Chapter 9
Survival Under Aggressive Competition:
A Microenterprise Case

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ABSTRACT

The purpose of this chapter is to examine whether competitive strategies are helpful for small firms to survive when the intensity of rivalry is high. The research scope is a case of microenterprise that operates in industrial machinery and components sector in Istanbul, Turkey. Throughout a 12-year period, the critical incidents that the firm confronted in the competitive environment, its reactions to those challenges, and the consequences are evaluated under the framework of business strategy. Consequently, it is observed that differentiation strategies served the microenterprise to grow even under aggressive competition. The analysis is expected to contribute to the development of managerial skills in small firms, which constitute a large portion in economic activity.

INTRODUCTION

Strategic management perspective manifests that the common goal of the businesses is to survive in the long run and yield profits above average while taking all the environmental factors into account. It denotes long range planning and execution process, which is vital for firms, regardless of their size. Just like big corporations, smaller firms are better off by taking the right position to maintain their business in the competitive environment (Porter, 1980).

Small and medium-sized enterprises (SMEs) are an important part of the economies all around the world. According to recent statistics, SMEs, which constitute 99.8% of the total number of ventures in Turkey, provide around 74% of the employment and 54% of the added value created in the economy (TUIK, 2016).

Small firms are generally described in terms of their number of employees, annual turnover or total assets. In addition to the scale criteria, small firms also differ from other venture categories according

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to organizational structures, management functions and processes. Conceivably the most significant distinction is that almost all the decisions in small firms are taken by the owner-managers. Small firm entrepreneurs, perhaps unwittingly, conduct strategic management as well (Beaver, 2002). On the other hand, there are general guidelines in literature to support entrepreneurs for following particular sets of competitive action (e.g. Miller, 1998; Wheelen & Hunger, 2000, Wright et al., 1993).

Major drawbacks of being a small firm are known as the difficulties in accessing to capital, talent, and reputation. However, their advantages are considered as being closer to customers, flexible in decision making, and open to innovations (McVicker, 1988; Megginson et al., 2003; Siropolis, 1994). Despite the constraints, it is a matter of survival for small firms to make proper use of their resources in order to remain in the business where big competitors prevail. Understanding this process falls into the science of business administration and particularly the strategic management field.

Earlier works in strategic planning (e.g. Aram & Cowen, 1990; Baker et al., 1993; Wheelwright, 1971) and strategic management in small firms (e.g. Adamoniene & Andriuscenka, 2007; Chak, 1998; Cooper, 1981; Dauda et al., 2010; Fulford & Rizzo, 2009; Mazzarol, 2004; Osuagwu, 2009; Variyam & Kraybill, 2001) point out a significant research stream. In this literature, various aspects of strategic management in small firms are studied, in which the relationship between planning and performance stands out as the significant category (Wheelen & Hunger, 2000). As a managerial implication, it is generally accepted that small firms should focus on particular products and markets. Compared to spreading out the resources, specialization seems more plausible for small firms, considering their financial and managerial capacities. However, small firm strategy in volatile and uncertain environmental conditions is a relatively new research field (e.g. Box, 2010; Kurtz et al., 2012; Silinevica, 2011). The purpose of this study is to examine how microenterprises, the smallest scaled SMEs, are able to survive under the pressure of aggressive competition from bigger companies.

In this chapter, the concepts and characteristics regarding the small firms and strategic management will be defined at first. Then, a microenterprise case in the industrial machinery and components sector will be presented to evaluate the various critical events, the decisions, and the consequences that the firm confronted during a 12-year period (2006-2017). Finally, the actions taken by the firm to survive against intense competition will be associated with competitive strategies and the managerial implications for small firms will be discussed.

CONCEPTUAL BACKGROUND

Definition and Characteristics of Small Firms

Small firms can be distinguished by both quantitative and qualitative criteria. The macro institutions such as the United States Small Business Administration or the European Commission take into account the number of employees, annual revenue or the balance sheet total as quantitative measures. In Turkey, firms having less than 50 employees and four million USD annual sales or balance sheet total are considered as small-scale enterprises. Microenterprises are those which have less than 10 employees and 500,000 USD annual sales or balance sheet total (Resmi Gazete, 2018).

The qualitative definitions of small firms generally refer to the ownership and management structures as well as their ways of doing business. From this point of view, it is said that small firms are typically independent entities and are not dominant in their markets (Megginson et al., 2003).