

Investigation of Role of Competition Dimensions, Supply, Demand and Government Policies in Development of SMEs

Mahshid Zargaran¹, Mansoureh Aligholi²

¹Department of Business Management, Qazvin Branch, Islamic Azad University, Qazvin, Iran.

²Department of Business Management, Faculty of Management, Central Tehran Branch, Islamic Azad University, Tehran, Iran.

Received: November 1, 2014

Accepted: January 13, 2015

ABSTRACT

SMEs are very important due to different reasons like supplying primary needs of people, contributing to employment, playing an important role in production, development of economic justice and in some countries, SMEs are considered as the pivot of economic and social development.

The present research aims to investigate the relationship between competition dimensions, supply, demand and government policies and development of SMEs in Ardebil Province, Iran. In terms of methodology, the present research is an applied study. In terms of methodology, it is a descriptive survey. Statistical population of the research included 394 active SMEs in Ardebil Province. Data were collected from 195 firms. Correlation method and SPSS software were used for data analysis. Results showed that all research hypotheses were supported. In other words, there were significant relationships between competition structure, supply structure, demand structure, government policies and development of SMEs.

KEYWORDS: competition structure, demand structure, supply structure, government policies and SMEs

INTRODUCTION

The present era is full of unpredictable changes and companies are confronted with unprecedented competition conditions due to factors like unclear borders of markets, market fragmentation, short products life cycles and customers' purchase models change (Rahnama et al, 2012). In spite of the fact that SMEs have some advantages like being an appropriate context for increasing social stability level, creating productive employment, widespread abilities in supplying middle-stage industrial products needed by larger industrial units and so on, they are confronted with many managerial, financial, marketing and problems due to limited activity level, inadequate human and financial facilities and.

Investigation of SMEs and factors affecting them seems necessary because SMEs can reduce unemployment and act like an equalizing agent in the market and maintain profitability and price levels at competitive levels in the long run (Audretsch, Santarelli&Vivarelli, 1999).

Development of SMEs has been considered as a way of industrial development by developing and even developed countries within the last few years. From international institutes' viewpoints like Global Bank and International Money Fund, SMEs play important roles in creating occupation and economic growth of countries. In particular, developing and developed countries like eastern and south-eastern Asian countries have adopted appropriate policies and have been able to take large steps in reducing economic and social crises the most important of which is unemployment (Vakilzadeh, 2006).

Considering the importance of SMEs, it seems necessary to conduct studies in order to identify their problems and contribute to them so that they can play their roles appropriately. Furthermore, a review of Ardebil Province Industrial organization reports reveals that no special study has been conducted on SMEs in Ardebil province. Therefore, it seems necessary to conduct a study on SMEs in this province and identify factors which affect development of SMEs.

*Corresponding Author: Mansoureh Aligholi, Department of Business Management, Faculty of Management, Central Tehran Branch, Islamic Azad University, Tehran, Iran. Email: man.aligholi@iauctb.ac.ir; Tel: (+98)21-66921499

THEORETICAL LITERATURE

SMEs

The importance of SMEs has been increasing in industrial and developing countries within the recent years. SMEs can concentrate on core activities and remove uncertainties of larger industrial units. Furthermore, SMEs play important roles in national economies and about 80% of global economic growth is due to SMEs growth (Simpson & Paula, 1997). SMEs are very important in developing countries because they play important roles in employment, entrepreneurship and development of non-petroleum exports. Therefore, SMEs are considered as powerful agents in exports development. Development of SMEs will result in non-petroleum products export and public welfare increase. On the other hand, in most countries, people want new products and widespread production is not useful in such markets.

Different criteria are used for differentiating between SMEs and large enterprises. These include: the number of employees, investment volume, value of productions, sales level and so on. For instance, from EU viewpoint, firms which have employees below 250 people are considered as SMEs (Linn et al, 1996). In Iran, industrial units with 10-49 employees are small firms, units with 50-149 employees are medium-sized enterprises and units with >150 employees are considered as large firms.

SMEs features

1. SMEs are very capable in creating productive employment and can guide active workforce.
2. SMEs have enough technical and specialized abilities to supply many semi-manufactured and middle-stage products which are necessary in larger industrial units. Furthermore, such industries enable large industries planners to produce numerous products. They can help larger units with changing factory products lines and produce high-tech products.
3. SMEs play very important roles in attraction and conversion of sporadic agricultural crops, livestock products and minerals in rural and remote areas of countries. This industrial sector plays an important role in removing deprivation in lowly-developed areas.
4. Many industrial innovations and studies in industrial and developing countries are focused on SMEs and SMEs can base an independent industry in many countries.
5. SMEs are important contexts for training specialized workforce and managers for large industries.
6. SMEs are able to absorb sporadic and small capitals in society and guide them through productive and industrial activities (Norouzzadeh, 2007).

SMEs in Iran

Some economists believe that large industries must be supported. However, some commentators and experts believe in support for SMEs. A third group believes that we should support both SMEs and large industries in order to reach the optimum goal. In other words, SMEs and large enterprises are complementary and must be considered as a whole.

Within the past few years, there was no comprehensive definition for SMEs in Iran and only two factors (small capital size and the number of employees) were considered as criteria for definition of SMEs. Absence of a comprehensive definition made different organizations to define SMEs separately. This caused SMEs future to be ambiguous.

Competition structure

A strategy is a comprehensive program which shows the way a company reaches its targets and fulfills its mission. Strategy maximizes competitive advantage and minimizes competitive shortages. The word "strategy" is extracted from the Greek word "Strategia" which means "provision of a plan and implementation of it". Supreme Military Association of America (1963) defined strategy as: "strategy is the science and technique of development of political, economic, cultural and military power at peace and war aimed at maximizing support for national policies and increasing success possibility and decreasing defeat possibility". From this year onwards, the word strategy became popular among economists and experts of other branches of humanities. The art of generals is now the art of managers. For example, economists use the word strategy to mean: the way of using rare resources appropriately in order to arrive at targets. These resources can be currency reserves of qualified experts and managers. Henry Mintzberg used the word strategy along with 5 different concepts called 5p: plan, ploy, pattern, position and perspective. According to a famous definition, strategy means: management plans and programs for acquiring results based on organizational mission and goals.

In any organization, whether service or production, customer is the main factor for survival and success of the company. If an organization fails to attract customers' satisfaction and loyalty, it will not be sure about its long-term activity (Vazifehdost, Rahnama & Mousaviyan, 2014). For decades, companies' values were measured by means of their tangible assets, factories and equipment. Now, it is believed that the real value of a company is somewhere in

customers' minds (Heidarzadeh et al, 2011). Today, organizations know that markets are no longer developing and every single customer has its own special value because markets are fiercely competitive (Haghighi et al, 2012).

Competition intensity

There are many definitions for competition in economic literature. The most well-known viewpoint about competition (competition intensity) is Porter's Five-force model (Grimm, Lee & Smith, 2006).

Michael Porter's first book titled "competitive strategy" (published in 1980) has a comprehensive look at strategy. The nature of strategy is placed in relating a company to its surroundings. Although surrounding environment is very wide and includes social and economic factors but key aspect of surroundings is the industry in which the company is performing. The structure of industry plays an important role in determining competition rules and potential strategies accessible by companies. Out-of-industry forces basically have relative importance. For instance, since external forces affect all active forces in an industry, they are the main factors in companies' different abilities in dealing with them.

Supply structure

Supply power refers to adequate power of supplier(s) to supply necessary demand(s) whenever required. Market is not always controlled by suppliers but the demand side may also gain the control. Relationship between supply and demand is mutual and every producer produces products according to market demand.

In order to build a producer's supply table and draw its corresponding curve, we must assume that factors affecting production costs are constant (in other words, other conditions must be assumed to be constant). These factors include: technology and essential inputs prices for producing a product. Moreover, weather and other climatic conditions must be considered as constant for agricultural crops. Assuming all above factors to be constant and changing products prices, we can obtain producer's supply table and its supply curve.

Demand structure

Market growth and performance refer to the speed by which market value is reduced or increased. Government, companies and financial institutes use this index for measuring and specifying success or defeat or internal gross performance. An increase in this rate is a positive process and its reduction is accompanied by a negative growth. Market performance can be measured exactly in a monthly or annual manner. Financial institutes use this concept to determine future prospect of a business model or special industry.

An increase in size or sales of a consumers' group within a specified time frame is called growth rate. When a business manager investigates a product's success or failure in a market, he or she subtract market growth rate from sales growth rate. In fact, market growth rate is the ratio of subtraction of base month growth from current month's growth over base month's growth in percentage.

Purchase power

Purchase power refers to a sum of products or services which can be bought by a unit currency. The currency can be a product's money (like gold or silver) or floating currency in the free market (like dollar). As Adam Smith states: money allows an individual to order others' services (work). Consequently, purchase power is an individual's ability to trade money for products or services. If persistent money income of an individual remains constant but prices levels increase, purchase power decreases. Inflation does not always mean decrease in income purchase power because inflation can increase more rapidly than prices levels. Higher incomes mean higher purchase powers because real income refers to an income which is set against inflation.

Demand conditions

Demand nature is very important for companies and industries because it specifies the nature of advancement and innovations of the company. Three features of demand are important for achieving competitive advantage: "demand structure in a country", "the size and pattern of demand growth in that country" and "instruments by which demand guides services and products to foreign markets".

Government policies

In spite of the fact that governments play determining roles in creating competitive advantage in national level, they have direct influences on decisive factors. Governments influence demand both indirectly via monetary and fiscal policies and directly as the main purchaser of products and services. Governments influence resources as the main policy-maker in areas like workers affairs, education, investment, natural resources and product standards. Governments influence competition and competitive environment as the main regulator of market. For instance,

governments require telephone companies and banks to do allowable works. Governments strengthen decisive factors and improve competitive advantage. In other words, governments can improve or weaken competitive advantage conditions but they cannot create competitive advantages.

Investment is a key variable which has an interactive relationship with many economic variables like industry growth. Governments provide conditions for attraction and direction of investment via appropriate incentives. Governments approve regulations for supporting investors. Managers must have special features and competencies and long experiences and socio-communicational skills. We must start from targets in order to have effective management and managers must rely firstly on their resources and especially workforce (Rahnama et al, 2011).

Financial incentives

Direct and indirect contributions of governments to industries which are mainly allocated to establishment or development of firms are important in entrepreneurship development (MardaniGivi, 2003).

Financial institutes prefer to deal with large industries which have guaranteed products and smaller producers which do not have clear future and high insolvency chances are not supported well by banks. SMEs receive financial support from banks and financial institutes only when they attract customers' attention and prove to be successful in production arena (HeshmatiMolayee, 2008).

Tax incentives

This refers to tax discounts or exemptions provided for SMEs due to doing a particular activities or being situated in special areas (KhodabakhshiHafshejani et al, 2006).

The main incentives which can exist in tax systems include:

Subject-based tax exemptions, special areas, grant/investment tax credits, rapid depreciation, financial motivations and so on.

All these tax incentives can look for positive foreign advantages, regional development and additional investment, political economy and tax competition. These incentives have some disadvantages for any system. Disadvantages include non-obtained tax incomes, implementation costs, Rent-seeking and corruption and different types of disorders.

Customs incentives

These provide SMEs with exemptions from paying customs duties for importing products they need (MardaniGivi, 2003).

Some customs incentives include:

1. Exemption of production machinery which is used by licensed industrial production units.
2. Article 39: there will be no customs duties and commercial profit and tolls on parts and equipment and materials which are used for manufacturing or assembling products.
3. Raw materials and parts of industrial machinery and agricultural equipment and electronic/electric instruments and transport vehicles of internal factors which are used or built or assembled in internal factors are totally exempt from tax.
4. Raw materials and parts used for machinery production units and equipment manufacturing factories are exempt from taxes.

Export incentives

These refer to contributions made by governments to SMEs in order to encourage them to export services and products. These incentives are usually provided in the form of purchaser credit, seller's credit and circulating capital (Ben, 2007).

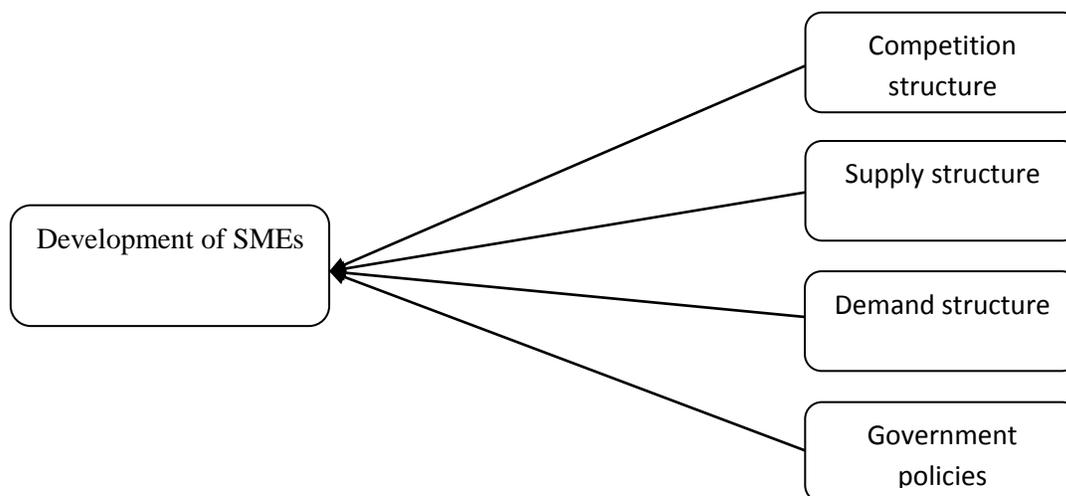
Export incentives include paying some part of export cargo transport cost, paying some part of export product packaging and development and promotion cost, paying for some part of guarantee issue and export insurance, paying for some part of industrial products advertisements cost abroad and branches cost abroad which are provided for an industrial firm in international commerce so that the firm can develop its commerce in international arena.

Industrial incentives

In economic development and growth discussions, investment is a key variable which has an interactive relationship with many economic variables like industry growth. Governments provide conditions for attraction and direction of investment via appropriate incentives. Governments approve regulations for supporting investors.

Research conceptual model

An analytical model is an illustration of variables in the relationships between variables which are extracted from theoretical framework of the research. Considering the above definition, the analytical model of the present research is based upon Rahnama et al (2011) and Marano et al (2007) studies on investigation of the influence of government policies on development of SMEs and development of internal resources for increasing foreign competition. In this research, the foreign dimension of the factors has been considered and is as follows:



Resource: Rahnama(2011), Maranto(2007).

Research hypotheses

1. There is a relationship between competition structure and development of SMEs.
2. There is a relationship between supply structure and development of SMEs.
3. There is a relationship between demand structure and development of SMEs.
4. There is a relationship between government policies and development of SMEs.

METHODOLOGY

The present research is an applied study in terms of its goal and it is a descriptive correlation study in terms of methodology. Furthermore, considering the fact that statistical population volume was restricted and contained 394 companies, Morgan Table was used for estimating sample size (195 companies). Stratified random sampling method was used for picking sample members in order to select sample members because the statistical population was made up of two separate industrial estates. The calculations are summarized in table 1.

Furthermore, reliability of the questionnaire was evaluated by Cronbach's alpha (=0.8). this shows that the questionnaire has appropriate reliability. Finally, correlation method was used for analyzing data.

Table 1: statistical population table and sample size

	population	sample
Industrial estate 1	286	147
Industrial estate 2	108	48
Total sum	394	195

Data analysis

Investigation of normality

We used Smearnov-Kolmogrov (K-S) test for checking the normality of data distribution. If significance level in K-S test is above 0.5, data distribution can be assumed normal. Otherwise, distribution is not normal.

Table 2: data distribution normality test

result	sig	statistic	variables
normal	.225	1.045	Competition structure
normal	.061	1.320	Supply structure
normal	.085	1.257	Demand structure
Not normal	.024	1.489	Government policies
normal	.059	1.328	development

As it can be seen, all data have normal distribution except for government policies because the entire have significance numbers above 0.05. Research hypotheses test

Correlation coefficient test was used for analyzing research hypotheses. Pearson correlation coefficient (parametric test) was used for investigation of relationship between competition structure, supply structure, demand structure and development of SMEs. Further, Spearman correlation coefficient (non-parametric) was used to investigate relationship between government policies and development of SMEs. Results are summarized in table 3.

Table 3: correlation coefficient test

Relationships between variables	r	Sig	result
Competition structure---development of SMEs	0.209	0.003	supported
supply structure---development of SMEs	0.263	0.000	supported
demand structure---development of SMEs	0.237	0.001	supported
Government policies---development of SMEs	0.456	0.000	supported

First hypothesis test

Considering the results of the statistical test, the correlation coefficient between structure of competition and development of SMEs is equal to 0.209. This means there is a positive relationship between the two variables. In other words, the direction of increase or decrease is the same for both variables. Considering the significance number which is below 0.05, it can be concluded that the correlation coefficient is significance in (0.95) certainty level. This means there is a significant relationship between structure of competition and development of SMEs.

Second hypothesis test

Considering the results of the statistical test, the correlation coefficient between structure of supply and development of SMEs is equal to 0.263. This means there is a positive relationship between the two variables. In other words, the direction of increase or decrease is the same for both variables. Considering the significance number which is below 0.05, it can be concluded that the correlation coefficient is significance in (0.95) certainty level. This means there is a significant relationship between structure of supply and development of SMEs.

Third hypothesis test

Considering the results of the statistical test, the correlation coefficient between structure of demand and development of SMEs is equal to 0.237. This means there is a positive relationship between the two variables. In other words, the direction of increase or decrease is the same for both variables. Considering the significance number which is below 0.05, it can be concluded that the correlation coefficient is significant in (0.95) certainty level. This means there is a significant relationship between structure of demand and development of SMEs.

Fourth hypothesis test

Considering the results of the statistical test, the correlation coefficient between government policies and development of SMEs is equal to 0.456. This means there is a positive relationship between the two variables. In other words, the direction of increase or decrease is the same for both variables. Considering the significance number which is below 0.05, it can be concluded that the correlation coefficient is significant in (0.95) certainty level. This means there is a significant relationship between government policies and development of SMEs.

Conclusion

Today, SMEs are playing social and economic roles in many countries. In many countries, SMEs provide the main part of employment and account for changes and innovations. They take part in export and contribute to economic development. Therefore, it seems necessary to identify factors which affect development of SMEs. We investigated relationships between competition, supply, demand, government policies and development of SMEs.

Considering the results of the research, it can be said that competition structure, demand structure and supply structure influence development of SMEs. Demand variations, severe internal competition, low annual growth rate and small size of internal markets may direct SMEs towards exporting their products and services. This may happen

specially when internal markets are saturated and therefore competition intensity can be an important factor in development of export. Long experience in internal market can also be an important factor in development of export. Before exporting, SMEs may have to develop their activities in internal markets and gain helpful experiences for preparing international marketing strategies. Therefore, SMEs are proposed to adopt strategies concerning competition, supply and demand structures so that they can enter international markets which are more competitive than internal markets.

Moreover, SMEs should try to enlarge because larger companies have more advantages and have adequate financial and human resources. Corporate size is specified by sales volume, number of employees and corporate assets.

SMEs are proposed to adapt to new technologies and markets and customers' needs because survival and future development of companies depend largely on such factors. Government incentives can direct all corporate attempts and can act as launching pads or barriers ahead of companies.

REFERENCES

- Audretsch, D.B., Santarelli, E. and Vivarelli, M.(1999). 'Start-up size and industrial dynamics: some evidence from Italian manufacturing', *International Journal of Industrial Organization* vol. 17, pp.83- 965.
- Ben R. Craig, William E. Jackson III, and James B. Thomson, 2007, Small Firm Finance, Credit Rationing, and the Impact of SBA, Guaranteed Lending on Local, Industry and Economic Growth, *Journal of Small Business Management* 45(1), pp. 116–132.
- Grimm,L,Smith.K.G,(2006)The impact of market actions on firm reputation, *Strategic Management Journal*,vol 27,No12,1205-1219
- HeidarzadehHanzaee, Kambiz; Khoshpanjeh, Mahsa&Rahnama, Afshin., (2011). "Evaluation of the effects of product involvement facets on brand loyalty" *African Journal of Business Management* Vol. 5(16), pp. 6964-6971.
- Haghighi, Mohammad; Dorosti, Ali; Rahnama, Afshin; Hoseinpour, Ali;(2012) Afshin; Alaei, Abbas; Shafae, Javad; Ariana, Ali;(2012); 'Evaluation of factors affecting customer loyalty in the restaurant industry' *African Journal of Business Management* Vol. 6(14), pp. 5039-5046.
- KhodabakhshiHafshejani, Nasrinetal; "public accounting"; Negin Publications; Ardebil; 2006.
- Linn.A.Murphree,Judith.G,Deegan.W.F,(1996)chemotherapy plus local treatment in the management of intraocular retinoblastoma,*JAMA Ophthalmology*,vol 114,no.11, 1348-1356
- Marano, D. And Gomez, R. (2007) "Development of internal resources and capabilities as sources of differentiation of SME under increased global competition: A field study in Mexico, *Technological Forecasting & Social Change*, No74.
- MardaniGivi, SMEs in Iran; *journal of Tadbir*, number 137, October 2003, 14th year, pp: 145-146.
- NorouzZadeh, Davoud, 2006, investigation of problems and restrictions ahead of implementation of quality improvement plans in Ardebil province SMEs, master degree thesis, Azad Univeristy, Tabriz.
- Rahnama, A., Mousavian, j.,Eshghi, D &Alaei, A. (2011) "The Role of Industrial Incentives in Development of Small and Medium Industries" *International Journal of Business Administration*, Vol. 2, No. 4.
- Rahnama, Afshin.,Mousavian, SeyedJavad., Alaei, Abbas., SalimiMaghvan,Tavakkol., (2011). "THE SURVEY OF RELATIONSHIP BETWEEN CREATIVITY OF STAFFS AND ORGANIZATIONAL EFFECTIVENESS" *Australian Journal of Business and Management Research*, Vol.1 No.6 [97-104].
- Rahnama, Afshin.,Alaei, Abbas., Shafae, Javad., Ariana, Ali., (2012). "Evaluation of Relationship Marketing Dimension Effect on Degree of Customer's Loyalty of Insurance Industry in Iran" *Journal of Basic and Applied Scientific Research*, 2(2), 1842-1848.
- Simpson Poon, Paula M.C. Swatman, (1997) "Small business use of the Internet: Findings from Australian case studies", *International Marketing Review*, Vol. 14 Iss: 5, pp.385 – 402
- Vazifehdoost, Hossein.,Rahnama, Afshin., Mousavian, SeyedJavad., (2014). "Evaluation of the Impact of Brand Purchase Involvement, Satisfaction, Experience and Brand Trust on Loyalty to Brand" *Mediterranean Journal of Social Sciences*, Vol 5 No 20, 3054-3063.
- ZadehVakili, Kamran, "SMEs paper", website of organization of commerce development, 2006.