PALGRAVE STUDIES IN CROSS-DISCIPLINARY BUSINESS RESEARCH, IN ASSOCIATION WITH EUROMED ACADEMY OF BUSINESS

The Changing Role of SMEs in Global Business

Volume I: Paradigms of Opportunities and Challenges

Edited by Alkis Thrassou · Demetris Vrontis
Yaakov Weber · S. M. Riad Shams
Evangelos Tsoukatos

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Editorial Introduction: The Changing Opportunities and Challenges of SMEs in Contemporary Business

Alkis Thrassou, Demetris Vrontis, Yaakov Weber, S. M. Riad Shams, and Evangelos Tsoukatos

1.1 Book Context and Theoretical Foundations

The role and importance of small and medium-sized enterprises (SMEs) have largely remained unchanged over many decades, and SMEs, diachronically, have been characterized by scholars, practitioners and administrators as economic drivers, major employers and innovators. The identity of SMEs, along with their characteristics, attributes and

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competencies, had been considered to be distinctly different from that of their much larger counterparts. And, consequently and irrevocably, their strengths and limitations, as well as their opportunities and threats, were linked to their size and its natural pros and cons. The twenty-first century, however, combining significant technological and communications advancements with intense globalization and significant sociopolitical changes, has changed the identity and role of SMEs, substantially broadening their opportunities and the challenges they need to overcome. Roles traditionally held by larger companies are increasingly undertaken by SMEs; markets that used to be considered simply inaccessible to SMEs are now just one click of the mouse away; relative notions such as 'adaptability', 'agility', 'flexibility' and 'reflexivity' are recognized as key to survival and growth, and SMEs are, by nature, best at these; and consumers are becoming more demanding and more specific in their requirements, with SMEs being all the more capable of satisfying them effectively and efficiently. Simply, even simplistically put, the world is changing fast, and SMEs can make their oyster.

In an increasingly competitive global environment, SMEs exert a significant impact on the economies of countries (Genc et al. 2019). Especially in emerging countries, SMEs contribute significantly to economic growth (Ongori and Migiro 2009) and act as a catalyst for development to drive innovation, competitiveness, ground for employment and future growth (Ng and Kee 2017), so that they are considered as the backbone of economic growth in all countries (Ng and Kee 2017). Even though the size and market share of SMEs are relatively small, they obtain a competitive advantage depending upon their characteristics (Stefanovic

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et al. 2009). SMEs are far more dynamic through a fast decision-making process and risk-taking, flexible in responding to market opportunities (Stefanovic et al. 2009) and responsive to frequent changes that arise in the contemporary global environment (Bresciani et al. 2013) compared to the large firms. While large-scale enterprises and multinational businesses often hog the limelight (Ongori and Migiro 2009), researches acknowledge that SMEs are critical to rebuilding the national economy from an economic crisis (Ballestar et al. 2020). According to Pasricha (2005), the world has become a global marketplace where national boundaries are thrown open to everyone. As markets open up and become more integrated, technology narrows down the distances between markets (Christoforou and Melanthiou 2019) and lowers the scale advantages of large firms by making all markets accessible (Sadiku-Dushi et al. 2019), consequently creating new sources of competition (Thrassou and Vrontis 2008).

Together with globalization of markets, rapid technological advances (Ocloo et al. 2014) and the changing needs and demands of consumers (Shams 2018), SMEs face ever-increasing competition not only at the domestic level but also at the global level (Coviello and McAuley 1999). Such a change in the global environment has increased competitive pressures on SMEs (Belyaeva 2018) and forced them to compete at global standards of multinational enterprises (Chen and Liu 2019). The competitive environment that SMEs face today has forced them to look for different ways (Sadiku-Dushi et al. 2019) to improve their innovativeness and hence competitiveness (Thrassou et al. 2018). Therefore, in order to compete in local and international markets, innovation has become an essential requirement for SMEs (Zahra and George 2002; Genc et al. 2019). Given that innovation is critical to SMEs' competitiveness in global markets, only one half of SMEs are adapted to some sort of innovation (Ozer and Dayan 2015; Genc et al. 2019).

In addition, the growing globalization of world markets has also influenced SMEs (Gurău and Ranchhod 2006; Genc et al. 2019) and driven the attention to opportunities offered by internationalization (Thrassou and Frey 2017). For SMEs, getting access to international markets (Thrassou and Vrontis 2008) has become a strategic resource for their competitiveness and further development (Bagheri et al. 2019).

Internationalization can help SMEs to realize their potential for high growth, and is crucial for the strategic move in large investments (Bagheri et al. 2019). Moreover, gaining access to international markets can propose a number of business opportunities like possibilities to make use of technological advantages (Chen and Liu 2019) and upgrading of technological capabilities (Karagouni 2018), and expansion to larger and new niche markets (Coviello and Munro 1997; Young et al. 1989; Genc et al. 2019). Although their size can put SMEs at a disadvantage compared to large multinational enterprises (Ng and Kee 2017), this characteristic allows SMEs to be nimble and flexible (Paul et al. 2017); accordingly, they can develop new products rapidly and customize them to niche markets (Ormazabal et al. 2018). In addition to the market expansion benefits, performing international activities can lead firms to obtain several skills and competencies (Ng and Kee 2017), which may, in turn, make them more innovative and support their growth and development (Ormazabal et al. 2018).

In addition to opportunities globalization offers SMEs to act successfully (Ocloo et al. 2014) and be effectively involved in global markets (Baporikar 2014), it also poses challenges and threats for SMEs (Belyaeva 2018). Although globalization enriches SMEs' market opportunities, it also increases the number of challenges and level of competition in a global market (Dana et al. 1999; Genc et al. 2019). Since choosing not to join in global markets is no longer an option (Belyaeva 2018), the basic competitive challenge for SMEs is to strategically decide on how to participate in global markets, which will lead to continuous profitability in the emerging global environment (Chimucheka and Mandipaka 2015). SMEs, therefore, must foresee, respond and get used to the competitive environment the world over (Belyaeva 2018). In response to competitive pressure, many SMEs adapt technology to strengthen their business strategy (Li et al. 2016; Cenamor et al. 2019). However, continuous technological changes pose a great challenge to SMEs (Chege and Wang 2020) and many small businesses are still unfamiliar with new technologies, particularly those in the less developed countries (Chege and Wang 2020).

With the advancement of technology, digital platforms enabled SMEs to homogenize, manage and spread data across the globe (Yoo et al. 2010;

Cenamor et al. 2019). In fact, in implementing digital platforms SMEs may face unique challenges because they may lack the required skills, resources and commitment (Giotopoulos et al. 2017; Nasco et al. 2008; Cenamor et al. 2019). Digital platforms, thereby, can be challenging in transforming the way SMEs build a competitive advantage (Kazan et al. 2018; Cenamor et al. 2019). As more and more SMEs are now struggling to compete in highly dynamic environments (Chan et al. 2019; Cenamor et al. 2019) because of the enormous pressure created by both globalization (Kaufmann et al. 2019) and the competition from large multinational enterprises (Bagheri et al. 2019), it is important to be acquainted with the changing opportunities and challenges for SMEs in contemporary business in order to ensure long-term sustainability (Vrontis et al. 2006).

Concluding this theoretical contextualization of contemporary SMEs, we propose that while changes in the wider business environment have been constant, their intensity and pace over the last couple of decades have been profound by any historical standard. And though SMEs are hardly the only ones to have been affected, they do appear to be provided with opportunities and challenges that are disproportionately greater to those of other organizations across the typological spectrum. This book, therefore, brings together a collection of scholarly works that present these contemporary issues through different case studies, perspectives, industries and markets, and individually and collectively add to our knowledge and understanding of SMEs in today's business and socio-economic context, along with the opportunities and challenges that lie ahead.

1.2 Book Content and Structure

In the spirit of this intention, this book comprises a (further) 11 works/chapters that aim at bringing together scholarly thinking and scientific analysis with managerial rationale and practical applications. The works purposefully cover an array of theoretical, industry and geographic contexts, and individually and collectively aim to shorten the gap in knowledge regarding SMEs and their role, opportunities and challenges in contemporary business, and to deliver insights into these.

Chapter 2, 'Exploring SMEs' Risk Management in Southern Germany' by Bernd Britzelmaier, Susanne Schmidtmeier, Carolin Weidler and Chiara Crovini, concentrates on the implementation of risk management practices in German SMEs. The authors follow a qualitative research approach to gain a clear picture of the phenomenon. They collected the data and information through semi-structured expert interviews with nine companies and applied qualitative content analysis to interpret the findings of the work. The chapter argues that limited financial resources and the increasing cross-sectoral dynamics of the risk landscape give SMEs a reason to consider risk management as a worthwhile investment in the future. On the managerial side (for SME managers and owners), the work strengthens the fundamental role of risk culture, consciousness and knowledge, stressing the importance of improving employees' and management's skills, and enhancing the information and communication system within the organization.

Subsequently, Chap. 3, 'The Medical Clinic of Proximity: Business Controversies and Medical Challenges' by Larisa Mihoreanu, addresses the increased significance of the health sector in maintaining a balance between the aging population and a health-active workforce. The chapter suggests offering the right combination of health coverage within a sustainable and responsible business model, such as a network of medical proximity clinics, with fair prices and balanced profit, which could become the expected entrepreneurial solution.

Chapter 4, 'The Role of Digitalization in SMEs' Strategy Development: The Case of Sweden' by Daniella Fjellström, Aihie Osarenkhoe, Tobias Pettersson and Daniel Tadesse, aims to understand how digitalization affects SMEs' marketing strategy. Through a qualitative approach, specifically semi-structured interviews, it was found that digital marketing tools demand few resources and have a positive effect on competitive advantage. The chapter contributes to our knowledge of how small enterprises develop strategy, showing that they focus on customer preferences. Combining theory with empirical findings, the chapter additionally shows the benefits of SME digital marketing where digitalizing an enterprise's marketing activities helps to reduce costs and increase dynamic capabilities to maintain competitive advantage.

Subsequently, Chap. 5, 'EU Public Procurement—The SME Perspective' by Antonios Maniatis, focuses on competition among enterprises, due to the fact that public contracting is intrinsically related to free competition of potential contractors, to promote public interest. The vertical dimension of this complex phenomenon is particularly analysed from a legal point of view. The chapter presents some aspects of directive (EU) 2015/2302 on package tourism, in correlation with public procurement of normativity, as the EU has a steady focus on socio-economic and ecological priorities, and ends with some critical remarks on EU public procurement, particularly in correlation to SMEs.

Chapter 6, 'The Impact of Economic Austerity Measures on Corporate Performance: The Case of an SME-Dominated Construction Industry' by José Manuel Pereira, Humberto Ribeiro, Bruno Ribeiro, Amélia Silva, and Sandra Raquel Alves, aims to analyse the performance of the SME from the civil construction sector, between the years 2010 and 2014, the time during which Troika was present in Portugal, imposing a series of reforms and policies to contain the financial crisis. An analysis of the economic and financial ratios of the construction sector is conducted aiming to present the financial and economic performance of SMEs in the civil construction sector, as a result of some reforms implemented by the country due to Troika's requirements. Findings show the negative impact of the economic environment experienced by Portugal and the anti-crisis policy adopted on the financial economic indicators of the sector.

Chapter 7, 'Digital Transformation as a Source of Innovative Growth for Small and Medium Enterprises in Russia' by Tatiana Kokuytseva and Oksana Ovchinnikova, moves us to technological trends in order to explore the main aspects of digital transformation in SMEs and to determine its impact on the innovative development and competitiveness of SMEs. The chapter highlights the key positions of innovative development and competitiveness based on the study of the possibilities and consequences of digital transformation of the SMEs. Through a qualitative comparative analysis with fuzzy sets (fsQCA), the work suggests that SMEs that experiment with business models are more innovative and high-performing, and therefore have free resources for further transformations of their business models.

The changing role of SMEs in global business continues in the context of Brexit in Chap. 8, 'Critical Success Factors for SMEs in the UK Chemical Distribution Industry: The "Brexit" Effect' by Evripidis Lampadarios and Niki Kyriakidou. The purpose of this research is to investigate the impact of the Brexit British referendum on the critical success factors (CSFs) for SMEs in the UK chemical distribution industry. Through theoretical and primary quantitative research, a distinct shift is noted and certain factors, namely the political environment, financial resources and internationalization, previously not considered critical are now deemed to be highly influential in the success of small businesses in the chemical distribution industry. Regulatory compliance and human capital remain critical but with their importance reinforced.

Chapter 9, 'Integrating Business Model Innovation and Corporate Governance in Family-Owned SMEs: A Dynamic Capability Perspective' by Paolo Di Toma, focuses on the innovation of a business model and its interaction with the corporate governance process. The chapter addresses the question of how SMEs innovate their business models over time. It investigates the role that corporate governance practices can play in developing dynamic capabilities, which in turn enable business model innovation. Based on a dynamic capabilities perspective, and on theories focusing on corporate governance in family-owned SMEs, this research was conducted using a single case study to investigate the processes by which a family-owned SME holding a patented raw material built an exclusive know-how which enabled a developed dynamic capability of business model innovation. The findings show how both the board and the CEO contributed to the development of dynamic capabilities. The implications for theory and practice on business model innovation in SMEs are discussed.

Geographically shifting to the paradigm of Romania, Chap. 10, 'The Competitiveness Challenge for SMEs: The Case of Târnave Wine Cluster, Romania' by Valentin Cojanu and Liane Tancelov, adopts a stronger industry perspective and deeper analysis. The chapter illustrates this business perspective with the case of the Târnave wine cluster. The authors developed the case along two organizing themes: the incentives that brought a revival of the Romanian wine industry and the role of SMEs in cluster formation. The chapter findings draw on literature research, sector statistics and face-to-face interviews with cluster representatives and officials from the Romanian Ministry of Agriculture and Rural Development.

In a different geographic context, Chap. 11, 'Indigenous Entrepreneurship in Australia: Theoretical Elucidations and Research Avenues' by S. M. Riad Shams, reviews literature at the intersection of indigenous entrepreneurship, socio-economic capacity-building and stakeholder relationship management to explore insights into how the capacity-building concept could strategically influence indigenous entrepreneurs' cause and consequence of relationships and interactions with their non-indigenous stakeholders. The analysis presents a precis for a research direction to influence indigenous and non-indigenous entrepreneurs' relationships to enable non-indigenous entrepreneurs to co-create value in association with their non-indigenous stakeholders, in order to progress with their SMEs.

Finally, and from an industrial perspective, Chap. 12, 'The Role of SMEs in Electricity Markets' by Felicetta Iovino, centres on energy, electricity and gas companies to analyse the role played by SMEs in this sector. Therefore, the purpose of this chapter is to analyse the financial performance of energy companies and draw appropriate conclusions about the function of SMEs. To this end, the author focused on the case of Italy and its electricity-generation companies. Secondary data were retrieved from the AIDA database to analyse some financial ratios, both financial and economic, and to proceed to a descriptive statistical analysis and ANOVA in order to verify the potential of SMEs in the energy sector.

In conclusion, the assortment of internally and externally balanced works, in terms of science and practice, offers a valuable collection of insights into the changing opportunities and challenges for SMEs. The book does not claim to offer any final solution to the contemporary issues and questions regarding SMEs, or a definitive model or direction for theoretical works or managerial implementation. It does, however, suggest fresh and alternative perspectives, and offers equitable paradigms of contemporary theories and applications that should stimulate knowledge and provide solid foundations for further research to develop.

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2

Exploring SMEs' Risk Management in Southern Germany

Bernd Britzelmaier, Susanne Schmidtmeier, Carolin Weidler, and Chiara Crovini

2.1 Introduction

"Profiting in business without taking risk is trying to live without being born." This quotation by Raghavan (2005) clarifies that risk is an integral part of organizational processes. To achieve corporate goals requires dealing with corporate risks in a consequent and systematic way (Rautenstrauch and Wurm 2008). Because of the increasing complexity in the environment of an enterprise, the amount of corporate risks as well as their impact is increasing (Münzel and Jenny 2005).

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Small and medium-sized enterprises (SMEs) play an important role in the German industry and are therefore often called the “[b]ackbone of the German economy” (Britzelmaier et al. 2015; Schauf 2009; Fischer 2008; Dana 2006). Reasons for the high relevance of German SMEs are wide-ranging. Regarding the trend towards lean management in large companies, German SMEs represent niche suppliers that are often world market leaders on their subject (Behringer 2009; Khadjavi 2005). Furthermore, German SMEs are linked with higher innovation and employment dynamics. This can be proved by the high amount of patent applications (Khadjavi 2005; Mac an Bhaird 2010; Tappe 2009) or the high importance of labour as a production factor (Hamer 2006; Mac an Bhaird 2010). Another reason for the high relevance of SMEs in Germany is their promotion of effective competition. Whereas large companies often take up a monopolistic position, SMEs allow market access to competitors and therefore reduce efficiency deficits on the market (Hamer 2006).

There are external motivating factors as well as internal economic factors that demand the application of a risk management (RM) system in German SMEs. Above all, the protection of their existence is of central importance since German SMEs face insolvency more often than large companies do (Henschel 2010b). However, empirical studies on RM focus mainly on large companies. German SMEs are often disregarded when it comes to the necessity and implementation of RM systems (Henschel 2003). Based on literature review including previous studies in the field of RM, this paper tries to bridge existing research gaps.

The paper is organized as follows. The literature review about the concept of RM in SMEs is presented in the second section. The research methods and data collection are stated in the third section. Findings and discussions are presented in the fourth section. The final section deals with conclusions, limitations and future developments.

2.2 Literature Review

2.2.1 Small and Medium-Sized Enterprises (SMEs)

SMEs constitute an important reality for the economic system of several countries, as they represent key drivers for innovation, social integration and employment (European Central Bank 2013; Eurostat 2011). They are crucial in promoting economic growth at the international level and their vitality helps to reduce the unemployment rate (WTO 2013).

Small and medium-sized companies have always had little guidance on how best to manage risk or where to seek advice. Therefore, studying the topic of RM in SMEs in depth is essential for both practical and academic purposes. There is no uniform definition for German SMEs provided (Schröer 2007; Khadjavi 2005). Consequently, one needs to determine a clear differentiation of SMEs to distinguish them from other kinds of enterprises. Subsequently, there are quantitative and qualitative criteria introduced to develop a clear definition for SMEs in Germany.

Regarding quantitative criteria for differentiating German SMEs, the most appropriate key performance indicators are the number of employees, turnover and balance sheet total (HGB Art. 267; IfM Bonn, n.y., URL; Tappe 2009). Besides the definition of the qualitative criteria, it is also necessary to define thresholds for the differentiation of German SMEs. The Institute for SME Research in Bonn (IfM), the European Commission as well as the German Commercial Code (HGB) provide such thresholds for distinguishing between different enterprise sizes. Table 2.1 provides the categorization of the three quantitative criteria regarding micro, small, medium-sized and large enterprises.

Besides quantitative criteria there are qualitative criteria that need to be considered for an adequate differentiation of German SMEs. Qualitative criteria focus on the characteristics of an SME. The most appropriate features regarding the qualitative differentiation are the autonomy as well as the legal, company, organizational and financial structure of an SME (Tappe 2009; Kosmider 1994).

The European Competence Centre for Applied SME Research (EKAM; formerly Deloitte Mittelstandsinstitut) at the University of

Table 2.1 Quantitative criteria (IfM Bonn, n.y., European Commission 2006; HGB Art. 267)

Size of enterprise	Ø Number of employees			Turnover (Mio. €)			Balance sheet total (Mio. €)		
	IfM	EU	HGB	IfM	EU	HGB	IfM	EU	HGB
Micro enterprises	<10	<10	≤10	<2	<2	≤0,7	–	<2	≤0,35
Small enterprises	<10	<50	≤50	<10	<10	≤12	–	<10	≤6
Medium-sized enterprises	<500	<250	≤250	<50	<50	≤40	–	<43	≤20
Large enterprises	≥500	≥250	>250	≥50	≥50	>40	–	≥43	>20

Bamberg combines quantitative and qualitative criteria with the aim of taking the specific characteristics of SMEs into account as adequately as possible. This integrative definition of SMEs is the basis of this study. According to Becker and Ulrich (2009), the definition of medium-sized companies is based on the family tradition. The concept therefore takes into account not only the number of employees and the annual turnover but also the ownership and governance structure of the company (Becker and Ulrich 2009). The latter is justified by the fact that even marginal changes in these structures can lead to noticeable changes in the "network of relationships between stakeholders" (Becker and Ulrich 2009; Hausch 2004). EKAM's definition includes all "owner-managed enterprises or family enterprises [as well as such] manager-managed enterprises up to a headcount of approx. 3,000 employees and/or a sales volume of approx. EUR 600 million and enterprises with both definition characteristics" (Becker et al. 2016a, b). The EKAM draws attention to the fact that the numerical values are approximate size criteria and, compared to the qualitative criteria, of subordinate importance. *Becker and Ulrich* (2009) distinguish between ownership structure and governance structure on the one hand and between companies with a family business tradition and companies owned by third parties on the other hand. The ownership structure is characterized by the types of individual, family and third-party ownership, while the governance structure is distinguished by the types of individual, family and third-party management (Becker and Ulrich 2009). EKAM thus assigns the five company types A to E to SMEs according to the definition, the identification of which is explained in the following paragraph.

If ownership and management are transferred to the same person, this corresponds to Type A, so-called owner companies. Type B includes companies in which the family has a direct influence on the ownership and management structure. In contrast to Type A, such family businesses require the influence of at least two family members. External managers can also be involved in the management as long as the strongest decision-making power is restricted to one member of the family. A medium-sized company and thus a Type C company belongs to the externally managed SME category if it is owned by an individual or a family, but the management is exclusively entrusted to external managers. Type D companies, so-called mixed-financed SMEs, are owned by third parties or are characterized by mezzanine financing. However, management continues to be carried out by the initial owner or persons from the entrepreneurial family. Type E companies, apart from their smaller size, do not have any distinguishing features from large listed companies. Becker and Ulrich emphasize that, in view of their proximity to the entrepreneurial family, type A and B still have a medium-sized character even if the quantitative limits of the number of employees and the annual turnover are "clearly" exceeded. Type C loses its character as a medium-sized company with increasing size. Despite the lack of a family allowance, type D and E can have similarities to type A and B with a limited company size and in these cases can also be classified as SMEs.

EKAM's definition approach not only provides a multifaceted insight into SME practice, but also leads to "a clear upward shift in the perspective of SMEs". In this way, an increased number of potential enterprises could be taken as a basis for the random sampling of the work at hand.

2.2.2 Risk Management

The topic of RM was first studied after World War II, in the period between 1955 and 1964 (Crockford 1982; Williams and Heins 1964; Harrington and Niehaus 2004). Recent developments show a general propensity to acknowledge the importance of social and cultural factors when considering risk. The shift towards constructivism and a social approach opens up opportunities for cross-disciplinary research as RM is a transversal process strategic to each company because it helps managers set and possibly achieve the objectives of their company.

Risk can be defined in a cause- or effect-related way. According to the cause-related definition, an information deficit is the reason for risk. On the contrary, the effect-related risk definition refers to a negative or positive deviation from a set objective (Wolf 2003). If risk is considered as an uninfluenceable hazard, it is defined as pure risk (Münzel and Jenny 2005). If the definition of risk is not limited to a negative development, but also involves chances or opportunities, it is described as speculative risk (Sellin 2007; Wolf 2003; Münzel and Jenny 2005).

RM is an integrative part of corporate governance (Wolf 2003; Sellin 2007). By applying RM, risk with a high extent of loss can be identified and assessed in an early stage (Wolf 2003). Furthermore, RM is defined as the steering and controlling of current or future risks in a company (Horváth et al. 2019; Henschel 2010a). These steps of identifying, assessing, steering and controlling risk are also known as the RM process or rather the RM system (e.g. Burger and Buchhart 2002; Reichling et al. 2007; Schröer 2007). It can be seen as a regulation loop which should be integrated into the corporate processes (Romeike and Hager 2009).

By integrating RM into the corporate processes, risk can be minimized while earnings opportunities can be maximized (Horváth et al. 2019; Henschel 2010a). With a target-oriented management of risk, corporate value can be increased and the continued existence of the company as a going concern can be ensured (Burger and Buchhart 2002). Internal motives and objectives cause the company to establish RM from within. At the heart of the internal motivation of any company is the intention to secure the company's long-term existence and success (Bodenmann 2005). External motives and objectives result primarily from legal requirements and regulations such as Basel II, III and IV, KonTraG (German Act on Control and Transparency in the Company Sector) and ISO certifications.

It is necessary to distinguish between strategic and operational RM. Elements of strategic RM comprise the implementation of a risk culture, the development of risk strategy and risk objectives, the definition of a risk policy, the creation of a corresponding organizational structure and the monitoring and improvement of RM (Institute of Risk

Management 2018; Vanini 2012). Building on this, the RM process must deal systematically and consistently with the risk potential, taking into account the corporate strategy (Diederichs 2018; Ehrmann 2012). The operational process is regarded as a central element of RM (Wengert and Schittenhelm 2013). As with the strategic elements of RM, there are different views in the literature as to which steps the RM process should comprise. The literature, however, shows a consensus regarding the general functions (Diederichs 2018; Ebert 2013; Ehrmann 2012; Henkel et al. 2010; Hornung et al. 1999, Hunziker 2018; Wengert and Schittenhelm 2013; Wolke 2016). Diederichs' definition of RM is based on a feedback loop with four process steps (Diederichs 2018). Of central importance for the success of the RM process is the awareness that a constantly changing environment requires a dynamic process (Diederichs 2018). In addition to the four stages, Diederichs' model includes continuous and independent risk and process monitoring (Diederichs 2018), which is assigned to strategic RM in this work.

According to Diederichs (2018) the operative RM consists of the following steps:

- Risk identification
- Risk assessment
- Risk steering
- Risk recording and risk reporting

2.2.3 Risk Management in SME

So far SMEs have had only little guidance on how to manage risk and where to turn for advice. Over the past few years only some guidelines, representing conceptual frameworks, have been published. Some of them represent Corporate Governance Codes for Unlisted Companies (OECD 2006, 2015; ecoDa 2010) and in 2009 the International Organization for Standardization (ISO) elaborated ISO 31000:2009 about risk management and in 2016 ISO published a practical guide for SMEs about how to implement RM. The literature reveals that RM in SMEs is still in an early phase of development and is rather fragmented (Verbano and

Venturini 2013; Marcelino-Sádaba et al. 2014). Despite this, several national and international studies highlight the immaturity with which companies and, in particular, SMEs face risks (Britzelmaier et al. 2015).

Regardless of its outstanding economic role, the German SME sector has so far been given only scarce consideration in research, and in particular in risk management research (Glaser 2017). Due to the special characteristics of medium-sized companies, however, studies of large companies cannot be transferred without reflection (Becker et al. 2016a). In view of the fact that resources of SMEs are generally more limited than those of large corporations, the focus should be more on an economically viable and efficient risk management (Gleißner and Romeike 2012). SMEs have so far been much less subject to legal obligations. This increases the room for manoeuvre, which creates opportunities and risks for SMEs. Nevertheless, SMEs can no longer completely escape the effects of increasing mandatory requirements, which is why they are subject to the influence of external stakeholders. Another typical characteristic of medium-sized companies is that, compared with large companies, they have fewer well-developed standards and structures and prefer intuitive management guidance. In some cases, this may be the effect of fewer well-trained managers (Biel 2012; Pfohl and Arnold 2006).

Not least because of other company philosophies, cultures and business models, the instruments and processes designed for large-scale enterprises cannot be used by SMEs to a large extent. No new insights have been gained from such particularities. Welsh and White presented many of these arguments almost four decades ago in “A Small Business Is Not a Little Big Business”, an article in the *Harvard Business Review*. When combined with the awareness of the vast current and future business and economic importance of the German SME sector, it seems that it is impossible to transfer it without concerns. The following discussion of the research development takes this into account primarily by drawing on studies specific to SMEs.

Köglmayer et al. conducted two company surveys in 2010. These revealed that SMEs still have some work to do in setting up and integrating a systematic RM. At the same time, the interviewed managers from SMEs indicated that risk and opportunity management was gaining importance. A study by Henschel, also published in 2010, used questionnaires and company interviews to investigate both the current status of RM in German SMEs and the barriers and challenges to its implementation. According to him, the process of RM in SMEs was very different at the time of the study. Although the first steps were taken in the risk assessment, the integration of the identified risks into company planning was lacking in all the SMEs involved at the time. Henschel identified a dependence between the quality of the RM and the size of the company. The study also suggested that companies with more complex technologies had already been tending to make greater efforts. As far as the companies studied had controlling departments, the RM process and its methods were much better established.

In 2011, the Bundesverband der deutschen Industrie e.V. and PricewaterhouseCoopers questioned managing directors, risk managers, controlling managers and commercial managers of medium-sized companies. In telephone interviews, 81% of the respondents rated the importance of RM as high to very high; 85% of the respondents saw the benefit of risk management in the improvement of operational management (turnover, profit, return on investment); and 82% found it useful for strategic direction and nearly three-quarters found it helpful in meeting legal and regulatory requirements.

A benchmark study, also published in 2011 by Funk RMCE, Rödl & Partner and Weissman & Cie, came to the conclusion that the German SMEs at that time considered RM in practice to be a cost driver without any appropriate benefit at all in many cases (Löffler et al. 2011). External stakeholders such as legislators, investors and business partners often provided the impetus for dealing with the issue for the first time. Only one-fifth of the 343 participating SMEs from 14 sectors stated in the questionnaire that RM is part of the value-oriented business management in their company. In 2012, Montag conducted a survey of medium-sized companies on the subject of RM and compliance. More than 60% of the companies polled who had already set up an RM system rated the relevance of such a system as high or very high. For those who did not have an RM system so far, it was just under 50% (approx. 43%). The appraisal of the added value of an RM system for the management of companies with the size and legal form of their own company was diverse. Almost 58% of the companies asked with such a system rated the added value as at least high, while only every fourth company without an RM system shared this view.

A study published by Britzelmaier, Häberle and Landwehr in 2015 based on an empirical literature analysis and expert interviews came to similar conclusions. According to the study, German SMEs did not yet sufficiently recognize the advantages of a strategic RM at that time. This was due in particular to a lack of management skills and a lack of risk awareness. In order to promote awareness, the authors proposed further training for management, collaboration with external consultants and more consistent rules. In 2015, the auditing firm EY published an international study in which over 1000 companies from 63 countries used questionnaires to provide information on how they dealt with risks. Due to the international nature of the study and the lack of focus on SMEs, the results can only be used to a limited extent for the purposes of this work. The aim of EY was to investigate how companies deal with the shifting risk landscape and where weak points exist. The results of the study suggested that companies had recently initiated improvements in RM in order to do justice to the changed risk environment, but that there was still room for improvement. With the Gossler, Gobert & Wolters Group in 2016, a major insurance broker published a study on RM in German SMEs. A specification of the definition of SMEs is missing in the publication. The sample comprised 80 companies whose owners or managers took part in an online survey. Although the objective of the study was not explicitly stated, the revealed questions allowed some conclusions to be drawn. The focus was on the question of what contribution a strategically established RM makes to the analysis and control of risks.

A study published in 2017 by Vanini and Leschenko together with the Risk Management Association (RMA) was based on the self-disclosure of the members of the RMA. Participants were asked to complete the questionnaire designed for this purpose online in 2015 or at the association's annual conference held in 2015. A total of 64 questionnaires were accounted for in the analysis. According to the study's definition, 63% of the participants were large enterprises and only 25% were medium-sized enterprises. The aim of the study was to ascertain the maturity level of the integration of RM and risk control, and the implications. The study came to the conclusion that there was still some backlog in the integration process, but positive integration effects could already be observed, such as the reduction of double work. The modest number of publications currently dealing with RM in SMEs leads to the fact that little is known about the status quo. Nevertheless, the research cannot conceal the fact that the disparity between the aspirations and reality of RM in SMEs has been reported lately. Thus, the awareness of the advantages seems to be present, but the implementation still lags massively behind. Due to the aforementioned lack of transferability of the research results of large companies to medium-sized companies, an investigation of the current conditions of RM in medium-sized companies seems particularly necessary.

2.2.4 Research Questions

For the German-speaking countries, there is no up-to-date empirical study that addresses the three research fields of this work. Answering the questions on the basis of existing studies would be problematic for several reasons and would not meet the requirements of scholarly work. Last but not least, the heterogeneous understanding of what is meant by medium-sized enterprises limits the combination of results of different studies. The primary aim of this study is therefore to determine the current status of the RM in the SME sector by means of a qualitative analysis. The following are the main research areas:

- What are the motives and objectives of SMEs with regard to RM (initially, currently, in the future)?
- How do SMEs structure their RM system and RM process (initially, currently, in the future)?
- What experiences and challenges are there in SMEs (up to now, in the future)?

From the interviews' results recommendations for SMEs should be issued.

The study explores the question as to which motives and objectives initially, presently and in the future motivate SMEs to develop RM. Furthermore it examines how the design of RM looks for the prosecution of these aims and which development it has evolved in the course of time will probably gain. In addition, this study is dedicated to the previous experiences and future challenges in the implementation and realization of an operational RM. Recommendations for action for SMEs are to be derived from the findings.

2.3 Research Method

This study follows an explorative research approach. Exploratory research can be likened to the activities of the traveller or explorer (Adams and Schvaneveldt 1991). Its great advantage is that it is flexible and adaptable to change. Adams and Schvaneveldt (1991) reinforce this point by arguing that the flexibility inherent in exploratory research does not mean absence of direction to the enquiry. What it does mean is that the focus is initially broad and becomes progressively narrower as the research progresses. The primary objective and at the same time the most important distinctive feature compared to quantitative analyses is the generation of new findings by describing and explaining individual, observed phenomena. In addition, qualitative research is characterized by open questions, closeness to the research object and the inherent risk of a lower objectivity of the researcher (Flick 2014). The counter-draft, a quantitative investigation, is to be rejected for this work, since it usually aims at the verification of findings based on a high number of respondents. The typical characteristics, the focus on numbers as well as closed questions guarantee a higher objectivity, but are less useful for the actual purpose of our research than a qualitative design (Bryman and Bell 2015). If a hypothesis derived from the theory is verified or falsified, this is a deductive procedure. If researchers aim to develop new theories based on data and observations, they use an inductive approach. While the deductive approach leads from theory to empirical research or from the general to the particular, the inductive approach corresponds to a movement in the opposite direction (Bryman and Bell 2015; Saunders et al. 2016). The research method chosen was semi-structured expert interviews. With the help of openly formulated questions, this technique facilitates a vast variety of answers to selected topics. Ideally, the analysis of the interviews reveals relationships without directing the interviewees in advance through possible answers in a certain direction and thus aborting objectivity (Schmidt 2014).

The authors selected German SMEs according to the EKAM definition of SMEs operating in the federal states of Baden-Württemberg and Bavaria as they represent the most productive areas in Germany and the export level is on average 20% of the overall turnover in 2018.[1] Furthermore, the target group only included companies in which risks are managed and risk practices, either formalized or not, are implemented. Nine companies were found that agreed to be interviewed. Table 2.2 shows the ownership structure, governance structure and company type according to the EKAM classification.

Table 2.2 Participating companies

Company	Owner structure	Governance structure	Company type
C1	Family	External management, with Number of employees <3000 Sales 2016 <600 Mio. Euro	Type C Externally managed SME
C2	Family	Family	Type B Family business
C3	Family	Combined management, chief executive: family member	Type B Family business
C4	Family	External management, with Number of employees <3000 Sales 2016 <600 Mio. Euro	Type C Externally managed SME
C5	Family	External management, with Number of employees <3000 Sales 2016 <600 Mio. Euro	Type C Externally managed SME
C6	Family	Combined management, chief executive: family member	Type B Family business
C7	Family	Combined management, chief executive: family member	Type B Family business
C8	Family	Family	Type B Family business
C9	Family	Combined management, chief executive: family member	Type B Family business

[1] Data are gathered from https://www.statistik-bw.de/Industrie/Konjunktur/monatsErg50plus.jsp

Based on guidelines semi-structured interviews were conducted and recorded. The recordings were then transcribed and sent to the interviewees for review and authorization with a one-week scrutiny period. After approval by the companies, the proper analysis of the interviews began, using qualitative content analysis. The aim of content analysis is to limit extensive data sets by coding. For use in expert interviews, suitable keywords are searched in a first step and the corresponding statements are assigned to a category in a second step. Since the purpose of data analysis is to gather and bundle information and to establish commonalities in the expert statements, qualitative content analysis of the expert interviews is predestined as the ideal approach. With this decision, the superior goal of the work could be achieved in the best feasible way. The extracted results were analysed followed by an interpretation.

The chosen research method is characterized by the combination of a theory- and rule-based approach with the objective of developing a deeper understanding of the underlying data. Qualitative content analysis is the only technique that detaches itself from the original text at an early stage and thus also serves as a content filter. Before the expert interviews were carried out, topics were determined with close reference to the objectives of the study that also influenced the development of the guideline. In the course of the study period, these topic areas were refined and modified on the basis of new findings. Accordingly, the categories are the result of a deductive and inductive classification of the text modules. For reasons of traceability and clarity, a colour scheme was designed to depict the analysis results. Table 2.3 shows the research fields and their main categories.

In the process of the interviews, it became apparent that the analysis of the second research question, in comparison to the other research questions, represents a very extensive field of research. For this reason, four subcategories were used to code the system and process design (Table 2.4).

Table 2.3 Research fields and main categories

Research field	No.	Main category and coding
1. Motives and objectives	1.1	Initial motives and objectives
	1.2	Current motives and objectives
	1.3	Future objectives
2.1 System design	2.1.1	Initial system design
	2.1.2	Current system design
	2.1.3	Future system design
2.2 Process design	2.2.1	Initial process design
	2.2.2	Current process design
	2.2.3	Future process design
3. Experiences and challenges	3.1	Experiences so far
	3.2	Future challenges

Table 2.4 Research fields and subcategories

Research field	Subcategory and coding
System design	Organization
	Risk culture
	Strategy; objectives, risk policy, risk-cover potential
	Control and improvement
	Not further specifiable
Process design	Risk identification
	Risk assessment
	Risk monitoring
	Risk recording; risk reporting
	Not further specifiable

2.4 Findings

2.4.1 Motives and Objectives

One-third of the participating companies have been involved in RM for at least ten years, and another third for less than ten years. The remaining participants were unable to provide any such information. The survey could not identify any specific, cross-company initiator. When asked about their current motivation, all participants gave both internal and external reasons. Seven participants in the study found out that the increasing external requirements were being used as an opportunity to drive RM forward. Six companies provided insights into the emerging dynamics of extended requirements from tax authorities and customers, which is consistent with the findings of other studies. In addition, the analysis suggests that all nine companies were already using certain RM elements out of business necessity without explicitly assigning them to RM. There are major differences in the reasons for dealing with RM. In addition to the direct management directive, RM came on the agenda in two cases due to a particular business event. As the risk situation became more critical over time, the importance of RM increasingly shifted to the forefront and strengthened companies in their long-term objective to see RM as a means that could satisfy the interests of stakeholders and as an instrument to secure success and existence. The analysis reflects the tenor that RM is primarily understood as a business management instrument to ensure the success and existence of the company. This creates the impression that even an RM that serves to satisfy stakeholders is finally aimed at achieving this objective. It is remarkable that all study participants reported directly or indirectly on the increasing motivation to deal with RM.

2.4.2 System and Process Design

It should be pointed out that the RM systems of the nine participants show large divergences. With regard to the risk culture, three groups emerged. According to the survey results, six companies, that is, a clear majority of the sample, had a practised risk culture at the time of the interview, whereby this was consciously driven forward in three companies, while it had established itself rather unconsciously in the remainder. For the remaining three companies, where there was currently no distinct risk culture, the results indicated that two would like to change this in the future. None of these three companies reported on the deliberate decision not to establish a risk culture.

The analysis results showed particularly apparent contrasts in terms of risk strategy, risk targets, risk policy and risk coverage potential within the sample. However, the significance of these results must be put into perspective because it can be assumed that the positioning of the interviewees in the RM system had a comparatively high influence on the statements on these categories. In seven companies, RM guidelines from management were apparent, whereby in the case of two there were indications of particularly precise instructions. In one company, the results of the analysis showed that there were no clear guidelines with regard to RM, while in another there were no sufficiently reliable findings. It seemed that companies were bypassing detailed plans for future action and behaviour and were instead pursuing a less academic but, at least in part, successful trial-and-error approach.

In terms of organizational structure, five companies followed a decentralized structure, four of which planned an additional central unit and thus the expansion into a matrix organization. Three companies in the study already had a matrix organization, while one company's RM was organized as a central unit. There was a high degree of consensus on the RM process organization. According to the results of the analysis, all nine companies followed the main features of the four-phase model presented in the literature review.

With regard to the monitoring and improvement of the RM, the results regarding the RM system and the RM process were different. As far as the RM system is concerned, four of the nine companies were engaged in strategic development at the time of the interview. On the RM process, on the other hand, all companies indicated that there would be further development steps. According to the findings of the study, four of the nine companies do not currently have an organizational unit that takes care of monitoring and improving the RM system. At two companies, this function is carried out by the internal audit department, at one by the management together with the controlling department or the head of the RM unit. At one company, the analysis could not generate any findings in this respect. With regard to the monitoring and improvement of the RM process, it could be seen that two of the companies had the intention of decentralizing self-control. At two of the companies, this is done by the central RM unit, the management in cooperation with the controlling or the head of the RM unit.

2.4.3 Experiences and Challenges

Four of the nine companies reported negative experience as a result of unpredictable employee layoffs. Causes included absences due to accidents or illness, dismissals by employees in combination with the reduction of remaining leave and overtime, and termination without notice by the company. The companies complained about their dependence on individual employees, the inadequate documentation of knowledge and processes, and the lack of established representational rules. Even the uncertainty of the workforce as to which tasks, competencies and responsibilities are assigned to the employee to be replaced could disrupt the proper flow of processes.

Four of the nine study participants explained that the shortage of skilled workers is already having a significant impact on the efficiency of the organization. As a direct consequence of the lack of specialist staff, C9 reported that it already had to reject orders or at least postpone customers to a later point in time because capacity limits had been reached. In addition to direct losses in sales and earnings, the company believes that there is a risk that it will no longer be able to meet obligations such as on-time delivery of contracts already entered into. Delays in project finalization could, for example, result in contractual penalties and loss of image. C5 also indicated that the shortage of skilled workers poses indirect risks to the company's success. The company stated that it "found employees over the timeline", but that this led to double working for permanent staff, who now had to "cope with growth and simultaneously integrate new employees".

Analysing the expert interviews, eight of the nine companies found that there were fundamental differences between the externally communicated RM and the internally practised RM. C3 commented as follows: "It is expected we need to convince the auditors that we have a good risk management system. So that they can sign it off, so to speak. My experience is that this often has little to do with the way it is practiced." The interviewee in C2 speculated that there were also companies among the study participants that wanted to do exclusive justice to external requirements. "A great deal is certainly only done because it is driven externally, but does not necessarily bring economic benefits."

Another experience, which has been reported by several companies, concerns the way in which management is led, an area that is related to strategic RM. The study indicates that there is a link between successful employee leadership and successful RM. A balance between management's demands on and support of the workforce maximizes employee commitment and fosters an effective RM. For example, C3 reports that "a status report alone, without a process and regular meetings, [...] would not work". C5 stated that "a system [...] is of course only accepted if [...] it is fun to work with it". In addition to clear rules and the demand for certain workflows, C5 expressed in the interview that it must "demand more self-confidence" and at the same time "tolerate mistakes". Based on its experience so far, C5 concludes that only "with this management model" would the set-up "programs have a chance". The company stressed that it was the management's task "to turn the workforce from a combination of [risk-happy] adventurers and risk-averse guardians of the Grail" into a good organization, which then "ensures that opportunities and risks are balanced".

The discussion of future challenges can be divided into three groups according to the results of the analysis. The interview statements covered the future hurdles for the implementation and further development of the RM system, the RM process and future key risks for the companies. Two of the nine companies described the problem that it is impossible for a single member of the organization to keep an eye on a given company's risks. The variety of risk aspects, such as the risk types specific to the business areas or the worldwide locations of the companies, require a company-wide RM organizational structure. However, this conflicts with the scarce human and financial resources in SMEs. When configuring the RM organization, the balancing act between moderate effort and competent risk assessment must be mastered. Two other companies in the study indicated that they were under increasing pressure from external requirements for due diligence. Three of the nine companies expected that the increasing external requirements would result in further bureaucratic work for the company in the future. In particular, the requirements of customers for certification and the legislator for management reporting place a strain on the scarce resources of SMEs without contributing to the effectiveness of the RM system. C5 described the relationship between these challenges in an interview as follows: "The medium-sized companies get […] requirements, what they have to sign, so that the group boss can sleep more quietly above. But then, of course, the small and medium-sized executives sleep worse and worse. Today it is almost impossible to master the complexity. And the poor managing director can't know everything, but is liable for everything. So, he has to create an organisation, and he can't do that anymore, which will secure him."

Two companies in the sample see considerable potential for improvement in the context of implementing the necessary measures. Those companies believe that the need for further efforts is particularly evident in the area of controlling measures. Also, in two interviews, the interviewees emphasized the fundamental challenge of keeping the introduced RM process alive in the long term. To achieve this, the participants need to be constantly challenged and encouraged. If this does not succeed, there is a danger that the process will come to a standstill in the long term.

During the interview, three companies talked about the problem of increasing risks. In addition to the increasing diversity and complexity of risks, they expect completely new risk areas to emerge. This is in particular due to their entry into new markets, such as developing countries, which offer not only potential opportunities but also enormous risk potential. Another three participants in the study emphasized that their business model's dependence on the combustion engine against the backdrop of increasing displacement by alternative technologies confronts them with forward-looking decision-making situations. Uncertainty about which technology will prevail and by when leads to the question as to what extent and for how long they should continue to exploit the high sales potential of combustion-engine-heavy customer groups, or if they should already be targeting new sales sectors today in view of the end of the combustion engine era. According to the findings of the analysis, the successful design of the "technology bridge" can become a key risk for SMEs.

Three other study participants explained future challenges in dealing with risks whose origin can be found in the management and organization of the company. In order to create an effective RM system, further efforts of convincing at all hierarchical levels are required. In order to establish such a mindset, a risk culture must be created. Against the background of demographic change in the workforce of many companies, this requires a certain degree of sensitivity. In three interviews it was revealed that the further increase in the shortage of skilled workers required a further development of recruiting. The challenges of dealing with the company's dependence on individual employees were mentioned in those interviews. Two companies identified a problem in dealing with future potential but hardly foreseeable political risks. The potential of political actors to influence the success of the company should not be underestimated.

2.5 Conclusions and Outlook

2.5.1 Conclusions

The results of the study showed that the majority of participating companies have been addressing the issue for at least five years. At the same time, it suggested that none of the nine companies had yet considered the design of their RM system and RM process to be complete. The assessment of the degree of maturity also showed that none of the participants in the study had reached the leading stage and therefore none of them had exploited the full potential as an "integral component of strategic corporate management". Two-thirds of the companies surveyed have only a first- or second-stage RM. The creation of an RM system tailored to the organization and the implementation of an RM process integrated into the business processes therefore take time. The limited length of the current good financial and economic situation and the increasing cross-sectoral dynamics of the risk landscape should—if not already done—without further delay give SMEs a reason to see RM as a worthwhile investment in future viability.

2.5.2 Implications for Practice

The results of the study highlighted the direct connection between the functionality of an RM and a risk culture that is rooted and lived throughout the company. The increasing demands of external stakeholders, the development of specialist knowledge and the use of modern instruments and methods undoubtedly make important contributions to the professionalization of RM in SMEs. However, the impact of such investments often falls short of their potential without the necessary commitment of an organization convinced of the benefits of RM. Risk-conscious and forward-thinking people form the core of an effective RM. The establishment of such a mindset is a central element of system design and is therefore the responsibility of management. While small and medium-sized businesses can be disadvantaged in many areas compared to large corporations due to limited financial and personnel resources, one of their essential characteristics is of great advantage to them: the interdependencies between ownership and management that can be found in large parts of SMEs ensure that personal owner interests are incorporated into the decision-making processes of management. In many SMEs, RM has thus—consciously or unconsciously—gone from paying lip service to "keep the regulators smiling" and become a management mentality in practice. The reason for the desire for long-term success and consistency is not least the sense of responsibility towards company and family members of the present and future generation. As a result, the strategic concept of security is regularly the focus of corporate management, rather than the short-term pursuit of profitability typical of the group. The knowledge of internal and external interest groups about this creates trust in the management and shows that they too can benefit from an RM.

In addition to a consistent exemplary manner of the desired behaviour and an ongoing communication of goals and intentions, the development of a risk culture requires above all one thing: personnel management competence. This begins with the selection of suitable specialists and managers and continues with the constant challenging and promoting of employees in all areas of the company. The provision of information at internal meetings or the publication of risk policy principles as well as the transfer of knowledge in training courses, workshops or meetings make the advantages of an RM more tangible for employees. The regular exchange of information strengthens risk awareness, promotes the personal responsibility of the function owners and motivates them to pursue common goals.

Neither the management nor individual employees entrusted with the RM are in a position to pursue the goal of securing success and existence on their own. RM is a holistic discipline, which requires the cooperation of all members of the organization in order to build, develop and implement it. For the identification, assessment and control of risk potentials, the decentralized functional areas are generally more suitable than any other in the company as experts in their field.

Although the risk culture represents an important and effective foundation, the functional capability of the RM must be decoupled from the will and action of individual organizational members. In the sense of active risk prevention, this ultimately applies to all business processes. The documentation of knowledge and processes as well as the establishment of fixed substitution solutions can represent important preventive measures for the avoidance of a lockout as a result of an unforeseeable loss of key personnel. In addition to process assurance and the output of the process, companies should also pay attention to the extent to which the results are actually used. Whether and to what extent the risk information is processed in management decisions depends to a large extent on the degree to which RM is integrated into corporate management. As long as something cannot be measured, it cannot form the basis for management decisions. Therefore, wherever possible, the process results must be operationalized. Only in this way can a leading RM be targeted that is characterized by risk-adjusted performance measures and early warning signals that can promote the robustness of the company.

It is recommendable—using a metaphor of shipping—to build a durable, robust and resistant ship. A ship that not only shines in bright sunshine in the safe harbour during the current economic phase, but one that is also excellently protected in times of continuing bad weather warnings and raging storms on the high seas. In order for RM to make a lasting contribution to the long-term success and existence of the company, continuous efforts are required. Although RM will not be able to eradicate the uncertainties of the future, it will make it easier to deal with the presented risk map. In many cases, the delta between the current status quo of design and future objectives could have far-reaching implications for the future institutional anchoring of RM and the role of controlling. This is to be understood as a central finding for the perspective of RM in SMEs and at the same time provides indications as to what potential the research field still has to offer in the future in the border area between the operational RM and corporate management.

2.5.3 Limitations and Further Research

It should be stressed that the available results are not representative due to the qualitative research approach and the small sample size. Nevertheless, they provide a good insight into key aspects of the topic, as it is found today in SMEs. An extension of the sample could serve to develop a theory on the subject, which could then be verified or falsified by quantitative research. Thus, the awareness for the advantages seems to have been reached, but the implementation still lags behind. Therefore, action research would probably be helpful to fill in the gap and to strengthen the relationship between academia and the real world. Moreover, the authors aim to further the empirical analysis by carrying out cross-country comparative case studies, and by highlighting the causal relationship between those elements of the RM process that can have a huge impact on the business management of SMEs, also in terms of performance measurement.

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3

The Medical Clinic of Proximity: Business Controversies and Medical Challenges

Larisa Mihoreanu

3.1 Introduction

Delivering universal healthcare efficiently is providing formal access to quality services, appropriate therapies, medicines and vaccines, and professionally trained staff in adequate establishments with no extra financial burden. In Europe the 2020 Strategy (2010) focuses positively on strengthening and further developing policies that support innovation, particularly for small and medium-sized enterprises (SMEs). The European medical technology industry is one of the most innovative in the world and is expected to continue its growth under solid health policies. The sector is comprised primarily of a heterogeneous group of SMEs, which make up 80% of the industry, represents a major provider of jobs, especially highly skilled jobs in research and manufacturing, employs nearly 534,000 people across Europe and has the potential to expand

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further; therefore SMEs are central to economic growth. Innovative healthcare SMEs are worth more than EUR 250 billion.

In Europe, delivery of healthcare is still a national competence even though a tenth of the EU's GDP is spent on healthcare and more than 17 million people are employed in this sector (Horgan et al. 2018). There is an increasing need for innovation, digitalization and accessibility in healthcare and SMEs are willing to take risks in this mission. Therefore their work needs sufficient support so that the solutions can finally reach the citizens. SMEs operate mainly at national level, as relatively few engage in cross-border business (E.C. 2017). Several categories within the health sector are of interest for SMEs, whether in healthcare services or product market, and could include medical equipment, devices, services, instruments, biotechnology, substances, medicines, diagnostics, laboratories, primary prevention, sensors, medicine development and delivery. The possibilities are expanding, especially in the era of personalized medicine (Nimmesgern et al. 2017). The revival of proximity medical services requires recognition and acceptance prior to supporting a deep-rooted health reform implementation. Accentuating the general practitioners' (GP) role and the well-functioning care philosophy, vision and structure profoundly impact the entire governing of the health sector. This sets up sound correlations between supreme values of health: life expectancy, quality of life, well-being, and corresponding political and medical management. The wise lesson from 2200 years ago to '*treat first those who are not ill yet*' (Huangdi 2011)[1] is still valid. Today, chronic diseases are mainly caused by behavioural risk factors (dietary risks, tobacco, alcohol, low physical activity), together with social disconnection (distressed societal relations, civic social media isolation, deficient management and dysfunctional institutional links, political influence). Life expectancy increases with access to education, health services, better lifestyle, less stress, cost-efficiency methods and sustainable systems. This happens when the administrative apparatus is adapted to the populations' needs through new managerial functions. For the patient, the medical act gains in quality when it is delivered closer to the home, school or

[1] The Medical Classic of the Yellow Emperor was translated by Zhu Ming, Foreign Language Press, Beijing, China in 2001, under ISBN:7-119-02664-X.

work, combined with immediate intervention, personalized treatment or preventative education. National health strategy is the core of the health policies and should offer additional medical and administrative responsibilities to the GPs, rather than burdening them with accounting-statistical activities reinforcing the primary care, with net benefits for the system. Starting with real needs, resources and applying efficient and win-win solutions could be a universal condition of success and have a real impact on health management indicators.

3.2 Health as a Holistic and Entrepreneurial Business

C.E. Winslow magnificently defined health (1920) as a *complete care model*, appropriate to the health industry, outlining the population's health management attempt and contribution: "*the science and art of preventing disease, prolonging life, and promoting health*" through holistic "*organized efforts and informed choices*" of society, establishments, public and private communities and individuals (Sadana and Petrakova 2007). Based on resources' availability and staffs' skills, governments may consider contracting with vendors, operating internal programmes or applying hybrid models of care management depending on interest, capacity to operate *in-* or *out-house* options, necessities, data programme capacity, staffs' management, monitoring programme, timeline design and evaluation capacity. Beyond this, the integrated activity of planning safety calls for identifying ways and tools to perform healthcare for everybody under criteria and time scales' settings, outlining specific responsibilities, effects or desired outcomes should result. In Butler et al. (2017) the common use of *smart concepts* refers to the "*wisdom and skills used to develop ideas and practical behaviours*" as advantages bringing about particular decisions. Health organizations nowadays need profound changes in mentality—from medical and health staff to industry, distribution, media and patients. These players are important if they are motivated to become contributors to health demands' creation and providers of best services. The relations that develop then become worthy of defining the health paradigm instead of focusing on each player's centricity. Critical thinking is necessary to properly integrate and multilaterally improve activities, processes and operations. The switch happens through creative management and a change of behaviours (Thrassou et al. 2019) based on specific activities where solutions are difficult to find, decision makers' judgement is blurred and staffs' interactive capacity to identify risks and nonconformities is associated both with gains and losses. Good lessons spring everywhere. Statistics display increases in GDP or life expectancy, better access to health, proficient networks of health centres staffed by GPs, (non-) medical specialists, comprehensively or abusively, serving the primary care services. They look engaged in the real consolidation of relations between health and wealth, outlining the improvements (IT use, mentoring, nutrition). The society's ability translates the health knowledge into a lasting socio-medical upgrade. The organizational unbalances require attention and change: dissatisfaction with the *status quo*, perception that a better alternative always exists, inadequate transformation of the organization's structure, alterations imposed on individuals inside the organization, disadvantageous rules and relationships affecting the clarity in collaboration, the connection of good communication, the creativity and compassion, and the credibility of avoiding conflicts.

When specific changes are identified and accepted, they precondition integration in a clear vision and common strategy. Thus, the *patient-centric model*[2] replaced the patient-centred one, identifying a few advantages. The idea of keeping the patient at the core of the medical act delivery is elevated. However, the inflexibility of the working process showed a mentality unable to tackle all providers in the process of transferring more value to patients. The recent forms of patient-centric programmes offer more opportunities for patients to encounter technology, focusing on the patients' information as a main source of development of the medical act. This is half-right until the medical act is validated inside the new relation. The move forward requires that the medical act simultaneously be identified and validated under particular criteria, by both

[2] The Patient-Centered Medical Home (PCMH) is a set of guidelines to reestablish the dominance of primary care between all actors participating in the medical action. This is more about the physician and less about the patient.

staff and patient. When information is incomplete, validation and medical act are distressing.

The partnering, as a proactive collaborative relationship between medical staff and patient, calls for attention and trust so that the medical act keys out its full identity. Once the gap between patient and GP is closed, this partnering becomes the kernel of a new managerial system. However, the trend in health policy of keeping the patient's centricity is rigid because the patient is considered a static entity while the health significance takes the societal side. This trend delineates the health resources' economic side, transmutes the values ranking and enforces advancements for the health and care service deliveries, ignoring the performing fair business side of the medical act. Démarches go beyond the basic requirements, sustaining the fundamental need for restructuring in attitude, activities and prestige, throughout the whole chain—policy, planning, organization, monitoring, assessment—to establish the rule of centric proactive and dynamic implication between the players involved. The beneficial change is pricy and laborious, as it entails application to all programmes, in all medical units, no matter the administrative levels. The change is called for as part of employees' training programmes that will be monitored long enough to germinate and develop into a new paradigm of integration. The model is appropriate when the realistic and dynamic analysis keeps within adequate limits the resources and human capital, the relationships develop and the targets are set for the best results.

The relationship spectrum in health is dominated by (a) a continuum of prevention and preventative relationships defined by the returned added value and collaborative exchanges and (b) happening or recurring relations where expectations are higher than investments. The appropriate relationships developed give to all medical and health stakeholders significant competitive advantages and benefits, inside a relational system that works similarly for all bodies involved: standardized patterns of medical provider–patient relationships; factors influencing patients' and staffs' integrated satisfaction (medical and financial); new schemes to improve the actual designed relationships; new decisive drives of relationship-satisfactory effectiveness, in the complex process of establishing, developing and maintaining a successful partnering. While activity-based management is limited in communications and restricted in relationships between parties, the relationship management allows for mutually benefiting, long-term, cost-effective liaisons to grow practically with any potential partner (patients, medical and administrative staffs, producers and suppliers).

The health service delivery should be received as an exchange of trust, responsibility and value based on knowledge, skills and competences of specialists for confidence in medical practice, care comfort, medical subscription or paid medical treatments and services. Under such an approach, the collaborative exchange occurs when both sides' rights are respected and alternatives are few, no matter how dynamic the market is and how complex and highly appreciated the services are. The new era of medical and health sector development is dependent on managing the relationships. The relationships' core is built by values shared during the exchange process where each side gives or awaits higher quality in return. The monetary side of the deal must offer a perceived payoff of greater value to the side in need, for the medical act to occur. This is also an open door for corruption, if formal services are replaced with informal ones.

To gain collaborative advantage, special skills have to demonstrate the relationships' sustainability (Mukerji 2019) between collaborators who learn the secrets of specific high-performance activities and develop innovative schemes to build alliance partnerships. As the profit-based approach evolves, the health delivery and communication becomes a grand hub of aggregated experiences and good practices. The growing potential for creativity contributes to the institutional reputation development. The new movement doesn't ignore the existing gaps between requirements and supply, between what providers offer and what establishments deliver. The most important driver of growth relies on partnership set-ups and patients' needs and preferences. Quickly identified, they support the ICT-optimized services and accept the new devices as tools of permanent monitoring in health and care management.

3.3 Quality and Satisfaction Synergy in the Health Innovative Partnership

Practising medicine today goes beyond the individual diagnosis or treatment protocols. It means, above all, collective activities: mentorship, education, prevention, better general comprehension of the cause of diseases, leading to their emergence. Treatments that focused on the symptoms of diseases in the past have now become personalized targeted solutions based on genomics, proteomics, and biological or immune therapies. Innovation radically contributes to the core transformation of the entire health system, care services and pharmaceutical industry. The online environment and the digital technologies are accelerating the adoption of emerging health technologies into healthcare systems. The technological changes can sustain the advancement of health programmes. Programmatic machines are used for data, appointments, advertising and treatments' distribution replicated in real time by apps and mobiles. IT specialists' capability to deploy new elaborated framed products is possible thanks to the high technical advancements till 5D and *li-fi*. The proper identification of interventions' locations saves time and lives, increases the patients' confidence in medical specialists from afar in matters of wearable and cross-devices, and can better target and match expectations. The general biometric systems' promises cover the health market's anticipation at any time. Trends are forecast by observing physiological and behavioural nature, by technologic recognition, electronic signature and so on. The e-health is an integrative medical tool, an opportunity to make the health services' delivery more profitable, based on huge benefits of remote communication. Patients who are highly proactive are ready to learn new behaviours, use gamification, monitor their symptoms and treatment, thus choosing to live healthier lives.

To stay competitive, pharmaceutical companies share the transformation and improve social and market comportment, implement better forms of communication and collaboration, and sustain collaborative partnering. The medical devices and pharmaceutical companies rethink development as a business model to sustainably support innovation and the transformation of health delivery. The supremacy of large corporations is diluted in front of relationships centred on cost-effectiveness and the use of new technologies making a difference where firms are unwilling to supplement or support existing pharmacological therapies. The focus is on innovative digital tools for online medical services and implementation of modern reforms inside the aggregated partnering (policymakers, contributors' players, fiscal mediators, providers, purchasers and marketers).

Individuals' uniqueness generates versatile interactions but complex perceptions as the raw material for transformation: policies, programmes and laws. Thus, the *personalized medicine* concept, based on an integrative check of the health status, sustains prevention as an upper tool allowing targeted treatments to better act against symptoms, pains and diseases. The present market context encourages the entrepreneurial efforts for growing the seeds of medical clinics of proximity: *ProxiClinic* (Mihoreanu 2018). Outdated, single regional health centres that gather patients from many surrounding districts need to be redesigned by adopting practicality principles, making access easy for the ageing patient, with continuous schedules and a variety of specialists who could be called in rapidly to assist in the clinic, remotely or in patients' homes. Medical proximity clinics are SMEs positioned and developed on local grounds, but connected within a network with the rest of the medical assistance system, intended to serve a limited number of citizens living within a specific area, combining traditional with proactive medical assistance types. These enterprises could play a vital role in increasing provisions of primary healthcare coverage, preventive services, and treatment of minor injuries, and especially in reassuring patients of their continuous availability within an overcrowded city environment or in rural, scarcely populated areas.

Applying payment ranking based on specific performance indicators for the *out-of-pocket* payment cases, the medical act could be improved and push to high performance increased. The *medical compulsory insurance* plan,[3] which introduces new notions—complications and/or

[3] Diagnosis groups system (DRS) has been replaced with a new system: per treated case (the distinction between hospitalized and treated cases represents the case mix (DRD). The system of groups of diagnosis (DRG) represents a classification of outpatients following their diagnosis and the expenses in the hospital. The groups of diagnosis have two main characteristics: the clinic homoge-

co-morbidities as additional diagnosis generating additional resources—has added advantages. A multilevel algorithm is used to generate the diseases' severity and the patients' function in terms of both diagnosis and clinical complexity. The expectations linked to payments implementation are focused on the improvement of health services supply: access, continuity, quality, efficiency; patients and diseases typology and treatment understandings; follow-up mechanism for service quality, patients' post-hospitalization and their further treatment in the most adequate medical locations; availability of limited resources for treated patients; waste and inefficiency combat; and wide access to medical and managerial information prior to taking decisions. The periodic assessments of medical actions, through surveys measuring the quality of both the medical act and patient satisfaction, keep the medical and care activities efficient, high-performing and profitable.

Scandinavian countries attained success in reforming the system starting with rebalancing the deficits: 30% of hospitals closed, half of hospital beds suppressed. The changes didn't hamper the country in developing one of the best healthcare systems in the world today, as recognized by the WHO (2016).

The essential component of the system centred on primary care as an aggregated service based on different health professionals working together: GPs, specialists, nurses, laboratory staff, psychologists and other staffs working for that city or region. Thus, a team of about 15 members manages, roughly, 1500 patients with acute, seasonal, chronic diseases, or cancer (Nolte et al. 2008). The centres avoid unnecessary referrals of patients to hospitals. For more difficult cases, the centre arranges for the appropriate type of specialist from the hospital to come for punctual visits. In such situations the specialist decides on treatment continuation. The medical decision is based on the patient's health status, but also on saving time and funds, at all levels: prioritizing needs and focusing on the most important and demanding patients, performing adequate investigations at the most convenient time of diagnosis, and monitoring treatments and patients' condition to reduce unnecessary tests.

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neity outlining similar expenses for similar diagnosis and the level of the possible complications (the presence of co-morbidities).

The entire activity is developed under the *reductionist principle*. For example, during pregnancy any Swedish woman can benefit from a standard schedule—one echography performed by a midwife—compared to other Europeans who have an average of three EKOs performed per specialist physician. Taking this path of monitoring the pregnant woman, embryos and patients are protected from unjustified exposures to ultrasounds with excellent results, assigning Sweden the top spot worldwide for the lowest infant and mother mortality rate. Minor injuries are also treated under the same approach. The number of medicines prescribed in Sweden is twice as low as in France. The first four visits to GPs are paid (20 Euros); then the system becomes free of charge. This policy allows GPs to grant time and attention to patients with higher needs. Funds from taxes are allocated to transparency so that patients know precisely their monetary trajectory and use for health. The influx of patients into health centres is administrated through calling offices that operate 24/7, where experienced nurses listen to patients' needs, advise them on what to do and guide them to take practical actions at their disposal. Doctors may answer the phone calls for prescription renewals, directing them to the pharmacy to avoid unnecessary on-site visits. Compared to France, results are spectacular: 12 in-centre visits, 2–3 home visits/GP, 30% increase in salaries, three times less patients, 16 hours less work per week and, overall, 200 patients satisfied daily at one single centre. Modulated home treatments follow the patients' needs. Given the high figures of Swedish seniors and funds allocated for geriatric patients, 95% among them end their life at home, while 70% of the French die in hospital. Hospitals are carefully managed and very few patients spend the night after interventions. The number of beds is one of the lowest in the world. The maximum delay between a consultation and an operation is 90 days. Thus, productivity and quality contribute to patient satisfaction, wise spending of money and social cohesion.

3.4 Societal Partnering: A Beneficial Start to Romanian Health Sector Fortification

Romania has faced continuous reform of the healthcare system during the last 30 years; disruptive efforts were made for a suitable way to get over the difficulties. The measures taken so far have always been controversial because they targeted only few or separate components: maternal and neonatal assistance; emergency medical services; countryside primary healthcare and medical services; national health and planning accounts; and project management. Recent efforts have focused on hospitals' decentralizing process and policies' harmonization of economic development and public health. Unfortunately, the legislative, institutional and administrative cleavage doesn't sustain the betterment of human resources. The vision and objectives do not reflect harmony, consistency and support of the general interest. The desire to improve the perception of the medical act or to change the mindset of local communities lacks in purpose and accountability of the community health status. The hospitals still face a copy-paste archetype in achieving objectives and fortifying the medical and managerial education. The approach is similar when strategies and policies are implemented by ignoring standards, possibilities and opportunities built on implication, tolerance, commitment, attitude and mentorship. This creates discrepancies between the initial purpose, the attitude to be adopted and the adequate action to be implemented.

Development can't be achieved without respect for the law, responsible commitment and continuous education. Practically, three types of health education—formal, non-formal and behavioural—are all in force when public health social norms promote development through educative prevention to change skills, attitudes and beliefs. The principles of health education consist in *priority* (the earlier the health education starts, the better the population's health status); *specificity and authority* (consider the higher impact of aggregated education on the sane-genetic behaviour); and *creation of an integrated workforce* to build *preventive health education* into the core objectives of the societal-sanitary policy.

The health policy in the field of quality management is aimed at providing high-quality medical services to meet the population's needs.

Efforts are diminished when final evaluations are disregarded and periodic assessments according to the last ISO standards and requirements are missed. The mission of evaluation is to accord the patients' needs with expectations, through qualitative medical services, according to the principles issued by the Strategic and Organizational Management and Clinical Management, Medical Ethics and Patient Rights standards, namely: preserve the population's health and well-being; improve the quality of health services and patients' safety measures; ensure non-discriminatory access to health services according to each patient's needs, within the limits of the mission and resources; defend the principles of ethics and deontology; respect human dignity and focus on patient medical care; promote effectiveness and efficiency; develop the concept of professional assessment through clinical audit and decision-making optimization; ensure the continuity of medical assistance within the available resources; and within the development of cultural standards, comply with legal occupational health and safety requirements to create an optimal working environment.

The medical services' quality and safety do not as yet represent the core of the entire medical and care activities. The patient is theoretically placed at the centre of attention, while the medical management is addressed on clinical and risk-free management bases. Alas, this is only a static approach of the facts bringing no benefits for longer periods of time (neither for the patients nor for the society). Real and fair communication between professionals, between medical specialists, administrative staffs and patients remains the first step of a sustainable reform on which the transformation is based. Changing the organizational culture and transforming each medical facility into a cluster of activity represents a major responsibility, a true commitment, because each organization develops a specific culture which includes a set of goals, roles, processes, values, communication practices, attitudes and assumptions that require harmonization and complete adaptation and implementation (Mukerji 2019). Harmony between entities produces balanced arrangements or relations followed by long-time stability. Hence real communication, right attitude, correctness and commitment could become the best tools for implementation and achieving the desired results. Institutions that have gone on the way of organizational culture change achieved positive results into increasing staff engagement, attract new customers and increase revenue. Learning is individual but implementing is crucially collective.

The versatility of policies and strategies is crucial for sustainable development. To maintain an objective approach, it is necessary to involve external consultants or advisers to assess the situation and propose viable change. The *ProxiClinic* comes up as a strategic entrepreneurial innovation to better reverse the added value for society's and individuals' benefit, making all efforts more visible and individuals' expectations more satisfactory. The innovative contribution values the improved managing practice of these neighbourhood establishments, capable of saving money, time and energy, as an inevitable change and transformation for society's benefit. As a medical unit able to work in favour of all patients—chronic, disadvantaged, busy, children, seniors—it will be easily functional in all directions: preventative education, family planning, maternal, neonatal, child, and adolescent health, infectious diseases, mental health, minor surgery and health policy, as it addresses the needs and goals of classical, traditional and online medicine using even artificial intelligence among the innovative technologies aimed at improving human health.

Integrative and personalized medicine needs the support of health policies from authorities in order to change for the better the actual standards, regulations and procedures. Social media channels used extensively by patient support groups develop a relationship between doctors and patients and sustain profitability. The online dimension is giving a new hint to all medical services. Intelligent digital and artificial intelligence tools will become the foundation between consumers and health institutions supporting the medical act. One access for all appointments, records and prescriptions for a better management of chronic conditions will determine how patients can become the drivers in improving their health by using robust technology and handling their own data correctly. As the *e*-health expansion already generates consistent changes in the perception of the clinical medical act, all physicians, especially GPs, need higher recognition of their skills and better equipment to use in primary investigation, diagnostics, treatment and monitoring of their patients.

The 30-year-long awaited transformation of the Romanian society needs continuity of robust and sustainable reforms together with a solid civic education around European values. New social values will determine new mentalities and behaviours. Evidence-based communication programmes increase knowledge, shift attitudes, update norms and produce changes. Adaptable mobile solutions are handy tools that target distinct user groups and support frontline health workers in providing community members with access to information and services and in allowing programme managers to rapidly gather data and facilitate authentic decision-making. At the European level, although health is mainly managed at the national level by policy-makers, common needs have been identified for many years now, such as increasing efficiency and resilience of health systems, finding common grounds for a better supply of new medicines and finding innovative and personalized solutions to help patients.

The formal administrative behavioural change could be slow, but SMEs in healthcare can adapt more quickly than cross-border companies to the local needs in order to deliver adapted solutions. Health budgets are not sufficient to save patients; integrative solutions must be implemented fast. Sustainable SME growth is the solution for an economy that works for people: growth from new jobs creation, more digital solutions, helping SMEs to adapt to globalization by simplifying administrative procedures and facilitating access to credits, flexibility of the work environment and facilitating access to new competences (E.C. 2010).

A time-bound commitment is the key to implementation. Political and managerial intervention is considered befittingly achieved once people are responsible and dedicated, after a realistic and complete internal evaluation and audit of resources, operations and processes, as a continuing process appreciating and respecting freedom of understanding and deciding to implement it at all levels. Redefining prevention as a lifelong interactive activity emulates a national return-value-based business model, bringing incentives and awards for desired outcomes to all health players, centred on improvements in access, common solutions upriver and increase of healthy-life years, and not only healthcare quality and treating the sick, but care management when just a few things can be repaired. "*Salience is the most important modification*" made to standard analyses of incentives (Thaler et al. 2008). The secret lies in "*incorporating the concepts of health and well-being*" into every economic and societal decision (Tyson 2017) as the choice architect has the responsibility for organizing the "*context in which people make decisions salience*" (Thaler et al. 2008).

Clear and simple laws, decisions and regulations are easier to implement when the focus is on pain reduction, saving lives and money, and building a healthier society. Beyond the compulsory nuance, any law should express the obligation of the State support and the value of long-term plans and strategies in all fields of activity. Disinformation about any executive measure has serious consequences. Governments need to closely monitor public perceptions, counteract misinformation and promote the benefits of all programmes adopted. For example, immunization is one of the most important and cost-effective public health achievements in modern times and should be proactively promoted.

Comprehensive medical assistance is a responsibility-based relation between patient, medical team and healthcare institution. For better health outcomes, patients should understand their illness, acknowledge prevention education, comply with the treatment and discuss concerns with the medical staff. Coping with the challenges and finding appropriate solutions rely on commitment to knowledge, prevention and health safety as the highest societal priority. The disparities in health equity call for an extended definition of prevention: better conditions of living in communities, whose role should be reconsidered within society, participation in the local decision-making system and involving stakeholders in building and formulating adequate solutions.

Recommendations suggest using two levels of health service delivery platforms and a potential specific intervention, including any avoidable burden, especially for the low and middle incomes per inhabitants and households, "*cost-effectiveness, implementation cost per person, and feasibility of scale-up*" (Jamison et al. 2013):

- *The entrance level, centred on the GPs' responsibility and attributions*; the interventions are delivered as *basic packages* via primary care and GP clinic specialists' network/platform and then hospitals. The basic packages refer to (a) the cardiovascular set of treatments as an essential one, high blood pressure and acute heart attacks; (b) the pulmonary set of treatments concerning the treatment of asthma and chronic obstructive pulmonary disease with inhaled corticosteroids and ß-2 agonists;

(c) the mental health set, treating pricy chronic diseases with long-term therapies; (d) the neurological package that contains some highly cost-effective interventions to be delivered in special resourceless circumstances: need for anti-epileptic or older antipsychotic medicines, generic antidepressants and lithium, short-term treatment and therapy for depression; and (e) the cancer set of treatments. More elaborate treatments, for all mentioned groups, are delivered by the specialists affiliated to the GPs' platform and neighbourhood.
- *The second level, centred on the hospitals' platforms*, provides basic packages for accepted patients with emergency requirements for (a) basic injury requiring surgical interventions, (b) severe cases of cardiovascular diseases, or (c) a set of treatments for severe situations of cancer.

The clinics of proximity managed by GPs and their cluster of specialists should play the most important role in delivering health and medical services. The proximity assistance counts on community support for prenatal care, immunization and vaccination, multidrug treatments and rehabilitation, educational prevention programmes, cardio, pulmonary, cancer incipient screening and treatments, minor burns and other complicated emergent surgery. Such a clear demarcation between practical situations, attributions and responsible engagement of all health and care market players would more easily designate the path towards progressive universal health coverage implementation by financing the population, the realistic policies and the innovative research. This is, by far, the most efficient and profitable way to reach peoples' health and financial protection, to achieve the convergence of the health sector and societal benefits.

3.5 *ProxiClinic* Environment: The Core Synergy of the Healthcare Sector

The *ProxiClinics*' activities go round the electronic medical records. Good records assist the real-time information delivery, avoid duplication of efforts, identify missing records, replace illegible and altered data, help conceiving better plans of care by integrating all specialized registrars, accelerating diagnosis and serviceable care (Dengleri et al. 2019). At an executive level, more tools and time are available for managing assets and liabilities, abiding by norms and regulations, increasing operational security, improving the working environment, operational techniques, competitive skills and financial results. Crafting the right way to save added value and use it to motivate patients to make the best choice is crucial. To acquire and important position the health sector needs to reposition itself as "*primus inter pares*" inside the society (Clift 2013). To be successful, the approach will address the educated and motivated people; the rest will follow. Turning away from the *sclerotic and stiff bureaucracy* (Clift 2013) requires expertise to restructure, a deep change in attitude to create new behaviours, to eliminate *the antiquated management* vision and *senior managers' ill-advice* (Clift 2013), to remember the ambitious objective that WHO has had since 1948 and that medical establishments have forgotten along the way—*attainment by all people of the highest possible level of health*.

Innovation in medical technology has the power to increase the efficiency and effectiveness of care, either by revolutionary steps in medical prevention, diagnosis and treatment or by the application of innovative technology that is able to do more with less. New technologies like voice and natural language processing will make important changes such as improving caregivers' workflows. Adapting the technology to the need and particularly to the characteristics of the patient will be essential for success. The model proposed here, channelled along three major axioms,[4] is recognized as a dynamic, complex, multilayered structure, with interactions and feedback inside networks, using critical thinking pathways to change attitudes, rules, technologies and assessments. Behaviour will then become the main pillar built on attitude. Consequently, rules and regulations will be derived; ICT and evaluations will use all the feedback received to implement changes for the better. Successful delivery of

[4] 1. Health is a holistic sector with a mechanism composed of relations, operations, activities and flows.
2. Health has a pricy value that determines its synergistic quality and satisfaction.
3. Dominance is developed based on the relation between any human being (patient, employer, employee, partner, collaborator, decision-maker) and the medical service establishment supported by mentoring educative prevention anchored in a new culture and style of life where attitude forms the new behaviours.

medical activities from the early identification of diseases to stabilization or full cure, capturing timely intelligence, assessing opportunities and follow-up prospects together with other medical specialists, collating feedback and ensuring that the lessons learnt are appropriately disseminated and acted on will help in the strengthening of the profit-based medical development procedures and the creation of demand-driven teams able to develop strong relationships and kind communication with everybody, including those involved in activities of governance, security and justice, profit-based medical growth practice and in/out technical specialists. The way the GPs get connected becomes the core of preventive personalized health maintenance. GPs work together with a medical registrar, a nurse/midwife, a mentor and residents to reinforce the GP cells and their value, and to eliminate the manipulative addressing only to GPs for medicines, medical leave and specialist referrals. This way, the *ProxiClinic* can finds its way to the core of a new system.

ProxiClinic grows as a combination of GPs' office and a polyclinic, a field office and a mobile one, with an activity based on the proximal community's social function, on people's awareness, responsible engagement and devotion to change life and work for the better. The advantages are linked to distances and time-saving while looking for specialists' intervention and necessary institutions (administration, churches, NGOs, schools, voluntaries, trainers ready to help). The fact that GPs permanently connect to medical stations (as seen in Fig. 3.1.) where specialists are ready for further investigations of local patients, thus dissipating the burden from the hospitals and leaving them to treat the more difficult cases, allows a better use of medical assets and shares with patients the right resources they need. It is possible to eliminate supplementary burdens on budgets and misuse of resources without scientific arguments on a standardized medical scale of evaluation.

Patients and staff work together to answer efficiently the needs, implement the best options to full satisfaction and promote holistic and personalized healthcare as the new standard of care. The access to online health platforms empowers patients who expect solutions from biology, genomics, socio-economics and lifestyle/behavioural changes for a better outcome. BIG data analysis, health education and mentorship for better prevention and compliance with the right treatments develop patients'

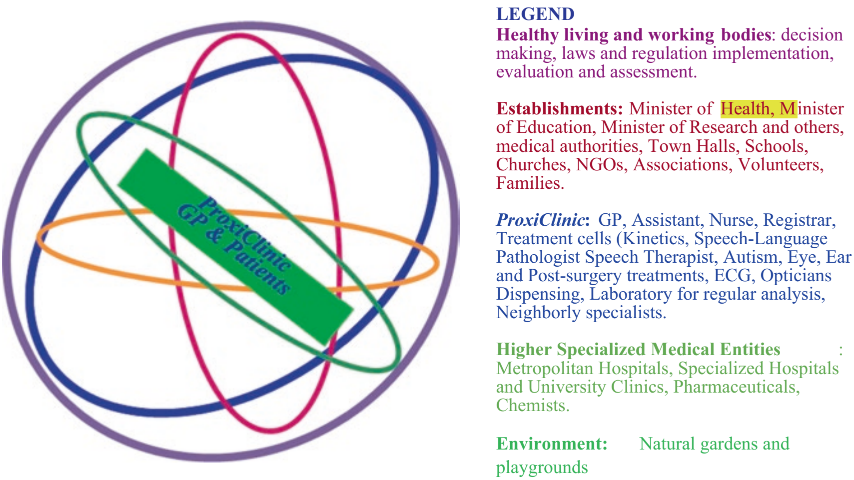

Fig. 3.1 ProxiClinic environment

awareness of their responsibilities in maintaining their health status. Within the presented model, new competitive trends are rising, and more chances are available to avoid risks and to find answers to old problems. Changing behaviours is a multistep process and determination, and engaged education, training, mentoring, tailoring new patterns and accepting the need for self-knowledge are only few ingredients for success.

The GPs' station remains the core of the model and of its functioning: evidence, diagnosis, education, training to sustain prevention, a decrease in the number of inpatients and sick people, better allocations of operational diagnosis in all phases, consolidation of border special activities and auxiliary checking. All those employing self-development take a good lesson from evidence-proved and profit-based experiences. Larger communities share the good lessons to multiply the values. Such a model can be franchised so that more successful experiences will be shared in the Medicare sector. Strategies and policies could be improved for the benefit of all partners. The new engineering design spurs the cognitive and epistemological development of partners by transcending the power and influence to a large partnering portal, where ministries, health funds, medical professional bodies and other authorities or corporates recognize each other's responsible engagement in this common project.

3.6 Conclusions

The subjective perception of the reality and the erroneous understanding of the universal goals of health undermine the implementation of a sound reform in the health sector because of inadequate decisions. When policy-makers' decisions are not realistic, the funds' allocations don't follow the needs, the specialists emigrate and the health sector governance is suffers acutely, triggering health risks. To avoid this, the transformation is a requisite in order to build the governing and managing sides of the health sector for societal benefit. Rights and obligations are on both the sides. Their analysis can't ignore patients, medical teams or health institutions. They belong to an integrated health and well-being conglomerate of vision, mission, rules, policy and burden and affect nation, individuals and budgets. Therefore, rights, responsibilities and indebtedness are to be learned, acknowledged and acted out accordingly as a robust set of pillars and rules to follow in the greatest game of life. The rules give the players the possibility of benefiting from a safe environment ensuring the population's physical condition, mental health and future well-being. Their entanglement in the decision's process linked to health matters, treatment, rehabilitation or emergency care and facilities remains crucial to yield the fundamental values and tools that serve the whole system from a societal perspective: accurate diagnostics, relevant treatment, mentoring and educative prevention, counselling for rehabilitation procedures, organ donation, conditions for free or paid services provided, and medical records arrangements. The conscious recognition of the controversial issues will help the dialogue and understanding of matters in order to advance according to norms, standards and best general practices. This perspective will frame Winslow's words into a more complete definition. Healthcare is the science, technique and art of learning and applying the prevention of disease, which involves patients to assist in prolonging their own life and promote health through aggregated, formal and informal, individual and collective efforts, to choose the best decisions to fully satisfy their true needs at appropriate times and places.

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4

The Role of Digitalization in SMEs' Strategy Development: The Case of Sweden

Daniella Fjellström, Aihie Osarenkhoe, Tobias Pettersson, and Daniel Tadesse

4.1 Introduction

4.1.1 Background to the Research

Small and medium-sized enterprises (SMEs) are a key component in European economies (Buhalis and Main 1998; Antony et al. 2005; Peter et al. 2020); they are important for socio-economic growth (Karadag 2015), and play an essential role in the development of a nation (Khalique et al. 2011; Jasra et al. 2011). They create new jobs, increase GDP (Berthon et al. 2008), entrepreneurship and innovation (Karadag 2015; Jasra et al. 2011). Over 90% of enterprises in Sweden (European

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Commission 2018) are SMEs, with less than 250 employees (Jasra et al. 2011).

In society, there is an increase in digitalization (i.e. Quinton et al. 2018). In various markets, digital technologies and online channels have become more dominant and are disrupting industries. For example, traditional travel agencies face major survival problems (vom Brocke and Schmiedel 2015). On the other hand, online retailers around the globe present impressive growth figures (Andersson and Mattsson 2016; North et al. 2019). The digital disruption as such has become an important strategic board issue.

Teece (2007) argues that, in the constantly changing global market, customer needs and behaviours change and new opportunities (e.g. technological know-how) arise, putting both existing and new enterprises in competition with one another. In the case of SMEs, this can include the digitalization of marketing, such as an online presence, advertising, and reaching out to customers faster at minimum expense, thus creating an opportunity to compete against large enterprises (Taiminen and Karjaluoto 2015; Quinton et al. 2018). The literature shows that SMEs' performance, growth, and competitiveness are positively affected by digitalization (Taiminen and Karjaluoto 2015).

Developing a strategy for marketing is critical to a business's success since it gives managers a sense of direction on how to move forward. Although the term *marketing planning* implies formal planning, small enterprises also conduct informal planning (Carson and Cromie 1989). The literature shows that small hotels have limitations in gaining competitive advantage, for example, in the area of pricing, perception of their market position, and managing customer relationships (Moriarty et al. 2008). In their study, Moriarty et al. (2008) found that small hotels can use specific marketing in the form of providing customized service with a limited budget, for example, customer knowledge obtained via digital means.

The performance, growth, and competitiveness of SMEs can be positively affected by digitalization (Taiminen and Karjaluoto 2015; Dutta et al. 2020). Lee and Falahat (2019) identified that it has more effects on the products and services that are offered than on the competitive advantage, which can depend on the context. Increasing online exposure by associating one's business with other websites, managing the business's website rank in search engines, and creating a web brand is an important tool for succeeding in the digital era (Kucuk and Krishnamurthy 2007; Queiroz et al. 2019). The emergence of social media has, in addition, revolutionized the way businesses communicate with their customers (Hafele 2011), thus providing opportunities for all businesses, regardless of their size and resources. Unlike traditional marketing channels, which require a lot of resources, digital marketing minimizes an SME's marketing spending (Chong and Pervan 2007; Eduardsen 2018).

4.1.2 Problematization

Earlier research on marketing strategy focused mainly on large enterprises' strategies to gain a competitive advantage (O'Donnell et al. 2002). Carson (1990) argued that small enterprises lacked professional marketers and resources, and therefore had no standard marketing structure. More recent studies show that the digitalization of marketing requires fewer resources, enabling enterprises to reach out to current and potential customers and providing small enterprises a chance to compete with large enterprises, taking marketing to a new level (Taiminen and Karjaluoto 2015; Martinsuo and Luomaranta 2018).

Jones, Simmons, Packham, Beynon-Davies, and Pickernell (2014) and Martinsuo and Luomaranta (2018) state, on the other hand, that small businesses demonstrate distinctive attitudes towards adopting technology in marketing, and that this adoption is heavily dependent on the individual manager's/owner's interests and capabilities in using technology. That said, there is a paucity of studies on managerial willingness to embrace technology-aided marketing (Alford and Page 2015).

Alford and Page's (2015) research has shown that the technology and marketing skills of managers play a big role in their attitude towards technology adoption. Most of the existing literature was written when marketing technology was expensive and experts were needed to operate it. Nowadays, there are several inexpensive marketing applications, even free ones, which require less knowledge to operate them. Since a business's success depends on the technological aspects of running a business, there is a call for SMEs to adapt to current trends and the usage of digital tools (Jasra et al. 2011; Neirotti et al. 2018), such as social media, which has changed conventional ways of marketing and altered customer behaviour (Kaplan and Haenlein 2010; Jose 2018).

Small enterprises face challenges such as limited access to financial resources and marketing experts and, competitively speaking, are at a disadvantage compared to others in the industry when it comes to attracting and retaining customers. The aim of this study is to improve our understanding of the marketing strategies of SMEs and the digital marketing that can help to level the playing field and allow them to gain a competitive advantage. In pursuit of this aim, we pose the following question: *How does digitalization influence SMEs' development of strategy to strengthen their competitive advantage?*

To answer this question, we conducted a qualitative study with ten semi-structured interviews with managers in seven Swedish hotels. The interviews ended when we had achieved saturation. The study was conducted exclusively in the B2C context of small enterprises, and is limited to the internal factors that influence competitiveness specific to marketing, such as technical know-how, competencies, and other resources (Ceptureanu 2015).

4.2 Literature Review

4.2.1 Small Enterprises

The aptitude of an enterprise to acquire know-how and adapt to changes in customer behaviour and technology is described as *dynamic capability* (Teece 2007). When a business applies a value-creating plan that its current competitors in the industry are not using at the same time, it is called a *competitive advantage* (Barney 1991). Competitive advantage is evaluated based on the firm's customers, products/services, market, and the structure of the industry. An enterprise gains competitive advantage by offering added value for customers at the lowest price possible, and the outcome of this advantage is reflected in the business's performance in the market (O'Donnell et al. 2002; Katsikeas et al. 2019).

Teece (2012) describes dynamic capabilities as being created through managerial activities, in three steps: *sensing* (identifying an opportunity), *seizing* (utilizing resources to seize the opportunity), and *transforming* (constantly re-evaluating and renewing opportunities). Fernandes, Ferreira, Gimenez, and Rese (2017) later suggest a fourth step in SMEs, one of constant *learning*, linked to an individual or entrepreneur, that ensures the SME's sustainability and thereby also competitive gains. These steps help small enterprises to develop sustainability as market and technology constantly change (Teece 2012). Furthermore, one of the competitive advantages that SMEs can obtain with dynamic capabilities is speedy decision-making, which is more difficult for large enterprises (Fernandes et al. 2017).

4.2.2 Digitalization

Digitalization, digital technologies, and digital transformation influence SMEs, their value creation and interaction with customers (Bouwman et al. 2019; Lee and Falahat 2019; Li et al. 2018). The diffusion of digital technologies has enabled a notable transformation in firms' boundaries, processes, structures, roles, and interactions (Kache and Seuring 2017). This digital revolution affects the organization as a whole, thereby redefining its strategies, entrepreneurial processes, and governance mechanisms or structures (Fremont et al. 2018; Cenamor et al. 2019). This permeation has in turn led to the emergence of new ways of organizing firms' value chains and inter-firm relationships, which now increasingly occur not in isolation but in so-called digital ecosystems (Kane et al. 2015). Li et al. (2018) discuss how entrepreneurs use digital platforms in their digital transformation to increase competitive advantage.

Jasra et al. (2011) argue that a business's triumph is directly dependent on the technological aspects of running the business. Digitalization has changed conventional ways of marketing, and digital platforms such as social media have altered customer behaviour (Kaplan and Haenlein 2010). Kucuk and Krishnamurthy (2007) argue that digitalization is for customers as industrialization was to manufacturers. Digitalization brings both opportunities and challenges for SMEs; while it represents an opportunity for SMEs to gain exposure in a market it also needs willingness and knowledge to adapt to the technological changes (Quinton et al. 2018; Cenamor et al. 2019). Teece (2007) suggests that an enterprise's investment in enhancing its technological capabilities to improve and promote its goods and services is part of taking advantage of opportunities to attain a position in the marketplace. Establishing a web presence and managing a website's rank in search engines like Google to create a "web brand" is key (Kucuk and Krishnamurthy 2007). Using the internet minimizes an SME's marketing expenses, reaching a target group that would otherwise demand substantial resources (Chong and Pervan 2007). A study conducted in Finland showed, however, that SMEs have yet to fully embrace digital tools for marketing (Taiminen and Karjaluoto 2015). Along the same lines, Bouwman, Nikou, and Reuver (2019) discuss that digital technologies can be used to develop SME strategies which need to be encouraged. Digital tools and platforms like social media allow companies to interact with their customers in new and innovative ways and enable the identification of customer needs (Vernuccio 2014; Vadana et al. 2019). Clark and Melancon (2013) state that the use of social media increases customer relations, and that companies need to communicate with their customers to be competitive.

In a study on social media marketing in the hotel industry, Chan and Guillet (2011) found that there are misunderstandings surrounding social media's potential in marketing because hotels use it as just another advertising channel, neglecting the fact that they need to interact, socialize, and establish relationships with the customer. That is, social media can be used to strengthen the communication between the customer and the enterprise (Vladimir 2018; Ashley and Tuten 2015), to develop a long-term relationship. It is therefore crucial for businesses to choose the appropriate social media. Marketing via social media has already become a marketing tool. It has changed the way enterprises manage their brand to a more customer-centred open-source branding, where customers are the ones who generate the branding content (Gensler et al. 2013). Such marketing activities of small enterprises are described as sensible, practical, and situation-specific, and applied to fit the individual business's needs (Berthon et al. 2008).

4.2.3 Developing Digital Customer Satisfaction

Customer satisfaction matters (Sim et al. 2006) for competitive differentiation and customer retention (Su 2004). It affects customer loyalty and thereby profitability (Su 2004; Heskett et al. 1994; Skogland and Siguaw 2004; Barsky and Nash 2003). Su (2004) claims, however, that one of the greatest contemporary challenges in the management of the service sector is providing and maintaining customer satisfaction. In general, the longer the customer stays in the long-term relationship, the more profitable the relationship for the company (Sim et al. 2006). Özgener and Iraz (2006) furthermore state that SMEs' survival in the global market has become heavily dependent on customer-focused strategy as a key factor. Today's customers are highly value-oriented; they want to get the experience that they pay for (Heskett et al. 1994). For example, value is considered influential in determining a traveller's overall satisfaction and the likelihood of that traveller returning to the same hotels, and the price of a hotel visit can play a significant role in customer satisfaction (Sim et al. 2006). Barsky and Nash (2003) claim, however, that customers are willing to pay significantly more per night for the promise of having a good experience during their stay. Consequently, it is essential for companies in the hotel industry to identify their customers' requirements and meet their demands.

High-quality services (Kandampully and Suhartanto 2000) and products can increase competitive ability (Costa et al. 2004) and are important for the survival of a firm (Zeithaml et al. 1996). Providing high-quality service and increased customer satisfaction are widely regarded as key factors leading to the success of companies in the service sector, such as hotels, and ultimately improve the company's market share and profitability (Choi and Chu 2001). Hotel owners must therefore understand their customers' needs, and meet or exceed those needs (Choi and Chu

2001). Customized communication can reduce excess information and help the customer to make the right decisions (Ansari and Mela 2003). According to Stojanova, Suzic, and Orcik (2012), SMEs have flexibility advantages over larger enterprises and a closeness to their customers. Zeithaml et al. (1996) argued that it is more advantageous for an enterprise to invest in existing customers than to find new ones.

4.3 Methods

A qualitative and interpretative Saunders et al. (2011) approach was selected since it supports the knowledge we were trying to obtain. Because the phenomenon under study is subject to the respondents' interpretation, an in-depth qualitative method is required to gain an understanding of this knowledge and how the respondents apply it to their respective organizations. Hence, considering our aim of obtaining a deep understanding with a small sample size, it is appropriate to adopt a qualitative approach and investigate through in-depth interviews (Tuli 2010) (Table 4.1).

To identify themes and categories, the coding process started with "data cleaning," that is, preparation of the raw data to sort it into 24 themes and categories. This was done by applying code to portions of the texts. The next step was reduction of overlapping categories (Thomas 2006). We were then able to retrieve the most relevant and similar data from different themes and place them into their respective categories in separate documents. In a final step, the themes were reduced into 12 groups and subgroups. To ensure construct validity (Rowley 2002) and to get the most accurate data on how the small enterprises operate, the interview questions were addressed to the people directly related to the enterprise's marketing. The respondents were anonymized, interviews recorded, and transcriptions e-mailed back to the respondents for confirmation, to strengthen the validity of the data.

Table 4.1 Selected sample description

Enterprise/ Year founded	Annual turnover (SEK)	Employees (Excluding owners)	Marketing budget (SEK/year)	Respondents Gender and age	Position/ experience	Education/ background
SE1 (1997)	1.5 million	1	None	**R1** Female – 62	Manager/owner (4 years)	Chef
SE2 (2017)	17 million	18	100,000	**R2** Male – 41	Finance manager/ owner (14 years)	Electrician
				R3 Female – 37	Personnel manager/ owner (20 years)	Hotel and restaurant
SE3 (2017)	4.6 million	5	100,000	**R4** Male – 39	Manager/owner (6 years)	Chef
				R5 Male – 45	Finance manager/ owner (15 years)	Business administration (Komvux)
SE4 (2017)	450,000	0	None	**R6** Female – 50	Manager/owner (3 years)	Economics
SE5 (2002)	4.3 million	5	12,000	**R7** Female – 55	Manager/owner (22 years)	Business administration (Komvux)
SE6 (2002)	13 million	15	30,000–50,000	**R8** Female – 57	Manager/owner (17 years)	Cosmetologist
SE7 (1983)	7 million	7	250,000	**R9** Male – 59	Manager/owner (39 years)	–
				R10 Female – 49	Co-manager/owner (17 years)	–

4.4 Empirical Findings

Most of the respondents see the value of developing a digital strategy, though a few did not. Respondents R2 and R3 stated that marketing is important. They claimed to have invested from the beginning to make their existence known to consumers. SE2 tries to make the company visible online. The respondents from SE3 stated that investing in marketing did not seem important in the year of establishment, but after a year in business they discovered that they needed to market their services. R9 and R10, who manage SE7, outsource marketing activities to a marketing consulting firm. One respondent running a fairly new and small hotel (SE4) wants to keep marketing expenses to a minimum at this stage of business growth due to a lack of resources. Thus, SE4 does not set a budget for marketing purposes. The respondent running SE1 claims that she never needed to invest in marketing.

4.4.1 Role of Digitalization

Many of our respondents argued that they have not faced digitalization-related challenges. R2 recognized that the emergence of social media has changed how they market their hotel. They can now promote their products and services on the same day. Previously, they had to submit their marketing materials, to a newspaper, for example, a week ahead of time, and did not have the option of showing things that occur daily. R1, R5, and R7 stated that digitalization reduces their costs because they do not need to have personnel at the hotel around the clock. R9 argued, however, that digitalization initially increased their costs through the implementation of new technology, and that they are now dependent on the internet, stating: "If there's a problem, for example, when the internet is down, then we can't do anything. It's chaos if the internet doesn't work."

4.4.2 Visibility

The interviews show that all of the respondents use many different online channels to make themselves visible to their customers. Except for R7, everyone uses social media, such as Facebook and Instagram, as a marketing tool to interact with their customers. R1 noted that marketing on Facebook is "excellent" because it spreads information out fast, and R9 claimed that social media provides them an "extreme spread." R10 stated that the emergence of social media has made their marketing activities "driven almost only by social media." Some hotels use it daily, while others use it only a few times a month. For example, R6 stated that they use Facebook once a month or when they have time for it. R3, however, stated that they use their social media daily. R7 was the only respondent that did not use social media. R4 and R5 also argue that it is easy to overestimate the benefits of social media. R5 stated, for example, that even if they get a lot of views, it is hard to know whether everyone has actually read what they have posted. Third parties, such as hotels.com, booking.com, and expedia.se, are websites that have become an essential element for small hotels in their marketing. Through those channels, they are able to market their available rooms to potential customers that search for hotels by location on those websites. R7 stated that those parties take care of their marketing, so they do not need to be on social media. R1 claims, moreover, that booking.com is an incredibly important marketing channel for them. However, SE7 did not collaborate with any third party, with R9 stating that "the costs were higher than the benefits," thus citing that as the reason the hotel did not engage in such collaborations. R10 mentioned that SE7 uses directory assistance sites instead as marketing channels.

Another important factor for our respondents regarding digitalization was the use of their own website. R2 and R7 used Google Ads to direct customers to their own website, instead of to the third-party websites. With the hotel's own website, they were able to promote their hotel, accept bookings, create customer interaction, and show their special offers to their customers. It seems that this is how most of the hotels started on the internet. SE2 uses its website as a strategic tool and has recently updated it to make it more user-friendly and easier for their customers to book rooms. Since third parties take a commission, it is better for small enterprises if customers book directly with the enterprise.

4.4.3 Personal Digital Communication

All of the hotels use numerous forms of communication to interact with their customers. This includes phone calls, e-mail, face-to-face conversations, and social media. R1 noted that she does not use e-mails to interact with customers because she felt that the guests become irritated if she sends them newsletters. Instead, she uses SMS to communicate with her customers, focusing on being available by phone 24 hours a day, 7 days a week. R5 differentiates the hotel's form of communication depending on the type of customer, that is, e-mail was used to interact with companies. Personal service and interaction was important for many respondents. Two of the most common words the respondents used in their responses were "personal" and "flexible." By "personal," they mean that rather than a standardized service the customer experience during their hotel stay is tailored to the individual customer. The respondents also emphasized that they are flexible with respect to meeting customer needs and providing a satisfying service.

Most respondents believe the best way to get customer knowledge, such as individual preferences, opinions, and feedback, is in person rather than online. They try to make sure everything goes smoothly and, if there is a problem, they address it immediately so that their customers can leave satisfied. R6 stated that they always listen to customers' opinions and that they are usually positive, and they also provide guests extra materials, like books to read. Several respondents said that they develop enough knowledge about their regular customers' needs and preferences, and this makes the experience more personal for the guests. But all of the respondents also check social media, third-party websites, and Google for customer reviews, and try to make improvements.

4.5 Analysis and Discussion

4.5.1 Characteristics of Small Enterprises

The small enterprises selected for this study demonstrated similar characteristics as those described by Carson and Cromie (1989). In their research, they discuss four main characteristics that the seven enterprises in this study also share. SMEs are small, managed and financed by their owners, and operate locally. No marketing structure was identified in this study, confirming research on SMEs (Berthon et al. 2008; Carson 1990). Berthon et al. (2008) claimed that resource limitations and lack of marketing skills make it difficult to perform market research and choose appropriate promotional media. In line with Berthon et al.'s (2008) research, the respondents in our study use most digital promotional channels with minimum resource requirement except for the offline channels that they consider either unnecessary or too expensive. For example, the respondents from SE2 showed professional marketing capability, in the form of experience in sales and running a business, and do what an expert in marketing would do. The owner of SE1, on the other hand, does little to market SE1's services.

4.5.2 Digitalization

Jasra et al. (2011) argued that SMEs need be more adaptive to the technological aspects of running a business because their success depends on it. All of the respondents who run the small hotels in our study take advantage of digitalization, although their use of technology differs slightly. While a few of the respondents use basic digital marketing, most take advantage of more advanced digital tools. Digitalization has changed not only how these hotels market their services and manage their customer relationships, but it has also changed customer behaviour and how they communicate with the hotels (Kaplan and Haenlein 2010; Haddud and Khare 2020). For these hotels, sticking to traditional marketing in this era would mean that customers would neither know they exist nor be able to find them, and hence would not come to them. The first step, according to the respondents, is visibility. Creating an online presence gives the hotels boundless exposure. Furthermore, digitalization makes interaction between the hotels and their customers easier, and faster. When managed properly, this interaction benefits businesses by creating market value with the customer's involvement (Kucuk and Krishnamurthy 2007; Garay-Rondero et al. 2019). Consequently, by increasing the level of communication and attracting potential customers, digitalization has a positive effect on small enterprises' performance, growth, and competitiveness (Taiminen and Karjaluoto 2015, Scuotto et al. 2019).

Two of the seven hotels actively work to manage their website's rank in Google, to gain greater exposure and direct customers to their website to communicate with them. This is an important marketing tool in the digital world, and continuous interaction aids in establishing a web brand (Kucuk and Krishnamurthy 2007). The other five hotels manage their websites, but not their search engine ranking, and depend more on third-party sites (e.g. booking.com) to get new customers. All of the hotels prefer customers to book directly on their own website to avoid paying commission to third-party sites.

4.5.3 The Influence of Social Media

Six of the seven hotels in the study use social media as a marketing tool since it is an effective tool to interact with customers (Sashi 2012; Hafele 2011). Furthermore, it improves customer relationships (Clark and Melancon 2013), and helps companies to identify customer demands and market trends (Vernuccio 2014). Some respondents stated that, through social media, the hotels are able to act the same day to promote their services/products, which they were unable to do with traditional media. Moreover, social media has become a central part of the hotels' marketing activities, and the respondents stated that they have switched almost all their marketing to social media. Most of the respondents claimed that social media enabled them to send out messages instantly to a much broader range of customers (Hafele 2011).

However, Chan and Guillet (2011) expressed that hotels struggle to use social media in optimal ways to engage with their customers. Wherein in this study, only one of the hotels uses social media to engage with its customers, in the form of a trivia quiz. The rest stated, rather, that they use social media to promote their services. How the hotels use social media could therefore be improved to achieve greater advantages over their larger competitors. SMEs have more opportunity to engage with their customers through, for example, social media contests (Stojanova et al. 2012). The use of digital technologies must be encouraged (Bouwman et al. 2019). With regard to setting their own prices, the respondents identified only competitors as a determining factor. Otherwise, most of them believe they have other things to offer to their target customer groups. This illustrates demand-based/customer-based characteristics rather than, as Clark and Montgomery (1999) claimed, the other way around. Our study similarly shows that they recommend each other's hotels when their own is fully booked. Thus, most of them do not even consider the other SME hotels as rivals.

4.5.4 Sources of Competitive Advantage

The hotels in this study are fairly adaptive to digitalization (see Teece 2007), especially social media, since everyone is familiar with it from personal use. Still, very few of them (two of the seven) seem to use social media to any greater extent. Taiminen and Karjaluoto (2015) explain that digital marketing gives small enterprises a fighting chance against large enterprises since it entails less expense than traditional marketing channels. Thus, social media offers a platform for opportunity in digital marketing. Most respondents are able to sense the opportunity regarding the location of their business, their target group, and digital marketing. When it comes to the second step in developing dynamic capability, seizing the opportunity, only 30% of the hotels seize the opportunity digital marketing offers; 70% of the hotels did use social media to some extent but not remotely enough since they use it only as an advertising channel. Nevertheless, all the respondents identify the opportunity to differentiate their services and provide a more personal and customized service at a low price. According to Teece (2012), entrepreneurial management is less about standardization and more about creativity and finding new opportunities. As managers, the respondents therefore seek to learn different ways of marketing their services by trying different channels. Overall, all of the respondents claim that they are able to make quick decisions without the burden of seeking approval, unlike large chain hotels. This is supported by another study showing that SMEs have the competitive advantage of speedy decision-making (Fernandes et al. 2017).

4.5.5 Digital Customer Satisfaction

Earlier research shows that the importance of satisfied customers is essential for a company's survival (Sim et al. 2006). The respondents stated that they focus more on good service and personalized meetings to enhance customer satisfaction. This is also in line with what Heskett et al. (1994) stated—that people are more value-oriented today and that price can play a significant role in customer satisfaction (Sim et al. 2006). Moreover, research shows that the quality of service is a key factor to keeping customers (Su 2004), and is essential for companies to survive in today's competitive environment (Zeithaml et al. 1996). In this study, we observed that many of the hotels focused on offering good quality to their customers and good, comfortable beds in their guest rooms. They were also willing to help their customers and adapt their offers to the customers' needs and behaviours. Understanding and meeting customer needs are factors that Choi and Chu (2001) also mention as important for hotel managers in gaining competitive advantage and satisfying their customers.

4.5.6 Customization

Our respondents noted the advantages of offering personal service to get customers to come back. Ansari and Mela (2003) explained that customized marketing can lead to increased profits for businesses by targeting customer segments and creating successful long-term relationships. This was extended by Sim et al. (2006) who state that the longer a customer stays in a relationship, the more strategically advantageous the relationship is. As can be seen in the empirical section, offering customers personal and flexible service seems to be a vital factor for the hotels to improve competitiveness. R5 stated, for example, that SMEs can be more flexible and innovative, so customers feel like they are at home, which he saw as a competitive advantage for the hotel. This is in line with what Stojanova et al. (2012) say about the competitiveness of SMEs—that SMEs can be more flexible and closer to their customers than larger companies. Özgener and Iraz (2006), moreover, claim that to survive on the global market SMEs need to have customer-focused strategies, which is in keeping with the hotels' idea of customized services for their customers. Further, Ansari and Mela (2003) argue that highly relevant products can enhance customer satisfaction. As the SMEs in our study mention, on top of the basic services provided, upon request they also offer services to match their individual customers' needs and preferences.

Digitalization of marketing activities is a key factor for a business's success. Through digitalization, an enterprise can gain international exposure, enhance communication, acquire customer knowledge, and adapt to customer behaviours and preferences. Digitalizing an enterprise's marketing activities increases its ability to learn and assess new opportunities and threats in a market. In other words, the enterprise can provide both digitalized and non-digitalized personalized services at a low price to increase customer satisfaction.

4.6 Conclusions

Digitalization brings opportunities for SMEs to compete in the market. Social media, for instance, is a marketing tool that is easy for companies to use, not only to reach customers but also to identify customer preferences through interaction, since interaction is facilitated by social media. The lead time is shorter than for traditional alternatives. With social media marketing, businesses can get their customers to engage, for example, through holding contests or offering games.

Through digitalization, enterprises are, moreover, able to showcase their products and services on the internet 24/7. Through the emergence of third-party sites, small enterprises get the same online exposure as the larger enterprises. Although SMEs do not have a strategic planning process, pricing is an important factor in the marketing strategy. Digitalization enables SMEs to easily keep track of their competitors' pricing and continuously offer a lower price. The second most important element in SME marketing strategy is the customization of services according to customer preferences. SMEs are more flexible and can offer personalized services.

As for the third factor in the strategy, SMEs use mostly digital channels to promote their products and services. Most of the SMEs in our study use a similar approach to digital marketing, though with some variation depending on how much the businesses are willing to spend on it. Only a few of them use paid promotional sites. Furthermore, that small enterprises promote their unique location to attract customers on their own websites and on social media does not seem to play an important role in gaining a competitive advantage.

4.7 Implications and Further Research

Based on the findings of the current study, it is important for managers to identify the SME's unique characteristics and use these to their advantage when designing a market strategy. It extends Alford and Page's (2015) willingness to adopt digital technologies to create long-term relationships (Sim et al. 2006). Collaboration with third parties is important and helps small enterprises in their marketing activities, meaning they do not need to spend resources in marketing. The use of their own websites is also of great importance for small enterprises, for exposure as well as to interact with customers (Vernuccio 2014). SMEs with limited resources can reach a wide range of different customer segments through social media, enabling them to compete with larger enterprises. Thus digitalization brings many opportunities and should be further encouraged, especially for SMEs (Bouwman et al. 2019).

At a societal level, SMEs are essential for the development of a nation. They play an important role in creating new jobs, the country's GDP, socio-economic growth, entrepreneurship, and innovation. In this study, we have focused on small enterprises in the hotel industry, an industry that provides a town with opportunities to create jobs in the region. This in turn brings money back into society through taxes and reduced unemployment and poverty. Moreover, local enterprises with successful business and marketing strategies attract both national and international customers, and consequently generate revenues that bring in money to the SMEs themselves, to other local businesses, and to the community in general. Therefore, provided they are equipped with financial resources, technological resources, and have the full support of government, SMEs' cooperation and success benefits all of society.

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5

EU Public Procurement: The SME Perspective

Antonios Maniatis

5.1 Introduction

The fundamental principle of capitalism, consisting of the freedom to create and operate enterprises on the basis of private economic initiative, is conducive to markets with a few mainstreaming providers of goods and services. In this framework, small and medium-sized enterprises (SMEs) are usually limited to a secondary role and are eventually submitted to the influence of a big company. Besides, the European Union (EU) has enacted a role of major importance in various fields of public economic law. It would be interesting to focus on EU law on public procurement in correlation with SMEs. According to the 2003 recommendation of the European Commission, concerning the definition of micro, small and medium-sized enterprises, SMEs 'are enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43

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A. Thrassou et al. (eds.), *The Changing Role of SMEs in Global Business*, Palgrave Studies in Cross-disciplinary Business Research, In Association with EuroMed Academy of Business, https://doi.org/10.1007/978-3-030-45831-7_5

million'. Recently, the doctrine concluded that the time for wholesale review of SME policies is ripe (Nicholas and Fruhmann 2014). Anyway, the EU has attempted to bring together state procurement and conventional players of the market, such as private companies of minor impact, by introducing rules on the matter. The perspective of SMEs is related not only to private clients but also to public carriers, on the basis of this normativity. However, criticism has been raised as to the capability of these enterprises to produce innovation within public procurement. The literature provides ambiguous support for the general claim that SMEs should be more innovative than larger firms (Rolfstam 2018).

The current analysis focuses on various aspects of public contracting in Spain, the country being a Protagonist in transgression of EU law. In spite of its pro-European stance, this state ranks first in cases of non-compliance with European law. These cases are related to both the pre-judicial phase and the judicial one, before the European Court of Justice. For instance, from 2007 and on, Spain has constantly been the second country or usually the first one as to cases of infringement of Community normativity on the environment. In a similar way, it is the Protagonist in terms of non-conformity to EU public procurement standards, which are set by the Commission and are based on relevant EU directives. These indicators show how different EU countries are performing on key aspects of public procurement, and, although they provide only a simplified picture, they still highlight basic aspects of countries' procurement markets (European Commission 2019). For instance, among the 12 indicators, indicator [7], entitled 'SME contractors', measures how many contractors are SMEs whilst indicator [8], consisting of 'SME bids', measures the proportion of bids from SMEs. It is notable that low percentages of these bids are interpreted as indicating barriers preventing smaller firms from participating in public procurement procedures (e.g. red tape, etc.) (European Commission 2019).

The current analysis focuses on competition among enterprises, due to the fact that public contracting is intrinsically related to free competition of potential contractors, to promote public interest. The vertical dimension of this complex phenomenon is particularly analysed from a legal point of view. The analysis goes on with a general overview of the normativity coming from EU, on public procurement, given that producing rules on the matter has been a process related to various stages and specialised legal texts. Furthermore, it highlights the strategic character of the current set of norms, due to which public contracting has been interconnected with wider policies and scopes.

In a parallel way, it presents some aspects of Directive (EU) 2015/2302 on package tourism, in correlation with public procurement normativity, as the EU has a steady focus on socioeconomic and ecological priorities. Besides, it refers to a national case, as far as the relation between Spanish law on public procurement and SMEs is concerned. In addition, it analyses a specific case of new normativity, which consists of the principle of division of the object of contracts into lots. Subsequently, it refers to the content of special conditions on execution of public procurement in Spain, to highlight the strategic character of current rules on the matter. Finally, it ends with some critical remarks on EU public procurement, particularly in correlation with SMEs.

5.2 Competition and Law

As far as the economic analysis of law is concerned, it boosts social relations and corrects a lot of perverse effects of protectionist regulations (Vogel 2004). The case of competition law has demonstrated that efficiency could not be the unique objective of legal rules whilst this remark is valid, a fortiori, for the other fields of law, such as energy law. It is also notable that this branch shares, along with competition law, a particular profile, which has been denominated 'soft law' (Meilhaud 2011). Restraints on competition that are called vertical—between operators at different levels of the economic process—after having been condemned almost as severely as horizontal restraints, have been considered procompetitive since a long time in many various cases (Vogel 2004). The instability of the economic theory of law, exemplified by the approach to the vertical version of competition, has made the law react. Indeed, law has been adapted to these data by adopting, in the field of competition, rules that are very general (more general than elsewhere), by placing a role (broader than elsewhere) to jurisprudence and by making use (more frequent than elsewhere) of 'soft law' (Vogel 2004).

As mentioned, in private law there have been important developments, particularly on the basis of EU law whilst the Commission plays a mainstreaming role in the field of competition. The doctrine has characterised the mission of the Commission in certain domains as a 'super-regulator's role' (Colson and Idoux 2016). This mission of informal superiority is exemplified by the field of competition law or by rules on the opening of competition in some sectors, such as the domain of electronic communications. Thus, the French independent administrative authority 'Authority of regulation of electronic communications, posts and distribution of press (Arcep)' has to notify to the Commission its draft decisions on the analysis of suitable markets for the telecommunications sector. The executive institution of Brussels is endowed with a veto right over the definition of these markets and the designation of powerful operators.

5.3 The Fourth Generation of EU Public Procurement Law

The EU has shaped a new branch of law on the pre-contractual phase of public contracts of works, supplies and services. No later than April 2016, its Member States should have achieved the full transposition of the following legislative acts:

a. *Directive 23/2014/EU on concessions*

This text, officially entitled 'Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts', constitutes an authentic novelty, as for the first time there is a separate set of rules on concessions, at least for services concessions. As specified by Whereas (4) of the Preamble, the award of public works concessions was till the adoption of this directive subject to the basic rules of Directive 2004/18/EC of the European Parliament and of the Council, belonging to the third generation of EU rules on public contracting. In a parallel way, the award of services concessions with a cross-border interest was merely subject to the principles of the Treaty on the Functioning of the European Union (TFEU), and in particular the principles of free movement of goods, freedom of establishment and freedom to provide services, as well as to the principles deriving therefrom such as equal treatment, non-discrimination, mutual recognition, proportionality and transparency.

b. *General Directive 24/2014/EU*

It is about 'Directive 2014/24/EU of the European Parliament and the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC'. In other words, this text involves a mainstreaming set of rules, applicable in contracts of conventional type, being different from the abovementioned specific case of concessions.

c. *Sectorial Directive 25/2014/EU*

The general directive coexists with a specialised one, officially entitled 'Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC'. According to Whereas (1), in light of the results of the Commission staff working paper of 27 June 2011 entitled 'Evaluation Report—Impact and Effectiveness of EU Public Procurement Legislation', it appears appropriate to maintain rules on procurement by entities operating in the water, energy, transport and postal services sectors, since national authorities continue to be able to influence the behaviour of those entities, including participation in their capital and representation in the entities' administrative, managerial or supervisory bodies. Another reason to continue to regulate procurement in those sectors is the closed nature of the markets in which the entities in those sectors operate, due to the existence of special or exclusive rights granted by the Member States concerning the supply to, provision or operation of networks for providing the service concerned. In other words, according to the EU there is an important tradition of public monopolies, exemplified by the world tendency to award the water supply to municipalities and, as a general rule, to municipal enterprises operating without any competition. It is also implied that public opinion is particularly sensitive in these sectors whereas the most sensitive domain has proven to be the hydraulic one. So, the EU in the framework of the fourth generation continues to have two different directives on public contracting, as occurred with the general Directive 2004/18/EC and Directive 2004/17/EC, known as the 'utilities' directive or the directive on excluded sectors.

The chain of directives on utilities constitutes a rather legal curiosum, as the EU tends to create specific norms on various aspects of public contracting, like in the aforementioned case of concessions. It results, in a way, in an 'aristocratic' legislative technique (utilities, concessions) instead of a coherent, unique set of rules, far beyond the ideal standard of codification. Besides, the tripartite form of the fourth generation is conducive to unexpected side effects, such as the lack in transcription of at least one of the directives on the matter, per national legal order. This has happened in Spain, which has been deprived of transcription of the sectorial directive.

5.4 The Strategic Character of EU Public Procurement Law

The fourth generation has converted public contracting into a tool to exercise political strategy (Adjuntament de Barcelona 2017), related to the neologism 'strategic contracting'. In the Commission's guide on social aspects of public contracting, of October 2010, new guidelines are introduced for the incorporation into public procurement, of social aspects. This form of contracting is called 'responsible public procurement' and includes 'social public purchase' and 'green and ethical purchase'. In a similar way, the document 'Europe 2020: A strategy for smart, sustainable and inclusive growth', of 3.3.2010, has previewed for Europe in 2020 the following three mutually reinforcing priorities:

Smart growth—developing an economy based on knowledge and innovation.
Sustainable growth—promoting a more resource-efficient, greener and more competitive economy.
Inclusive growth—fostering a high-employment economy delivering economic, social and territorial cohesion.

In this context, modern technologies (innovative priority) are combined with sustainable development (environmental priority) and inclusive growth (priority consisting of inclusiveness or social priority). So, the new model of strategic public contracting was born. It is notable that the Commission adopted a staff working document, of 25.6.2008, entitled 'European Code on Best Practices Facilitating Access by SMEs to Public Procurement Contracts'. It is about an indicative text of Commission services and cannot be considered binding to this institution. According to it, e-procurement promotes competition, as it allows easier access to the relevant information on business opportunities (Commission of the European Communities 2008). It adds that it may be particularly helpful to SMEs by enabling cheap and quick communication, for example, downloading the contract documents and any supplementary documents without incurring copying or mailing costs whilst SMEs usually do not have large or specialised administrative capacities that are well-acquainted with public procurement language and procedures. It also indicates that while it is possible in all EU countries to search for contract notices via web portals, in many of them the number of such web portals being used by the government and by regional and local authorities makes it difficult for tenderers to maintain an overview.

On account of this remark, it is notable that the relevant third generation of directives was marked by a problem of major importance, consisting of the provision of a wide discretional power of Public Administration on the use of electronic media in the pre-contractual phase. The institutionalisation of this form of competence allowed very limited use of new technologies in the countries involved. As a result, the generalised modernisation that occurred through the introduction of Community normativity should be completed by a new set of rules.

The objective to encourage SMEs as potential contractors is very clear in the fourth generation. For instance, according to Whereas (124) of the general directive, 'Given the potential of SMEs for job creation, growth and innovation it is important to encourage their participation in public procurement, both through appropriate provisions in this Directive as well as through initiatives at the national level'. SMEs constitute the widest sector and are considered by all EU organs as the backbone of

European economy (Fernández Ecker 2018). They constitute the overwhelming majority of enterprises in the EU but they do not manage to be awarded even one-third of public contracting.

Last but not the least, the strategic character of public procurement is promoted by reserved contracts. According to Article 77 of the general directive, Member States may provide that contracting authorities may reserve the right for organisations to participate in procedures for the award of public contracts exclusively for those health, social and cultural services referred to in Article 74. For instance, in Spain reserved contracts sometimes correspond to only one bidder, which is likely to be an organisation employing disabled persons by at least 33%.

This new form of contracts has raised criticism, arguing that it is about an anti-competitive legally tolerated way of advantaging certain service providers in the award of public contracts.

5.5 Aspects of Directive (EU) 2015/2302 on Package Tourism

In many aspects there is an interconnection between the priorities previewed by the document on Europe 2020. Indeed, the adoption of electronic media in the pre-contractual phase promotes the protection of environmental goods, through the dematerialisation of the requested documents. An approach to economic affairs exempted from papers constitutes a wider concern of the EU, as is the case of Directive (EU) 2015/2302 on package travel and linked travel arrangements, which replaced the first directive on the matter, 90/314/EEC.

First of all, it is notable that what is particular to the tourism market is that it is the only economic sector in which concentration is made by third parties, namely, the tour operators (Maniatis 2019). Tourism has undergone a huge evolution, from 'mass tourism' from 1950 and on in Europe to 'personalised tourism', in the sense that each individual wants his or her trip. The traditional 'value chain' consisting of 'tour operators–travel agencies – carriers and hoteliers' has become outdated recently.

What goes up is the trip booked with the provider; the package travel is down (Maniatis 2019).

Article 2 of the aforementioned directive previews that this 'Directive applies to packages offered for sale or sold by traders to travellers and to linked travel arrangements facilitated by traders for travellers'. It is about a text that is clearly protectionist of the contracting party which is considered as weak. In this sense, juridical protection is granted not only to the 'traveller' (conceived of as a 'consumer' upon other EU legal texts) but also to the persons representing the community of small enterprises and professionals that make a reservation of travels related to their commerce or profession as long as they do not organise their travels on the basis of a general convention. However, the directive is not targeted uniquely towards tourists, the subjective scope is extended by including active travellers, that is, including at the request of or in accordance with the selection of travellers involved. Besides, the notion of 'trader' is the following: 'any natural person or any legal person, irrespective of whether privately or publicly owned, who is acting, including through any other person acting in his name or on his behalf, for purposes relating to his trade, business, craft or profession in relation to contracts covered by this Directive, whether acting in the capacity of organiser, retailer, trader facilitating a linked travel arrangement or as a travel service provider'.

The concept is that vertical relations constitute a very common phenomenon, particularly in relation to airline companies. If previously those alliances between enterprises coming from different markets were held as very dangerous for the freedom of competition, the modern approach proves to be friendly, as already indicated. The subsequent removing of legal barriers is plausible, but it should be combined by the introduction of new rules in favour of the private individual who is the consumer of an informal block of companies offering complementary services. It follows that the EU has contributed to the modernisation not only of competition law but also of a newer branch, the consumer protection law, which partly coincides with tourism law, namely, as long as travellers undertake journeys for tourism purposes.

Another aspect of the directive on the matter focuses on professionals, who are facilitated in their activity. For instance, it offers modern instruments for information obligations, which are no longer based exclusively on travel brochures. Traders, exemplified by SMEs, are exempt from the duty of reprinting brochures, and that is why they could save 390 million euros a year. The abolition of this obligation is beneficial for traders whilst travellers experience no deterioration of their legal status, as they can make use of the Internet to find out about marketed benefits. Additionally, avoiding the use of paper indicates respect for the environment whilst the use of paper constitutes one of the subjects of major interest in the matter of public contracting, with recycled paper being a priority.

The directives of the fourth generation aim at enabling buyers to make better use of public procurement, in support of common social objectives, such as environmental protection, greater energy efficiency and resource use, the fight against climate change, the promotion of innovation, employment and social integration and the provision of high-quality social services in the best possible conditions (Moreno Molina 2016). In this sense, they are similar to the new EU policy in the matter of tourism on the basis of the Treaty of Lisbon (Villanueva Cuevas 2012). It is obvious that tourism is one of the sectors that have undergone major transformations in the digital era and, as a result, the second generation of normativity on package tourism, namely, Directive (EU) 2015/2302, has many features in common with the fourth generation of directives on public procurement, in both social and environmental terms.

5.6 The Spanish Law on Public Procurement and SMEs

Although with an important delay, the Spanish legal order is endowed with a single law for the transcription of directives of the fourth generation, with the exception of special directive, as already mentioned. It is about Law 9/2017 on Contracts of Public Sector, which was adopted on 8 November and entered into force on 9 March 2018. The strategic vision, which appeared somewhat diluted within the text initially sent to the Congress of Deputies, has been converted into the principal axe of contracting (Gimeno Feliú 2018). The strategic identity of public contracting moves towards a vision closer to the consideration of the public contract as an investment and not as an expense. This development overcomes the traditional application of public tender procedures in Spain, which is marked not only by bureaucracy but also by an approach being too attached to economic standards (Gimeno Feliú 2018).

According to Article 1.3.1, 'In any public procurement, social and environmental criteria will be incorporated transversally and prescriptively as long as it is related to the object of the contract, in the conviction that its inclusion provides a better value for money in the contractual provision, as well as greater and better efficiency in the use of public funds'.

Furthermore, Article 1.3.2 is an opening to the entrepreneurial world having essentially a relatively small size. It previews that '*equally, access of small and medium-sized enterprises, as well as of social economy enterprises, to public procurement will be facilitated*'. All these dispositions indicate a clear 'innovation' with regard to the practical understanding of public contracting, renouncing a formal and excessively economic bureaucratic philosophy to incorporate, in a mandatory way, the strategic vision (Gimeno Feliú 2018). In this way, a budgetary vision is abandoned for public contracting, which is reoriented to a perspective relevant to the implementation of public policies, such as the labour one (Gimeno Feliú 2018).

Besides, according to the statements of reasons of the law, one of the legislative objectives consists of the simplification of procedures. The bidding process should be simpler, with the idea of reducing the administrative burdens of all the economic operators involved in this area, thus benefitting both bidders and contracting bodies. If this declaration of intentions is plausible, criticism has been raised, given that the law is far from having achieved a genuine simplification of the requested procedures. The normativity has been characterised inter alia as incomprehensible for any SME (Martínez Fernández 2018). The fourth generation of directives previews the use of the European Single Procurement Document (ESPD), whose completion is not considered to be simple for a SME (Martínez Fernández 2018), although this document seems substitutable for a 'responsible declaration' in the model that is included in the specifications. Indeed, the incorporation of the general rule consisting of the 'responsible declaration' as a simplification measure favours the participation of SMEs (Gimeno Feliú 2018).

5.7 The Principle of Division into Lots

Spanish normativity includes measures in favour of SMEs, comprising solutions suggested in the European Code on Best Practices Facilitating Access by SMEs to Public Procurement Contracts. According to this Code, the sub-division of public purchases into lots clearly facilitates access by SMEs, both quantitatively (the size of the lots may better correspond to the productive capacity of the SME) and qualitatively (the content of the lots may correspond more closely to the specialised sector of the SME). Further opening the way for SMEs to participate broadens competition, which is beneficial for the contracting authorities, provided that this is appropriate and feasible in light of the respective works, supplies and services concerned (Commission of the European Communities 2008). Directive 2014/24 establishes the principle of the division of the object of contracts into lots and Whereas (78) cites that contracting authorities should be encouraged to make use of the aforementioned Code, providing guidance on how they may apply the public procurement framework in a way that facilitates SME participation. It is also added that 'the contracting authority should have a duty to consider the appropriateness of dividing contracts into lots while remaining free to decide autonomously on the basis of any reason it deems relevant, without being subject to administrative or judicial supervision'. This mention blocking eventual administrative or legal (jurisdictional) control is very important, but it has not been incorporated either in Article 46 of the main text of this directive or obviously in Spanish law and therefore it has raised criticism (Santiago Fernández 2018).

Nowadays, what was once an exception has become a general rule, involving the division of the object of the contract into lots. The fundamental rule that was used before the adoption of the current law has been reversed, so that, only if a contract is not divided, a motivation is required (Gimeno Feliú 2018). This measure has been characterised as the most effective one for the real possibility of SMEs to take part in public contracting tenders, thanks to the adequacy of solvency requirements (or classification) to the amount and characteristic of each lot (Martínez Fernández 2018). The problem of the very big size of the object of public contracts had been aggravated in Spain, before the transcription of the new general directive, as the competent authorities had usually tended to bring contracts to the maximum legally stipulated term, against the established rule of the national legislation that these terms can only be reached when it is essential to amortise the necessary investments (Martínez Fernández 2016).

Criticism has been raised on the fact that the general rule consisting of the division into lots has been adopted in combination with various exceptions, which are held as too generic (Martínez Fernández 2018). It will therefore remain in the hands of each contracting authority to adopt a more or less active position to achieve the desirable objective of SMEs receiving a greater number of public contracts (Martínez Fernández 2018). Furthermore, the law regulates the possibility of submitting an inclusive offer for different lots whilst the number of lots may be limited.

5.8 Special Conditions on Execution of Public Procurement in Spanish Law

Article 201 of Law 9/2017, entitled 'Obligations in environmental, social or labour matters', previews that contracting organs must take the appropriate measures to guarantee that in the execution of contracts contractors fulfil the applicable obligations in environmental, social or labour matters established in the EU law, national law, collective agreements or by the provisions of international environmental, social and labour law that link to the state and in particular those established in Annex V, entitled 'List of international agreements in the social and environmental field referred to in article 201'. This list has to do mainly with some agreements of the International Labour Organization on labour matters and also with other international agreements in environmental matters.

Furthermore, Article 202 previews in line with Article 1.3 the obligation to establish in the specifications of administrative clauses at least one special condition on execution among the conditions which may refer to economic considerations, relating to innovation, of the environmental type or of the social type (employment-related). The doctrine has characterised this obligatory character as a very noteworthy issue (Pintos Santiago 2018). Nevertheless, it is about a problematic formulation, which is not clear enough, at least as for the question whether the legislator has previewed four groups of conditions (economy, innovation, environment and employment) or only three (innovation, environment and employment). Although neither the doctrine nor Public Administration seems to have shed light on this issue, we consider that it is about four separate groups, in spite of the fact that the aforementioned document on Europe 2020 focuses on three priorities which coincide with the triptych on the matter.

As far as the environmental alternative is concerned, the following considerations of ecological type are mentioned:

a. *Reduction in greenhouse emissions*

The inclusion of this condition has been dictated by the current status of affairs, given that climate change constitutes a threat to the planet. It results that it is about an authentic 'priority' of major importance, against the rest environmental conditions, which contributes to the accomplishment of the central objective of Law 2/2011, of 4th March, on Sustainable Economy. It is notable that the preamble of this national law makes reference to the 'priority' granted to the promotion of activities related to clean forms of energy and to energy saving.

b. *Maintenance or improvement of environmental values that may be affected by the performance of the contract*

The contractor could be obliged, in a contractual way, to compensate for damage to environmental goods. It is remarkable that a maximalist potential approach is adopted, since it is not about merely an application of the principle of environmental sustainability (in the sense of 'maintenance') but a dynamic version of the same principle (in the form of an 'improvement'), which could be applied eventually by providing incentives to the contractor. Anyway, it is to highlight that environmental law is a priority over public procurement law, given that both the execution of technical works and, in some cases, the delivery of services are subject to a previous administrative act consisting of the approval of environmental conditions. Consequently, public procurement law must not only abide by environmental normativity, including this act, but it must also be endowed with its own normativity, aiming at the promotion of environmental objectives that are existent in the framework of environmental law.

c. *A more sustainable management of water*

It is about one of the most inspired dispositions of this law, belonging to a national legal order, whose icon involves the branch of water law. This water-based condition implies the existence of the universal human right to water (Maniatis 2018b). People's water supply constitutes a priority use whilst a lot of water is consumed in the framework of other uses, such as industrial use and irrigation.

d. *Promotion of renewable energy*

The most important form of renewable energy is solar energy, whose priority is previewed in the field of buildings energy efficiency law, without disregarding other forms, such as the water-based ones (Maniatis 2018a).

e. *Promotion of product recycling and use of reusable packaging*

The EU emphasises measures based on circular economy whilst Spain promotes the same model.

f. *Impulse to deliver bulk products and ecologic production*

Bulk delivery has a favourable impact on the environment, since it allows many containers and packaging to be reduced. A large percentage of the plastic that is generated worldwide is for packaging. In addition, buying in bulk, in neighbourhood markets and stores, favours small businesses. The SME is of major importance and, due to its small size, it has to face restrictions and conditions in different areas of activity. So, administrative action in order to alleviate these disadvantages is justified (Fernández Ecker 2018).

Besides, the same article includes an extended indicative list of potential special conditions of the social type (or employment-related). Among all these conditions, the last one uniquely seems to have a relation with SMEs. It aims at guaranteeing respect for basic labour rights throughout the production chain, by demanding compliance with the fundamental Conventions of the International Labour Organization, including those considerations that seek to favour small productors of developing countries, with whom favourable commercial relations are maintained. The considerations on the matter are exemplified by payment of a minimum price and a premium to producers or by greater transparency and traceability of the entire commercial chain.

5.9 Conclusion

The current analysis ends with the following final remarks:

a. *Promotion and digitalisation of the competition*

The fourth generation of directives emerged to enhance competition, particularly through electronic media. The discretional power granted to the competent authorities was replaced by their obligation to make use of digital mechanisms. Therefore, SMEs have no choice but to become accustomed to this new form of procedures, which anyway is intrinsic to the current era.

b. *Alteration of the competition for certain services*

However, competition has been partly altered, as is the case with the novelty of 'reserved contracts' for certain services, such as health. Indeed, the potential introduction of this form of contracts limits in a considerable way the eventuality of competition. This novelty, which is already in extended use, could be characterised as emblematic of the strategic character of public procurement. Criticism has been raised that strategic contracting to a great extent alters the principle of freedom of competition.

c. *Adaptability of SMEs to environmental objectives*

Anyway, it is notable that the priorities of Europe 2020 are interconnected; for instance, this is the case of environmental sustainability and social cohesion. Some ecological objectives may be partly connected with the promotion of SMEs, which are said to be particularly friendly to the environment. SMEs do not contribute merely to ecological targets but also to economic democracy although it is doubtful whether they can offer innovation to public contractors more than larger firms can.

d. *Extrajudicial dispute resolution mechanisms particularly promoting SMEs*

The new wave of normativity on public procurement needs not only simplification and comprehensibility but also flexible and fast mechanisms on the basis of the principle of rule of law. This modern approach to the pre-contractual stage is not imposed by EU law but by public interest itself. This is the case with Greece, which from 2017 and on has been endowed with an independent administrative authority on the matter, the 'Authority for the Examination of Prejudicial Recourses'. Obviously, this extrajudicial dispute resolution mechanism is useful mainly for SMEs, for which it would be difficult to make use of human and financial resources for protracted judicial litigation in the matter of their participation in public procurement tenders. Obviously, this Greek novelty could be adopted in other legal orders, if not imposed by further EU normativity.

To conclude, we note that special attention to SMEs in the context of public contracting was inexistent before the fourth generation of directives. However, their participation was rather limited whilst new trends were related mainly to big companies, as was the case with Public-Private Partnership (PPP). Actually, SMEs are drastically encouraged to participate in public procurement tenders, through various modern principles and mechanisms that favour them, either directly or indirectly (e.g. the principle of division into lots, the use of the 'responsible declaration' as a simplification measure, etc.). The public sector, including specialised independent administrative authorities, has been orientated to promote the interests of SMEs, whose role could be conducive to the success of the model of sustainable development. This model constitutes a world trend, particularly in reference to the 2030 Agenda for Sustainable Development, which was adopted by the United Nations General Assembly in 2015. Thus, the active involvement of SMEs is an important challenge for the future.

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6

The Impact of Economic Austerity Measures on Corporate Performance: The Case of an SME-Dominated Construction Industry

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6.1 Introduction

The financial crisis originated from the US, with the so-called subprime crisis, resulting in turbulence of global markets, with spillover effects across the globe that still endure. As Europe was no exception, the most fragile Southern countries have been more negatively impacted. Like Greece, Portugal was forced to ask for external financial aid, from the

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European Commission-European Commercial Bank-International Monetary Fund (EC-ECB-IMF) so-called "Troika". Subsequently, Europe and inevitably Portugal would eventually be hit and suffer many consequences due to this financial crisis. Since this sovereign debt crisis, "policy makers from a large number of countries have had to take into account the rapid changes in the yields of their national bonds when making decisions. This development has limited the room for manoeuvre of those decision makers as they feel pressured to act in ways that (they think) would reassure investors" (Moury and Standring 2017: 660). In fact, as a result of the huge turbulence of global markets, Portugal (unable to come out of the crisis in which it was involved) sees the need to obtain external help from the "Troika".

As stated by Balaban (2012), the relationship between the construction sector and the economy is highly discussed and emphasized in the literature. The construction sector is usually accepted as the engine that triggers economic growth due to its strong backward and forward linkages with other sectors. The impact of global financial crisis periods on the construction sector inspired several researchers (San and Heng 2011; Al-Malkawi and Pillai 2013; Kapelko et al. 2014; Acosta-González et al. 2019; Olanipekun and Saka 2019). Indeed, as mentioned by Heo and Yang (2014: 495), "construction companies are highly sensitive to economic cycles and bankruptcy rapidly increases in an economic downturn". Besides, because the construction industry requires high leverage, when these companies face financial problems it will affect the overall system, increasing unemployment and burdening the creditor institutions. Thus, just like Kapelko, Horta, Camanho and Lansink (2015) argue, we do think that an in-depth evaluation of productivity change in the national construction industry is particularly important to support

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firms in the definition of successful strategies in order to prosper in the long run, boosting the Portuguese economy.

This book chapter aims to analyse the performance of the small and medium enterprises (SMEs) from the civil construction sector, between the years 2010 and 2014, during the time in which the Troika was present in Portugal, imposing a series of reforms and policies to combat the crisis. The Sabi database, managed by the Bureau van Dijk, offers financial information about Portuguese and Spanish companies and is the data source this study. This dataset contains the financial accounts of Portuguese companies. Based on financial ratios, we analyse the performance of Portuguese companies operating in construction. The book chapter proceeds with the next section presenting background information on the Troika policy for Portugal. This is followed by a presentation of the methodological procedures. The subsequent sections describe and discuss the results. The final section offers concluding comments and identifies some future research opportunities.

6.2 Troika's Permanence Period

Contrary to all expectations from the financial markets, a financial crisis in the US began in late 2007, which would have repercussions in many countries and in the most varied latitudes caused by the bursting of a huge real estate bubble in the US, resulting from the excessive optimism experienced by the banking system and its lack of regulation. However, this crisis would bring with it a huge lack of confidence from global investors, dragging the entire banking system into financial collapse. It was found that there was a reduction in the amount of loans and financing needed to stimulate the economy, also a consequence of the contractionary policies of the financial system aimed at reducing risk exposure as the crisis spread. The problem is that this crisis would not be limited to the country itself (US), as it would eventually have repercussions around the world.

Portugal was one of the countries that was still very fragile and with a high public debt to be able to mitigate the effects of the financial crisis to which it was dragged, but this situation would worsen further with the successive cuts in public debt rating, increasing the difficulties in issuing new debt and obtaining loans. Thus, countries such as Portugal and Greece were forced to resort to foreign aid because of their inability and conditions to access international markets to finance themselves. Given the above circumstances, Portugal had only one solution which was to obtain aid from the European Union, the European Central Bank (ECB) and the International Monetary Fund (IMF). The country would then be funded by 78 billion euros, of which 12 billion would go to the bank. However, within this entity there was never a great consensus in the decisions made. In fact, it has often been realized that there were opinions and clashes of ideas among its members, essentially the result of their conflicting objectives, each of whom supporting the ones which they would give more importance. Essentially these entities said that the problem was based on a budgetary issue and therefore wanted at all costs to show commitment and budgetary determination, without looking at costs or consequences.

Jorge (2014) states that the main European entities wanted only a short-term rapid recovery, based on a programme of cuts after cuts (austerity) and without the slightest concern about the adverse effects that these measures could drag. Overly optimistic thinking about the crisis has caused Portugal and other countries to be completely suffocated by the austerity measures implemented in their own country, but also measures widely implemented throughout the Eurozone. Nonetheless, it would be the Troika that, together with the government in office, would present the adjustment plan in force between 2011 and 2014. This programme was composed of a set of measures and reforms that would have to be implemented in order to obtain a reconstruction of the economy, aimed at reducing the budget deficit. In essence, a counterpart for the financial support that the Portuguese government used, pledging to maintain an austerity plan, forced an increased and vigorous sacrifice to the entire Portuguese population.

The adjustment plan presented to the Portuguese was essentially based on three fundamental axes:

1. Reduction of budget deficit and public debt
2. Planning and scheduling of structural reforms (justice, labour market, leasing, etc.)
3. Reduction in the high indebtedness and stability of the financial system (restructuring and recapitalization of banks with public funds)

According to Martins (2016), the adjustment process applied to Portugal was in fact quite rigid, implying severe costs to the Portuguese economy and society, with the objective of correcting the large macroeconomic imbalances, but very important for Portugal to reach its commitments towards the markets by providing specific guidance in the implementation and drafting of the State Budget and its control. Over the four years of the Troika's stay in Portugal, the country would eventually multiply wage cuts and social benefits in contrast to a general rise in taxes. These measures had as their main objectives the reduction of public deficit and debt, as well as economic recovery as provided for by the adjustment plan. At the time, this austerity policy was seen as the only solution to the problem and fundamental to circumvent the whole situation in which the country was found in. However, a few years after the implementation of all these measures and policies (memorandum) it was apparent that something did not go as planned and therefore failed, as the deficit reduction targets were successively postponed and public debt was becoming increasingly unsustainable.

Evidence that these austerity measures were not always correct is verified by the numerous times that the outlined budget control plan had to be corrected. For Cunha (2012: 10), "1/5 of Portuguese families were affected by unemployment". The author also talks about a series of measures/cuts that the Portuguese and their families were forced to make in their households. On 17 May 2014, Troika's four-year stay in Portugal ended, during which period a series of structural reforms were implemented, assumed to be necessary to replace the balanced public accounts and prevent a financial collapse, but it actually had profound consequences for the majority of Portuguese society. Over this period, we witnessed a steady growth in the unemployment rate and a fragile and unsustainable public financial system, favouring a climate of fear and insecurity throughout the whole social and economic system. The lack of motivation of workers was widespread, resulting from the constant reductions in labour rights and rising unemployment that led to the insolvency of several indebted families.

Portugal was a country with great productive weaknesses, unbalanced and subordinate to other economies, inserted in an external institutional context that removed all internal room for maneuverer, unable to react or pursue independently. The great difficulties that Portugal was experiencing were the result of the requirements of the outlined plan, based on incorrect studies that strongly contributed to the failure of the results. This was duly identified realizing that the intended effects of the austerity policies failed as the economy was not reacting as initially intended. Between 2011 and 2013 the fall in Portuguese GDP (Gross Domestic Product) was 7%, along with a sharp fall in internal demand (caused mainly by the loss of households' purchasing power), an aggravation of social inequalities, an increase in the number of workers with lower incomes and elimination of many job posts, as well as a huge reduction in household disposable income as a result of tax increases, unemployment, precarious wages and increased indebtedness.

According to Jorge (2014), the IMF (International Monetary Fund) recognizes that some strategies and studies that underpinned the implementation of measures and the adjustment plan were poorly delineated, considering the difficulties and impacts that Portugal and other countries receiving aid could have been minimized, thus avoiding an abrupt increase in the level of austerity that these countries had to endure. Regarding the Portuguese case, there were two major fundamental errors recognized by the Troika that were closely linked to the formulation basis of the adjustment plan outlined for the country. The first is related to the calculation formula of the so-called Budget Multipliers, while the other is related to the public debt/GDP ratio. Baranzini and Allisson (2016) report that these findings are consistent with research and investigations which suggest that in an environment of substantial economic austerity, and a monetary policy of contraction and generalized by countless economies, tax multipliers may well be above the values observed in "normal" seasons. Also, Jorge (2014: 32) reports that "in these cases, the cut implies a much larger reduction of the GDP, because the economy reacts more: The population, besides losing purchasing power, saves more, reducing consumption aggressively; companies adjust to all this demand shock by cutting investment and opt to job redundancy; and banks scared of the situation, begin to cut credit. This is what happened in Portugal and the Eurozone".

Alesina and Ardagna (2012: 2) state that "with regard to the reduction of large public debts the lesson of history is reasonably optimistic. Large Debt/GDP ratios were reduced relatively quickly followed by sustained growth. This was the case with some belligerent countries' post-World

War II public debt; this was also the case for the US in the 1990s, when, without virtually any increase in tax rates or significant expenditure cuts, it turned a public deficit into a surplus". This decision was also supported by other studies and theses that argued (through historical data) that countries with high public debt (above 90%) would grow less than normal. Reinhart and Rogoff (2010: 1) published studies advocating the widespread choice of austerity, further strengthening decision-making, noting that "firstly, the ratio of government debt to real GDP growth is weak for a debt-to-GDP ratio below 90 percent of GDP. Above 90%, median growth rates fall by one percent, and average growth drops considerably more".

Of course, given these studies presented by leading economists, it has become even more difficult to assert the views of other economists who defended the dangers and risks of short-term fiscal consolidations by applying austerity and budgetary restraint simultaneously. However, design errors were later identified in these studies, as they were found to have gaps in their design, naturally leading to biased conclusions, therefore leading to wrong decisions. Obviously, the "anti-crisis" strategy would have to be implemented; this was absolutely unquestionable by all the entities and economists involved, but it was hypothesized that austerity would have been softer and more coordinated among the various Eurozone countries. Even so, "Troika pressure to pursue coercive strategies vis-à-vis domestic opponents. High costs of no agreement seem to be a necessary means to pass on political and market pressure through coercion" (Lütz et al. 2019: 1).

6.3 Empirical Study

In the previous points we briefly refer to the contours and evolution of the crisis from its inception in 2007 to its contagion to Europe, affecting the most economically unbalanced countries, as was Portugal's case in particular. Given this, countries and sectors of activity present in these countries would have to endure constant political and financial changes, testing their resistance. On the other hand, there are authors who report that in times of crisis there are companies or sectors that can find a business opportunity to grow and thus find advantages over their competitors. Normally, these companies are better prepared, more efficient and with adequate strategic management, making the crisis factor the key to their success (Spielmann and Ross 2011). Others report that in times of crisis such as this, some companies eventually find the great advantage of progressively looking for a strategy that best fits the company (Nabais and Nabais 2011). Notta and Vlachvei (2014) analysed the performance of Greek food manufacturing firms before and during the economic crisis. Their results for that period show that market share, liquidity and leverage have a significant effect on profits and explain profitability differences among the firms. The coefficients of market share obtained in their study prove that even during a crisis firms with large market share and loyal customers are more competitive and profitable. Dengleri et al. (2019) also demonstrated the impact of the general economic crisis on Greek medicine production. Their sustainability analysis showed that some companies had the most favourable course over time, from 2010 to 2016.

With this study we intend to analyse the implications on the main financial and economic indicators of a sample of SMEs from the construction sector, as a result of the measures to which Portugal was subjected with the presence of the Troika.

6.3.1 The Overall Performance of the Construction Industry and the Economy

Magone (2014: 348) classifies the Portuguese economy as a semi-peripheral one, that is, an "economy has consumption patterns that are similar to those of developed economies, however the production structures are closer to those of developing countries in spite of some national business champions that are also internationally active". From the data on the number of companies operating in EU-28, period 2000–2017, in Industry, Construction, Distribution and Accommodation and Restaurants and with 2008 as the reference (index = 100), we find that Construction together with Accommodation and Restaurants were the first to begin recovery and at a superior level (Fig. 6.1).

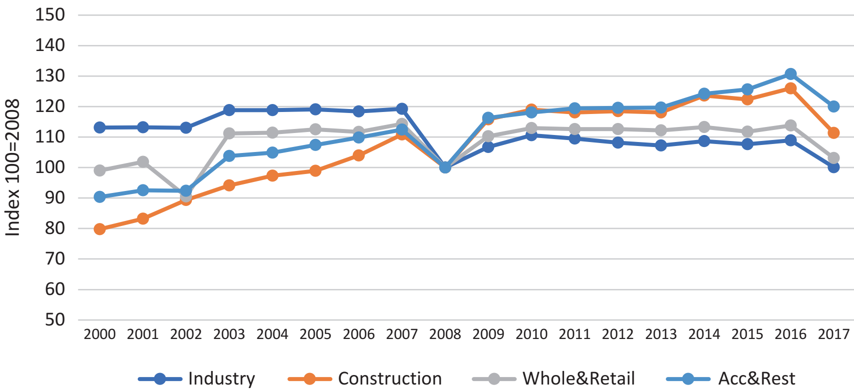

Fig. 6.1 EU-28—No. of companies by activity, 2000–2017. (Source: Authors' calculations for the period 2000–2017 using Eurostat data)

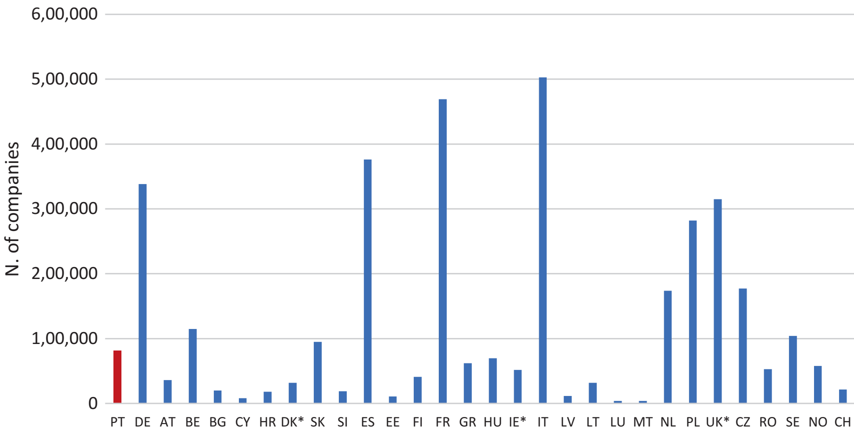

Fig. 6.2 EU-28—No. of construction companies by country (2017, or latest year available. Source: Eurostat data)

In EU-28 there are 3.5 million companies in the construction sector (2017), with a significant weight for Italy (14.4% of the total number), France (13.4%), Spain (10.7%), Germany (9.7%), the UK (9.0%) and Poland (8.0%), followed by the Czech Republic (5.1%), the Netherlands (5.0%), Belgium (3.3%), Sweden (3.0%), Slovakia (2.7%) and Portugal (2.3%). All the other countries have a share equal to or under 2% (Fig. 6.2).

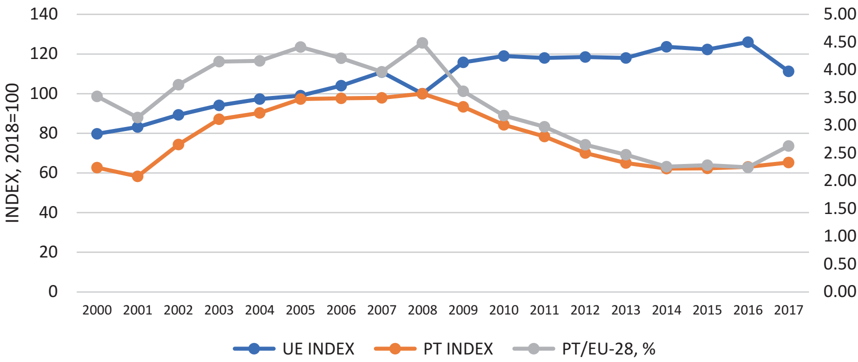

Fig. 6.3 Construction: EU-28 versus Portugal, No. (index) and share (%), 2000–2017

The downturn of the Portuguese construction sector after the beginning of this financial crisis provides a case in point. This business sector experienced specific adjustments during the financial crisis period. On the one hand, there was the internal economic crisis, and on the other were important modifications in bank credit regulations. Comparing Portugal versus EU-28, the post-2008 recovery never took place and the downward trend continued over the following years, where the sovereign debt crisis and public policies played a relevant role (Fig. 6.3).

Until the beginning of the financial crisis, the construction sector in Portugal had been primarily geared towards new construction. More recently, the rehabilitation segment has assumed a greater relative importance in the construction sector. According to Vilhena (2013), between 2001 and 2011 three short-term changes were conducive to boosting rehabilitation:

1) legislative initiatives under the urban rent regime and the legal rehabilitation regime;
2) the financial crisis that made it difficult to access credit for housing purchase and for corporate financing; and
3) the entry of new actors and organizational solutions in the management and promotion of rehabilitation interventions.

6.3.2 Sample Selection

The sample of companies was obtained from the Sabi database for CAE 4120—"Construction of buildings" (residential and non-residential) in which the number of companies that compose it is high, with the provision to export data for 38,656 entities. Subsequently, the data were processed, excluding companies that met the following criteria:

1) They were in a situation such as Acquisition, Dissolution, Legal Closure, Extinction, Insolvency, Liquidation or Temporarily Inactive.
2) Companies active in 2014, but without full information for the years 2010 to 2014.
3) Companies that had for each ratio a deviation from the average of this indicator above three times the standard deviation.

Thus, initially, 22,013 companies were taken from the initial sample. After this stage, companies that did not have the complete information for the entire period under review were withdrawn, removing in this case 6399 companies, and then an additional 682 companies were eliminated due to the fact that they had more than three times the standard deviation from the average sample for each indicator under analysis.

After this step the sample was reduced to 9562 companies; it appears that this sector is mostly made up of SMEs (93.6%), while large companies represent the remainder (6.4%). The final sample consisted of 8950 SMEs. The time period under consideration is justified by the claim to achieve more uniform and broader information. The initial reference year of 2010 is coincident with the adoption of a new set of financial statement standards in Portugal, prepared under the new Accounting Standardization System (SNC), which is aligned with the IASB's GAAP (International Accounting Standards Board's generally accepted accounting principles). Therefore one can assure the comparability of dataset, as financial statements prepared before 2010 were subject to different accounting principles. Furthermore, as the Troika started forcing its austerity measures adoption in 2011, the sample ensures that its impacts can be fully covered. The study of this sector is justified because it was the sector where the global subprime financial crisis began, but also because of its high importance in the Portuguese economic structure. However, this would also be severely penalized throughout the Troika's stay in Portugal, as a result of the various austerity measures implemented, both fiscally and financially.

The consequences mentioned above are firstly denoted by a profound change in banking policies practised in the country, after the realization that the real estate assets that served as security for mortgages were greatly overvalued, and with the awareness of the risks associated with these financial products (mortgages). From here it would be easy to foresee a huge reduction in mortgages, which in turn translated into a huge breakdown of construction projects. Concurrently, the massive tax burden that the Troika and the Portuguese Government have implemented in tandem on real estate and on household income (directly and indirectly), made household financial resources even scarcer. Furthermore, the Government was forced to cut costs, on both spending and investment. Such reduction of public investment led to a massive drop on the construction of public buildings, and other related activities, as maintenance, which, vis-à-vis with the political and financial instability experienced in Portugal by then, resulted in additional negative spillovers, as a sharp decrease on foreign investment, which contributed to reinforce the negative condition for the construction sector, in particular, and, overall, for the whole Portuguese economy. However, this is indeed a sector that is of enormous importance in the national economy. It differs from other sectors of activity in terms of both production and the labour market in that it is associated with an extensive value chain, given its need to draw on a large number of inputs, thus having a significant effect on its upstream and downstream multipliers.

According to an analysis of the construction sector carried out by Banco de Portugal in 2012, the construction sector comprised around 46,000 companies, representing 12% of companies, 7% of turnover and 11% of people employed by non-financial corporations in our country, being the second most important sector with regard to the number of companies (Banco de Portugal 2014). In the same study it is reported that in 2012, both turnover and construction sector operating costs fell sharply (−26%). Accordingly, EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) also decreased (−6%) and the return on equity remained negative (−8%).

6.3.3 Indicators Used for Analysis

Economic ratios or indicators act as a tool that enables us to evaluate the performance or evolution of one or more businesses in a simpler way and based on the various financial statements. According to Farinha (1994: 6), "a ratio is no more than the quotient between two quantities usually extracted directly from the accounting information of a company". Generally, these types of indicators are widely used for economic and financial analysis, firstly because they allow the reduction of a huge number of relevant and constant information from various types of financial information and secondly because they can be obtained relatively quickly, easily and simply with important indicators for top agencies to follow the growth or evolution of companies comparing it to others in the same industry.

According to Gonçalves et al. (2013), it will be important that the observation of these ratios is understood and analysed in conjunction with other ratios, or even other techniques for a better perception of reality, as it can be dangerous to make decisions or conclusions based on indicators only. These should always be seen as a complement to other analytical techniques and not as a sole instrument. In the present study there are fundamental principles of analysis that we will not be able to overcome and that imply some caution in the treatment of data. We refer to principles such as:

- Proportionality (proportional relationship between numerator and denominator)
- Normality (normal distribution of data)

In this case and after extracting the values related to the sectors, the existence of data normality is visible, since there are several asymmetries between the extracted data and the existence of extreme values. Thus, we will use the following economic and financial ratios: Profitability of Sales, Return on Equity, Economic Profitability, Return on Assets, Indebtedness Ratio, General Liquidity Ratio, Solvency and Financial Autonomy. These ratios have been selected taking into account the fact that they are often used in literature for analyses of this kind. It should be noted that in the case of economic ratios, these allow us to analyse purely economic and structural events, allowing us to analyse a company's ability to generate results and pay back invested capital, while financial ratios are related to purely financial and "immediate" events, also enabling us to measure an entity's ability to meet its short-, medium- and long-term commitments. Therefore, economic analysis is directly related to profitability and financial analysis is related to the survival of the company over time.

Silva (2010) states that "there are many ratios that can be calculated, but it is only interesting to calculate those that are of interest for the intended analysis, because only then will they make sense and be useful". Other authors such as Gonçalves et al. (2013: 305) say that "ratios and other indicators do not bring conclusions, but indications. Their importance increases when there are benchmarks for comparing the company's historical values with those of other companies within the same industry". For Laffarga and Mora (1998), the analysis performed by reading ratios always presents some advantages, among them the fact that these indicators are easy to calculate and compare information. However, the conclusions drawn from this kind of analysis should always be viewed in a limited way, essentially because the ratios lack some limitations which, while not invalidating their application, always require a great deal of attention from the reader. Some authors such as Laffarga (1999) and Saias et al. (1998) list among them the following:

- The ratios make it possible to quantify facts and to detect anomalies, but they usually cannot by themselves satisfactorily explain the identified inaccuracies.
- The information obtained from a ratio is minimal. The method assumes the study of the evolution of the same ratio over time and its interconnection with other ratios. For example, the high General Liquidity ratio may represent a situation of strong liquidity (good management) or an excess of non-yielding cash funds (poor management).
- A ratio can evolve positively by improving or worsening one of its components. For example, an increase in the Profitability of Sales ratio may occur due to a decrease in sales volume.

- A positive value ratio (which may at first appear to be the result of a favourable situation) can disguise an unfavourable situation as a result of components with simultaneous negative signals, that is, $-y / -x => 0$.
- Absence of a theory that helps in the selection of variables, in problems related to the distribution of ratios as well as sector and size differences between companies.

6.4 Results Discussion

Over time, the construction sector has had an enormous impact on the Portuguese economy. It is a sector of intensive labour and intensive raw material consumption and it leverages other sectors like commerce and finance. Thus, the construction sector dictates economic cycles. Kapelko et al. (2015: 65) argue that "the construction industry plays a central role in the economy of Iberian countries". Therefore, it is not surprising that, following the 2008 global economic and financial crisis, the construction sectors in both Portugal and Spain faced a period of severe difficulties, resulting in a "slowdown in construction industry activity and the bankruptcy of many construction firms" (Kapelko et al. 2015: 65). Furthermore, as Kapelko et al. (2015) point out, it is important to keep in mind the significance of the construction industry, which accounts for 10% and 7% of Spain and Portugal's GDP, respectively, being also noteworthy that Spanish companies were more severely impacted by the crisis than Portuguese construction firms, as reflected by the higher decrease in the relative output and employment. Nevertheless, such impacts were deeply felt on the later as well, and, therefore, seems obvious to argue that the construction industry in both Iberian economies faced a disastrous crisis.

Through the analysis of Fig. 6.4 we can see that most of the indicators under study show negative trends for the sector, signalling a possible a loss of glow of an industry that was booming before the crisis, and also reflecting the result of the negative conjuncture and anti-debt crisis measures applied to the Portuguese economy. However, in the analysis of indicators, some specific characteristics of this sector should be considered. For example, in the case of the Overall Liquidity ratio, which actually presents an inverse trend to most indicators, these figures may be the result of the crisis in the sector itself; but may well be because of the application of the formula, which may be misleading. The evolution of this ratio is positive during the whole period of 2010-2014, which can be obviously considered to be very much positive. Nevertheless, that favourable condition may be due to the fact that in Portugal the companies were eventually holding higher inventory values and having a higher number of customers on credit, reflecting possible difficulties on sales and a higher risk of non-performing debts. Another indicator that needs some caution in its reading is the return on equity indicator, as there is a large percentage of companies that have negative equity while having negative net results. However, as a result of applying the formula, it will cause the indicators to present a distorted expression of reality. Figure 6.4 illustrates the path taken by this sector during the Troika's years of presence in Portugal better. We realize that the economic situation experienced by Portugal and the anti-crisis measures adopted had a negative influence on the financial and economic indicators of the sector.

As we can observe in greater detail in Fig. 6.4, critical financial ratios have been worsening since 2010, with debt increasing and financial autonomy decreasing, along with declining return on equity, raising questions regarding the survival possibilities of companies in the construction sector.

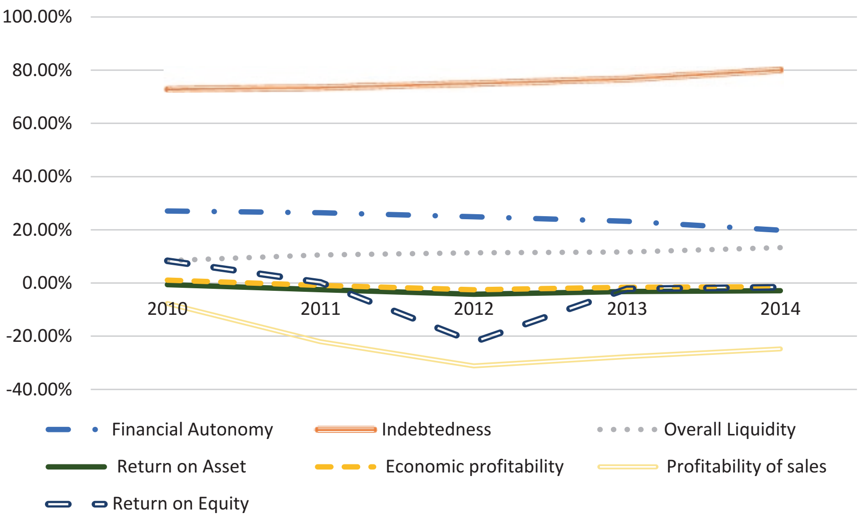

Fig. 6.4 Indicators analysed for the period 2010–2014

6.5 Conclusions

The financial crisis of 2008 triggered a radical change in thinking and policies among various world economies. This crisis marked the resilience of different activities, forcing them to re-shape according to the contingencies, especially in Southern European countries, following the impacts on sovereign debt at the end of 2009.

The construction sector is an economic barometer that reflects the state of the economy. This book chapter analysed the performance of Portuguese SMEs from the civil construction sector, between the years 2010 and 2014, the time during which the Troika was present in Portugal, imposing a series of reforms and policies to combat the crisis. The economic environment experienced by Portugal and the anti-crisis policy adopted had a negative influence on the financial and economic indicators of the sector. Financial ratios have been worsening since 2010, with indebtedness rising and financial autonomy decreasing.

This book chapter contributes to the literature by undertaking an empirical analysis of the overall dynamic of Portuguese SMEs operating in the construction sector during the "Troika" intervention. This research also makes a contribution while suggesting that the global economic environment was indeed quite unfavourable essentially in the years after 2008/2009, given the level of importance and need to give the financial markets stability. This fluctuation in financial markets was evident shortly after the subprime crisis in the US in 2008, with the securitization of high-risk loans to the country's own financial institutions and other institutions such as European and Asian. The problem arose when non-compliance on these credit titles ceased to have the same commercial value forcing financial entities to recognize large losses and, in some cases, even leading to bankruptcy. "Financial instability has hit world economies hard in the last few years. Southern Europe in particular has moved into the eye of the storm with a number of countries requiring massive international assistance to face the onslaught of market pressures over their external ratings and debt borrowing costs" (Gorjão 2012: 64).

Early into the Troika's programme, "the costs of no-agreement were exceptionally high. Portugal was excluded from financial markets and bond yields reached an all-time high in January 2012" (Lütz et al. 2019:

5). Portugal would eventually be severely affected, either by the impact of the world crisis or by the country's internal economic weaknesses or frailty, providing an even greater and deeper shock.

The purpose of this book chapter was to analyse the financial and economic performance of SMEs in the civil construction sector, as a result of some reforms implemented by the country due to Troika's requirements. Through the analysis of the economic and financial ratios of the construction sector during the period 2010–2014, we find that these indicators are quite fragile and with a negative trend. We can say that there is a possibility that the SMEs from the construction sector have been heavily penalized by the austerity policies implemented, given the need for the various financial entities to feel the obligation to readjust their banking policies and, consequently, to reduce the approval of bank loans essential for this type of activity. Thus, we can conclude that the economic environment experienced by Portugal and the anti-crisis policy adopted had a negative influence on the financial and economic indicators of the sector. The existence of a high number of ratios with extreme values made comparison difficult and forced the removal of countless companies from the study. The credibility of any study depends greatly on the quality of the data on which it is based. It is possible that some companies' data may not reflect their economic and financial reality, as the companies were SMEs and most did not have their accounts audited and were not required to do so.

Finally, it is important to recall that the construction sector is commonly accepted as one main engine that triggers economic growth due to its strong backward and forward linkages to other sectors. Therefore, taking this fact into consideration, this book chapter examined the performance of SMEs from the civil construction sector, as SMEs compose the bulk of this industry. Concurrently, having developed this analysis for the years between 2010 and 2014, that is, the period in which the Troika was present in Portugal, imposing a series of reforms and policies to contain the financial crisis, it was possible to find that the economic environment experienced by Portugal, together with the austerity measures adopted, had a negative influence on the financial and economic indicators of the construction industry. Although this finding is unsurprising, it, nevertheless, represents a relevant contribution to the literature, as it measures and provides further details of such impact. This allows us to shed light on the impact of the Troika's austerities measures on an industry that is very dominated by SMEs, which is, furthermore, very socially relevant due to its impacts on employment and household income.

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7

Digital Transformation as a Source of Innovative Growth for Small and Medium Enterprises in Russia

Tatiana Kokuytseva and Oksana Ovchinnikova

7.1 Introduction

Currently, around the world, the digitalization of human life processes has reached its most intense stage, which is manifested primarily in the implementation of public programs for the digital economy development. Since 2017, the Russian Federation has also been implementing the program "The Digital Economy of the Russian Federation" (2017), which is aimed, among other things, at "creating the necessary and sufficient conditions for an institutional and infrastructural development, eliminating barriers and constraints in establishing and (or) developing high-tech businesses". The overall objective of the program is to increase the global competitiveness of the national economy and ensure a technological breakthrough.

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The modern information society is evolving so rapidly that a lag between theoretical, fundamental research and its practical implementation is almost disappearing. Large corporations that cannot afford such a time lag attract small innovative companies to solve specific technological problems as a part of open innovation. This is reshaping the world's general industrial map, demonstrating that the world today is largely composed of SMEs, among which there are companies with a number of different technological trends. Business, especially SME, has a pretty good reaction to changing external environment. Given the strong uncertainty of all processes that currently characterizes all spheres of human activity, SME acts as a kind of marker that allows us to assess the evolution of the technical and economic wave.

In general, company executives understand that digital technologies currently provide them with a competitive position in the domestic and foreign markets (Medovnikov et al. 2017). At the same time, any firm evaluates everything in terms of the "cost/profit", therefore, it implements only those digital projects without which it cannot any longer do its business, gradually investing in strategic areas of digital transformation. Thus, the purpose of this study is to highlight the key positions of innovative development and competitiveness based on the study of the possibilities and consequences of digital transformation of the SMEs.

7.2 Theoretical Foundation

The digital economic development in the near future will be the key driver for the global development of innovation, competitiveness and economic growth. And if the concept of "digital economy" has been generally accepted and defined as the result of the transformational effects of new general-purpose technologies in the field of information and communication, which influence all areas of the socio-economic development (Sudarushkina and Stefanova 2017), the concept of "digital transformation" is relatively new in Russian practice. In 2014, the RF President launched a project of the National Technological Initiative (NTI), the main purpose of which is Russia's inclusion in forming standards for the future global markets and winning a significant share in these markets by Russian companies. It is the start of the process of digitalization of the Russian economy.

Since then, there have been adopted Decrees of the President of the Russian Federation dated May 9, 2017, No. 203 "On the Strategy for the Development of the Information Society in the Russian Federation for 2017–2030" and dated May 7, 2018, No. 204 "On National Goals and Strategic Tasks of the Development of the Russian Federation for the period up to 2024", which defines the national goals and strategic objectives of the Russian Federation for the period up to 2030, as well as the Government Executive Order dated July 28, 2017 No. 1632r, approving the program "Digital Economy of the Russian Federation". These documents introduce the concept of "digital transformation".

The scientific platform characterizing this direction is just being formed in the Russian Federation. There are several research works dedicated to some aspects of the digital transformation of economy. Meanwhile, in the foreign scientific literature, there are many serious publications in the field of economy and industry digitalization. For example, among the earliest works we can name R. Boyer's monograph "The Future of Economic Growth: As New Becomes Old" (2005), in which the author offers his own definition of digital transformation.

The correlation between digital transformation and competitiveness is shown by Kartajaya H., Kotler P., Huan H.D. (2019) and Oprescu G., Eleodor (2014). The correlation between digitalization, business modeling and the effectiveness of SMEs is highlighted by Bouwman H., Nikou S., Reuver M. (2019). Such a study has been conducted for the first time ever. The authors analyze 321 European SMEs that use social networks, and big data information technology to innovate their business models. For conducting this analysis, the authors of the article apply the method of qualitative comparative analysis with fuzzy sets (fsQCA), partial least squares structural equation modeling (PLS-SEM). The authors consider that the overall effectiveness of the company is the main result influenced by four components: (a) resources for experimenting with business models, (b) practices for implementing the business modeling strategy, (c) practices for experimenting with business models, and (d) innovativeness. Applying the PLS-SEM method, the authors showed that the time and resources spent on experimenting with business models and implementing the strategy contribute to the overall efficiency of the company, which is due to the higher level of innovation and the practice of experimenting with business models. The authors proved that innovation plays an important role by mediating the correlation between resources for experimenting with business models, as well as implementing a business modeling strategy and overall firm performance. The fsQCA method also indicates that innovation is an important term in two configurations.

The authors also showed that policies aimed at encouraging SMEs to use the business capabilities created by digitalization should be oriented to encourage SMEs to use information technologies, big data and social networks as a means for more practice in experimenting with business models, as well as introducing new strategies. This is more topical because more fundamental developments related to digital transformation, such as the Internet of Things, the intelligent industry, machine learning, artificial intelligence, intelligent services and comparable "technologies" will require SMEs to rethink their business model. The authors further make the assumption, suggesting that SMEs that experiment with business models are more innovative and high-performing, and therefore have free resources for further transformations of their business models.

Loebbecke and Picot (2015) are somewhat broader in their analysis of the digitalization impact on the company. They examine the impact of digitalization, including the analysis of big data, both on business models and employment, in particular in the context of cognitive tasks and resulting from social transformations. The authors identify five mechanisms by which the digitization and analysis of big data complements and replaces labor differently in all sectors of industry and work processes:

1. Replacement of labor in production processes (airports, train stations, security services, etc.).
2. Elimination of processes of cognition and cognitive work (reduction in the number of nonmanual workers, meteorologists, etc.).
3. Replacement of the growing share of high-ranking decision makers through machine decision-making (development and implementation of decision support systems).

4. Widespread amateurism. Replacing traditional professions, products and services with their digital equivalents, which require less expenses and, consequently, significantly reduce transaction costs. As a result, all this leads to the disappearance of existing professions and a decrease in demand for traditional specialists.

An interesting study of the correlation between digitalization and the business model strategy is given by Rachinger et al. (2018). The authors concentrate on two industries: media and automobile. They analyze how digitalization affects the value of a company and how they deal with problems arising from the increased digitalization. In their study, they come to the conclusion that it is not digitalization itself, but the introduction of innovations in the business model through digitalization that creates value. They highlight the following key issues—management and employee competencies. These issues are typical for any industry and company. Kiel et al. (2016) examine the impact of Internet of Things on the companies' business models. The Industrial Internet of Things (IIoT) will lead to managerial effects, the transformation of value chains, and, consequently, the emergence of new business models.

In an increasingly competitive environment, entrepreneurial SMEs use digital platforms to enhance their business strategies (Li et al. 2016). Digital platforms thus transform the way companies create their competitive advantage (Parker et al. 2016). They play a key role in the value propositions of many companies, enabling them to apply information management (Cenamor et al. 2017). Li (2016) demonstrates that information and communication technologies (ICT) contribute to improving the efficiency of companies. Recent studies indicate the complexity of implementing a digital platform and the uniqueness of entrepreneurial SMEs. On the one hand, literature supports the thesis that digital technologies alone cannot directly bring benefits. In particular, companies need ICT-enabled capabilities that mobilize and implement digital technology to make significant organizational changes. In fact, the ICT-enabled capabilities can transform the company through expanding its dynamic capabilities. However, digital platforms are a more complex form of ICT that facilitates collaboration between different partners.

On the other hand, publications traditionally consider the introduction of digital technologies in large companies, while specific information about entrepreneurial SMEs is relatively scarce. Entrepreneurial SMEs face unique challenges in implementing digital platforms, as they may lack the essential resources, skills and commitments. Digital platforms can be a key source of resources and can provide valuable opportunities for entrepreneurial SMEs. For example, Jin and Hurd (2018) show that the Alibaba digital platform facilitates the internationalization of SMEs in New Zealand, while Nambisan, Siegel, and Kenney (2018) show that crowdfunding platforms facilitate the access to metropolitan networks.

Li et al. (2016) show that there is an indirect link between the capabilities of the digital SME platform and productivity. The issues of planning the measures for digitalization in SMEs with applying the methods of a digital factory are considered in the article by Stoldt et al. (2018). They show that SMEs implement two types of digitalization strategies. The first one consists in the phased digitalization, when one object or process is involved, then the next, and so on. In this case, SME changes in the production system, IT infrastructure and staff skills can be determined quite easily, while some risks such as the loss of productivity and lack of acceptance are reduced. The second strategy is more far-reaching. In this case, a company determines the current and target business models, carries out the capacity assessment and feasibility study, and then a new strategy is implemented to build the target business model by introducing prototypes and developing business models. Then, general management processes change to adjust the entire organization.

Digital factory tools can support more frequent changes in companies associated with the introduction of innovations and the creation of new competitive products. The term "Digital Factory" is defined by the Association of German Engineers (VDI) as follows: "Digital factory" is a general term for a comprehensive network of digital models, methods and tools, including modeling and 3D visualization, that are integrated through integrated data management. Their goal is holistic planning, evaluation and continuous improvement of everything necessary: structures, processes and resources of a real plant in connection with a product.

Thus, the digital factory is focused on:

- increase in economic efficiency and quality of planning,
- reduced product development and its introduction,
- transparent communication,
- standardized planning processes and competent knowledge management.

The positive effects are a reduction in time of entry into the market, a reduction in the number of correctional cycles and errors in planning, as well as the storage of expert knowledge resulting from experience that no longer leaves the company with an employee (Eberling 2019). Digital factory tools can be used for planning the digitalization strategy (Stoldt et al. 2018) of industrial SMEs.

The analysis of Russian and foreign publications shows that, despite a significant number of publications on the topics of digital transformation and innovative development, just a few studies address the issues of changing business processes when implementing digital transformation in SMEs and its impact on their innovative activity. Moreover, the analyzed research emphasizes that such studies should be carried out in view of the novelty of the phenomenon and the great fundamental and practical significance of their results.

7.3 Discussion

7.3.1 SMEs in Russia

According to Russian legislation, small businesses are companies whose total number of employees is not higher than 100 people and its income does not exceed 800 million rubles per year. Companies are considered medium-sized enterprises, if the number of employees ranges from 101 to 250 people and income is no more than 2 billion rubles per year. There are more than 6 million SMEs in Russia, including 236 thousand small businesses and 2.6 million micro-enterprises, 19 thousand medium-sized businesses. In addition, 3.2 million people are individual entrepreneurs without forming a legal entity (Russian Federal State Statistic 2020). Relating to the country's population (146.7 million people), it turns out that 1 SME accounts for approximately 24 people. Considering the territorial distribution of SMEs in the Russian Federation, there are almost half of all SMEs in two of the eight federal districts (FD) of the Russian Federation: Central FD (31.25% of all Russian SMEs) and the Volga FD (17.82%). They are followed by the Northwestern, Southern, Siberian FDs, in each of which there is 11% of all SMEs. In the Ural FD—8.57%; Far Eastern FD—4.3%; North Caucasus FD—3.29% (Statistika MSP). One of the most important factors in this distribution is the uneven distribution of the solvent demand, or rather people who are able to pay in the country.

The largest number of SMEs are in trade and service organizations (36% of the total number of SMEs). Unfortunately, the digitalization of the main business processes in them is insignificant. This field is followed by real estate, rent and the provision of services (22.6%), construction (11.8%), manufacturing (9.6%), transport and communications (6.9%), agriculture, hunting, forestry and fishing (2.6%). The digitalization of the main areas in SMEs consists of the following digital tools:

- creation of Internet sites as a commercial tool. This tool is widely used by commercial organizations and is already a classic;
- personalization as a tool for smart digitalization. New technologies of smart digitalization open up new opportunities for SMEs: offering related products, reminding customers of the availability of goods in their baskets, mass text messaging with the smart processing of big data (these messaging is used, for example, by cafes that inform their customers who live or work close to them; travel companies that track the number and preferences of travel clients, etc.);
- digitalization of trade and intermediary services.

The above-mentioned tools today are no longer just a fashionable trend but an opportunity to save companies, which is especially important for SMEs. For example, the current costs for maintaining an online store is much less than in the case of offline trading. Smart messaging saves resources and allows increasing its efficiency due to targeted threads. Trigger mailing gives you an opportunity to constantly communicate with clients, creating a motive to return to the store or cafe. Digital technologies open up new opportunities for SMEs, provide increased efficiency, access to new markets, and realize the full innovation capacity of SMEs.

7.3.2 Digital Transformation: Tools and Stages

Digital transformation as a whole is a process of unlocking the capacity of digital technologies through their maximum utilization in all business processes of the company. However, just the introduction of technology is not enough for a complete digital transformation. The digital transformation process also involves setting clear goals, defining business objectives, formalizing business models, and identifying the databases used in this process. Thus, digital transformation is a unity of three main pillars: formulating business tasks and a business model built on their basis, a strictly defined database and technology.

Digital transformation is often identified with breakthrough products and ideas that arise from the introduction of digital technology. Often companies foster hope that the introduction of digital technology will yield quick win over their competitors. In real life, to ensure sustainable business development, it is most important to conduct a competent digitalization of the core business from the perspective of optimizing business processes and finding additional sources of growth. Any company faces new, "digital" tasks, the solution to which is directly related to the digital transformation of the entire enterprise regardless of its size. In digital transformation an enterprise must rely on the following basis:

- a high level of automation of operations, virtualization of infrastructure and processes, high quality of enterprise IT systems and their willingness to conduct digital transformation;
- the ability to synchronize data: all information about the enterprise should be systematized and available in real time for making informed management decisions;
- the business model, operating model, organizational structure and internal processes should be flexible, based on relevant facts (numbers, trends, dependencies), velocity (real-time data processing, course

adjustment as information becomes available, accounting for changes in external and internal environment).

Due to the high reliable data and the possibility to use it, new, more flexible ways to develop and sell products, their introduction to the market, the search for new markets, optimization of supply chains, as well as the formation of a radically decentralized management structure, necessary for flexible and quick decision-making, arise. A similar management structure is formed within the framework of the so-called agile concept, when the project is implemented at the enterprise by small cross-functional teams. In this case, there is no rigid hierarchy of operations that requires time and physical input to coordinate actions; such work is characterized by a limited time length. This approach allows companies to get tangible results on new projects, much faster than while using traditional methods and business models. Digital transformation includes three main tools:

1. engine for company growth:
   - identifying and developing new digital business models
   - ensuring long-term competitiveness
2. increasing the efficiency of activities:
   - reducing costs and optimizing business process
   - utilizing available infrastructure
   - building a base of digital competencies
   - forming a digital value chain
3. establishing the framework for breakthrough innovation
   - identifying growth points for the company
   - ensuring access to new technologies
   - building a corporate incubator
   - forming new sources of projects funding

At present, those companies that begin to form a digital ecosystem in proper time, filling it with data about a process or phenomenon and processing them, obtain an unprecedented advantage. A competitor may have the same technology or improve it, but it will not be able to get the same result with the same rate of costs. This is the fact that setting relevant goals, determining the range of tasks, planning and velocity of achieving results, optimizing business processes are tools with which the company can significantly reduce costs and outperform competitors in the market.

In the rapidly changing external environment, outperformed companies can be content with only "small optimization" of business processes and "patchwork" solutions. Such companies, if they can keep their position in the market, will have to buy ready-made technological and managerial solutions from leaders, as well as try to adapt their business model to their own business. Thus, the digital transformation of the company is not only and not so much the digitalization of all processes, but rather a change in the nature of management based on collecting and processing a significant amount of information in the field that is closest to the operations of the company and meets its value principles. The digital transformation of the enterprise includes three stages:

1. The first contour: implementing decisions based on business cases and introducing technological solutions to ensure business efficiency;
2. The second contour: restructuring the organization and forming a "digital" business model
3. The third contour: building digital ecosystem and agile-organization

When implementing digital transformation, the organization will inevitably face certain risks—first of all, resistance of the organizational environment. When implementing unsuccessful projects, organizational resistance will increase and only the will of leadership and a clear understanding of development goals will contribute to a successful digital transformation. However, the first positive results can have an educational and motivational effect on the team and will contribute to the scaling of successful technological and managerial decisions. That is why when implementing large-scale digital transformation, it is important to start with small ("anchor") projects that are well thought-out and do not carry significant risks. In this case, the main business processes of the organization will not be affected. This will be a local "trial balloon" that will allow the organization's CEOs to see many positive and negative points and make managerial decisions aimed at mitigating organizational resistance. Nevertheless, this process should not be protracted and should not consist only of small, low-risk projects.

Therefore, the next stage in implementing digital transformation is the transition from individual projects to the transformation of the organization's business model. At this stage, all business processes, as well as the organizational structure, undergo changes. In addition, the competencies of personnel are changing as well as the strategic goals and tactical tasks. This is a large-scale project that affects all employees and all processes, and therefore requires a comprehensive digitalization program. The final step is to change the company's interaction with suppliers and customers. New online ways of interacting, promoting and working emerge. At this stage, digital technologies are fully integrated into the organization's business processes and are aimed at creating new ecosystems and interaction channels. In the core of such an organization there is a digital platform in which the unique competencies of the organization and new business models of the organization are implemented.

7.3.3 Capsule Solution for SMEs

SMEs' viability is determined by the number and quality of their activities. Moreover, their development is determined by the capsule nature of the company's technological and managerial decisions (Fig. 7.1). The capsule solution implies the possibility of replacing and (or) assembling various solutions to carry out a specific project or develop (improve) a product that should meet the changing needs of the client.

In accordance with this concept, during the development of the initial business, the company develops certain competencies, compiles and processes the database, which allows it to launch related projects using technical and managerial solutions identified in the framework of early projects. By implementing such a strategy, the company forms a pool of businesses that use the same technology platform and capsule solutions. From the managerial point of view, such a construction of a business resembles the work scheme of a large holding company, while the entrepreneur's capabilities due to the relatively small scale of certain areas of

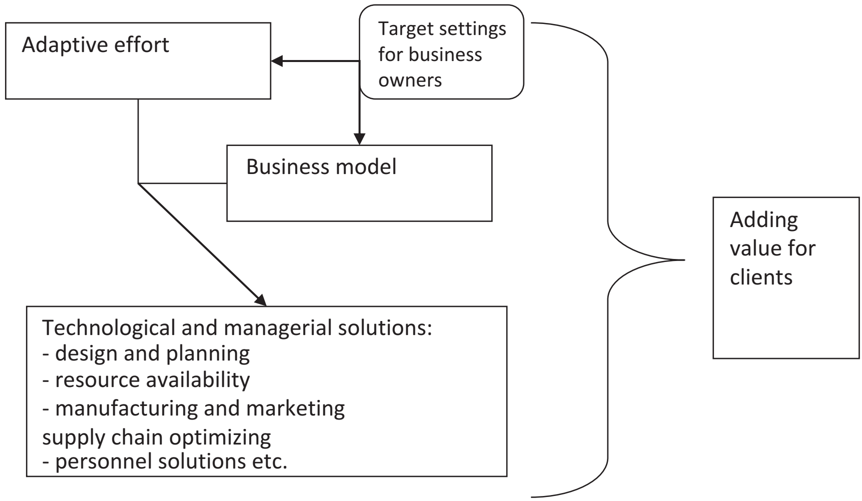

Fig. 7.1 Capsule solution for SMEs

activity are limited by resources, mainly time and human. It is in this case that it is necessary to create a new business model that allows carrying out digital transformation and significantly reduces time and other resource costs.

The need for a new business model arises when traditional economic relations become problematic. An example is online trading, which managed to erase the time and physical boundaries between the seller and the buyer. In addition to trade, a change in the traditional business model is characteristic of an innovative business, the main resource of which is time. Basically, the transition to a service-oriented business model is being examined by a number of scientists (Chesbrough 2011). However, these studies affect the construction of a business model based on the following elements (Barykin and Ikryannikov 2013):

1. value proposition for the client;
2. target audience and distribution channels;
3. resources, competencies and business processes;
4. financial relations.

It is these elements that formed the basis of the business model template proposed by Osterwalder and Pigneur. A business model that includes these elements is focused on turning cost centers into profit centers. However, the business model of any business has its own specific features, which can be summarized in four blocks: scalability of solutions, protection from imitation, time during which the business model will be profitable, the amount of resources needed to ensure the business model working capacity. On the whole, the business model is the result of strategic decisions made earlier by the company's management that affect the areas of business development. Based on strategic guidelines, a range of tactical tasks is determined. If the strategic decision is digital transformation, then tactical decisions come down to the formation of capsule solutions based on the IT platform (Fig. 7.2).

This model includes a number of business experiments that implement a specific strategic task. The development of such business experiments helps to model possible scenarios. With capsule solutions based on an IT platform, a company can develop an optimal business model that meets

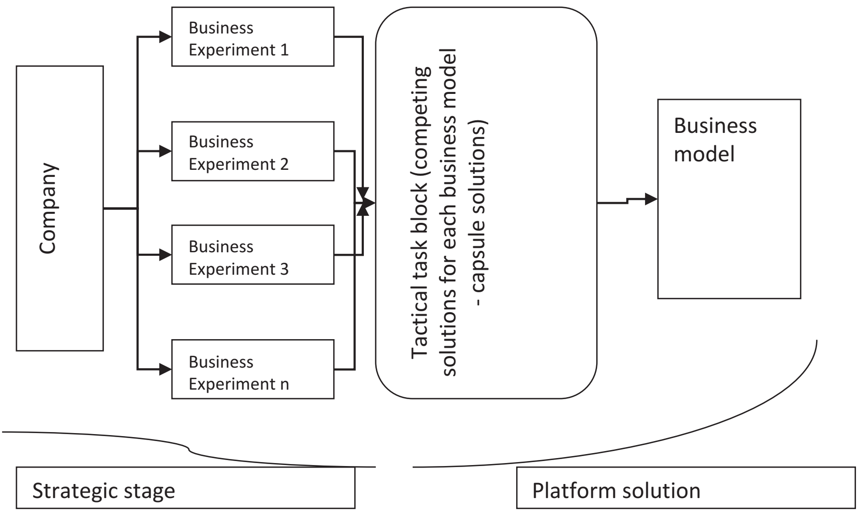

Fig. 7.2 Implementation of the company's business model for digital transformation

the organization's development goals. In general, the formation of a business model in the implementation of digital transformation in SMEs should go through the following stages:

1. business idea. A business idea arises on the basis of a certain direction of the company's development corresponding to its strategic goals.
2. business experiment. At this stage, the business idea is tested and pilot projects related to the launch of new or updated business lines are implemented. The objective of such projects is to verify the adequacy of the business idea put forward at the design stage and analyze business models that can implement this business idea. In addition, as part of this phase, the testing of operational self-sufficiency of business models is carried out.
3. scaling. Scaling projects are aimed at eliminating the existing structural, organizational and other types of restrictions that are characteristic of the current business model. Such projects are implemented on the basis of existing business operations and lead to a decrease in the flexibility and adaptability of the business model.
4. creating conditions for the effective functioning of the business model. Such projects are aimed at removing barriers that may impede the implementation of the business model.
5. moving away from the existing business model to a new one. Due to the fact that it is not possible to change the business model overnight, projects are implemented that transfer existing tools and interaction channels, as well as available resources to a more modern business model in the optimal time frame. In so doing, a number of tools and resources can be optimized. Thus, the business model has its own life cycle, which consists of four stages:

1. creating/launching a business model:
    - business idea
    - creating a "prototype" of a business model
    - experiment/tests

2. business model scaling

- creating conditions
- scaling
- operations

3. business model adjustment

- business model adjustment
- experiment/tests
- solution
- operations

4. abandoning business model

- taking decision about abandoning the business model
- preparatory stage
- abandoning business model

Successful implementation of the business model requires the following issues to be addressed: the choice of the business model scheme and its description (presentation); highlighting the criteria for a business model analysis; regulation of the designing of a business model process; determining the parameters of business model testing; choosing software for implementing the business model. In addition to these, the forecast horizon should be taken into account, which will be a guideline for the viability of the business model. Within the company, employees who will be involved in the analysis of business models and timely identify "aging" and non-viable business models should be distinguished. Despite the fact that such an approach may entail an increase in an enterprise's expenses for business development, in the future it will pay off due to the modernization of not only production but also the allocation of business operations and markets that will allow a small company to increase its own competitiveness in the market.

7.3.4 Small Business Competitiveness

The process of generating competitiveness is a combination of organizational and economic measures to bring manufacturing programs for producing goods of a certain volume, assortment and quality in accordance with the existing production capacity. The production capacity is most often described through the Cobb-Douglas production function, which establishes the dependence of one or another resulting indicator of manufactured products on the quantity and combination of resources used, for example, indicators (metrics) of the quality and cost of manufacturing. The dependence is sought by applying regression relationships on a fairly significant sample of statistical data, as a result of which the desired parameters of the production function are found with, sometimes, significant requirements for input data. The required indicators reflect some of their average characteristics, which are basic figures for their comparison, which is necessary for assessing the place of SMEs among similar enterprises. In our case, let us write in a general form the indicators of the quality and cost of manufactured products that affect the competitiveness of the enterprise, in the form of a functional dependence on a set of factors of the external and internal environment of its functioning.

(1) $y_{ijk} = F_{ijk}(x_{njk})$, where y_{ijk}—value of j—competitiveness indicator of production of products i of enterprise k, $j \in J$, $i \in I$, $n \in N$, $k \in K$, $j = 1$ reflects the quality of products, $j = 2$—prime cost, x_{njk}—characteristics of factor n, influencing indicator j of an enterprise k.

Depending on the objectives of the enterprise's competitiveness and products study, the environmental factors include:

- technical (for example, the level of engineering and technology development),
- socio-cultural (for example, the type of consumer culture),
- economic (for example, the degree of support for SMEs, household's incomes, taxation, access to financial resources).

Based on the theory of complementarity and the goals of our study, we consider as environmental factors: the volume of product demand in the market, standard requirements of regulatory bodies and requirements of third parties recently emerged, the degree of accessibility of public ICT. As factors of the internal environment we consider: the volume of production, the degree of the enterprise digitalization, the quality of human capital, material, technical and financial resources. Let us dwell on the indicated factor: standard requirements of regulatory bodies and requirements of third parties recently emerged. This factor, with the development of Internet technologies, is beginning to acquire a significant influence on the products of many industries in the world.

As for third parties, a concept has recently been popular that each buyer can check information on the quality, safety and legality of products online, and regulatory authorities can access a full range of product information. Given the above, companies that have not been able to respond to the requirements of the market, regulatory authorities and third parties will face a decrease in the attractiveness of their business (Gajdash and Medennikov 2018). The integral factor, "the degree of production digitalization", depends on many requirements, mainly on the degree of development of the enterprise management system, on the level of automation of customer relations, on the degree of digitalization of technological processes, on the degree of the use of cloud computing services. As it was noted above, the ratio of these conditions is determined by differences in industries.

Based on the described considerations, expression (1) can be specified in the following form:

(2) $y_{ijk} = F_{ijk}\left(W_i y_i^H z_{ko} V_{ik} z_{kc} L_k M_k \Phi_k\right)$, where W_i—volume of demand for products i—in the market; y_i^H —regulation requirements, third parties requirements concerning products i; z_{ko}—expenses on ICT of common use of enterprise k, V_{ik}—output volume of products i of enterprise k; z_{kc}—total expenses on k enterprise digitalization; L_k—quality of human capital of enterprise k; M_k—material and technical resources; Φ_k—the amount of allocated financial resources for digitalization of the enterprise k.

Let us identify through y_{jk} j indicator the competitiveness of enterprise k $y_{jk} = \sum_{i=1}^{I} \alpha_i y_{ijk}$, where $= \sum_{i=1}^{I} \alpha_i = 1,\ 0 \leq \alpha_i$. Then we call the expression y_k an integral indicator of the competitiveness of enterprise k.

(3) $y_k = \beta_1 y_{1k} + \beta_2 y_{2k}$, $\beta_1 + \beta_2 = 1$, $0 \leq \beta_1$, $0 \leq \beta_2$.

In this situation, we can set the task of increasing the integral indicator of competitiveness of enterprise *k*.

(4) $y_k = max(\beta_1 y_{1k} + \beta_2 y_{2k},)$, where c_{ik}—price of products *i* of enterprise *k* in the market under constrains: $y_i^H \leq y_{i1k}$ (requirements for quality of products *i*); $\sum_{k=1}^{K} V_{ik} \leq W_i$ (the total volume of products for sale should not exceed the volume of demand for products *i* in the markets); f_{ik} $(y_{i2k}) \leq c_{ik}$,, where c_{ik}—price of products *i* of enterprise *k* in the market (the price for products should not be lower than its prime cost, expressed through the corresponding indicator of competitiveness); $z_{ko} + z_{kc} \leq \Phi_k$ (financial constrains).

Naturally, this statement illustrates only a general view on assessing the impact of the digital transformation of SMEs, on their market competitiveness, which depends on the effectiveness of IS. Moreover, at this stage of the digitalization of the economy, it is not possible to solve in general terms the problem of IS efficiency due to insignificant statistics on the evaluation of the effectiveness of information systems. While this remains a fundamental problem, many experts are working on a solution to it. Although the costs of digitalization become a significant cost item, investing in it is sufficiently blind, sometimes without a clear vision of the results, since there are many sources of efficiency, the main of which are (Medennikov et al. 2015):

- the first point is determined by saving production costs (reducing employees, reducing idle facilities expenses, the cost of storing materials, etc.);
- the second point is associated with an increase in production discipline, quality of labor.

The third point is associated with the possibility of enhancing the ICT of the mental abilities of users by arranging knowledge accumulations in the form of information products: software that implements higher modes of information processing, databases, electronic libraries, and so on. If the first and second points can be somehow estimated, then the third point is difficult to be measured. Typically, individual approaches to calculating effectiveness are applied by assessing the occurrence of various sources. For example, in terms of productivity (the number of documents processed, the time spent on solving problems, etc.); availability and reliability of services (the ability to work in several time zones, the possibility of losses in case of downtime); comparison of income and expenses in the context of specific information services.

To formalize the rationale for the development of digital digitalization platforms for small and medium enterprises, we introduce the following notation: $S = \{S_m\}$—a set of IS, where $S_m = \{S_{rmp}\}$; $r = \overline{1,R}$; $m = \overline{1,M}$; $p \in P$; S_{rmp}—r-subsystem of m– IS for SME p. $P = \{P_{oj}\}$, where o—index, identifying the industry sector, j—index, reflecting organizational, economic, technological, ecological specific features of production process $j = \overline{1,J}$.

Let us designate $I_{sm}\left(i, \underset{l \in L_i}{U} K_l\right)$ as project of m– IS at a specific i—stage of design l, K_l—a set of data concerning data structures, where $K_l \subset K$; $l = \overline{1,L}$; $i = \overline{1,I}$.

In this case, we can write the design procedure in the following form.

$I_{sm}\left(i, \underset{l \in L_i}{U} K_l\right) \xrightarrow{\Pi(i,i+1)} I_{sm}\left(i+1, \underset{l \in L_{i+1}}{U} K_l\right)$, where $\Pi(i, i + 1)$ method of design, shaping IS project. $F(\Pi, P, K, S, J)$—as a criterion of the design procedure effectiveness, in so doing it should take on optimal value.

In the case of defining projects $I_{sm}\left(i, \underset{l \in L_i}{U} K_l\right)$, $I_{sm}\left(i+1, \underset{l \in L_{i+1}}{U} K_l\right)$ in the form of information arrays, and the design methods are applicable only for one enterprise $p = p_0$, then design refers to the category of an individual, if the design methods are applicable to a whole group of enterprises $P_1 \subset P$, then design refers to the category of typical, in the case of independent design methods from specific p and if the design method is framed in the form of tools, then this method belongs to the category of automated one.

In real life, the choice of design method depends on the resources allocated to design R_Π; means of design C_Π; IS structure G_{sm}, for example, scheduled re-engineering of management structure; system resources R_{sm}, e.g., a set of hardware; system characteristics B_{sm} (time, cost etc.). Then, for industries with a large number of homogeneous enterprises, which include

SMEs, to form digital platforms it is necessary to solve the following problem: by choosing design tools $C_П$ and design methods to achieve a given set of system characteristics $D_{sm} \subset D_o$. For example, in (Medennikov 2019) a mathematical model of clustering digital platforms is given. Then, based on the generated digital platforms, we write in the following form the model for evaluating the impact of the digital transformation of SMEs on their market competitiveness. Let us introduce the designations.

f_{jo}– j—management function of o– type of enterprise, $j \in J_o$, $J_o \subset J$,
s_k– s—is subsystem, $s_k \in S$,
E_{jo}—indicator of digitalization effectiveness j—management function of o—type of enterprise,

Then the total digitalization effectiveness of o—type of enterprise is written in the form $E_o = \sum_j E_{jo}$.

Based on this, it would be possible to plan a step-by-step optimal digital transformation of SMEs with the definition, corresponding local and integrated efficiency of this process. For example, one could calculate the degree of influence r_s on reducing losses in the total production of an enterprise $w = \sum_{n,m} \Delta y_{nm}\left(r_1,\ldots,r_i,\ldots\right)$, n—type of technology, n = [1, N], m—type of technological operation, m = [1,M]. In the calculation $k_s = \frac{\partial W}{\partial r_s}$ we obtain the coefficient of influence r_s on reducing losses in the total production of the enterprise.

Let us examine, as an example, economic calculations for some types of technologies in SMEs. The amount of additional revenue U_1 due to the reduction in the time required for technological operations during digitalization of production is as follows $U_1 = \sum_{i=1}^{M} c_i \cdot s_i \left(Q_i^2 - Q_i^1\right)$, where M is the number of types of products, c_i is the cost of production i products, s_i- the scale of production i—products.

Q_i^1, Q_i^2—productivity i—the number of products before and after manufacturing digitalization.

The amount of cost reduction due to the decreasing unplanned equipment downtime U_2 is determined by the formula $U_2 = \left(\frac{r_1 - r_2}{H} \right) \cdot p$, where r_1, r_2 is the annual number of equipment downtimes before and after digitalization of production, H is the annual number of hours worked by one conventional reference unit, p is the book value of one conventional reference unit.

The result of the calculations of clustering digital platforms (Medennikov 2019) for SMEs is a common information Internet space (CIIS) of their digital interaction. The indicated DP is formed on the basis of integration in some cloud of primary accounting databases, technological databases, small and medium enterprises according to common standards. The same cloud stores unified registers of all material, intellectual and human resources. Such an approach to the digitalization of SMEs will make it possible to develop standard management information systems with the typification of sites for all organizations involved in this digital interaction. This will reduce the cost of their digitalization enormously, which will significantly increase the impact of the digital transformation of SMEs on their competitiveness in the market.

7.4 Conclusions and Implications

Summing up the above, digital transformation is inevitable for both large enterprises and SMEs. This is a process that permeates all spheres of human activity, all enterprises and all processes, rapidly changing our understanding of things and the possibilities of their use. Large enterprises attract SMEs, which have greater flexibility and new technological solutions, for the production of new products and services, for solving global energy, climate and other problems. People increasingly use platform solutions because it saves the most expensive and irreplaceable resource—time—and makes life easier in general. Thus, the digital transformation is a change in the ideology of behavior, consumption that is a change in lifestyle in general. And this is characteristic both for an individual person and for large, medium and small enterprises. The world is changing and we are changing with it.

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8

Critical Success Factors for SMEs in the UK Chemical Distribution Industry: The 'Brexit' Effect

Evripidis Lampadarios and Niki Kyriakidou

8.1 Introduction

Small and medium-sized enterprises (SMEs) continue to be the focus of political, business and management research (Al-Tit et al. 2019; Alfoqahaa 2018; Félix and Dos Santos 2018; Sadeghi 2018; Suhail and Tsoukatos 2019) with their benefits firmly embedded in the business literature. SMEs are integral to contemporary economic and social regeneration (Amorós et al. 2013; Franco and Haase 2010; Unger et al. 2011), essential for the establishment of a solid industrial base (Smallbone et al. 2010), key driver for innovation and R&D (European Union 2015) and above all significant contributors to employment generation (Lussier and Halabi 2010; McLarty et al. 2012; Simpson et al. 2012). Despite their well-established importance, there is still no universally accepted definition for SMEs with significant variations in different countries (Smallbone

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et al. 2010; Unger et al. 2011), no single agreed-upon definition of success (Rogoff et al. 2004), no universally accepted model to incorporate all aspects of small business success (Chawla et al. 2010; Lampadarios et al. 2017) and with knowledge being more fragmented than cumulative (Dobbs and Hamilton 2007). Most importantly, SMEs continue to exhibit high failure rates and poor performance levels (Arasti et al. 2012; Franco and Haase 2010; Gray et al. 2012; Ropega 2011; Urban and Msimango-Galawe 2019) with their success and/or survival receiving an ever-increasing attention from academia and practitioners alike. Business literature features a wide range of success factors through a number of conceptual frameworks that attempt to capture aspects of SMEs success. However, their importance appears to be relative and varies with the business environment, that is the industry and country SMEs operate in; meaning that while one success factor may be of great importance in one industry or country, it may not necessarily be of equal importance in another (Benzing et al. 2009; Kader et al. 2009; Krasniqi et al. 2008; Simpson et al. 2012). This inevitably creates the need for more empirical studies to investigate the critical success factors in each individual industry and within a specific country setting. However, upon the occurrence of a radical change in the business environment, further research is needed to investigate the effect of such an event to the factors already established as critical in the specific industry and country.

8.2 UK Chemical Distribution Industry

An industry where small businesses have a particularly strong presence is the European and especially the UK chemical distribution (Chemagility 2012; Districonsult 2013; European Association of Chemical Distributors [FECC] 2013). The UK chemical distribution industry is a growing, well-established, significant part of the chemical industry (Chemagility 2008) and remains a significant contributor to the economy and employment (FECC 2013; Hornke 2013). According to the latest data available from Chemagility (2015), in 2014 the UK chemical distribution market was worth GBP 4.42 bn (EUR 5.44 bn), employing approximately 6800 employees and representing 10% of the total European chemical distribution market worth EUR 52 bn. With the total number of chemical distributors in the UK being 280 and with over 75% of them being small or micro-sized enterprises (210 companies if subsidiaries of larger international groups are excluded), it is evident that SMEs have a very strong presence in the specific industry. Despite major challenges due to increasing compliance costs, reduced margins, global competition and uncertainty, the UK distribution market achieved a 6% annual growth rate between 2005 and 2010, a 5% growth between 2011 (GBP 4.1 bn) and 2014 (GBP 4.5 bn) and is anticipated to grow further to GBP 5.6 bn by 2020 at a rate of 3.6%, which is higher than the expected GDP growth (Chemagility 2015). However, the industry, like the rest of Europe has also experienced significant industry consolidation resulting in the overall reduction of the number of companies present and increasing even more the pressure on the survival of SMEs (Chemagility 2012; Keynote 2013; Kronimuns et al. 2009; Plimsoll 2013). It is worth noting that in 2014 large enterprises and multinationals held 67% of the total UK chemical distribution market value, leaving a smaller share of 23% (GBP 1.47 bn) to all other small businesses (Chemagility 2015).

Chemical distributors are, in fact, a fragmented network, positioned between chemical producers and their customers, adding value through an extensive range of services to both customers and suppliers such as managing complexity, accessing markets, providing financing and support and so on (Chemagility 2008; FECC 2011). Even though chemical distribution is a well-established practice in the UK, it is severely understudied both on an academic and business level with the majority of information originating from the study of the European chemical distribution industry (Districonsult 2013; Jung et al. 2014; Hornke 2013; Mortelmans and Reniers 2012). In fact, due to the wide variety of functions performed by these companies and confusion with other types of trading in the industry, there is still no universally agreed definition of a chemical distributor (Chemagility 2012). Similarly, there are limited statistical data available on the industry and information such as turnover, sales and margin growth, performance and future trends, which are drawn from industry reports (for instance Chemagility).

8.3 CSF for SMEs in the UK Chemical Distribution Industry

Overall, very little has been known about SMEs in the specific industry, their *modus operandi* and any factors contributing to their success and/or failure (Chemical Business Association [CBA] 2015; FECC 2015). Research by Lampadarios (2015) addressed this gap in knowledge by initially developing a conceptual framework for carrying out research in the area of SME's success. The success factors are categorised in entrepreneurial (relating to the individual), enterprise (relating to the company) and business environment (external). The entrepreneurial factors consist of the age, gender, education, entrepreneurial orientation, personality, prior work experience and management skills of the owner/manager. The enterprise factors incorporate the age and size of the company, business networks, customer relations management, financial resources, human capital, internationalisation, market and product development, marketing and strategic planning. Business environment is distinguished in political, economic, socio-cultural, technological, legal and regulatory and ecological and environmental. This is the most recently informed, highly consolidated framework based on the extant literature, including entrepreneurship and not only SME-specific studies while incorporating factors contributory to all aspects of small business success (growth and non-growth) and failure. The basis of this framework is a number of influential studies and established models in the areas of SMEs and entrepreneurship which then expands to include the plethora of studies that had been conducted in varied industries and geographies from the mid-1990s until 2014.

Following the development of this framework, research was conducted to identify the critical success factors for SMEs in the given industry. This study established a positive relationship between eight (8) success factors and SMEs success in the UK chemical distribution industry: Regulatory Compliance; Entrepreneurial Orientation; Customer Relations Management; Market and Product Development; Prior Work Experience and Management Skills; Human Capital; and Economic Environment and Strategic Planning. Therefore, these factors are considered critical for small business success in the specific industry. However, shortly after this study, there has been an unprecedented change in the European and British political scenery, referred to as Brexit, that instigated further research.

8.4 'Brexit'

Without a doubt, the political environment affects and shapes business strategy and clearly impinges on business activity. No company, national or international, large or small, can conduct its business without taking into account the influence of the political environment in which it operates. The nature of this system, its institutions and processes, government involvement in the working of the economy and its attempts to influence market structure and behaviour—for instance laws and regulations, tax policies, financial support and loans etc.—but most importantly government decisions have a significant impact on short- and long-term planning and performance. With political stability seen as a precondition for high industrialisation, innovation and business success, recent events in the European political arena have altered the landscape and increased the level of volatility and uncertainty. The results of the British referendum (June 2016) have triggered an unprecedented set of events, addressed under the 'Brexit' umbrella, leading Europe and the UK into unchartered territory alongside all businesses based and/or operating in this geographical region.

The chemical and chemical distribution is an industry that is most likely to be affected by the aforementioned changes. With this being a significant contributor to the UK economy and employment, the potential effect(s) of Brexit on the UK chemical supply chain become of particular interest. Regarding the industry itself, despite the fact that it is well established and mature, it appears to be highly fragmented and therefore still subject to strong consolidation trends and high mergers and acquisitions (M&A) activity. The ever-increasing environmental (climate change, reduction in emissions, sustainable development, green chemistry requirements, corporate social responsibility) and regulatory (REACH, Classification, Labelling and Packaging of substances and mixtures (CLP), Biocidal Products Regulation (BPR), EU competition and information exchanging rules) pressures further contribute to the dynamicity of the market. Globalisation and advancement in technology and logistics have already had a profound effect on the supply chain. Increased direct global competition, mainly from Europe and Asia, has caused a shift in the manufacturing focus and investment, with the UK now moving towards high value, niche, technologically advanced applications and markets and away from commodities. Inevitably, the manufacturing centre has been gradually but steadily moving outside the UK, with only a few large manufacturers remaining alongside a number of smaller, but with strong presence, converters. Accordingly, traditional markets, for instance Household/I&I, Metalworking and Lubricants, Textile, Leather and Paper, Agrochemicals, Coatings, Plastics, Food, Water treatment, Oilfield and Construction have been in decline in recent years, mainly satisfying 'internal' requirements, while Pharmaceuticals, Nutraceuticals, Aerospace, Electronics and Personal Care segments have exhibited growth and continuous development. It appears that even in traditional markets the focus is on specialised and niche applications. Consequently, for the time being, research, product development and innovation remain relatively strong with several R&D centres located in the country. The North East, North West, Yorkshire, Humber and Scotland regions continue to be the main manufacturing areas. The medium to long term outlook appears to be a decline in the manufacture of large volume-low margin chemicals and specialisation within the manufacturing sector (Chemistry Growth Strategy Group 2014). This is going to be accompanied by an increase in the import of bulk chemicals and fuels and associated storage and distribution (Health and Safety Executive 2014).

Nevertheless, following the results of the British referendum earlier last summer, the above described working model might easily change. Even though Article 50 has not been activated, and officially the 'Brexit' era has not set upon the markets yet, reverberations have been felt. Despite continuous speculations and scenarios on the potential effects, so far very few aspects have become visible to the public and industry alike. Uncertainty appears to be the only remaining constant as the UK moves into uncharted territory. To that end, 'Brexit' needs to be investigated more as a phenomenon over a period of time rather than a singular event. However, it is worth noting that, as these are the early stages of this process/phenomenon, it is difficult to ascertain whether the initial effects would be of a permanent or temporary nature until a state of equilibrium is reached in the market (Lampadarios 2017).

Regarding the UK chemicals supply chain, speculations and scenarios (but not actual reactions) have already started causing some destabilisation (definitely some increased strategising activity) that could potentially inflict change on the routes to market. In fact, it is the continuing uncertainty that has been acting as a catalyst for these changes. With the markets being uncertain about when (or even if) Article 50 will be activated, there are speculations about the new landscape, for instance, the new trade agreements between the UK and EU/ROW, existing regulations (REACH, BPR, CLP) and rules of conducting business, for example information exchange, competition laws and local representation. From a manufacturer/converter's point of view, it would be extremely difficult to strategise under these volatile conditions and with no clear strategy in place, the risk (and potentially the cost) of doing direct business in the UK could increase. During times of uncertainty and increased risk, distributors appear more appealing against direct supply as, due to local presence and market knowledge, they are better equipped to deal with uncertainty and can become an effective means to reduce and/or mitigate risk. They are also an effective way of keeping costs down for larger manufacturers in terms of human and physical resources and capital expenditure, let alone coping with an ever-increasing level of market fragmentation. A further important 'push' factor towards distribution would be the distributors' information sharing and market intelligence input, for instance, market conditions, key contemporary and future trends, opportunities, competition and so on, as well as their contribution towards demand forecasting and planning, both invaluable assets to manufacturers' operations.

Therefore, there are clear indications that 'Brexit' could not only affect the routes to market but potentially shift the focus towards chemical distribution. Conversely, in times of hardship, a strong relationship and commitment (and a good reputation for the matter) on both sides are required, putting the non-exclusive distributors and agents at a disadvantage. The focus might well be on exclusive, appointed and own distributors who, under formal distribution agreements and partnerships, would be called upon to manage uncertainty, change and deal with complications, bureaucracy and risks for the foreseeable future. These would put in place the appropriate set of policies and procedures, adjusted to local market needs and requirements, to ensure proper management of the suppliers' products up to the end-users. Similarly, they could act as official legal representatives in the UK market, addressing legislative requirements so manufacturers/converters are able to focus on their core competences, mainly manufacturing, logistics, research and product development and process improvements.

At this point, it is worth noting that even though current conditions (Brexit has been voted for but article 50 has not been activated yet) seem to favour and 'push' towards exclusive, appointed and own distributors, it does not necessarily mean that direct business would not be a viable option after the exit clause is activated. The main argument remains that the former appears to be a more sustainable and cost-effective route to manage uncertainty, risk and high market volatility against the latter, where strategising and resource commitment is essential.

Considering the fact that the UK chemical industry remains dynamic in the least, price sensitive, highly fragmented and continues to move towards more specialised, technically focused, niche applications, it is becoming apparent that SMEs might be in a better supply position than LMNEs. Thus, it appears that the inherent characteristics of smaller businesses might be more suited for the current market conditions, providing them with a distinct advantage. Whether this advantage can be sustained in the long term—considering that there will be a reaction from larger/multinational companies—remains to be seen. At the same time, Brexit has significantly increased uncertainty and volatility in the market place, conditions that not only favour distribution in general but also require the flexibility, adaptability and quick responses that only smaller businesses can offer. As such, chemical distribution SMEs, due to their size, flexible management structure, informal strategy and quick decision-making should be able to respond more positively and timely to these conditions.

Overall, both Brexit and the current industry conditions seem to be favouring SMEs as a route to the UK chemicals market. Owners/managers would need to capitalise on the opportunity and adapt to the newly emerging landscape. An improvement on existing business practices is required with focus on performance, increasing competitiveness and ensuring business continuity. It is also becoming imperative for manufacturers/converters to make informed decisions regarding the assessment and selection of small chemical distributors to access the UK market. Likewise, various stakeholders need to focus on improving strategy formulation and decision-making process in order to support chemical distribution SMEs. Further research in the UK chemical distribution industry during the Brexit era is required to follow upon existing research.

8.5 CSFs for SMEs in the UK Chemical Distribution Industry: The 'Brexit' Effect

8.5.1 Methodology

The aim of the study is to investigate the impact of the Brexit British referendum on the critical success factors (CSFs) for SMEs in the UK chemical distribution industry. Based on the above theoretical framework and the categorisation of success factors in entrepreneurial, enterprise and business environment, the following hypotheses are developed:

H1: The success and sustainable growth of SMEs operating in the UK chemical distribution industry is positively influenced by six (6) entrepreneurial factors, namely: (i) ***Age***, ii) ***Education level***, (iii) ***Entrepreneurial Orientation***, (iv) ***Gender***, (v) ***Personality*** and (vi) ***Prior Work Experience and Management skills*** of the owner/manager.

H2: The success and sustainable growth of SMEs operating in the UK chemical distribution industry is positively influenced by ten (10) enterprise factors, namely: (i) ***Age* of the company**, (ii) ***Business Networks***, (iii) ***Customer Relations Management*,** (iv) ***Financial Resources*,** (v) ***Internationalisation***, (vi) ***Human Capital***, (vii)

Market and Product development (viii) ***Marketing,*** (ix) ***Size of company*** and (x) ***Strategic Planning.***

H3: The success and sustainable growth of SMEs operating in the UK chemical distribution industry is positively influenced by six (6) external (business environment) factors, namely: (i) ***Political***, (ii) ***Economic,*** (iii) ***Socio-cultural,*** (iv) ***Technological,*** (v) ***Legal and Regulatory*** and (vi) ***Ecological and Environmental***.

This research followed a positivistic philosophy, adopted a deductive approach and utilised a survey strategy, involving the use of self-administered questionnaires, to collect quantitative data. All participating companies were SMEs as defined by the European Union, that is enterprises employing fewer than 250 people and with an annual turnover not exceeding EUR 50 million; located in the UK; not part of another organisation or belonging to a larger corporation; and without any manufacturing activity and capability.

Due to the fact that there was no official statistical data on the total number of SMEs operating in the UK chemical distribution industry, a combination of industry reports (Plimsoll, Chemagility, Keynote etc.), business associations (the British Association of Chemical Specialties, the Chemical Business Association, the European Association of Chemical Distributors, the National Association of Chemical Distributors, the North East Process Industry cluster etc.), internet sources (the Chemagility Online Database of Chemical Distributors and ICIS magazine), were utilised to produce a comprehensive list and thus determine the target population. Each of the identified SMEs was individually checked at a later stage to ensure that they fulfilled the criteria of the study.

The total number of SMEs in the UK chemical distribution industry satisfying the criteria was 180. No sampling technique was used but instead a census was conducted. Owners and very senior managers (CEOs, Managing Directors and Directors) of SMEs in the UK chemical distribution industry were the key informants, an approach extensively used by other researchers (i.e. Keskin 2006; O'Cass and Weerawardena 2009; Ojala 2009; Wilson et al. 2012). A total of 126 SMEs responded positively by returning the questionnaire, in a usable and valid form for statistical analysis, generating an overall response rate of 70%; this is against 118 respondents, 65.5% participation, in the pre-Brexit study. Thus, it can be argued that the findings of this study offer an accurate representation of SMEs operating in the UK chemical distribution industry.

8.5.2 Results

As in the original research by Lampadarios (2015), in order to identify the critical success factors (CSFs) for SMEs in the UK chemical distribution industry, owners/managers were asked to rank each of the suggested success factors, based on their importance to the industry. The scale was from 'Very unimportant' (1) to 'Very important' (5) with 'Unimportant' being 2, 'Neutral' being 3 and 'Important' being 4. As the items were classified according to whether they had more or less of a characteristic, the scale used was defined as ordinal. As the collected data had a ranking and no clear numerical interpretation, non-parametric methods were utilised for their analysis. Therefore, success factors, as perceived by the respondents, were ranked using the Kruskal-Wallis test of variance. The higher the mean rank, the median and mode values of a factor, the more important this was for small business success in the UK chemical distribution industry and therefore was considered a critical success factor. Table 8.1 presents the Kruskall-Wallis mean rank for each of the investigated success factors for small businesses in the UK chemical distribution industry, in descending order of importance. In order to investigate the effect of Brexit, the results of the original research are presented alongside.

Based on the Kruskall-Wallis mean rank, hypotheses 1iii (Entrepreneurial Orientation), 1vi (Prior Work Experience and Management skills), 2iii (Customer Relations Management), 2iv (Financial Resources), 2v (Internationalisation), 2vi (Human Capital), 2viii (Market and Product Development), 2x (Strategic Planning), 3i (Political Environment), ii (Economic Environment), 3v (Legal and Regulatory) and 3vi (Ecological and Environmental) were accepted; meaning that these factors were critical in the success of SMEs in the UK chemical distribution industry. All the remaining hypotheses 1i (Age), 1ii (Education level), 1iv (Gender), 1v (Personality), 2i (Age of the

Table 8.1 Critical success factors before and after Brexit

No.	Critical success factor	Mean rank After Brexit	Mean rank Before Brexit	Ranking Before Brexit
1	**Legal and regulatory**	2046.04	2049.69	**1**
2	**Ecological and environmental**	2042.17	2044.16	**2**
3	**Human capital**	2035.15	1800.58	**7**
4	**Internationalisation**	2030.45	1063.14	**15**
5	**Financial resources**	2015.27	1492.3	**11**
6	**Customer relations management**	2010.37	2028.42	**4**
7	**Market and product development**	1980. 95	1937.76	**5**
8	**Political environment**	1970.17	964.14	**16**
9	**Economic environment**	1895.94	1650.76	**8**
10	**Prior work experience and management skills**	1875.45	1811.82	**6**
11	**Entrepreneurial orientation**	1850.42	2035.51	**3**
12	**Strategic planning**	1657.35	1642.97	**9**
13	**Business networks**	1540.98	1555.43	**10**
14	**Personality**	1298.89	1473.43	**12**
15	**Education**	1235.45	1127.47	**13**
16	**Marketing**	1138.28	1117.29	**14**
17	**Technological environment**	727.16	743.97	**17**
18	**Socio-cultural environment**	625.81	639.43	**18**
19	**Size of firm**	402.82	397.19	**19**
20	**Age of firm**	380.14	385.15	**20**
21	**Age of owner/manager**	350.17	366.61	**21**
22	**Gender**	218.32	238.77	**22**

company), 2ii (Business Networks), 2viii (Marketing), 2ix (Size of company), 3iii (Socio-cultural) and 3iv (Technological) were not accepted, indicating that these were considered non-critical for the success of SMEs in the specific industry.

8.6 Discussion

This study establishes a positive relationship between eleven (11) success factors and SMEs success in the UK chemical distribution industry: Regulatory Compliance, Human Capital, Internationalisation, Financial resources, Customer Relations Management, Market and Product

Development, Political Environment, Economic Environment, Prior Work Experience and Management Skills, Entrepreneurial Orientation and Strategic planning. This further reinforces the previous study by Lampadarios (2015) which identified eight (8) success factors, namely Regulatory Compliance, Entrepreneurial Orientation, Customer Relations Management, Market and Product development, Prior Work Experience and Management Skills, Human Capital, Economic Environment and Strategic Planning.

Overall and in line with small business literature (i.e. Dobbs and Hamilton 2007; Islam et al. 2011; Simpson et al. 2004), SMEs success in the UK chemical distribution industry is found to be dependent upon many factors being optimal simultaneously. In fact, it is a combination of factors and not a selected few that lead to business success; satisfying one or two factors does not necessarily guarantee success. In other words, this research recognises and establishes the success of SMEs as a multidimensional phenomenon, affected by both firm-internal (enterprise) and firm-external (entrepreneurial and business environment) factors. The general view of this study is that if small businesses strive towards satisfying the identified critical success factors (CSFs) then they will be successful and achieve sustainable growth. During this process and based on the fact that change is identified as the one constant feature to be faced by chemical distributors in the future, flexibility and adaptability are deemed very important assets for SMEs in the selected industry. The ability to keep changing and adapting to new market conditions quickly is also considered a key to success and sustainable growth.

The most important factors affecting the success of SMEs in the UK chemical distribution market continue to be *Legal and Regulatory* and *Ecological and Environmental*. Complying with current legal requirements, coping with strong regulatory trends and overcoming future regulatory challenges are seen as critical in the success of small businesses in this industry. In line with the previous study (Lampadarios 2015) and in the context of the UK chemical distribution industry, these two factors are amalgamated and reported under 'Regulatory compliance'. Despite the fact that SMEs, unlike their larger counterparts, are considered to be more flexible, adaptable and thus less being able to cope with the business environment more effectively (Adams et al. 2012; Forsman 2008; Raju et al. 2011), regulatory compliance is irrespective of size. Inevitably, all SMEs operating in the UK and European chemical distribution industry have to fully implement the measures necessary to comply with regulations else face the real risk of being excluded from the market. A compliance strategy needs to be developed and implemented while a long-term, flexible outlook on regulatory requirements, especially on REACH and competition law, has to be maintained. This becomes even more critical in the era of Brexit, as the UK detaches itself from the European Union, where regulatory changes are to be expected. Once again, the uncertainty of whether laws, regulations and requirements will change, be modified or even abolished—not to mention the introduction of new—reinforces the criticality of compliance.

Initially, it appears that there have been no significant changes in the factors critical to SMEs' success in the UK chemical distribution industry. However, upon closer examination, a distinct shift within the success factors is noted. In more detail, certain factors, namely the political environment, financial resources and internationalisation, that were previously not considered critical are now deemed as highly influential in the success of small businesses in the specific industry. The fact that the number of success factors has increased from eight to eleven, suggests that Brexit has created a far more complex and challenging environment for UK SMEs to operate in.

The *Political environment* has not unexpectedly emerged as a critical success factor. Whereas in the past political stability was taken for granted and had come to be seen as a precondition for high industrialisation, innovation and business success (Allard et al. 2012; Guo and Shi 2012), recent events in the light of Brexit and consequent developments in the political arena, mainly in the form of general elections and a change in Prime Minister, have disrupted this long-established stability. As a result of this disruption, SMEs have already started experiencing changes in their business environment, to which they need to respond. In the short term, even though the Brexit process has not been concluded yet, the mere uncertainty of the process and the strong, ongoing opposition against it ('Remain') has already impacted the markets in the form of internal and foreign investment and the exchange rate. Overall, there is a reluctance to invest in the UK until stability is once again achieved and the currency value, which significantly reduced in the last years, is somewhat restored. After all, government stability, and the absence of internal conflict and tensions are highly significant determinants of foreign investment inflows and internal investment. The current situation appears to be less than optimal. As funding is a critical prerequisite in SME development, the lack of it increases business complexity and requires meticulous planning to cope with long- and short-term needs. In the longer term, there is an increasing concern and uncertainty about the emerging government policies and regulations with regard to the directions, intentions and commitments of the government towards SMEs support and development. As government support is a necessary condition to successfully foster SME development and success, the formulation of new relevant laws and regulations, tax policies, financial support and loans, the provision of education, training, information and advisory services and the necessary infrastructure is seen as critical.

Financial resources in general and cash flow in particular are critical issues for growing businesses (Barringer and Jones 2004). Taking into consideration the reluctance of financial organisations (banks, investors, the Government) to lend to businesses with low levels of collateral, especially in times of recession and turbulence (Harrison et al. 2004; Rutherford et al. 2000), it becomes evident that a lack of available cash flow or external finance can result in the firm being unable to adequately fund operations and pursue market opportunities (Carter and Van Auken 2005). The overall uncertainty over Brexit is likely to make potential investors more cautious and reluctant and can potentially limit the amount of available funding and financing to smaller businesses. Thus, it is becoming clear that SMEs need to proactively monitor cash flow and maintain an open dialogue with their banks and investors, as they are likely to need more than one source of finance to both start and sustain their business. In fact, it is likely that smaller businesses, especially during turbulent times, might need a higher level of capitalisation to provide flexibility in 'buying time', changing course and undertaking more ambitious strategies. Understandably, in an environment ever increasing in complexity, coping and adapting to the changing economic conditions under Brexit and securing funding while being flexible in planning and maintaining a proactive outlook allowing for change, requires focus and resources. Under the current conditions, financial resources have become a critical success factor.

Even though *Internationalisation* has always been an intention and part of the growth agenda for SMEs in the UK chemical distribution industry (as highlighted by Lampadarios 2015), it appears that recent events may have forced smaller businesses to reconsider the importance of their operations' outward movement. In an era of uncertainty, where trading agreements with the EU and other major exporting markets are being agreed on new terms, the fact that internationalisation is now deemed as highly influential in the success of small businesses in the specific industry is to be expected. To be more specific, establishing their position in existing markets, particularly in Europe, and/or even searching for new markets to potentially offset the impact of potential loss of business in Europe has certainly moved up higher in their agenda. Exporting to clients in new geographic markets, directly or through sales agents, and/or foreign direct investment (FDI), i.e. by setting up operations in other countries directly or through acquisitions, are strategies increasingly employed by SMEs (Lu and Beamish 2001) in an attempt to broaden their customer base and mitigate risk in home countries.

Due to the key characteristics of small- and medium-sized enterprises (SMEs), that is, their liabilities of smallness and/or newness (Westhead et al. 2001), cooperative internationalisation, that is, cooperation with international partners, is becoming an increasingly attractive option for them. According to Swoboda, Meierer, Foscht, and Morschett (2011), alliances generally allow firms to focus on their own competences while relying on their partner(s) in other areas, but international alliances are increasingly being used to provide firms with specific advantages, such as access to distant countries at reduced risk. International alliances are defined as joint ventures, licensing, distribution and/or production agreements (Bierly and Gallagher 2007).

While internationalisation can be a source of growth in the profitability for firms, it can also generate losses since it is very risky for firms to survive in the internationalised environment. Empirical evidence suggests that success in the home countries does not guarantee success internationally (Bianchi and Ostale 2006). Firms venturing into the foreign markets have to face uncertainty and risks which entail a process of learning and adaptation (Zhou et al. 2007). Overall, precious resources—human, financial and time—have to be allocated to ensure success.

Last, there has been a notable reinforcement in the importance of *Human capital*, which is worth discussing further. All in all, the UK chemical distribution industry continues to be a very customer-focused and customer-facing industry with the human factor having a significant influence on business. In fact, since chemical distributors do not actually manufacture products but rather distribute them, the services offered by them depend far more on human rather than on technical or logistical resources. Therefore, it can be argued that the noted increase in the significance of human capital as a critical success factor is attributed to Brexit and simply reflects the concern of UK SMEs on its potential upcoming effects on their ability to attract, develop and retain skilled and capable employees. The accumulation of new knowledge, skills and experience through human resources has always been considered instrumental in small business success (Bennett 2006; Dobbs and Hamilton 2007; and as such, any sudden change, for instance Brexit, that could potentially restrict the availability and/or diminish the access to the pool of skilled employees in the market, is a cause of serious concern. To be more specific, since June 2016 when the Brexit vote was ratified, there has been a documented exit of not only technically qualified and skilled people but also of unskilled labour from the UK. In the first instance, it appears that there is indeed a restriction in available resources for recruitment and an underlying issue with EU employee retention that needs to be addressed immediately.

8.7 Conclusion

Critical success factors for small- and medium-sized enterprises (SMEs) are not only dependent upon the country and industry settings but are also influenced by any radical changes in the wider business environment. Brexit, an unprecedented event in the political scenery, which has been rapidly developing as a phenomenon, has destabilised the environment small businesses operate in and has inevitably altered the perceptions of owners/managers on which factors are now critical to success.

Overall, the initial introduction of uncertainty, speculation and debating, has created a far more complex and challenging environment for UK small chemical distributors. Research indicates that not only there has been an increase in the number of success factors but there has been a distinct shift within these factors. Certain factors, namely the political environment, financial resources and internationalisation, that were previously not considered critical, are now deemed as highly influential in the success of small businesses in the specific industry. Regulatory compliance and human capital remain critical but with their importance reinforced. The set of critical factors also include the previously identified Customer Relations Management, Market and Product Development, the Economic Environment, Prior Work Experience and Management Skills, Entrepreneurial Orientation and Strategic planning.

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Integrating Business Model Innovation and Corporate Governance in Family-Owned SMEs: A Dynamic Capability Perspective

Paolo Di Toma

9.1 Introduction

In recent years, business model innovation has been the focus of a growing debate within the world of academia and business. A business model has been conceptualised as a system of interdependent activities enabling a firm—in concert with its partners—to create, and capture a share of, value (Zott and Amit 2010). It identifies the fundamental pillars on which a company conducts its business and helps managers and entrepreneurs to create a shared understanding of how their firm will generate value, as well as serving to communicate these ideals among internal and external stakeholders. As business model innovation may provide a remarkable competitive advantage, firms are increasingly motivated to develop the organisational capability to design and execute substantial

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changes in the ways they create and appropriate value (Casadesus-Masanell and Zhu 2013; Zott and Amit 2007).

In family-owned SMEs, the involvement of family members in ownership and/or managerial roles may exert a substantial influence on the firm's business model and its innovation trajectories. Family members are often closely linked to strategic decision-making, addressing and evaluating desired goals, managing resources, or developing the necessary organisational capabilities (Kammerlander et al. 2015; Karagouni 2018). Investigating how unique family characteristics translate into dynamic capabilities may shed light on how small family firms innovate their business models and create sustainable value over time.

The innovation of a business model is the result of dynamic capabilities (Teece 2010: 40). Recent efforts have explored the ways in which firms establish organisational processes enabling them to integrate, build, and reconfigure internal and external competences, thus leading to dynamic capabilities (Helfat et al. 2007; Helfat and Peteraf 2015; Teece et al. 1997). However, there is a lack of theoretical understanding and empirical evidence on the role of corporate governance in the development of dynamic capabilities in the context of SMEs and family firms. As dynamic capabilities are a rightly acknowledged source of sustained competitive advantage in rapidly changing environments, this research gap is especially relevant due to the possible influence of corporate governance on strategic decision-making, as well as its authority and control over the allocation and orchestration of organisational resources.

This study attempts to fill this gap by using a resource-based view (RBV) of the firm, as well as building upon recent research addressing the enterprise dimension of corporate governance. It examines how corporate governance practices may influence resource management, thus leading to dynamic capabilities. It employs a single revelatory case (Yin 1994) to investigate the process by which a family-owned SME in possession of an exclusive material transformed its resource base and built firm-specific know-how which enabled the development of dynamic capabilities. The research focuses on the interconnection of these processes with corporate governance practices, and how appropriate variations led to business model innovation.

This study advances previous research by focusing on how corporate governance may affect the capabilities development process, which in turn enables a firm's business model innovation. A major insight uncovered by this research relates to the substitution effect between social capital and corporate governance for resource acquisition according to a firm's strategic needs. Furthermore, this chapter sheds light on how a new CEO and management team in entrepreneurial firms may establish practices facilitating the development of firm-specific knowledge, thus propelling business model innovation.

The study is organised as follows: the following section will briefly introduce the study's main theoretical constructs and some missing links in explaining the influence of corporate governance on family firms. Subsequently, the methodology of the research will be described. In the following sections, after a description of the case study, specific statements will be delineated on the basis of the case analysis, linking it to the results of previous research. Finally, the discussion section will outline the broader implications of the study.

9.2 Theoretical Foundation and Context: Corporate Governance and the Development of Dynamic Capabilities

Corporate governance refers to the formal and informal structures and processes present in oversight roles and responsibilities in a corporate context (Hambrick et al. 2008:381). Small entrepreneurial firms struggle with such unique challenges as resource acquisition and employment, as well as knowledge management and the development of organisational capabilities (Zahra and Filatotchev 2004). When a business is family-run, value creation attributes are embedded in the firm's governance system (Carney 2005). This unique mixture of resources—combined with the effects of resource management—may sustain value creation in family firms (Sirmon and Hitt 2003).

Among the available resources, social capital provided by the family member who owns the business plays a crucial role in the company's strategic ability to sustain both growth and business innovation (Sirmon and Hitt 2003; Chirico and Salvato 2008; Pearson et al. 2008; Salvato and Melin 2008). Social capital refers to the goodwill engendered by the fabric of social relations that can be harnessed to facilitate action (Adler and Kwon 2002:17). Previous literature has discussed how social capital involves structural, relational, and cognitive dimensions, as well as how the attributes of each dimension may serve to influence the combination and exchange of resources within firms and, in turn, value creation (Tsai and Ghoshal 1998; Nahapiet and Ghoshal 1998; Arregle et al. 2007). The availability of social capital is dependent on an actor's position in, and the structure of, social relations. Furthermore, it may originate from relationships within a social community ('bonding' social capital) or with other external actors ('bridging' social capital). In these ways it can promote access to, and control of, resources and assimilation of knowledge (Adler and Kwon 2002; Kwon and Adler 2014). As the acquisition and exploitation of knowledge is mainly an outcome of social processes, social capital may become a critical antecedent for a company's long-term survival and profitability, and therefore represents a key resource in developing business model innovation. While the sharing of values and goals inside of firms is crucial for internal social capital, previous research has somewhat neglected how family-related social interactions may influence a firm's capability to develop a dynamic adaptation strategy (Salvato and Melin 2008). Investigating how corporate governance practices may be tactically employed for coping with strategic needs may provide useful insights into business model innovations in small family-owned firms.

Since the CEO in such firms is typically the locus of control and decision-making, changes made in this position can affect the firm's method of governance and its fit with the strategic dynamics, and serve to highlight business model innovation in SMEs. Similarly, changes in governance and managerial positions may affect resource acquisition and strategic decision-making due to strategy stemming from the knowledge, competence, and interactions of the actors involved (Wirz 2011). These all have relevant implications for small firms pursuing business model innovations which require the building and developing of differing capabilities (Zahra and Filatotchev 2004; Zahra et al. 2009). An appropriate identification of knowledge residing outside the firm, and the capacity to absorb and tailor it to new processes, develops innovation and opportunities recognition (Cohen and Levinthal 1990; Zahra and George 2002). Hence, the ability to successfully employ such knowledge for market purposes promotes opportunities exploitation (Tsai 2001; Ireland et al. 2003).

Resource transformation into appropriate capabilities is a key ingredient to gaining a competitive advantage and reaching superior levels of performance. Resource creation processes are path dependent, idiosyncratic, and would be congruent with particular environmental and task combinations (Bowman and Collier 2006; Miller 2003; Thrassou et al. 2018). Thus, the pathways of capability development may be influenced by the interaction between the firm's governance with its external environment and organisational knowledge (Gedajlovic et al. 2004; Zahra and Filatotchev 2004). In addition to the firm's resource base, organisational and strategic processes are also crucial for managing resources and implementing value creation strategies (Ireland et al. 2003; Sirmon et al. 2007). Individuals in positions of authority, such as senior managers or board members, can influence the development of capabilities by undertaking specific initiatives and establishing organisational routines. Dynamic capabilities allow firms to renew competencies and strategically arrange and assemble organisational resources, skills, and routines to adapt to evolving competitive conditions as deemed fit by the firm's principal decision-maker(s) (Zahra et al. 2006:924). The concept of dynamic capabilities relies on the RBV and relates to adaptation and change (Easterby-Smith et al. 2009; Zahra et al. 2006). A dynamic capability refers to a firm's capacity to purposefully create, extend, and modify its resource base (Helfat and Peteraf 2009) and requires the ability to manipulate substantive capabilities into those of a higher order (Zahra et al. 2006). Therefore, exploring the mechanisms upon which they are built and sustained may illuminate how firms manage their resource and knowledge bases, as well as providing insights into their organisational processes for systematically innovating their business models.

9.3 Methodology

9.3.1 Research Design

This study was conducted with the aim of improving our understanding of how governance processes interact with the formation of dynamic capabilities for the innovation of the firm's business model. A further aim of the study was to focus the topic in the context of family-controlled SMEs. During the process of identifying a research site, we searched for pertinent cases whose theoretical background could be expanded upon through new insights into conceptual categories (De Massis and Kotlar 2014; Siggelkow 2007; Tsang 2014; Zahra 2016). The research site was selected after an introductory conversation with the CEO and a preliminary collection of information from secondary sources. The first collection of information gathered uncovered an opportunity to study the development of organisational capabilities aimed at business model innovation. In addition, evidence was found of the role played by governance processes for the development of such capabilities.

The single case study approach was deemed suitable due to the research's investigation into organisational and managerial processes and its addressal on 'how' and 'why' research questions on contemporary events in a real-life context (Yin 1994). The factors that influence the development of dynamic capabilities leading to business model innovation in a family-owned SME will be explored. Moreover, the research site ensured a high level of access to information from a wealth of primary and secondary sources (Yin 1994; Siggelkow 2007; De Massis and Kotlar 2014). The investigated firm was small and family-owned and specialised in the manufacturing of high-quality materials for the building industry. It was established in 1981 by a building contractor who held a majority share and took over the running of the business while serving as the chairman.

9.3.2 Data Collection

To examine the research topics in depth, data from multiple primary and secondary sources were collected over seven months (Miles and Huberman

1994). Semi-structured interviews were conducted separately with informants serving at different governance and organisational levels so as to yield a more accurate analysis and represent differing views (Yin 1994). Respondents were chosen based on their involvement in the firm's strategic and organisational processes and their power and responsibilities within the company. The informants represented ownership, and were either directors or managers at the higher level of the company. Family members were defined as being those of the first and the second generation currently involved in the business as directors or managers (see Table 9.1). Interviews, of an average length of two hours, were conducted during several formal and informal meetings. The interviews were audio-recorded and transcribed after each meeting. The data from transcriptions and written notes taken during the interviews were subsequently matched and observations were written so as to crystallise emergent ideas (Bryman and Bell 2007). Different data collection strategies and sources of data were employed to ensure construct validity (Gibbert and Ruigrok 2010; Gibbert et al. 2008; Tracy 2010).

9.3.3 Data Analysis

Data analysis was guided by theoretical concepts regarding corporate governance, business model innovation, and dynamic capabilities. As collected, the data was inductively analysed, closely following the guidelines for qualitative inquiry, including techniques for the iterative comparison

Table 9.1 Informants and job position at the time of the interviews

Informant	Number of interviews	Family/Non-family member
President (founder)	1	Family
CEO	3	Family
Marketing manager	2	Family
Non-executive director	1	Family
Sales manager	1	Non-family
Production & quality manager	1	Non-family
CFO	2	Non-family

of data and an emerging data structure (Miles and Huberman 1994). The data were triangulated among respondents who were required to recount their experiences and opinions so as to obtain information from their individual points of view. The data acquired from interviews was then triangulated with that from secondary sources, such as published and unpublished documents gathered by the researchers (Gibbert et al. 2008). Collected data was stored in a database specifically designed for the task of structuring and clarifying information. Following on from this, we recursively iterated between data and theoretical constructs (Bryman and Bell 2007). Open and axial coding was used for data analysis (Locke 2001). To ensure reliability, the study utilised peer debriefing by employing several formal and informal meetings with colleagues to verify the selected methods and resulting patterns. Additionally, earlier drafts were reviewed by peers and presented during seminars and workshops, which provided useful suggestions regarding our methods and emerging patterns in the data. While the findings result from the collected data, it must be stated that they are an outcome of the interaction with the previous literature. The level of abstraction was achieved throughout the analysis, and each time the research progressed into emerging theoretical constructs, we went back through the data to maintain consistency and confirm or refine our ideas as and when required (Brown and Eisenhardt 1997). The research achieved external validity due to the phenomenon of interest being investigated in its own context, and the demonstration of specific contingent conditions under which the postulated mechanisms operate (Tsoukas 1989; Gibbert et al. 2008; Fletcher et al. 2016).

9.4 Research Context

The research context was a small family-owned Italian company manufacturing high-quality materials for the construction industry. This context was considered appropriate for several reasons. First, after developing the ability to innovate products and production facilities, the company had been implementing strategic and organisational changes that were fuelling business model innovation. Second, changes in the governance structure and board led to the appointment of a new CEO (a member of the family) who enhanced the firm's professionalisation by recruiting non-family managers to train staff. The board members, without operating roles, had nonetheless helped to drive innovation in the business model. The development of technical know-how fuelled not episodic changes in the business model, but the systematic organisational capacity for its innovation. Therefore, the firm was a suitable context for investigating how corporate governance can influence the generation of dynamic capabilities that sustain the business model innovation in a small family-owned business.

The firm was established in the early 1980s by an entrepreneur in the construction industry who took the opportunity to acquire a patented organic additive. This resource allowed the creation of a perfect mixture of raw materials with innovative specificities. In particular, it allowed the use of polystyrene beads with cement to create building products with insulating properties and lightness—completely new at the time—such as thermal insulation plaster and mortars. Lightweight materials offer a well-recognised advantage in building and, together with insulating properties, improve the quality and comfort of the resulting structures. The organic additive was also promising for future use in developing a portfolio of innovative products ensuring distinctive properties, such as fire or acoustic insulation.

In the company's start-up stage, the main concerns were both new products and a new market niche creation. At first, given its exclusive organic additive, research was required for developing and testing the resulting materials. A large amount of effort was directed towards finding the appropriate combination between such basic heterogeneous components, as well as towards the production processes and equipment themselves. The existing standard equipment was unable to mix components with such differing weights, thus the firm had to design or modify a range of specialised equipment to carry out its production cycle. Much effort was required to publicise the firm's innovation by commercial activities and to establish its own premises so as to take advantage of this new niche in the market. The building materials industry at the time was highly fragmented, with many micro and small firms operating in local areas. Given the remarkably high delivery costs, the firm's products were not competitive further than 200 km from its own production site. For its first decade, the firm underwent a pioneering stage, focusing mainly on developing innovative materials, new equipment, production techniques, and the promotion of its quality materials. However, this period saw modest performance and growth. Investment was required to accelerate growth and resource acquisition was crucial to exploit potential opportunities, but conflicts emerged among the owners on growth strategies. To combat indecision, the founder's family took over the majority of the shares a few years later and a founder's son was appointed as the new CEO.

Since his appointment, the CEO carried out substantial organisational changes aimed at innovating the firm's business model. His first acts were to establish a sales department and distribution channels, and he made investments to increase production capacity and automate industrial processes. In the following years, the firm developed exclusive technology and expertise enabling the design and realisation of specific equipment for mixing components so as to fully utilise its patented organic additive. Based on previous research improvements, a range of innovative products were developed, such as thermal-dehumidifying plaster, fireproof plaster, floor foundation, and so on. In a few years, the firm radically innovated its business model which ensured continuous and outstanding growth. In the hope of switching the firm from a product-oriented to a market-oriented firm, the CEO recruited a sales manager to drastically restructure the sales department, distribution channels, and market segmentation in order to identify new opportunities and exploit existing ones. Commercial efforts were focused on not merely selling lightweight and insulating materials but, given its exclusive properties, on changing the product concept into a value-added solution for building. This variation in the value proposition stemmed from the firm's particular know-how, but required a new commercial approach and technique. Commercial employees were trained to acquire technical troubleshooting skills in building, and to then transfer this expertise into customer relations. This approach was indicative of a crucial change in the firm's strategic positioning, thus promoting the firm as a source of unique and valuable knowledge in its competitive environment. Over time the firm became a unique provider of specialised know-how within its field, and accumulated an extensive and unique database of information regarding the topic that strengthened its distinctive knowledge. The CEO implemented an improved degree of functional specialisation and, in a few years, progressively created a managerial team by appointing qualified non-family managers who could offer the organisation new competences and expertise. According to the CEO's directives, each senior manager was tasked with the organisational restructuring of their own department regarding employee positions, task specialisation and compensation, redesigning processes, establishing procedures for increasing efficiency, and developing organisational capabilities. Much effort was devoted to training human resources with the aim of increasing the knowledge assimilation provided by the new managers, developing the appropriate capabilities required by growth, and by evolving strategic challenges.

9.5 Findings

An initial finding of this research concerns the substitution or complementarity effect between the social capital of family members and corporate governance practices. The data reveals that, since the firm's establishment, the interaction of family members' social capital and corporate governance practices with organisational processes has had an influence on business model innovation (see Table 9.2). The founder's previous experience and connections in the building industry provided the prior knowledge that served as a platform for a first definition of the value proposition. Furthermore, the founder's social capital allowed the involvement of other entrepreneurs to establish the firm as a new venture.

In the years following the firm's establishment, divergences on how to deal with strategic challenges resulted in a number of variations in the ownership structure and board composition. Again, the founder's social capital allowed for the recruitment and involvement of new partners in providing the required resources to support new investments. A further crucial support supplied by the founder's social capital was the value of his personal reputation and relationships with the banking system. This support enabled the firm to gain the necessary financial backing for sustaining development, thereby avoiding further variations to the ownership structure. The social capital of family members played a complementary or substitutive role to corporate governance practices.

Table 9.2 Family members' social capital and corporate governance

Family member position	Areas of substitution effects between family members' social capital and corporate governance practices.
President (founder)	Ownership structure
	Access to financial source
	Power allocation among family members and long-standing employees
	Internal accountability
	Industry knowledge
CEO	Leadership management
	Strategic repositioning
	Internal accountability
	Recruitment of non-family managers for high-level positions in the hierarchy
	Monitoring management performance
Non-executive director	Access to external technological know-how and expertise
	Internal accountability
Marketing manager	Access to external information and expertise about market opportunities
	Network of peers that allowed identification of new economic opportunities
	Internal accountability

The founder and a brother of the CEO served as non-executive director while running another business involved in construction. These two were able to regularly provide information vital to improving the firm's technical know-how. They tested and provided feedback on new products and their application on construction sites, as well as suggestions for further improvement. They also offered their own personal industry-specific knowledge and managerial expertise when the board was either confronted with strategic challenges or had to evaluate new projects and investments. Among the family members, a founder's daughter—in charge of the firm's marketing department—was actively involved in the local entrepreneurial association, thus developing a network of personal relationships which became a source of business information. The firm took advantage of this network by entering into a new market niche involving polystyrene-made furniture accessories.

A further finding of this research concerns how a family CEO can contribute to business model innovation in a family-owned SME. By establishing practices for coordinating and linking differing managerial and family resources, a family CEO may build up a firm's unique expertise to facilitate the development of new dynamic capabilities leading to business model innovation. The data suggests that the specific knowledge developed by the firm relies heavily on the relationships and interactions between the family and business systems. In this way, the CEO acts as a link between the board and the management team, thereby establishing appropriate practices for coordinating and linking the tools available to the firm, namely resources and knowledge. The CEO promoted systematic and substantial interaction and information sharing among the managers, which in turn stimulated their effective involvement in strategic decision-making and problem-solving. The dynamic adaptation of the firm's capabilities was allowed as a consequence of this increased cohesion and establishment of a shared firm-specific knowledge. By these means the CEO coordinated the resource diversity for developing a specific know-how generating new dynamic capabilities for enabling business model innovation.

Finally, this research found that by new product sequencing, the CEO and senior managers gained the ability to alter the firm's development-sustaining knowledge base. The data collected shows that the CEO and senior managers established and ran new product sequencing processes to progressively enable and reinforce an iterative process of knowledge acquisition, assimilation, and exploitation. New product sequencing became an organisational capability that allowed the development of specific technological and customer knowledge. By managing the reciprocal interplay between these connected (but distinctive) typologies of knowledge, the managers repeatedly renewed the firm's knowledge system, thereby ensuring the development of new dynamic capabilities which could sustain business model innovation. For example, customer knowledge acquired on thermal insulating plaster and mortars revealed the benefits of developing acoustic insulating products. Therefore, by exploiting customer knowledge, the firm increased its technological know-how, which in turn led to a variety of new products. By establishing relationships with customers, managers obtained information which could be employed for increasing the knowledge of those customers' needs, as well as ideas for further improvements for increasing product quality, services, and relationships. This information was also beneficial for commercial activities, leading to an exploration of new niches. This provided additional information for further developing the applications of the firm's patented organic additive into new products for specific uses in the field, such as climatic conditions, modern and ancient buildings, and so on. Relationships established with external technicians became a further source for enriching technological knowledge. Not only did these relationships provide information on application requirements and new product properties, but also presented directions for extending customer typologies. Leveraging on its dynamic knowledge system, product sequencing dynamic capability led to the renewal of the firm's knowledge system, enabling it to extend the scope of its business and the speed of reaction to emerging opportunities within the market.

9.6 Discussion and Conclusions

This study investigated how corporate governance practices, by interacting with resource management processes, may affect the development of dynamic capabilities enabling business model innovation. It focused on how a family-owned SME developed these capabilities by managing its unique resource base. The findings suggest that the strong influence of family social capital on the management of resources and knowledge can effectively facilitate the development of dynamic capabilities. Furthermore, by adapting its corporate governance practices, a family-owned SME can streamline the resource management process in order to overcome resource constraints and achieve successful, and sustainable, growth.

This chapter serves as a response to a deepening interest within scholars and managers for better understanding the factors which condition the effectiveness of corporate governance in entrepreneurial firms (Zahra and Filatotchev 2004; Zahra et al. 2009). The findings show a mutual interplay between the firm's corporate governance and strategic dynamics, thus supporting the notion that corporate governance practices should be strategically employed for effectively coping with strategic challenges. The focus on the innovation process of a small firm's business model allows for a clear observation of necessary changes, and the interaction between strategy and corporate governance.

A contribution of this study is found in the related complementarities and substitution effects between social capital and corporate governance as a driver for enabling the organisational processes which lead to business model innovation. The founder's social capital was found to influence the firm's accountability. Especially influenced were the firm's cultural values and norms which guide and shape managers' decisions, and the type of behaviour that has been referred to as implicit accountability (Zahra et al. 2009). The appointment of the founder's son as CEO led to a partial reshaping of the family's social network, as well as the relational norms and values affecting the firm. Such variations allowed a further change in the ownership and board composition and established informal—but not friendly—relationships with non-family managers. The new CEO's social capital supported the selection and recruitment of non-family managers and relationships among them—the upshot of which favoured resource management processes and organisational learning mechanisms, leading to dynamic capabilities that enabled business model innovation. The firm's system of governance can aptly be described as an established and reinforcing accumulation of authority relations, norms of legitimacy and incentives (Gedajlovic et al. 2004), structured decision-making rules, and rights, responsibilities and relationships among the key stakeholders involved. The findings suggest that social capital and corporate governance practices interacted to adapt the firm's norms of accountability and to change the firm's resource base, thus allowing the required organisational processes for systematic business model innovation. In this way, the present study advances the existing literature by shedding light on the specific contingencies influencing the beneficial role of the family in business (Miller et al. 2013).

A second contribution of this study refers to how specific knowledge and new product development may enable successful business model innovation. While this firm developed—through the use of an exclusive resource—a number of new innovative products and machinery, superior performance and growth were not so easily ensured. Value creation requires both opportunity-seeking and advantage-seeking behaviour and involves bundling resources and deploying new organisational configurations (Ireland et al. 2009). The knowledge acquired from customers contributed to the development of new products, which in turn required the input of relevant complementary information, such as market knowledge, often possessed by competitors (Danneels 2002). Furthermore, prior knowledge provided by family members and their involvement in the day-to-day practice of strategy was shown to be a key source of information due to their involvement in governance and managerial roles. This familial contribution allowed the improvement of relation-specific knowledge, subsequently increasing the potential for further innovative combinations (Zahra et al. 2009). By managing both market and technological knowledge, the firm developed a specialised know-how which became the prevailing source for innovating the firm's business model. The findings suggest that, by developing new products, the company learnt how to link and de-link its exclusive knowledge into new applications to satisfy customers and meet new market demands. The recursive process of exploration and exploitation increased the firm's strategic flexibility. Consequently, by managing the flow of information, the managers developed a new system of knowledge and transferred it into organisational processes. This in turn focused the firm's value proposition on the capability of providing highly innovative solutions for the industry, overcoming the reliance on the patented organic additive as the prevailing driver of the firm's competitive advantage.

This study has attempted to investigate how corporate governance practices interact with resource management and so affect the development of dynamic capabilities leading to business model innovation in a family-owned SME. It analysed the case of a firm which saw sustained growth over the last year by developing dynamic capabilities starting from an exclusive resource. Its experience provides an illuminating example of how changes in its strategic positioning and corporate governance system were integrated, resulting in a deeper evaluation of contingencies to influence business model innovation.

9.7 Limitations and Further Research

Aside from its theoretical and managerial implications, this study has limitations. One such limitation relates to the empirical generalisation of the findings—as is the case with any qualitative research based on theoretical generalisation (Tsang 2014). The selected case was chosen as it seemed appropriate to investigate the topic of interest, not because of its empirical representativeness (Eisenhardt 1989; Miles and Huberman 1994). Therefore, a rich case description and constructs were provided to enable managers and researchers to evaluate the findings in a variety of contexts. As the investigated topic has so far been relatively unexplored, future research should gather additional data so as to replicate and generalise its findings. By using a wider base of qualitative data, future researchers will be able to add detail to how corporate governance and resource management processes are intertwined in developing business model innovation. Compared to the extant literature, this research was conducted based on a theoretical background comprising the RBV and recent studies on corporate governance in entrepreneurial firms. Although they are duly recognised in the current study, future research could benefit from alternative theoretical lenses, such as organisational learning.

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10

The Competitiveness Challenge for SMEs: The Case of Târnave Wine Cluster, Romania

Valentin Cojanu and Liane Tancelov

10.1 Introduction

It is said that wine gets better with time. For the Romanian wine, the adage resonates better with the vagaries of the industry's evolution rather than the oenologists' opinion. Romania is traditionally one of the largest wine producers in Europe—the sixth, and even thirteenth in the world (IOVW 2018)—but is hardly visible on the exports market. Selling abroad less than 4% of total production, in contrast to shares of 40–50% for countries with similar domestic conditions, such as Spain, Portugal, or Bulgaria (Chirita 2018), Romanian producers struggle to level off the potential of a highly acclaimed *terroir* with the exigencies of global competition.

The last two decades brought a major change in the Romanian wine industry, ensuring eventually the passage from a sluggish sector,

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reminiscent of the communist economy, to a dynamic one, empowered by market-based business decisions and entrepreneurial activism. In 2018, Romanian wine exports reached 30.4 mil euros, up to 13.4% in value terms compared to ten years before (APEV 2018). Crucial to this seemingly irreversible transformation has been the increasing positive influence of the largest companies—between 45% and 49% of the total wine market in Romania is accounted for by 25 producers, whose turnover is at least 1 mil euros each (Agrosynergie 2018, p. 2)—as they have been instrumental in revitalizing the industry with the help of private investments, absorption of European funds, and infusion of foreign expertise.

Although important, the change did not lead to tangible signs of superior competitive advantages. With 0.04% of the EU wine exports in 2018, according to Eurostat data, the Romanian wine industry has barely advanced along high value-added segments on the final stages of the supply chain. The wine sector's global value chain has lengthened considerably in the last decades towards downstream specialization. Widespread changes affecting apparently the entire agricultural sector (Lewis et al. 2019) allow increased added-value to flow from grape and wine production to market-driven operations, among which consumer preferences are paramount to long-term success (Vrontis et al. 2011; COGEA 2014, p. 17; Mann et al. 2018; Ratten 2018). As reported by sector actors themselves, the challenge to go through a learning process about the present competitive environment represents an entirely novel experiment for companies used to cater to the needs of low-end market segments.

This chapter investigates the reasons behind the poor competitive performance and especially about the role small and medium-sized companies (SMEs) are expected to play to address the competitiveness challenge. The theoretical framework of cluster analysis suggests itself almost naturally for this task. The nature of competition in winemaking is characterized by a *terroir* model and a relatively large degree of horizontal specialization, which makes the value chain dependent on the presence of a significant number of SMEs. This is explained by the specific territorial agglomeration of businesses around one or more vineyards, which, even if not operated by large companies to capitalize on economies of scale, can bring the final product to the market only through an extensive network of horizontal linkages between companies of relatively small size.

We illustrate this business perspective with the case of the Târnave wine cluster in Romania, one agglomeration of excellent potential and notable recent evolutions but with trouble adapting to the competitive requirements of the international competition. The case evolves along two organizing themes: What were the incentives that brought a revival of the Romanian wine industry? Does the role of SMEs in cluster formation play a pivotal role in this revival? The case answers the two themes by introducing first the economics of wine industry and the context of its development in Romania. A profile of the Târnave cluster (mapping, performance, and key competitiveness issues) tackles next the role of SMEs in upgrading competitive advantages in the Romanian wine industry. The chapter findings draw on literature research, sector statistics, interviews with cluster representatives and industry officials, and specialized reports and data from the Romanian Ministry of Agriculture and Rural Development. The chapter concludes with policy recommendations for SMEs with a view to increasing their role in cluster development and competitive upgrading at both industry and local level.

10.2 Clusters, SMEs, and Their Role in the Romanian Wine Industry

10.2.1 The Economic Conditions of Winemaking

Wine, like any other produce of agriculture, depends heavily on natural conditions. The soil type, geology and micro-climate of a crop's growth habitat together determine the *terroir* factors that affect the quantity and the quality of wine production. Separate production lines are ultimately needed to produce the whole range of wine varietals, from white to red, from *premier cru* to sparkling and to fortified, but a handful of primary activities account for the most common description of the wine value chain. The winemaking starts with land preparation and crop maintenance, continues with grape harvesting or procurement, which represent

40% to 60% of total production cost (Larreina and Aguado 2008; Porter and Bond 2013), and advances along increasingly manufacturing and commercial operations such as crushing, fermentation, and aging, extended with bottling, packaging, and labelling on the way to the marketplace.

Winemaking is both land- and time-intensive. The quality of grapes and hence of wine is mostly a result of the *terroir*, presumably a high-impact factor on vineyards' profitability (De Salvo et al. 2017). The growing region is almost equivalent of a wine variety, an inseparable item of label information which is standardized under various quality classification systems as *Denomination of Controlled Origin* (DOC) or *Protected Geographical Indication* (PGI). In terms of quantity, the harvest follows the life cycle of the vine, which has a productive life of 60 to 70 years, of which five to seven years are needed to reach full productive capacity, and up to 35 years to produce the best-quality grapes for wine (Sölvell 2016). Time-consuming operations also suit best higher quality wines for reasons due to handling of grapes, small production volumes, controlled fermentation, or barrel aging (Porter and Bond 2013). If we add caprices of the weather and sudden epidemics of deadly diseases, we get the picture of a business under serious constraints related to predetermined biological and technological conditions of production.

Vineyard owners and winemakers are nevertheless left with an extensive array of management decisions along the value chain. The pursuit of a high-end produce entails relatively sizeable investments for an occupation accustomed to relying mostly on the natural advantages related to soil, sun, and climate. The industry standard may require, depending on wine varietals, specialized equipment, for instance computer-controlled vinification, mechanical harvesters and pruners, frost protection systems, and access to sophisticated research around grape growing and winemaking.

Bottling, packaging, and marketing also matter for an industry driven to an increasing extent by consumer preferences. Strategic choices able to closely follow market trends and behavioral patterns have given rise to what industry analysts call "perception management", an organizational tool that relies on consumer-centered strategic branding as a primary marketing communication process (Vrontis et al. 2011). The "wine factor" or "wine-related lifestyle"—an expression of the combined effects of wine, food, territory, art, and culture onto consumption experiences (Contò et al. 2014; Vrontis et al. 2016)—signals the presence of mature local economies and tested reputation in the marketplace.

Distinctive terroir, natural risks, marketing strategies, and capital requirements stand ultimately for considerable entry and exit barriers, which seem to reward well investors with gross profit margins varying between 30% and 50% from bulk to bottled to premium wines (Porter and Bond 2013; see also Larreina and Aguado 2008). A supplementary factor for industry attractiveness derives from naturally configured boundaries around clusters of vineyards that gather grape growers and winemakers under the umbrella of a few key players and a group of SMEs. The local competitive milieu reflects the presence of the Marshallian externalities of an economic agglomeration (see Rosenfeld 1997; Giacomin 2017) and thus plays an active role in winemaking competitiveness along a cluster's geographical and functional dimensions.

The competitive impact of geography—i.e. strength of locational advantages—is a condition of the endowment with territorial capital, which is a composite asset of regionally specific factors, tangible and intangible, with the potential to nurture competitive advantages. Evidence from analyses of wine clusters (e.g. Fensterseifer 2007; Larreina and Aguado 2008; Grimstad and Burgess 2014; Vrontis et al. 2016; Mann et al. 2018) lends further support to widely accepted assumptions about the contribution of various sources of competitive advantage in a location such as history and family traditions, shared knowledge, and information exchange. Public authorities usually intervene with institutional initiatives that can only strengthen these social and economic foundations. Their targets, as documented in international practices, include education establishments, industry associations, or regulatory bodies in the area of occupational health and safety, winery waste, and water management (Grimstad and Burgess 2014; Ratten 2018).

At the same time, the functional dimension of clustering—i.e. strength of business networks—is conducive to a highly favorable context thanks to the extensive scope of horizontal specialization. The high density of SMEs, which is a characteristic at the level of industry which counts ca. 90% of producers in this category (Lewis et al. 2019), becomes manifest in a cluster environment of stronger industry linkages than in other agricultural sectors (De Salvo et al. 2017). A typical wine cluster connects with a host of wine-related product and service providers among which one cannot miss vineyard consultants, wine bottlers, vine rippers, grape harvesters, vineyard maintenance contractors, independent cellar doors, winery engineering firms, coopers, cork suppliers, and winery waste removal services (Aylward and Glynn 2006; Rebelo and Muhr 2012; Lindqvist 2016). The expenses of viticultors allocated to local suppliers may amount, as was the case in the mature wine cluster of Rioja (Spain), to as much as 72.5% of investment expenditures and 41% of other operative expenses (Larreina and Aguado 2008). The economies of scope may well be further expanded by way of cooperation agreements in relation to, for example, jointly purchasing raw materials, jointly renting equipment, forming consortia to access cheaper finance, or upgrading specific technical skills (Galbreath 2015).

The existence of favorable premises of cluster development may explain much of the relatively uninterrupted albeit incremental progress in the wine sector even in countries that have had no aspirations to rival the major global players which traditionally located in France, Italy, Spain, Portugal, or Germany. Conditions were therefore in place that the undisputed position of the global leaders be contested by the emergence of the so-called new-world countries (NWC) during the "wine revolution" of the 1990s (Gálvez-Nogales 2010), mostly Southern hemisphere countries, such as Chile, Argentina, Uruguay, Australia, New Zealand, South Africa, but also Canada and the USA (Vrontis et al. 2011; COGEA 2014, p. 13).

Researchers (e.g. Miremont 2000; Sawyer 2004; McDermott 2005) are still trying to decipher the recipe of success for this sudden and apparently lasting achievement. The explanation may ultimately accord with theories speaking of a wider trend of integration of clusters from emerging countries with the global value chains of multinationals (Giacomin 2017) together with all the expected benefits for the wine sector's competitiveness: massive investments in crop restructuration and planting systems and machinery, changes in management and marketing styles, improvements in quality control, emphasis on regional and national branding, and identity (Sawyer 2004; McDermott 2005). However, as we will document further in the Târnave wine cluster, the performance of large companies could never exert a lasting impact on local economies unless a critical mass of competitive SMEs are able to sustain the agglomeration advantages.

10.2.2 Romania: A Country Profile and Its Wine Industry

Romania accessed European Union membership in 2007 with the status of a developing country and therefore beneficiary of a more favorable regime in international trade under the WTO regulations. It ceased since to be recipient of trade preferences, as member of a rich club, but has nevertheless continued to rank low in terms of development indicators at least among its peers: Romania and Bulgaria are the only EU member-countries not yet defined by the World Bank as "high income economies" (Melenciuc 2019); it exhibits one of the lowest urbanization rates (54.9%) in the EU (World Bank 2018), a high share (over 30%) of the informal economy, and, according to national statistics data, a high share of total consumption expenditure (ca. 55%) accounted for by basic needs (non-alcoholic beverages, food, housing and energy). With an alarming 35% of population at risk of poverty (Eurostat 2018), Romania remains one of the poorest countries in Europe.

Despite the poor record, the EU accession has contributed to a visible improvement of the social and economic conditions in Romania. Adoption of the EU laws and regulations in their entirety, the so-called *acquis communautaire*, strict monitoring of economic imbalances, or massive implementation of funding programs for regional development are all now part of an invaluable legacy that is hardly quantifiable in a counter-factual analysis. GDP per capita (at Purchasing Power Standards PPS) increased as compared to the average EU GDP per capita from 43% to 64% between 2007 and 2018 (Eurostat)[1] and the economy underwent drastic structural change from labor- to capital-intensive industries, such

[1] "GPD per capita in PPS", https://ec.europa.eu/eurostat/databrowser/view/tec00114/default/table?lang=en (5.12.2019).

as car manufacturing, auto-parts and components, and electrical machinery that account for almost half of Romanian exports.

Overall progress in the agricultural sector is less visible. A relatively good endowment with natural factors—a very wide range of climates and regions that offer considerable diversity of specializations plus agricultural land that covers ca. 58% of the entire area of the country—does not add up much to the country's economic benefit. Agriculture employs 22.3% of active population and accounts for almost 4.4% of GDP, which is seven times less than the industrial sector that employs only slightly more workforce (28.5%) than agriculture (INSSE 2017). The export share of processed foods and agro-based products (3.40%) is almost on a par with cereals' (3.20%), Romania's top agricultural export, and underperforms total exports in terms of world market share (0.30% vs. 0.41% in 2018).[2]

The efficiency losses of agricultural occupations are expected to weigh down the wine sector as well. The area cultivated with vines occupies 175,000 ha, the fifth largest in the EU after Spain, France, Italy, and Portugal,[3] although it hardly makes an impact in terms of sales. Exports to intra-EU market account for 82% (in value terms) out of total wine exports[4] and represent 0.22% of that market, which ranks Romania on the 15th place in the EU28, just above Sweden, Estonia, or Luxembourg, countries that hardly count winemaking among their competitive strengths.

For Romania, however, winemaking is one of the ancestral occupations and one blessed with a favorable *terroir*. A coastal plain along the Black Sea, the Carpathian Mountains spreading like an arc through the center of the country, with an average altitude of around 1000 meters, a temperate continental climate, with harsh winters at times, plains and hills with plenty of sunny days and average temperatures of 23.5 °C in

[2] Data processed from Trade Map—Trade statistics for international business environment (trademap.org).

[3] "Cât vin produce România? Ministrul Agriculturii: Suntem pe locul 6 în UE", HotNews.ro, 4 decembrie 2019. https://economie.hotnews.ro/stiri-agricultura-23532454-cat-vin-produce-romania-ministrul-agriculturii-suntem-locul-6.htm (5.12.2019).

[4] Data refer to Eurostat category "wine of fresh grapes, incl. fortified wines; grape must, partly fermented and of an actual alcoholic strength of > 0,5% vol or grape must with added alcohol of an actual alcoholic strength of > 0,5% vol".

summer, all are conditions making Romania a country naturally endowed with advantageous conditions for viticulture. Indeed, the area is known for grape growing since 5200–3200 BC, from the Carpathian Mountains to the River Dniester, and also as the place of birth of Dionysus, the god of wine, who is believed to be born in Thracia (today's Dobrogea region) (Gilby 2018, p. 127). When the Romans conquered Dacia, the territory of the Romanian ancestors, around 102–106 AD, Traian, their emperor, celebrated by issuing a coin depicting two children presenting grapes to a woman (APEV 2003), as symbol of the regional natural bounties.

Disparate episodes evoking the uninterrupted culture of wine but nothing more took an unexpected turn after the mid-nineteenth c. when Carol I, the first in a monarchic line that ruled Romania between 1866 and 1947, brought French experts to help him improve his grapevines from his crown estate in Segarcea (Gilby 2018, p. 129). The winemaking renaissance proved short-lived once Phylloxera, a vine-destroying pest, practically destroyed grape cultivation between 1881 and 1910, as was the case with most European vineyards. On the positive side, nurseries and research stations appeared in a desperate attempt to save vineyards. Unfortunately, many of the autochthonous varieties were lost, and with the arrival of French experts came in their own varieties such as Pinot Noir, Pinot Gris, Chardonnay, or Cabernet Sauvignon (APEV 2003).

During the communist period (1948–1989), peasants were forced to give up their land to local Cooperatives, vineyards included. State-owned Vinalcool plants processed almost all the wine with a focus on quantity rather than quality. However, the natural conditions and a relative diversity of players such as research institutes, wine farms, and state winemaking centers, as well as cooperative farms, helped in preserving traditions and keeping Romanian wines on constant display in international contests (APEV 2003).

The fall of communism brought several challenges to the Romanian wine sector. Lack of understanding of modern competition and obsolete technologies were among the first obstacles, but land fragmentation held the center stage for almost two decades. Former landowners reinstated their property rights, first up to 10 ha and up to 50 ha since 1997. Private property represented 81.5% of the vineyards by 2000, in a heavily fragmented landscape with about 10,000 owners (Chirita 2018), among which an important number of subsistence farms occupies areas not larger than 0.1 ha or even smaller (Agrosynergie 2018, p. 1).

10.2.3 The Business Environment of Romanian Winemaking

The wine market value reaches currently ca. 500 mil euros[5] with more than 1300 companies that grow grapes (NACE 0121) and produce wine (NACE 1102), albeit the number is but an educated guess as a sizeable part of them seems not to appear "in any registration" (Chirita 2018). In fact, one recurrent complaint from the industry players refers to "the absence of statistics at national level and at international level regarding the wine sector evolution" (Agrosynergie 2018, pp. 16ff). Evidence that includes both legal and natural persons as grape growers indicates a number of 845,677 actors (Agrosynergie 2018, p. 4). Other statistics, which exclude non-active firms and consider only the main NACE code—either 0121 or 1102—indicate as few as 186 companies, among which are 99 grape growers and 87 wineries, employing a total of 7342 persons, 4095 and 3227 respectively.[6]

In winemaking, the business demographics is characterized by the prevalence of very small and small companies—440 micro-enterprises (with an annual turnover of less than 2 million euros) and 88 small companies (less than 10 million euros), respectively, in an estimated total of 599 companies in 2017. However, most of the market (61%) was generated by medium-sized companies (29 companies with businesses between 10 and 30 million euros).[7] The dispersion of vineyards, in terms of location and cultivation surface, is relatively balanced at the geographical level in accordance with the nationally wide favorable climate, in eight major wine-growing regions, specifically:

[5] Statista, August 2019 (https://www.statista.com/outlook/10030000/148/wine/romania?currency=eur#market-revenue) (retrieved on 18.12.2019).

[6] Data processed from Topfirme.com

[7] Data for 2017 from "Estimari KeysFin: Piata vinului revine pe crestere", 10.01.2018, https://www.horecainsight.ro/estimari-keysfin-piata-vinului-revine-pe-crestere/ (7.12.2019).

- Over 50,000 ha: Moldova's Hills, Oltenia and Muntenia Hills
- Over 10,000 ha: Dobrogea Hills, Sandy lands of the South, Danube Terraces
- Over 4000 ha: Crișana and Maramureș Hills, Transylvania Plateau, Banat Hills.

The proportion of hybrid vine surfaces is very large, about 50%, 85,454 ha versus 92,697 ha dedicated to production of Protected PDO/PGI (Protected Designation of Origin/Protected Geographical Indication) and varietal wine, out of which 0.18% represent organic vineyards (Agrosynergie 2018, pp. 1–2). The Romanian wine is a produce that may come from 168 grape varieties of both indigenous[8] and foreign origin.[9] Less than 5% of total production is exported according to data from the Romanian Ministry of Agriculture and Rural Development; the rest is being sold on the domestic market primarily in supermarkets, which are the most frequent places to buy a bottle of wine for 43% of consumers in contrast, for example, with 36% of them who prefer specialized shops and 7% online outlets.[10]

The revival of the industry has been heavily dependent on the EU financial support through several financing programs such as the pre-accession fund (SAPARD), the European Agricultural Guarantee Fund (EAGF), which primarily finances direct payments to farmers and measures regulating or supporting agricultural markets, and the European Agricultural Fund for Rural Development (EAFRD), which supports the European policy in terms of rural development.[11] Other types of external support have had more limited impact in either scope or location. Among notable exceptions are the formulation of the sector strategy under a

[8] Among mostly known: Feteasca Neagra, Negru de Dragasani, Băbească Neagră (red), Tamaioasa Romaneasca, Grasa de Cotnari, Galbena de Odobești, Cadarca, Feteasca Regala, Feteasca Alba, Sabra, Busuioacă de Bohotin, Zghihara, Cramposie (white).

[9] Among mostly known: Cabernet Sauvignon, Pinot Noir, Merlot (red); Pinot Gris, Italian Riesling, Chardonnay, Traminer, Aligote, Muscat Ottonel (white).

[10] According to a survey conducted by eSurveysPro at the request of the Wineries Associations.

[11] If not otherwise mentioned, the paragraphs drawing on the EU funding are based on public data available on websites and documents from the Romanian Funding Agency for Rural Development, the Romanian Paying Agency for Interventions in Agriculture, the Romanian Ministry of Agriculture and Rural Development, and the European Commission.

project coordinated by the International Trade Centre in 2005, as well as inflows of foreign investments originating from several EU countries such UK (Halewood Romania, Recas Winery), Germany (Carl Reh Winery), Austria (Agricola Stirbey), Italy (Vinarte), and France (SERVE Ceptura).[12]

For its part, the EU funding has been considerable, at least in comparison with the tiny share of 1% of foreign direct investments that targeted the entire agriculture sector (National Bank of Romania 2017). Between 2002, when the first pre-accession funds were disbursed, and 2018, ca. 450 mil euros were allocated to support both vineyards and wineries. The EU funding helped 42,000 ha of vineyards to be replanted or redeveloped, besides an ample range of interventions including acquisition of winery equipment, of bottling technologies, and "professional approach to wine production, vineyard management, winemaking and wine marketing".[13]

"Conclusive data and statistics" on the impact of investments have not been produced yet at the level of both public institutions or industry representatives (Agrosynergie 2018, p. 13). According to some interviewed beneficiaries, the EU programs "facilitated the reorientation of producers from mass production of low quality (…) to high quality production" and contributed to opening up export markets such as Japan, China, USA, Mexico, and South Korea (Agrosynergie 2018, pp. 14, 26).

The problems of sector restructuring persist despite the considerable external aid and are borne disproportionately more by SMEs. In their "majority", SMEs are unable to access the funding programs because the "economical and logistical resources" are missing (Agrosynergie 2018, pp. 19–20). They complain about market dysfunctionalities that are not going to take the burden of costly doing business off their shoulders too soon. As business people, from big or small companies, themselves admit, part of the solution lies with a more supportive role of public authorities and related institutions; at the same time, self-critical acknowledgment of the limited capability to compete on high-end segments caps off a long

[12] "Interview with Ioan Stefan" in Oxford Business Group, *The Report. Romania 2008*, p. 157.

[13] "Interview with Ioan Stefan" in Oxford Business Group, *The Report. Romania 2008*, p. 157.

to-do-list for competitive upgrading. We will illustrate the background and the foreseeable solutions of this impasse in the following case study.

10.3 SMEs and Competitive Upgrading: The Case of Târnave Wine Cluster

10.3.1 Methodological Approach

This section follows the approach to case study analysis that proposes to offer a "clinical" investigation in a narrative form to provide data on the nature and on the process of a specific business issue (Christensen 1987, p. 27). To fit the overall aim of the present volume, an abbreviated version has been prepared solely to highlight the leading theme of competitiveness challenge for SMEs in cluster development. Accordingly, the case is explored in two sections on cluster mapping and on key competitiveness issues facing the cluster.

The findings build on the expertise of industry representatives and public officials, complemented by desk-research and literature review. After a list of key stakeholders of the wine cluster in the Transylvanian Plateau was identified for collection of primary information, a call for evidence in the form of a questionnaire (Annex 10.1) was sent in October 2019. The number of respondents is low, yet they provide important, first-hand information about the business context of Romanian winemaking, which is largely neglected in academic studies. The interviewees were chosen on the criterion that they were involved in the wine industry and/or had direct experience within the cluster. They were asked to indicate opinions on the issues of interest related to cluster-specific business environment. In total, eight respondents (Annex 10.2) sent their written responses to the call for evidence.

In a second phase (1–15 Nov. 2019), the survey was followed up with in-depth interviews conducted in the form of individual phone and face-to-face interviews. Interviews have been carried out with a two-pronged objective. First, we wanted to elicit spontaneous opinions on the range of the surveyed topics all related to past, current, and future competitiveness challenges of the wine industry players. Second, interviewees were asked to check their opinions and judgments against more detailed explanations about the context of cluster development. By this method, we aimed at arriving at judgments and conclusions about the competitiveness challenges that would address reciprocal concerns at the same time: the interviewees', about the unknown factors of market competition, and the interviewers', about the present progress of business cluster initiatives.

10.3.2 Mapping of Târnave Wine Cluster

Târnave, a geographical area in Alba County, is the largest vine-growing and winemaking region (2500 ha) on the Transylvanian Plateau, in the proximity of other three major vineyards, Alba (470 ha), Aiud (700 ha), and Sebeș-Apold (900 ha) ("Destination: Romania"), all DOC wine regions. The vineyards are situated in the center of Romania on the Transylvanian Hills, a location that has been ideal for winemaking as early as the second century AD as documented in a wax tablet at Alburnus Maior (presently Roșia Montana), a renowned antique gold mining location. The wine consumed by gold miners came from the vineyards surrounding the former town of Apulum (presently Alba Iulia, capital of Alba County) ("Destination: Romania|"). The vineyards are well known for their production of white wine, ca. 95% of total production,[14] enriched with mountain minerals flowing through the vineyards. The location, at between 300–500 m above sea level, surrounded by the Carpathians Mountains in a continental climate with an annual average temperature of 9 °C, stimulates a long ripening of the grapes. The Târnave wine area almost overlaps the Târnave Plateau, crossed by two rivers, Târnava Mare and Târnava Mică, "whose affluents fragmented the landform in a multitude of hilly complexes with various orientations, exhibitions and declivities" (Donici et al. 2019). It covers the area of several towns and villages such as Blaj, Bălcaciu, Jidvei, Cetatea de Baltă, Sona, Crăciunelul de Jos, and Roșia de Secaș.

[14] According to data from the Ministry of Agriculture and Rural Development (2017).

The local winemaking landscape began to change in discrete milestones: first in 1949, with the establishment of the State-owned Agricultural Enterprise (IAS) Jidvei and a vine-growing station at Blaj, then with what appears to be "Romania's first industrial wine cellar" built in 1963 at Bălcaciu, "for proper winemaking and storage", and then again in 1972–1974 with a winemaking compound set up in Jidvei village ("Destinatia: Romania"). The Târnave region lies in the EU winegrowing zone B, similarly, for instance, to the French regions of Alsace or Champagne, the only wine region in Romania with this classification (MADR 2012). It also hosts Jidvei Winery, one winery among the other twelve in Târnave and twenty-three in the Transylvanian region (ONPVP 2019).[15] This winery enjoys several accolades, for example, being the leading Romanian wine producer, with a turnover of 34 mil Euros in 2017,[16] corresponding to a market share of 8.8%; the largest privately owned vineyard in Europe (2500 ha); one of the largest vineyards planted with Sauvignon Blanc in Europe (467 ha) (Vinul.ro 2017); and one of the largest areas planted with Traminer Rose in Romania (163 ha) (Vinul.ro 2017).

10.3.3 The Emergence of a Cluster

The largest winery is named after the village (Jidvei), which was first mentioned in 1309 as an important regional wine-making location. IAS Jidvei, the only key player during communism (1948–1989), was privatized in 1999 and became a family business. Jidvei is the employer of more than 700 workers, who live mainly in nearby villages, most of them being of German descent with long traditions in winemaking (Gilby 2018, p. 210). In harvesttime, the thirteen harvesting machines that the company owns are supplemented with 1000 workers for manual operations. They obtain ca. 300 mil kg of grapes and ca. 21 mil hl of wine, of which 10% are sold abroad (in 2016) in 14 countries of Europe, Asia, and North America.

[15] Romanian National Office of Vine and Wine products (O.N.V.P.V.); e-mail message of 26.11.2019.

[16] Data collected from company representatives and from the Romanian Ministry of Finance.

At that time of privatization, the company owned 700 ha of vine, "most of which was very old, between 30 and 50 years, with poor yields" ("Destination: Romania"). The new owner, family Necșulescu, concentrated the investments first on land acquisition up to 2400 ha in one location. A total amount of investments of over 80 mil euros, together with European funds, according to company estimates, was disbursed in line with industry needs—e.g. modernization and replanting of grapevines, acquisition of farm machinery, technological modernization of all its four wineries, Jidvei, Tăuni, Blaj, and Bălcaciu, but also for state-of-the art equipment, for example, the largest gravity-flow cellar in Europe and the only one in Romania.

Jidvey company's appetite for groundbreaking technologies has opened a multitude of business opportunities for cluster development. They set up a nursery, a first in private education related to grapevines in Romania, which covers 17 ha and aims at producing seedlings of a high biological value, adjusted to the environmental conditions of the vineyard. On the domestic market, they also pioneered the use of continuous flow press, computerized production stream, GPS planter, and, according to company representatives, the list could be continued. A growing number of SMEs seem to emulate the high standards set by the largest player. The lack of own capital required for considerable up-front investments has been offset primarily by bringing aboard foreign expertise and investments. And, as some of the premium wines that Jidvei produced were the result of collaboration with French winemaker and consultant Mark Dworkin, local small and medium-sized wineries like Villa Vinea Winery, Liliac Winery, and La Salina Winery have become salient cluster players by combining local entrepreneurialism with foreign talent.

Italian Heiner Oberrauch was particularly impressed by the natural resources of the area—brown alluvial soil, rich in calcium and iron—when he decided to reorient his business interest from textile industry to winemaking and invest in Villa Vinea Winery and a farm of 32 ha of vine near Târgu-Mureș in 2001. More resources were needed besides the initial investment to make quality wine. The European funds were part of the process, and it helped with the restructuring and reconversion of vineyards and with the acquisition of the necessary technologies to improve the quality of the products. The winery succeeded in blending traditional Transylvanian wine-making and modern techniques by relying on the expertise of Lucin Celestino, a winner of Gambero Rosso's winemaker of the year in 2009, and local cellar master Mihaly Denes (Gilby 2018, p. 212). The story behind Liliac Winery runs along similar lines. Austrian Alfred Michael Beck first intended to go into forestry but ended up buying 52 ha of vine in Batoș and Lechința. Their white wines rapidly gained notoriety thanks to their characteristics and quality. Liliac Winery is a pioneer in terms of making sweet wines from grapes dried on straw (Recioto style) and made the country's first ice wine and first orange wine from a Chardonnay variety (Gilby 2018, p. 212).

Impediments to business development are as much challenging for a small winery as they are for a large one especially when the goal is to reach premium segments. Bottles, corks, and packaging should also meet quality standards, but usually the suppliers are to be found abroad. The process of applying for European funds is "extremely difficult and lengthy" and necessitates hiring a person especially for the task besides demanding the services of a consultancy. Qualified work force is hard to find because Romania lacks a proper engineering school for winemaking. A singular specialization in grape-growing at the Department of Horticulture of the University of Agriculture and Veterinary Medicine in Bucharest cannot cover the skills gap. Practical experience counts more for the population employed in agriculture than basic or advanced training: 96.4% and 3.6%, respectively, versus 69.6% and 28.9% in the EU (in 2013).[17] To find a solution, Liliac Winery started a collaboration with University of Cluj in Cluj-Napoca, a nearby major city, as a sponsor for a research program dealing with vine diseases and offering internships to students or graduates from the horticulture department. Also located in Cluj-Napoca, Transylvania Wine School (TraWiS) has taken the initiative to provide private educational services under the aegis of the world-wide known Wine and Spirit Education Trust (WSET).

Private initiatives will continue to weigh singularly in cluster development for a while. Professional associations with roles in promotion,

[17] Eurostat data quoted in ADR Centru (2017), "Strategia de specializare inteligenta", Anexa 3.1, p.41 (http://www.adrcentru.ro/dez-reg/strategia-de-specializare-inteligenta-a-regiunii-centru-versiunea-septembrie-2017/).

standard setting, legislative measures, workers' rights[18] are providing institutional support at the national level but seldom target regional needs. A notable exception appeared in 2006 when Alba county authorities created Țara Vinului (Wineland) association, on the pattern developed by the Wine Road project initiated by the Assembly of European Wine-producing Regions ("Destination: Romania"). With a seed capital of ca. 1000 euros,[19] the association's goal has been to make up a unique touristic package to promote regional "natural, cultural and environmental values" along with the viticultural potential of the four major vineyards.

To the same end, but on a considerable larger budget, Jidvei company acquired and refurbished two castles—Jidvei and Sânmiclăuș-Alba—to become touristic attractions. A great societal impact seems to have been achieved with the folklore festival "The Golden Grape" they have been organizing for 19 years. Other events surrounding the wine industry—accommodation in bed and breakfast pensions in the rural area targeting wine lovers, wine-tasting experiences in wineries and restaurants—have just begun to come into view taking advantage of the momentum created by various cluster initiatives.

[18] ONVPV (National Office for Vine and Wine) is an institution subordinated to the Ministry of Agriculture and Rural Development, which collaborates with Romanian winemakers interested in obtaining quality wine classification (DOC or PIG). ONIV (Wine Profession Organisation) is a representative grouping of organizations of producers which regulates production, processing, storage, distribution, and marketing of wine and protects the interests of producers. APEV (Wine Exporters and Producers Association) provides promotional materials to its members, statistical data, studies, analyses, programs which aim to promote their wines, and support for participation at fairs and exhibitions. APVR (Romanian Wine Promotion Association) was founded as an inter-regional association in order to bring together producers from all the major Romanian wine-growing regions.

Research and Development Institutes of Viticulture and Wine in Ștefănești, Valea Călugărească, Drăgășani, Pietroasa Buzău, and many other locations, which, in the past, represented an important means of support for the wine industry and growing vine zones, are now on the verge of closing their doors.

[19] See the Association's Statutory Act (http://www.taravinului.ro/images/pdf-uri/Act_constitutiv_actualizat_2016.pdf) (retrieved 18.12.2019).

10.4 Concluding: The Competitiveness Challenge for SMEs

The wine cluster in Târnave qualifies as an interesting business case on the ground of its contrasting features. On the one hand, they configure an underdeveloped potential for competitive upgrading that does not contrast with the country's general economic performance. On the other hand, the present inquiry has revealed the existence of possibly some of the best premises for the emergence of a competitive cluster—for example, excellent natural factor conditions, presence of a large player, innovative SMEs, adoption of modern technology—although setting-up formal or informal cluster networks, as most Romanian clusters did,[20] largely with the help of European programs, has not come into stakeholders' purview. Seemingly, this is exactly what the cluster actors consider to be their most constraining disadvantage for improved competitive performance. Some of the identified issues consist of no more than informal actions to strengthen partnership and networking within the Târnave area. Keeping business operating on a small scale increases the chances of failure in benefiting from "the capacity to develop business alliances", to build a "web of human resources to sustain cluster development", or to find "the right leadership in order to back the idea of synergies between cluster members". In their turn, the large players have to cope with a lack of a sustainable pool of local service providers or supporting institutions able to address their expanding range of operational and commercial needs.

The absence of formal regional wine associations is equally perceived as a major competitive weakness. The difficulty of forming an association among the local producers is something of a puzzle for many of them the more so, as members of national associations, they are able to see the benefits of finding more easily solutions to common challenges, including strategies for an integrated promotion of their products, knowledge spillovers, and technological expertise. Geographical proximity and related business scope between the wine cluster in Târnave and two other clusters—Transylvania Lands Cluster in Alba Iulia and AgroTransilvania Cluster in Cluj county—do not help in creating a platform for regional

[20] See Clustero data at https://clustero.eu/members/. Clustero, founded in 2011, introduces itself as "the representative body of Romanian clusters".

competitive advantages. The development of SME's in the region is credited with creating favorable conditions for future growth by the cluster stakeholders although they are unable to overcome difficulties commonly earmarked by all companies such as burdensome legislation, lack of specialized workforce, or problematic absorption of European funds. It should not take them long to realize that the economic conditions in a wine cluster are ideally suited to cater to their needs in a more direct, practical, and customized way than national policies could. In their turn, Romanian authorities, both local and national, should turn their attention systematically to the SMEs' role in cluster development if progress is to be expected with a view of better positioning on the global value chain in the wine sector.

Annex 10.1

Questionnaire

The role of SMEs in local economies: the case of the Transylvanian plateau wine cluster.

Available at: https://docs.google.com/forms/d/1FqlUg6NRFy4s9KKRGqkbhCOfNURfyEnHF0k4ljckPxY/edit

E-mail address

Respondent information:

Manufacturers / associations of producers

Public institutions

Non-governmental organization (NGO)

Education / Research institutes

Other options

The wine-growing sector of the Târnave region has known a strong development in recent years.

Totally disagree / Disagree / Neutral / Agree / Totally agree

The increased number of firms in the wine region Târnave contributed to this development.

Totally disagree / Disagree / Neutral / Agree / Totally agree

The number of players involved in the regional wine and wine sector is sufficient.

Totally disagree / Disagree / Neutral / Agree / Totally agree

The related services necessary for the development of the wine and wine sector (e.g. equipment suppliers, distributors, licensing authorities, certification of quality standards, educational units) are covered at regional/national level.

Totally disagree / Disagree / Neutral / Agree / Totally agree

The skilled workforce in the sector is sufficient in Târnave region.

Totally disagree / Disagree / Neutral / Agree / Totally agree

The level of training of the employees in the sector is satisfactory.

Totally disagree / Disagree / Neutral / Agree / Totally agree

The educational programs cover the needs of the sector.

Totally disagree / Disagree / Neutral / Agree / Totally agree

Local/regional authorities support the sector through institutions and programs.

Totally disagree / Disagree / Neutral / Agree / Totally agree

There is a real socio-economic dialogue between authorities and business environment regarding the sector's needs and problems.

Totally disagree / Disagree / Neutral / Agree / Totally agree

In the Târnave wine region, European funds contributed to the development of the sector.

Totally disagree / Disagree / Neutral / Agree / Totally agree

The European funds available to the sector are accessed easily.

Totally disagree / Disagree / Neutral / Agree / Totally agree

There are a sufficient number of foreign investors in the vineyards in the Târnave region.

Totally disagree / Disagree / Neutral / Agree / Totally agree

At the European level, the export of wine from the Târnave region occupies a well-deserved place.

Totally disagree / Disagree / Neutral / Agree / Totally agree

There is a chance that Romanian wine will conquer new markets in Romania in the near future.

Totally disagree / Disagree / Neutral / Agree / Totally agree

In the event of disagreement, what are the existing impediments?

State which factors favor the development of the wine sector in the Târnave region.

Annex 10.2

List of interviewees

1. Anca Bîltac: communication specialist, Ministry of Agriculture and Rural Development, Romania
2. Antoce Arina: Professor, The University of Agronomic Sciences and Veterinary Medicine, Bucharest
3. Dorin Dușa: General Manager, National Office of Vine and Wine products (ONVPV)
4. Iovănescu Petru Cristina: counsellor, Interprofessional Organization of Vine and Wine, Romania
5. Licurici Valeriu Corneliu: Vila Vinea Winery
6. Miron Radic: CEO Liliac Winery
7. Mușat Cătălina: communication specialist, Rural Investment Financing Agency, Romania
8. Zlotea Adrian George: Liliac Winery

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11

Indigenous Entrepreneurship in Australia: Theoretical Elucidations and Research Avenues

S. M. Riad Shams

11.1 Introduction

In small and medium enterprises (SMEs) research stream, indigenous entrepreneurship is comparatively a less researched area. A major source of indigenous entrepreneurs' social capital is their relationship and interaction with the non-indigenous entrepreneurs. However, the challenges of non-indigenous entrepreneurs to profoundly share their social capital with indigenous stakeholders/entrepreneurs is under-researched too. In this context, this chapter aims to develop insights on how the relationships and interactions between indigenous and non-indigenous entrepreneurs could be underpinned, in order to enable non-indigenous entrepreneurs to take advantage of their social capital. Following this background, this chapter reviews and presents literature at the

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intersection of indigenous entrepreneurship, socio-economic capacity building and stakeholder relationship management research streams to explore insights on the how stakeholder relationship management concept could strategically influence the indigenous entrepreneurs' cause and consequence of relationships and interactions with their non-indigenous stakeholders in order to enhance the indigenous entrepreneurs' business capacity. The analysis and synthesis of this chapter first present some early insights on the challenges and barriers of the Australian indigenous entrepreneurs. Second, the chapter discusses a research direction. Undertaking research based on this proposed research direction would be instrumental to address the challenges and barriers of the indigenous entrepreneurs, while developing insights on the under-researched indigenous entrepreneurship area under the broader SME and entrepreneurship research field.

11.2 Research Context and Research Aim

In Australia, the unemployment rate of indigenous people increased more than that of the non-indigenous people between 2008 and 2013, which leads to an increase in the unemployment gap (Australian Government 2015). In order to support self-employment, various government agencies in Australia provide services to small and medium enterprises (SMEs) of indigenous people (Shoebridge et al. 2012), which include grants and lower cost loans (Morley 2014). In social and cultural complexities in their business environment and entrepreneurial initiatives, indigenous entrepreneurs encounter several challenges, which include business relationship constraints and lack of business networks (Australian Taxation Office 2009; Shoebridge et al. 2012; Morley 2014). Business partnerships and networks are critical success factors to gain access to business advice, to gain suppliers in competitive price and to increase customers (Kuratko and Hodgetts 2001; Dollinger 2003; Shams et al. 2018, 2019a, b; Vrontis et al. 2018, 2019). However, indigenous people lack the partnership and networking opportunities in order to underpin their SME initiatives (Australian Taxation Office 2009; Morley 2014).

The Australian government has, however, implemented several initiatives to support an enterprising culture among their indigenous communities; in many cases, such initiatives failed to "provide sufficient ongoing support to indigenous entrepreneurs" (Morley 2014, p. 2), in order to identify, establish, maintain and enhance entrepreneurial opportunities for indigenous people. "There is no research evidence about either models of (stakeholder) engagement (to enhance networking) for national or other levels of policy development or the role of indigenous peak bodies in (stakeholder networking and) engagement strategies" (Hunt 2013, p. 4) for indigenous communities and their businesses. Although, the Australian Federal Government has a policy to increasingly support indigenous entrepreneurs, in order to reduce their socio-economic disadvantages; there is very little research on evaluations of indigenous entrepreneurs' ventures, in terms of their entrepreneurial challenges and viabilities (Pearson and Helms 2013; Bruton et al. 2018). Therefore, a literature review research on the following issues has been undertaken to uphold the Australian Government's (2015) commitment to indigenous communities and their businesses, in order to enable the Aboriginal and Torres Strait Islander communities (who are generally known as the indigenous people of Australia), with an aim to affluently engage this disadvantaged community in the wider economic activities:

– To explore the barriers that the Australian indigenous entrepreneurs confront to develop and maintain stakeholder networking, relationships and engagements
– And to explore a stakeholder-focussed research direction based on the Australian indigenous entrepreneurs' business environment to advance research in this under-researched area

11.3 Literature Review

11.3.1 Research on the Australian Indigenous Entrepreneurship

Entrepreneurship, SMEs and enterprising initiatives are established research fields. However, we need ongoing research in different areas of broader entrepreneurship research, in order to advance our understanding, as well as to ensure the unprecedented progress of this field (Shams and Kaufmann 2016; Penco et al. 2019). It is generally acknowledged that the indigenous communities in any country struggle more than the mainstream communities for substantial social and economic disadvantages. "The challenge for indigenous communities and policy makers is to discover or create opportunities that will provide sustainable development" (Fuller et al. 2005, p. 891). Australian indigenous entrepreneurs fall upon two fundamental challenges for their business initiatives. One is from within their own communities, and another one emerges, once they attempt to interrelate with the Australian mainstream businesses. For example, "aboriginal community and cultural norms, is…(a) barrier to indigenous entrepreneurial success" (Pearson and Helms 2013, p. 51). To initiate a start-up enterprise, many indigenous people feel culturally and mentally separated, as they need to participate in an activity (i.e. enterprising endeavours), in which they have very few or no role models (Foley and O'Connor 2013).

> In general, business opportunities did not exist within the indigenous social or financial sector that demonstrates limited bonding networks for entrepreneurship (within their communities). Interviews illustrated that it was a difficult social decision for the indigenous entrepreneur to immerse themselves within the dominant society. (Foley and O'Connor 2013, p. 283)

As a consequence, for indigenous entrepreneurs, networking and stakeholder engagement opportunities for business purposes are non-existent or less existent within their own communities. In this context, the necessity for launching and surviving with their enterprising initiatives propel indigenous entrepreneurs to network beyond their own community, and within the majority business culture of the mainstream Australian enterprises for sharing business expertise and information, which is fundamental to promote their SME ideas, products or services to a market that is dominated by that mainstream communities' cultural norms and values. Therefore, the capability to access the social capital across the cultural barriers is a precondition for indigenous entrepreneurs' success.

Social capital is an association "between people consisting of networks and associated norms that have an effect on the productivity of those involved, limited to positive associations in the development of participants" (Grootaert 1998; Putman 1993; as cited in Foley 2010, p. 67). For business enterprises, social capital complements many resources (Greve 1995; Greve and Salaff 2003; Greve et al. 2006), which helps entrepreneurs to have competitive alternatives for their businesses, e.g. collecting information about suppliers who offer highly competitive prices. Since indigenous entrepreneurs have no or less business networking opportunities within their communities (Foley and O'Connor 2013) to collect information about their market that is dominated by mainstream culture's norms and values, the indigenous entrepreneurs only have the option to source their social capital from mainstream Australian business communities and enterprises. The Australian indigenous entrepreneurs face various challenges when they attempt to access their social capital from outside of their own communities. For example,

> The ability to network across cultural and/or racial barriers…(is) essential…Accessing the dominant settler social capital and building bridging networks was an imperative for the Australian Aboriginal entrepreneur that came at a cost…the more experienced (indigenous) entrepreneurs confirmed that this (networking and social capital) arose only after years of experience and exposure to the mainstream business world…(also, the) history meant that many (indigenous entrepreneurs)…received negative backlash from their indigenous peers, which was compounded by many entrepreneurs exhibiting low cultural connections. (Foley and O'Connor 2013, p. 283)

Foley and O'Connor's (2013) findings demonstrates that the key barriers of indigenous entrepreneurs from within and beyond their communities are cultural relations with networking, existence of second-generation entrepreneurs, family influence, relationships between social and business spheres, and bridging and bonding networks. "The literature discloses the installation of a substantial number of these programmes (the initiatives to promote the Australian indigenous enterprising activities) has not led to a significant increase in Australian indigenous entrepreneurship" (Pearson and Helms 2013, p. 45). In order to emphasise the urgency to understand the relevant issues to enable the indigenous entrepreneurs and their SMEs to prolifically interact with the mainstream business world of Australia, researchers (Ruhanen et al. 2015) use "time out for reality check" (p. 81) as a term to denote to develop greater insights on the indigenous entrepreneurs and their businesses. However, networking outside the indigenous communities is the key to survive for indigenous entrepreneurs; there are many issues yet to understood, in order to bridge such networking gaps of the indigenous entrepreneurs with their stakeholders in the Australian mainstream business world (Foley and O'Connor 2013). For example,

- "the drivers or causes for social capital formation from an entrepreneurship perspective" (Foley and O'Connor 2013, p. 292) is unexplored.
- The business contexts, e.g. the remoteness that propels to develop or hinder access to social capital, need to be examined (Foley and O'Connor 2013).
- The influence of relationships among stakeholders across cultural settings needs to be understood to bridging and bonding networking practices (Foley and O'Connor 2013).
- It is crucial to recognise the factors that either promote or hinder indigenous entrepreneurial initiatives (Shoebridge et al. 2012).

Portraying a conclusion from the discussion thus far, it could be argued that the indigenous entrepreneurs' relationships and interactions with the mainstream business stakeholders in Australia, and the underlying business environments need to be investigated to streamline stakeholder engagements of indigenous entrepreneurs. Such an investigation would be instrumental to recognise the drivers, causes or factors that reinforce or hinder the indigenous entrepreneurs' efforts, in order to develop capacity that would be useful to exploit the social capital from outside of their own communities, and to ensure their SMEs' competitive advantage.

11.3.2 Entrepreneurship Research and Stakeholder Engagement

The previous section, however, concludes by acknowledging that the indigenous entrepreneurs need to engage with the stakeholders of the majority culture-dominated businesses; a succinct literature review demonstrates that the conventional entrepreneurship theories lack understanding of stakeholder relationship management and engagements. Most previous influential research on entrepreneurship (i.e. Cantillon 1755; Knight 1921; Kirzner 1973; Shapero 1975; Kets de Vries 1977) and several other present-day research in this established yet growing research field are principally centred on the innovative endeavours of individual entrepreneurs (Dana et al. 2008), whereas the present-day network economy (Asanuma 2013; Kollmann and Christofor 2014; Kaufmann and Shams 2015; Shams and Lombardi 2016; Trequattrini et al. 2016; Shams et al. 2018) emphasises on entrepreneurial alliance with an entrepreneur's key stakeholders (Burns et al. 2014) with an aim to co-create value through entrepreneurial ingenuities. In this context, the "theories of entrepreneurship [that] most typically focus on characteristics specific to the individual (entrepreneur)" (Acs et al. 2013, p. 759) normally oversee the possibilities of entrepreneurs' stakeholder relationship and networks to recognise entrepreneurial opportunities. Although the procedure of stakeholder engagement benefits entrepreneurs to identify entrepreneurial opportunities, work on the contexts that help entrepreneurs to influence their stakeholder relationships and networks is partial, and also fewer research on how entrepreneurs could influence the relations between stakeholder engagement and value co-creating opportunity identification (Burns et al. 2014). Value creation can be heightened by inter-organisational alliances, where stakeholders cooperate for enhanced strategic effectiveness in order to meet and exceed their reciprocally valuable diverse goals through co-created value (Gummesson 2002; Gummesson and Mele 2010; Grönroos 1996, 1997, 2004, 2012; Jaakola and Hakanen 2013; Hsiao et al. 2015; Shams 2016a, b). Therefore, the implication of stakeholder relationship and interaction in a network and flourishing opportunities from such stakeholder networks become vital for entrepreneurship research and practice to enable entrepreneurs to co-create value, in order to survive and prosper.

11.3.3 Enterprising Culture and Entrepreneurial Capacity Building

An enterprising culture is the predecessor of entrepreneurial achievement and a crucial element for overall economic performance (Hundley and Hansen 2012). Therefore, the meaning of an enterprising culture is an important issue to understand its significance for entrepreneurial innovation and an entrepreneur's value-network. How can an enterprising culture cherish indigenous entrepreneurs' aptitudes that could ensure productive and cooperative economic performance? How can an enterprising culture support an indigenous entrepreneur to integrate their dynamic capabilities and resources of the associated stakeholders in a value-network in a way that could create/co-create value through product and/or service innovation? Answering such and relevant other research questions would be instrumental in enabling Australian indigenous entrepreneurs to establish, maintain and enhance stakeholder network beyond their community. The features of an enterprising culture, such as self-reliance, innovation and profit-seeking propensity of an enterprise (Hundley and Hansen 2012) further stimulate the associated dynamic capabilities of an entrepreneur to establish and enhance enterprising culture and innovation for their value network, since research on European SMEs found that "innovation and corporate (or enterprise) culture indices were correlated" (Kaufmann et al., 2012; as cited in Shams and Kaufmann, 2016, p. 1257). In general, innovation is recognised as:

> a firm's tendency to engage in and support new ideas, novelty, experimentation and creative processes that may result in new products, services or technological processes. Innovativeness represents a basic willingness to depart from existing practices and venture beyond the current state of the art (in order to sustain the competitive advantage underlying the innovation). (Lumpkin and Dess 1996, p. 142, as cited in Vrontis et al. 2012, pp. 422–423)

As a consequence, it is crucial for indigenous entrepreneurs to understand how an effective and efficient enterprising culture nurtures their entrepreneurial mindset that encourages their allied stakeholders to commonly engage in and support new ideas, novelty, experimentation, creative proposition and other key elements of the overall innovation process through exploiting their social capital that helps to co-create value and ultimately facilitates business success and ensures successful economic outcome. In order to reinforce an enterprising culture, capacity building around the features of the enterprising culture, i.e. innovation, self-reliance and profit-seeking opportunities, would be crucial. "Capacity building is an iterative process that incorporates the building of frameworks, work cultures, policies, processes and systems enabling an organisation or individual to improve performance to achieve successful outcomes" (O'Rafferty et al. 2014, p. 170).

> Capacity-building can be undertaken and achieved through a range of mechanisms, encompassing professional learning, within…specialist analysis of instructional quality and associated learning conditions, alignment of key (issues) within and between (the competitive) factors, and cross…clustering and networking. (Dinham and Crowther 2011, p. 621)

In the outcomes of new capacity building initiative, an added value to surplus the contribution of the preceding capacity is essential, so that the newly enhanced capacity can contribute better with greater advantage, compared to the foregoing capacity (Shams 2016b). Capacity-building is to improve the capability of a process in order to increase effects, so that the enhanced capacity would exemplify a 'value added' aspect (Hawe et al. 1997) is significant to mutually innovating value, and sharing that newly enhanced value among the stakeholders in a venture (Gordon 1998). In general,

> value is an anticipated outcome of any sort of planned and organized activity. The activity could be derived from monetary, psychic, or physical resources. The more the outcome meets initial anticipation, the more the possibility of win-win outcomes or value optimization for all involved stakeholders. (Shams 2013, p. 244)

Therefore, capacity building should be valuable through a development/redevelopment of learning (understanding of the competitive market forces to recognise exceptional conditions) and development processes, aligned to the associated factors, where the processes are propelled by intra and inter-organisational collaboration and learning experience, in order to reflect the enhanced capacity through a realisation of value optimisation for entrepreneurs and their associated stakeholders (Shams 2016b). These stakeholders would include, but not limited to, customers, business partners, suppliers, employees, shareholders, complementors and so forth.

11.4 Research Direction

Research shows that there is a continuous assertion by the Australian Government about the demand of indigenous culture and products, e.g. as a tourism service there is no appropriate conversion of that demand into marketisation (Ruhanen et al. 2015). Networking and developing social capital through the cause and consequence of relationships and interactions (Shams 2016a) of indigenous entrepreneurs with mainstream SME stakeholders would be significant the for entrepreneurial success of indigenous entrepreneurs through a wide access to the mainstream market. In this context, the target sample participant groups for prospective future research studies to explore the phenomena on how indigenous entrepreneurs could establish, maintain and enhance their stakeholder network beyond their community would be among the indigenous and non-indigenous entrepreneurs, who interact among themselves at least to some extent, in comparison to other indigenous stakeholders who usually do not interact or interact less with non-indigenous stakeholders (Foley and O'Connor 2013).

Indigenous and non-indigenous entrepreneurs within particular rural or urban areas of an Australian state or territory, among these two groups of entrepreneurs, who mostly interact with each other would be the target sample participant group for a prospective research study to explore the novel phenomena from the experience of these two groups of stakeholders, in order to understand how indigenous entrepreneurs could prolifically leverage their stakeholder network and relationship. The indigenous and non-indigenous entrepreneurs, who have been operating an SME for at least 12 months would be considered for such research studies, considering that "survival for more than one year could be considered a success because survival is dependent on financial viability" (Foley 2006, p. 6).

Prior to collecting primary data from this sample group, relevant secondary data could be collected based on an industry review. Such secondary data collection and analyses would ascertain the current government and non-government supports that are available to the indigenous entrepreneurs. A relevant survey questionnaire for primary data collection from the aforementioned sample group would explore the contemporary barriers of the indigenous entrepreneurs more profoundly to prolifically exploit the available government and non-government supports to indigenous entrepreneurs.

The "openness to ideas from all sources" is a sub-factor, under "creativity" as an explorative factor of capacity building (O'Rafferty et al. 2014). In relation to such established capacity-building factors, and other emergent capacity-building factors for the indigenous entrepreneurs that could be recognised from the previously mentioned secondary data collection and analyses strategy, the survey questionnaire would be able to develop further insights to enable indigenous entrepreneurs to proactively and prolifically establish, maintain and enhance their stakeholder relationship and interaction beyond their community and with mainstream Australian SMEs that are administered by non-indigenous Australians. For example, an indigenous entrepreneur could mention that the business ideas they receive from their non-indigenous entrepreneurs is instrumental to expand their business capacity, e.g. sourcing more competitive labour from newly immigrant workers (Meldrum-Hanna et al. 2015; Tranfaglia 2015).

Similarly, an indigenous pharmacist, as an entrepreneur of her/his pharmacy business, could denote that their collaboration with a non-indigenous doctor, and both of their referrals, increases their customers from the mainstream Australian market, as well as patients for the doctors. In order to develop closed and open-ended survey questionnaires, first a generalised questionnaire would be developed, and then based on the understanding on the types of businesses, the questionnaire could be customised, related to the individual businesses of the indigenous and non-indigenous entrepreneurs. The cases of immigrant labour force and the indigenous pharmacist are used here just as examples. Such research studies could attempt to develop insights based on examples that would be similar to such issues and relevant hypotheses and research questions, through the proposed surveys, in order to examine the hypotheses and answer the research questions. The managerial decision-makers of government and non-government offices, related to indigenous businesses, and the academic and non-academic policy level stakeholders of this field could be asked to share their views and recommendations in relation to the challenges, issues and insights developed through such studies related to the discussed primary data, in order to reinforce the marketisation processes of the SMEs of indigenous entrepreneurs.

11.5 Conclusion

The aim of this chapter was to

– To explore the barriers that the Australian indigenous entrepreneurs confront to develop and maintain stakeholder networking, relationships and engagements;
– To explore a stakeholder-focussed research direction based on the Australian indigenous entrepreneurs' business environment to advance research in this under-researched area.

The concise literature review in this chapter on Australian indigenous entrepreneurs develops a preliminary insight on the barriers that the Australian indigenous entrepreneurs confront to develop, maintain and enhance their stakeholder network, relationship and engagement. Also, the chapter provides a view from the extant literature related to the social and cultural barriers of the Australian indigenous entrepreneurs from both within and beyond their communities.

Following the arguments from extant literature, this chapter also proposes a stakeholder-focussed research direction based on the Australian indigenous entrepreneurs' business environment to advance research in this under-researched area. For this, the chapter promotes the idea of Foley and O'Connor (2013) to collect primary data from a research sample (participants) comprising indigenous entrepreneurs and non-indigenous entrepreneurs who interact with each other, in comparison to other indigenous and non-indigenous entrepreneurs who interact less. Based on this particular sample group, the prospective future studies would be useful to first understanding further from the indigenous and non-indigenous entrepreneurs' experience of the type of challenges and barriers the non-indigenous entrepreneurs encounter in the Australian business communities in order to expand their stakeholder relationships and interactions. Second, such proposed future studies would also be instrumental to know the indigenous and non-indigenous entrepreneurs' recommendations on how the indigenous entrepreneurs could profoundly address the challenges and barriers associated with stakeholder networks. Some anticipated impacts are listed below that could be derived from the research studies relevant to the research direction summarised in this chapter:

– Recognising a deeper insight into the contemporary challenges and barriers of indigenous entrepreneurs in obtaining government and non-government support
– Exploring the capacity-building factors that could simplify the process for the indigenous entrepreneurs to prolifically exploit government and non-government support
– Further recognising the challenges of the indigenous entrepreneurs to prolifically exploit the social capital from non-indigenous stakeholders

- Recognising the challenges of non-indigenous entrepreneurs to prolifically share the social capital with indigenous stakeholders/entrepreneurs
- Exploring the capacity-building factors that streamline the process for indigenous entrepreneurs to prolifically exploit the social capital, in order to co-create value and nurture competitive advantage through their cause and consequence of stakeholder relationships and interactions
- Reinforcing marketisation of indigenous entrepreneurs' SMEs
- Contributing to the entrepreneurship research gap of stakeholder engagements
- Contributing to capacity-building research to sustain or prolong the hard-fought gains in capacity building through enhanced competitive advantages

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12

The Role of SMEs in Electricity Markets

Felicetta Iovino

12.1 Introduction

With the first energy package, a profound process of transformation of European energy, electricity and gas companies began. Since 2007, all European energy markets have been open to the final consumers' choice of their energy supplier. This free choice made it possible to enter into contracts with companies other than the former monopolists, ENEL for electricity and Eni for gas, in Italy. A number of companies have entered the market alongside the former monopolists. This was possible in the phases of the electricity and gas supply chain not characterized by natural monopoly. They are the stages of production and supply. Therefore a plurality of small and medium-sized enterprises have joined the large enterprises already on the market. So the analysis of the role of small and medium-sized enterprises in energy markets appears interesting.

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This chapter focuses on the case of Italy in the years following liberalization. In this sense, the main financial performances of Italian energy companies have been analyzed in relation to their size. To this end, two research questions were asked:

1) What is the role of SMEs in energy markets?
2) Are there similarities or differences in the financial performance of SMEs and those of large companies?

To answer these research questions, the following two hypotheses are posed:

1. H1: Small and medium-sized enterprises are able to have the same or even higher financial performance than large enterprises.
2. H2: There is no statistically significant difference between the financial performance of small and medium-sized enterprises and large enterprises.

To demonstrate these hypotheses, the main financial and profitability indicators were analyzed. To this end, histograms, a descriptive statistical analysis and ANOVA (one way) were used. The following paragraphs will discuss: the transformation of Italian energy markets for European directives, methodology, results and discussion, and conclusions.

12.2 The Transformation of the Italian Energy Markets for European Directives

European directives have profoundly transformed the Italian energy markets (electricity and gas) in the same way as for all the other European energy markets. The three energy packages (Directives 96–98; Directives 2003; Directives 2009) have imposed the unbundling of both electricity and gas supply chains. In this way, a plurality of new operators entered the stages open to competition, i.e. production and sale (Iovino 2012, 2015). The main transformations were therefore:

1) Restructuring of the sector with unbundling of the different phases of the supply chain (generation, transmission, distribution and sale)
2) Opening and competition of the wholesale and retail market
3) The entry of new entrants in the generation and supply phases
4) Provision of third-party access
5) Creation of independent authorities
6) Privatization of company ownership, with the entry of new operators (Jamasb and Pollitt 2005)

The directives of 1996 and 1998 were replaced by those of 2003 with which a significant boost was given to the opening of the markets established by 1/07/2007 and to unbundling. The 2003 directives were then replaced by those of 2009. The latter defined even more clearly the need for unbundling between the production and sales activities and those of transmission and distribution. For the first time, companies with a gas consumption of less than 50,000 cubic meters were considered vulnerable customers. In addition, the European Energy Regulators Agency (ACER) was created. In May 2019 the fourth energy package was definitively approved, which promotes the following determined processes

– Decarbonization of electricity and gas production
– Decentralization of electricity production
– Regional transmission operators are set up for electricity
– A process launched for greater security of supply

The electricity and gas value chains include the following phases: generation, transmission, dispatching, distribution and sale (for electricity); generation, storage and dispatching, transport, distribution and sale (for gas). The production and sales phases have been liberalized. The transmission, dispatching, storage and distribution phases are subject to a natural monopoly. Hence, they were entrusted through concessions in Italy to national and local monopolists. Eni is the former monopolist for gas, while ENEL is the former monopolist for electricity.

12.3 Methodology and Data

12.3.1 Characteristics of the Sample and Data

Secondary data was used to answer our research questions. These data were taken from the AIDA database. Aida Bureau van Dyck is a dataset of financial and economic data of companies with registered office in Italy. We have focused our attention on electricity production companies in Italy. In fact, together with the sales phase, it is the phase of the energy supply chain open to competition. In this sense, the electricity production companies in Italy have been selected.

The total number of such companies is 2338. Therefore, we have considered the main financial and profitability indicators: ROA, ROE, ROS, quick ratio, debt/equity and asset turnover. They were used to analyze the financial performance of these companies because they are the main profitability and financial indicators of the companies. In particular, ROA, ROE and ROS measure the overall profitability of the company and also that relating to sales and therefore characteristic management. The quick ratio measures the company's ability to meet current debts with its immediate liquidity. The debt to equity ratio measures the company's risk, because it expresses its debt to third parties. The asset turnover indicates the number of times that the total capital invested is regenerated as a result of sales.

Only the companies for which all the above indices are available for the period 2014–2017 were taken into consideration. This period was chosen because it includes the period of 10 years after the complete opening of the electricity market in Italy (2007). So the number of companies analyzed is 371. Therefore, a number of groups have been identified based on the size of the companies. The parameters considered for this purpose are those of Recommendation 2003/361 / EC. The distinction in groups was made on the basis of the number of employees. When this variable reached the limit of what was foreseen, the total revenues were used (Iovino and Migliaccio 2019a). In this way, the total number of enterprises was divided into 4 groups: large enterprises, medium enterprises, small enterprises and micro enterprises. The distinction in these four groups was: 2.156334% large, 4.58221% medium-sized, 16.1725% small and 77.08895% micro.

12.4 Method

The 2017 data were analyzed by means of histograms. So an analysis of descriptive statistics was carried out distinguishing in relation to each group of companies identified. In addition, the results between the two main groups were also compared: large companies and SMEs. The analysis was carried out in relation to 2017, because it is the year 10 years after the complete opening of the electricity market. Subsequently, the analysis was extended to the 2014–2017 period and a descriptive statistics analysis and ANOVA (one way) were performed for the 4 identified groups and the two macro-aggregates (large and SME). Thus conclusions on hypotheses H1 and H2 have been drawn.

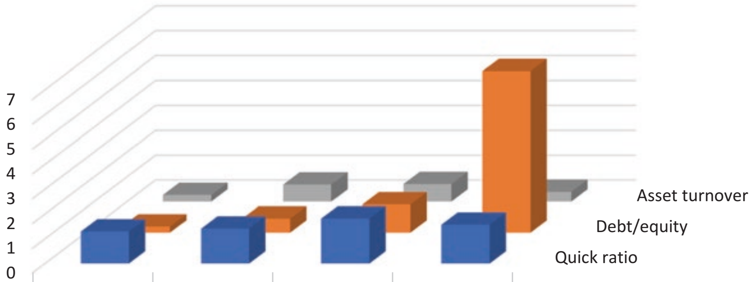
12.5 Results and Discussion

The quick ratio or acid test ratio is an index that expresses the company's ability to pay its debts with only immediate liquidity. The equilibrium value of this index is open at 1. However, even higher and fine values at 2 show an excellent ability of the company to meet current commitments. The companies analyzed recorded values around equilibrium and even higher values in the year taken into consideration. The values range from 1.3 for large enterprises to 1.8 for small enterprises. If the SMEs are considered as a unitary group, they record an average value of 1.6. Hence, SMEs are able to achieve greater liquidity than large companies in the year analyzed. This expresses the greater ability of SMEs to obtain liquidity to cope with current expenditure. This is in reference to the year analyzed.

The debt-to-equity ratio is a type of leverage ratio and expresses the part of the asset that is financed by resorting to debt. A net judgment on the value of the debt to equity ratio cannot be expressed. Indeed, very high values do not necessarily indicate a worse situation than a lower debt-to-equity ratio. The analysis in this case requires consideration of other characteristics of the company's financial structure. A stable company with significant cash flow even if it has a high debt-to-equity ratio is a company that expresses a positive situation. Surely a company with a high debt-to-equity ratio is generally riskier than a company with a low debt-to-equity ratio. However, the first venture is definitely leverage. So it takes advantage of the leverage effect of the increase in debt on the profitability of the company. In the year analyzed, the values fluctuated between 0, 2 for large companies and 6.5 for micro enterprises. The equilibrium value is 1. It is substantially achieved by small businesses that register a value of 1.13. In short, SMEs have a value of 2.7 which may appear risky compared to the low value of large companies. However, SMEs also have better liquidity than large companies. The best value is therefore certainly the one reported by small businesses (1,3) (Iovino 2014).

The asset turnover (net sales/total assets) indicates the number of times the invested capital is renewed due to the effect of sales. It is clear that a value as high as possible is what indicates a better situation. The values in the year analyzed range between 0.26 for large companies and 0.706 for small companies. On an aggregate level, SMEs report a value of 0.595. Hence, it is clear that SMEs record the highest values both at the aggregate level and when considered individually. In this way, debt also has a positive effect on the rotation of the invested capital. Figure 12.1 summarizes the values of the indices analyzed through histograms.

In addition to the aforementioned financial indices, profitability indices were considered. They are ROS, ROA and ROE. Each of these indices expresses profitability with respect to particular balance sheet items. ROS is the operating profitability compared to sales. ROA is the operating profitability compared to the total assets. ROE is the net return on equity. It is clear that profitability must be as high as possible, so that the company is in a favorable situation. ROS takes values between 2.8 and 9.4. Large companies achieve a profitability of 4.8, while micro-enterprises of 9.8. In general, as an aggregate value, SMEs have a value of 6.778 in profitability on sales. Hence, the latter obtain higher profitability than large companies. This means that SMEs are able to obtain better results in terms of operating profitability on sales made (Iovino and Migliaccio 2016).



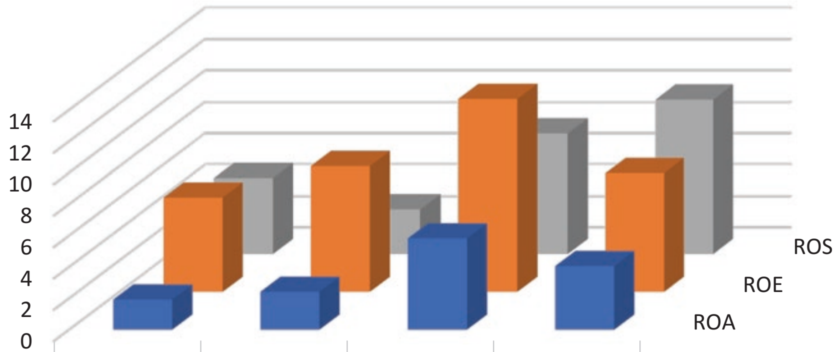
	Big	Medium	Small	Micro
Quick ratio	1.3	1.415294118	1.818135593	1.572132867
Debt/equity	0.24875	0.564705882	1.137966102	6.500594406
Asset turnover	0.26875	0.688823529	0.706610169	0.39034965

Fig. 12.1 Financial ratios. (Source: our elaboration)

ROA assumes values between 1.915 of large enterprises and 5.814 of small enterprises. All the individual types of SMEs, and their aggregate, reach higher values than those of large companies. Therefore, SMEs also obtain higher values for the return on investment than large companies. Finally, ROE assumes values between 6.00375 for large companies and 12.28 for small companies. Again, each type of SME achieves higher values than large companies. Even at the aggregate level, SMEs reach an average value of 9.28, which is higher profitability than large companies. These values are summarized in Fig. 12.2 by means of histograms.

Therefore, this first limited analysis to a single year allows us to affirm that SMEs are able to obtain financial performances similar or even superior to those of large companies. In particular, significant values are taken from the quick ratio, the debt to equity, the turnover, the ROA and the ROE. In the case of ROS, only one type of SME, mediums, assume values lower than large companies. However, both at the aggregate level and the other two types of SMEs assume values higher than those of large companies. These values are shown in Figs. 12.1 and 12.2. Therefore the hypothesis H1 can be said to be proven. This analysis is also confirmed by a descriptive statistics analysis. It was carried out in Table 12.1 which shows the average values divided by size of the companies in Table 12.2.

In fact, it is noted that the standard deviation assumes contained values for almost all the indices. This means that the values are placed around



	Big	Medium	Small	Micro
ROA	1.915	2.410588235	5.81440678	4.053356643
ROE	6.00375	8.002941176	12.28067797	7.556433566
ROS	4.82625	2.841764706	7.666610169	9.820524476

Fig. 12.2 Profitability ratios. (Source: our elaboration)

Table 12.1 Average values for the analyzed ratios

	Quick ratio	Debt/ equity	Asset turnover	ROA	ROE	ROS
Big	1.4925	0.2225	0.279167	2.076667	4.944583	5.312917
SME	**1.579237**	3.542657	**0.53397**	**3.6334**	**7.032479**	**5.780606**
Big	1.4925	0.2225	0.279167	2.076667	4.944583	5.312917
Medium	**1.613922**	1.131961	**0.565882**	**2.184902**	4.022157	1.491765
Small	**1.607401**	**1.447571**	**0.649548**	**4.841977**	**9.457401**	**6.656102**
Micro	**1.516387**	8.048438	**0.38648**	**3.873322**	**7.617879**	**9.193951**
SME	1.579237	3.542657	0.53397	3.6334	7.032479	5.780606

Source: our elaboration

the market average. Exceptions are debt to equity, ROE and ROS. However, by analyzing the average values for different types of companies, we have been able to verify that SMEs perform better.

12.5.1 Analysis of Variance

ANOVA (one way) was performed to investigate the H2 hypothesis. Size was considered the independent variable, while indices the dependent

Table 12.2 Analysis of the descriptive statistics in Table 12.1 second part

	Quick ratio	Debt/ equity	Asset turnover	ROA	ROE	ROS
Mean	1.557552	2.712617	0.470269	3.244217	6.510505	5.663684
SE	0.031076	1.797463	0.084075	0.672925	1.243465	1.606643
Median	1.561894	1.289766	0.476181	3.029112	6.281231	5.984509
SD	0.062152	3.594926	0.16815	1.34585	2.48693	3.213286
Variance	0.003863	12.9235	0.028275	1.811311	6.18482	10.32521
Interval	0.121422	7.825938	0.370381	2.765311	5.435244	7.702186
Min	1.4925	0.2225	0.279167	2.076667	4.022157	1.491765
Max	1.613922	8.048438	0.649548	4.841977	9.457401	9.193951

Source: our elaboration

variable. The distinction in size was made by referring only to the number of employees. As can be seen from Table 12.3, there is no statistically significant difference for some indices, while for others this difference is significant.

If there is no statistically significant difference, the null hypothesis is accepted. As a result, there is no difference between the financial performance of companies in terms of size. Therefore, SMEs also manage to obtain financial performances similar to those of large companies. There is a statistically significant difference for the following indices: debt to equity, asset turnover, ROS and ROA. In fact, the p value assumes values lower than 0.05 for these indices. This confirms that these are companies with different characteristics. However, average significant values are assumed by SMEs compared to large companies as seen previously. Instead, there is no statistically significant difference in the case of the quick ratio and ROE. This allows us to affirm that there are statistically significant differences, but from the descriptive analysis they are for the benefit of SMEs (Iovino and Migliaccio 2019b).

Instead, there is no statistically significant difference in the case of ROE and quick ratio. These are very important indices. First of all, ROE expresses the company's synthetic profitability, whereas, the quick ratio expresses the company's liquidity level. Therefore, the statistically significant differences in ROS and ROA, that is in the operating profitability of companies is partially absorbed by the items of financial and extra-characteristic management. Therefore, an analysis conducted through

Table 12.3 Analysis of variance

Ratio (dependent variable)	Dimension	F	P- value*	F crit
Acid test ratio	Big Medium < 250 Small < 50 Micro < 10	0.429393	0.737584	4.066181
Debt-to-equity ratio	Big Medium < 250 Small < 50 Micro < 10	17.46911	0.000716	4.066181
Asset turnover ratio	Big Medium < 250 Small < 50 Micro < 10	23.07779	0.000271	4.066181
ROS	Big Medium < 250 Small < 50 Micro < 10	8.445339	0.007335	4.066181
ROA	Big Medium < 250 Small < 50 Micro < 10	7.602675	0.009956	4.066181
ROE	Big Medium < 250 Small < 50 Micro < 10	1.988651	0.194337	4.066181

*$p < 0.05$

ANOVA shows that there are statistically significant differences, because the financial structure of companies is different. Just think of the high debt of SMEs. However, the ROE that briefly summarizes the profitability of the companies and the quick ratio that expresses the liquidity and therefore the solvency of the companies in the short term indicates that there is no statistically significant difference between the companies analyzed. Therefore the H2 hypothesis is substantially verified. SMEs can achieve performances similar to or even higher than those of large companies as evidenced by the analysis of descriptive statistics and by histograms.

12.6 Conclusions

SMEs achieve performances that are higher than or similar to those of large companies. This is clearly suggested by the values assumed by the ROE in the case of SMEs, both as an aggregate and as individual companies. Therefore, SMEs can be profitable in the case of energy markets. The analysis by dimensions has several political implications. Policy makers can be incentivized for administrative simplifications or incentives for this type of business. Furthermore, the spread of SMEs is able to improve both the economic and social conditions of the reference context (Giddings and O'Brien 2002; Moore and Manring 2009). Therefore SMEs play a priority role in developing the competitiveness of energy markets and in general for the whole country in which they develop. The analysis of descriptive statistics and ANOVA confirm that there are no significant differences in the performance of companies. These differences, when they exist, are mainly for the benefit of SMEs.

This chapter has limitations. First of all, the analysis was performed on the values of only one year. Then, when the analysis was extended to three years, only the values of the companies present in all three years were considered. This means that only the strongest companies have been analyzed. It is clear that they have a better financial structure. Another limitation is the analysis referring to only one country, Italy. However, it is representative of the European energy situation. Additional indices need to be taken into consideration to improve the research. In addition, the study can improve through a longitudinal analysis considering several years. A comparison with other countries can also be interesting, even countries belonging to different continents.

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