the SMEs.

The aim of the study is to analyze the role of the external factors as: the role of the government policy, the role of the new entrants, threat of substitute products or services, bargaining power of buyers, suppliers, rivalry among firms and also the role of the internal factors such as tangible and intangible assets in competitive advantage.

The main objectives:

- ✓ Evaluate and determine if firm's competitive advantage is it either influenced by external factors or by internal factors. How sensitive are SMEs by external and internal factors?
- ✓ Analyze if SMEs have been able to sustain their competitive advantage over the time.
- ✓ Evaluate the correlation that exists through competitive advantage and external environment. Evaluate the correlation that exists through competitive advantage and internal environment.
- ✓ Review the literature pertaining the competitive advantage, tangible and intangible assets, SMEs, etc.
- ✓ To analyze the study done by others pertaining the SMEs in region.

Research question:

Is internal environment having greater impact in creation of the competitive advantage to SMEs than external environment?

Hypothesis:

Internal factors have greater impact in creation of competitive advantage to SMEs than external factors.

Based on literature review was raised conceptual model. We developed our conceptual model where competitive advantage is dependent variable and external environment & internal environment are independent variable.

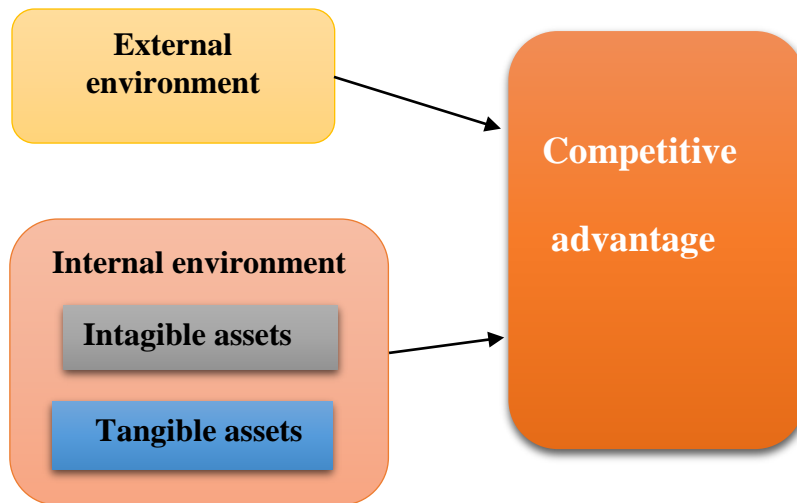


Figure 1: Conceptual model

Methodology

According to the Bhattacharjee (2012) theory and the survey are two main pillars of the science, and scientific research operates in two levels in theoretical and empirical. The methodology consists: in a combination of primary and secondary research. It is too important to find the method to realize the study. A combine qualitative and quantitative method is used. Qualitative method is used more to understand the phenomenon than to measure it (Gordon&Langmaid,1988). Based on the literature review and in our understanding of the concepts we created a survey. A depth interview, semi-structured create the possibilities to further expand opinion. Semi-structured interviews contain more information than structure interviews (Denzin & Lincoln, 2005). From the interviews was obtained an overall picture of the situation. In this phase personal interviews are done with finance managers, marketing managers etc. and representatives of different sectors as production, service, trade, construction etc. We know that are even other items that could be used to assess external factors and external factors, to evaluate tangible and intangible assets, but we considered the main ones

from literature review. Quantitative research includes result from questionnaires.. To generate the information is used SPSS, version 21.

Theoretical background

Competitive advantage is a determining factor of the firm's success, and firms need to respond to global competition. There are many factors which will contribute to SMEs competitive advantage.

SMEs constitute the main source of materials, ideas, processes and services that large enterprises cannot or do not want to do (Keskin Senturk, 2010). Porter (1980) suggested that companies should analyze their competitive environments, choose their strategies, and find the resources needed to implement their strategies. Achieving a sustainable competitive advantage is not easy. Barney (1991) defines competitive advantages as the degree to which a firm has reduced costs, exploited opportunities and neutralized threats. Competitive advantage is the ability of an organization to manage it differently by their competitors. (Kotler, 2000). A competitive advantage exists when a firm has a product or service that is perceived by its market customers as better than that of its competitors Gregory et al.(2005).

According to Wheelen&Hunger (2012), it is not the environment but the sustainability that is used to describe the competitive advantage. The importance of the competitive advantage is increased these last decades (Coplin, 2002).

As far as we know it is not easy managing the internal environment. Resources of a business include all assets, capabilities, organizational process, information, knowledge, and other knowledge controlled by firms, which help them to implement, to improve efficiency and effectivity Barney (1991). According to (Barney, 1991) firms which accumulate rare resources, which are difficult to imitate and non- replaceable may have competitive advantage. While, according to Analou & Karami (2003) resources are assets, competencies, processes, skills or controlled knowledge by the firm and would constitute force if would provide competitive advantage to firms. Resources of the company refers to assets of company (Hill & Jones, 2008). Intangible assets are considered to be more important than they were in the 1960, 1970, 1980 (Lev, 2001). Capability can be defined as a skill for activating, combining and coordinating physical, financial, technological, organizational and reputational resources within the framework of a process of action linked with the implementation of strategy in order to produce a result (Grant, 1991; Teece, Pisano, &Shouen, 1997). Collis and Montgomery (1995) argue that a firm's competitive advantage is a function not only of the value, inimitability, and non-substitutability, and non-substitutability of its resources and capabilities but also of their durability and superiority.

There are a number of factors which interact with each other. Studies by Gal (2008), observing the competition in small and medium enterprises in Slovakia & Hungary found that external factors as political environmental, economic environment, socio-cultural environment, ecologic environment, technologic environment and demographic environment “ could not be controlled” by companies but the only way companies can do is to adjust with the environment. Naghi (2011), in his study of the SMEs in Rumani concludes that small firms are flexible, but the size influences the decision making and uncertainty level of the external environment is great.

Meantime other empirical studies and the analysis done by the Bibu et, al., (2009) in Western Romania in 1000 SMEs concluded that external factors which are complex and unstable have their great impact to SMEs. In their study Henderson & Cockburn (1994) to pharmaceutical firms show that organizational competence is valuable and rare resource and find that it is significantly related to competitive advantage.

Analyses of data

Based on descriptive analysis we concluded that 37.4 % of the participants were from the service sector, 27.8% of participants were from the production sector, 26 % of participants were from construction and the rest 2.6% of participants were by other sectors.

Exploratory factor analysis is a statistical analysis that help to determine the latent structures among variables that are inter - correlated (Conway & Huffcutt, 2003). Study consists on a final sample of 460 participant from different small and medium enterprises of the Northern region of Albania. Most of them were from service sector, trade, construction and other SMEs.

Factor analysis is especially useful in developing and refining a new instrument (Conway&Huffcutt, 2003). According to Hair et al. (1998), factor analysis can also identify representative variables from a much larger set of variables, for use in subsequent multivariate analyses or create an entirely new set of variables, much smaller in number to partially or completely replace the original set of variables for inclusion in subsequent techniques.

“External environment” is measured as the average of the six questions. It was conducted an exploratory factor analysis using the method of analysis with rotation Varimax. One of the questions, “Supportive programs of the government for SMEs” results with factorial weigh 0.315, lower than it is accepted according to (Hair et al.,1998). By the factorial analysis the rest of the 5 questions results in a component which explains 57,45 % of the total variance.

In order to assess the reliability of the data Cronbach’s Alpha was computed. Cronbach Alpha is the reliability coefficient that assess the

consistency of the entire scale (Hair et.al.1998). Cronbach alphas for all scales are above or approaching 0.700, suggestion that the scales are internally consistent (Nunnally, 1978). In this case Cronbach's Alpha, is 0,818. The results of this analyze are given in the Table 1.

Table 1 Factor analysis

External environment	
1. The main force that influence the competition in your company is the rivalry among the existing competitors.	0,759
2. The main force that influence the competition in your company is the bargaining power of buyers.	0,737
3 The main force that influence the competiton in your company is the bargaining power of suppliers..	0,731
4. The main force that influence the competition in your company is the risk by the new entrances.	0,771
5. The main force that influence the competition in your company is the threat of substitutes.	0,790

Questions are measured by Likert scale from 1 - 7 "Strongly Important" to "Strongly Unimportant".

Internal environment is measures as the average of the 14 questions. It was conducted again, an exploratory factor analysis using the method of analysis with rotation Varimax. One of the questions, "Difficulties to immitate products" results unacceptable according to (Hair et al.,1998), factorial weigh (0.374). The rest of the 13 questions result in a factor which explains 56.41% of total variance. Realibility coefficient Cronbach's Alpha, is 0.934, which is really a high one. The result of this analysis are given in the Table 2.

Table 2 Factor analysis Cronbach alpha's = 0,934

Internal environment	
1. The capabilities to create the qualitative products and services	0,711
2. Distinctive competencies to assess and to transmit knowledge	0,659
3. Capabilities to communicate values and goals	0,747
4. Trust and brand names of the firms	0,830
5. The abilities to evaluate and use the culture	0,805 0,758
6. Organizimi fleksibël, organizimi i planifikuar, formal dhe jo formal	
7. Capabilities to manage the human resources	0,803
8. Capability to use technologies	0,710
9. Capabilities, skills, trainings and experience at work	0,814
10. Abilities to use software	0,752
11. Capabilities to generate business plans and to clarify that how ideas can be turned in reality.	0,750
12. Skills to analyze and to forecast new possibilities	0,762
13. The impact of the tangible assets	0,637

Questions are measured by Likert scale from 1 - 7 "Strongly Important" to "Strongly Unimportant".

Competitive advantage is measured as average of 3 questions, as capabilities to realize differentiated product and to offer them in a wide market with a higher price, lowest cost, and even innovation will create a sustainable competitive advantage for the organization. Questions result in a component. 64,77 % of the total variance is explained by this component. Cronbach’s Alpha is 0,725 (table 3).

Table 3 Factor analysis Cronbach’ Alpha = 0,725

Competitive advantage	
1. Capabilities to realize differentiated product and to offer them in a wide market with a higher price will create a sustainable competitive advantage for the organization.	0,840
2. Offering your product with the lowest cost to a large number of customers create competitive advantages.	0,692
3. Competitive advantage is based in innovation in new of products or services or adjusted of existing products to serve much better customer is strategy of organization.	0,871

Questions are measured by Likert scale from 1. - 5 (disagree - very much agree).

To determine the impact of the external environment and internal environment in the creation of the competitive advantage and to testify the hypothesis is used the multiple regression analysis. Multicollinearity refers to the correlation among independent variables (Hair et al.,1998). As it could be seen by the Table 4 the Pearson Correlation is acceptable to go on with the regression analysis because the values are less than 0.7.

Table 4 “Correlation” "external environment " and "internal environment",

Variables	1	2
1. Pearson correlation Sig 2 tailed	1	
2. Pearson correlation Sig 2-tailed	0,226**	1

** Correlation is significant at the 0.01 level (2- tailed)

* Correlation 0.05 (2-tailed)

Table 5 Multiply rregression analysis for dependent variable "competitive advantage"

Model	R²	Adjusted R²	t value	Sig.
(constant)	0,391	0,389	0,692	0,489
External environment			7,090	0,000
Internal environment			13,568	0,000

R² square is the correlation coefficient squared, R² is 0.389, also referred to as the coefficient of determination. This value indicates the percentage of total variation of Y explained by x₁ and x₂.

The multiply regression equation in our case is as following.

$$\hat{Y} = \beta_0 + \beta_1 x_1 + \beta_2 x_2$$

Where:,

\hat{Y} = dependet variable, "competitive advantage"

x_1 = predictor "internal environment"

x_2 = predictor "external environment"

Using the unstandardized regression coefficient, or beta, multiply regression equation can be presented as follows:

"Competitive advantage" = 0,148 + 0,244"internal environment" + 0,548 "external environment"

Coefficient of the independent variable "external environment" and "internal environment" are positive, which means the increase in the level of the independent variables will increase the level of the depended variable "competitive advantage". According to multiply reggression, Table 5, it results that independets variables are statistically significantly. Based on this analyze it results that independents variable explain 38.9% of the variance of the dependet variable "competitive advantage" (R^2 adjusted=0.389) and this is not by chance. Unstandardized coefficient are ($B_1=0,548$) and ($B_2= 0,244$). Results show that regression model with the $F(2,457)= 146,428$ value it has meanigng for ($p=0,00$) significance level of (0,05), because in this case $p=0,000$ is less than 0,05. By statistical test of controlling of the individual regression coefficient is taken the same result ($t_1= 7,090$ and $p=0,000$; $t_2=13,568$ and $p= 0,000$), these coefficients are different by zero which means they contribute sensible in this model. As it could be seen ($B_1=0,548$) unstandertized coefficient of external environment and ($B_2= 0,244$) unsterndatized coefficient of internal environment both are positive but B_1 is higher than B_2 which means it has greater impact on the competitive advantage. So, it resultts H_1 : It is not supported.

Limitation

This study has limitation. Pertaining the quantitative stage, the small number of firms (460) were included in filling out the questionnaires, which does not reflect all point of views and practices of small and medium enterprises in Albania.

Another limitation might have to do with questionnarie. In the most part questionnaires was self-administerd by the participants, wich means it was fill out by them even if they had any question.

Factors that are included in this study are not the only one that could contribute in creation of sustainable competitive advantage, of course there are other factors that maybe subject of any further study.

The number of the variables used in this study might be expanded in the financial indication and not just in their perceptions

Conclusion and recommendation to the managers:

The study showed a positive correlation between external business environment and internal business environment. This result is supported even by different researchers who positively evaluate the impact of external and internal factors to SMEs.

Our findings contribute to a better understanding of competitive advantage for businesses and demonstrates the necessities to know and to evaluate factors that influence the sustainable competitive advantage.

From an academic standpoint, findings showed that internal and external environment play a significant role in creation and having competitive advantage. It is important to note that external and internal factors have great impact on competitive advantage.

SMEs in order to generate healthy businesses need to initially understand their internal and external environment. Understanding the meaning of tangibles and intangibles assets, is useful for managers, for decision makers

It is recommended to managers, to evaluate these factors, to assess these two environments. Managers should be sensitive toward external environment which is so dynamic, it extremely influence the decision making. Managers ought to be flexible, and change the way they act and make decisions if they want their business have sustainable competitive advantage. To gain and sustain competitive advantage into the future firms need to pay attention to the external and internal factors. As Miller (2003) underlined that rare resources are difficult if not impossible to attain, firms ought to be able to build competitive advantage from the resources and capabilities they already possess.

Should be increased the responsibility of local and central government towards small and medium enterprises. Local government should support formal businesses, and meantime should draw policies and practices to stop growing up the informal businesses (Kraja Borici Y. & Osmani E., 2014). We recommend managers, owners of the SMEs do not take by yourself managerial decisions you have to delegate this to people that have managerial skills. They have to determine the way to face the challenges

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