

The Conceptualization of Strategy within an Emerging Economy Framework: The Case of Romania

Zenovia Cristiana POP, PhD Student

Teaching Assistant

Department of Management

Faculty of Economics and Business Administration

Babes-Bolyai University

Teodor Mihali Street, No. 58-60, 400591, Cluj-Napoca, Romania

Ovidiu-Niculae Bordean, PhD

Assistant Professor

Department of Management

Faculty of Economics and Business Administration

Babes-Bolyai University

Teodor Mihali Street, No. 58-60, 400591, Cluj-Napoca, Romania

Abstract

Research in strategic management focused primarily on studying strategy formulation, implementation and control in companies that operate in developed economies. Other studies stressed the importance of competitive and anti-competitive strategies in Romanian companies by using secondary data sources. The absence of a trust culture between researchers and managers from emerging economies made it difficult to analyze the strategy conceptualization and orientation. The purpose of this paper is to examine the view of Romanian small and medium size enterprises' managers, through a qualitative in depth interview, useful in framing and formulating the strategy concept. The results of the study show that Romanian managers have a modern understanding of the concept. Although they define intuitively, they are in fact using many of the definitions of strategic management literature and are framed in the developed market view of strategy. Other results pointed out that the small firms may be adopting a low cost, a differentiation or even a focus strategy.

Keywords: strategy, SMEs, emerging market, strategic management, multiple case studies.

1. Introduction

Managers of SMEs must constantly make choices, face risks and imminent failure and therefore challenge their own judgments every day on the best way of running the company. If a company needs a strategy, the question that need to be considered is not how strategy is defined in the literature but how it is defined by the managers themselves, reflecting not only the knowledge of the managers but also their personality and impact of the environment, in our case the emerging market economy. There have several studies undertaken within the Romanian economy, but these were all focusing on secondary data sources (Zaharia, Cruceru, & Angheluta, 2009). This calls for refocus on SMEs from emerging markets which can bring new perspectives on strategy concept definition, allowing us to realize significant differentials between the common definition of strategy in developed markets and of those in emerging markets. Our study addresses the following two research questions:

- (1) How is the concept of strategy conceptualized by the Romanian managers of SMEs?
- (2) What are the strategies implemented within the Romanian SMEs?

Therefore in the first part of this article we focus on defining strategy in general and presenting important definitions of the concept from the strategic management literature.

The second part underlines findings from five small and medium sized enterprises that we have chosen due to high levels of performance through a multiple case technique. We will then briefly describe the answers of each manager, showing their critical understanding of the concept strategy and the strategy choices that influenced the growth of SMEs. In the third part we try to overview the definitions presented, which may help guide both Romanian or foreign investors understand the different ways of SME s development in emerging economies.

2. Literature review

Many authors from the management field had distinct opinions, sometimes even contradictory concerning the definition of the strategy; in some cases their opinions are influenced by the fact that it was first used in the military field. We must consider the fact that this situation is first due to the multitude of implications for the success or failure of the enterprise. The concept was first internally determined at all enterprise levels and also externally, namely over the environment in which the enterprise carries on its activity, and on which it has often not the slightest influence. From Kenneth Andrews's perspective, detailed in his book "The concept of corporate strategy" published in 1971, the following definition results: the "pattern of decisions...that determines and reveals its objectives, purposes, or goals, produces the principal policies and plans for achieving those goals" (Husted & Allen, 2010: 15).

For David the strategies are means by which an enterprise achieves its long-term objectives (David, 2010: 13). These surely are only potential actions that have as a basis the top management decisions and the resources which an enterprise has (Mazzarol & Reboud, 2009: 149). The influences exercised by these strategies stretch over a period of 5 years. Grant observes that the strategy can be understood as a "link between the enterprise and its environment" (Grant, 2010: 12) or as Hitt, Ireland & Hoskinsson (2009: 4) pointed out "a strategy is an integrated and coordinated set of commitments and actions destined to exploit the essential competencies to obtain a competitive advantage".

Kenichi Ohmae's view is different because he emphasizes the fact that the existence of a strategy is related with the existence of a competition on the market (Lynch, 2009: 8), therefore the strategic trinomial is created between competitors, clients and enterprise. Thus behind any successful enterprise there is a superior strategy. The solution would be not to try to define the concept but to understand and copy it (Kotler, Berger & Bickhoff, 2010: 6).

3. Research methodology

During four months (September – December 2011) we underwent an empirical research, using the multiple case studies as a method of research for discussing the practical aspects of the strategy within five Romanian enterprises. This method is being considered as the most relevant in the management domain (Băcanu, 2006: 213). The choice of the number of case studies needs to be carefully thought out (Barratt, Choi & Li, 2011: 329). Various empirical studies determine the use of a restricted number of selection criteria. The devoded literature mentions the following selection criteria to determine which SMEs to analyze for the multiple case studies: (1) being active for at least 2 years, (2) having well-defined strategies and (3) not registering any significant losses in the past 2 years. Since they are considered valid criteria by specialized literature, we decided to use them. The first criteria, combined with the third, looked through the perspective given by the economic crisis may be particularly relevant, for selecting SMEs.

Using multiple case studies has both advantages and disadvantages compared to using a single case. The main advantage is that multiple case studies offer more convincing results, as previously mentioned. On the other hand, opting to use multiple case studies is not an easy choice since it requires more resources, both in time and in cost, despite offering more valid results (Barratt, Choi & Li, 2011:330).

Based on the research objectives and the study of various articles, we have chosen to address questions in our in-depth interview, conducted with various managers. We chose to hold the interviews with managers, no matter the age or gender, in order to obtain pertinent information, since they have the most say regarding strategic decisions according to specialized literature.

The interviewees would often fill the role of proprietors aside from their managing positions, which is one of the relevant characteristics for a small and medium sized enterprise. The interviews lasted around 25-45 minutes.

The interview guide contains a certain number of relevant questions which were formed according to specialized literature and readily-made studies regarding SMEs strategies, thus having the purpose of operationalizing and testing various known theories as well as helping identify the type of SMEs (Chelcea, 2001: 285). Since the order of the questions can also influence the answers, they were structured in a logical succession facilitating earnest responses. Of course, occasionally other questions would overlap spontaneously during the conversations in case they were deemed necessary towards obtaining the desired information.

4. Results and discussions

Table 1 highlights several factual data about the companies that formed our research sample. From the first question that referred to a major theme of this article, and subsequently of the interview we identified the way in which the strategy is defined as well as its importance for the managers.

Addressing a vast theme is one way to invite the managers to a discussion, whether or not he/she is prepared for it. Especially when it comes to define something so difficult, and in the same time something you come across every day. The manager of “Tipografia” SRL, who is also the owner, defines strategy impulsively with terms such as *vision* or *philosophy*, only to admit during a following question, after a more in-depth discussion of the subject, that the strategy contains certain measures or actions which are carefully analyzed, that must be taken by the enterprise in order to reach its objectives, thus being an integrated set coordinated by commitments and actions. Evidently, one cannot clearly distinguish between vision and strategy, though intuitively we could affirm that by recognizing the interdependence of the two terms and the order of the response it is hinted that vision precedes strategy. Only a clear vision, from which later on the enterprise can take shape, will determine the best strategy. The manager of “Tipografia” SRL admits that the personality of the manager is decisive in the success of a business. The manager needs to learn how “to know”, “to do”, “to learn” and “to live together”, what communion means, and ultimately to learn how “to be”. The greatest problem lies in the fact that many times the manager stops at the first step and only gets “to know”, being incapable of transposing into practice or transmitting his decisions or his knowledge. Thus one can explain why certain enterprises never manage to be successful, mainly because they are unable of transposing their ideas into something functional, leading to their ideas never taking shape. In the case of SMEs the situation is much comprehensible. As a manager of a small business, the reactions and the decisions made are based more on intuition, on his own experience, on subjective interpretations of the environment in which the enterprise operates and the personality of course influences the interpersonal relationships.

A similar approach on strategy is offered by the manager of “Espresso” SRL. He defines strategy as a set of economical, organizational and technical measures which are taken over a period of time. The focus is not on the length of time but on the moment in which the strategy is taken, underlining maybe in a more abstract manner the requirement of an SME to be flexible even when it comes to strategic decisions. Many times, however, as it was mentioned at a conference organized by Horvath and Partners in 2011, the professionalism with which an enterprise ponders its strategy can strongly influence the choice of this crucial moment. Timing is very important not only in terms of reaction to changes in the environment, respectively recognizing an opportunity, which defines entrepreneurship, but also internally. Interestingly the categorization of measures is in economical, organizational and technical, showing, three dimensions that are important for this manager in running a business, namely, the financial aspect, management and the technical dimension relevant for prevention and control of major accidents.

“Jolly” SRL, on the other hand, defines strategy as a plan of action, or rather a set of steps which are to be followed so that the SME can reach its objectives. The manager speaks of a “plan” similar to the one mentioned by John von Neumann and Oskar Morgenstern (Johnson, Scholes & Whittington, 2008: 241) in 1944, a major plan for the reach of objectives (Husted & Allen, 2010: 15). It is not a randomly chosen definition because it reflects the extremely analytical personality of the manager, landscaped by his nature, characterized by strategic argumentation and expression. There is a clear difference between how the two other managers previously defined the strategic concept as both mentioned the action but not the plan. It is obvious and essential that one should develop a plan, a projection, before starting taking actions. This response explains also the fact that this SME had the best financial evolution, among the small enterprises that had been analyzed. Another aspect that must be considered is the education of the manager.

“Term” SRL understands strategy as a “binder between the enterprise and its environment” (Grant, 2010: 12); the strategy is always oriented towards the market. However, if before the crisis there used to be an exchange of information and ideas via this binder, the environment has gotten so “suffocating” – or, better said, hostile and clotted with a high degree of uncertainty – that the manager affirms with bitter certitude that these days strategy is “certain death”, so we would conclude that strategy becomes nothing else but a result, a consequence of the changes in the enterprise’s environment, in other words of external factors (Welge & Al-Laham, 2008: 27). This statement could be interpreted through the lens of the lack of predictability of the current Romanian market. Though the SMEs can receive multiple projects and even begin temporary planning and allocating resources, which they order either with their own money or with the sums received in advance, and allocation of their employees, although the projects in which they are involved could be cancelled or even dishonored despite the completion of work, as it happened with “Lidl”; the SME loses its extremely necessary control under this view of strategy. At the same time, this definition reflects the inability of SMEs to position themselves as major players in a market still unstable and under development. The evolution of this company was marked by the evolution of the market. But managers should have foreseen the fact that a market can not only be continuously growing, and search for alternatives.

A strategy is described by the manager of “Cuvântul” SRL as being essentially fundamental means of approaching things, mainly the manner in which it is hoped to reach an essential objective. Though within certain SMEs the concepts of vision or mission were explicitly or implicitly tangent, the manager of this SME mentions the distinction which has to be made between strategy and tactic before talking about either of them. Just like with a military operation, the former concept has a more theoretical and general character whereas the latter concept brings things into a concrete form, in practical steps which are to be followed. The manager particularly stresses on the mission of the SME. The mission not only specifies what market the enterprise intends on competing in, in this case the publishing of non-confessional religious books market, but also the clients which it intends on serving, in this case priests, pastors and other workers of the church, and also on its reason for existing (Popa, 2002: 58); in this case using its published works to contribute to the implementation of Christian values in an individual’s life and society, and to healing the twist in values typical to the dictatorial and communist regimes. The manager focuses not in the why or what but in how. It is clearly depending on the field of activity. Motivating people, so the employees, the customers, the suppliers or investors means aligning them to the business goals, and inspire their commitment.

The next step was to find out throughout the second question what the business strategies that SMEs implement are, as well as their goals. “Tipografia” SRL adopts a strategy of cost leadership (Borza *et al.*, 2009: 90). The enterprise’s goal is not to “selfishly” win by adopting a “sell and run” strategy, but to retain their customers (Longenecker *et al.*, 2009: 78) with a low price and a very advantageous price/quality relationship. Commendable is the fact that this strategy has been applied for the past eight years despite the difficulty in maintaining it. This can be done with major investments and new technologies, which the manager also mentions, or by raising productivity (Simon & von der Gathen, 2010: 122). Unfortunately easier obtainment of resources does not represent a viable sustenance method of this strategy within this SME. The manager even mentioned his dependency on local suppliers. With their disappearance he had to turn to foreign suppliers, that he considered quite unserious. Finding reliable suppliers is not easy especially for small businesses. What is really important is not to rely solely on one as this can be a huge mistake. This vulnerability can negatively affect the company's ability to sustain a low cost strategy.

“Jolly” SRL is trying to implement a strategy of differentiation, offering characteristics hard to imitate by its competitors (Borza *et al.* 2009: 94-95) in order to reach its goals and competitive advantage. Especially after the recent financial crisis, the SME realized the importance of innovation for this strategy, aiming to bring new, previously unavailable, personalized products on the Romanian market. The SME learned to permanently aim for perfection by offering new solutions, renewing, innovating, improving and even promoting the new and always the new, never conforming to conventions, as the spirit of the enterprise itself is described on its website. In stores, the price palette is varied, from extremely small prices to extremely high ones. The pressure of adopting a small distribution price exists, especially since other competitors have ended up selling similar products without trade markup, thus the enterprise opted for innovation. The manager mentions the application of various strategies at a functional level as well as the objectives of each strategy and the methods of evaluating each one’s success.

It is obvious that this differentiation strategy was successful. The manager knew what features will bring an added value to the consumers perception reflected later in profits, mainly by the introduction of exclusive brands.

“Term” SRL applies also the strategy of leadership through cost, trying to gain various projects mainly at public auctions. The SME was thus capable of signing more public contracts, since the state has been considered for some years now as the best paying customer. When it comes to these contracts the price represents a defining element, but not the only one, with the stress falling on the correlation between price and quality as well as, of course, fulfilling the work load. In the domain in which this SME runs, maintaining a low cost is done by carefully choosing suppliers as well as by cultivating a lasting relationship based on trust with them, thus allowing the negotiation of prices and/or alternative means of payment. Many times however, the real competition is the one offered by firms that employ workers who illegally not paying taxes and offering lower prices. In the future the enterprise is seriously considering offering its clients optimal solutions for rational utilization of resources, which are to be developed with the help of some partners. This would be a new opportunity, since although a rise in the construction field is being predicted, for now only a fall has been recorded. For example, employees are paid based on the projects they fulfill. In this way their level of motivation and commitment grows.

“Espresso” SRL’s “focus” strategy is limited to a certain group of clients. These are clients who appreciate the uniqueness of Hungarian cuisine. The market mainly exists thanks to the fact that most foreign tourists in Cluj County come from Hungary. The Săvădisla area is placed near an international road, only a few kilometers away from Cluj, and has many tourist attractions nearby. An alimentation service activity seems like a viable variant for a region within which agriculturally has almost nothing to offer. Most clients were thus Hungarian tourists on vacation, visiting Transylvania for cultural and sentimental purposes. Focusing on a certain segment of clients can be risky although it is a characteristic of small enterprises and this fact was reflected in the decline of their profits once the political and economic crisis hit Hungary, a fall which affected the SME. In our opinion the problem is not necessarily the focus on specific customers, but rather on the decreased financial capacity of people to travel.

A similar strategy is applied by “Cuvântul” SRL, which was founded as a non-confessional religious book publishing house, limiting itself to only a segment of the market. By concentrating on a segment of the market, such SMEs become efficient whilst registering minimal costs, having to satisfy only the specific needs of a segment of the market and not those of the entire market (Hitt, Ireland & Hoskisson, 2009: 51) whilst also avoiding direct competition with stronger competitors. One can aim either for the differentiation strategy or the oriented and focalized, but limited to a niche market strategy. The enterprise addresses priests, pastors and other church workers alike, contributing to their intellectual development and superior education.

The base strategy adopted ever since its founding has 3 components: (1) contributing to the shaping of Christian leaders with its published books – the key strategic element for promoting Christian values; (2) to assist the layman who is interested in practicing Christian beliefs, regardless of his/her confession, understanding how to concretely integrate Christianity in practical life (in relationships with the family, raising of children, individual devotion, work and participation in social life); (3) to offer the not-inclined-to-religion public books of note which address current issues, attractive yet based on Christian values. What differentiates this publishing house from others whose websites we’ve analyzed is the use of a free green phone number, aside from the normal telephone and fax numbers, as well as an extremely well-put customer service which contains very detailed information on all the books, indication of the original titles, since most books are translated, the authors, subjects, availabilities, summaries, target audiences, special characteristics, etc. as well as details such as the people who handled the cover graphics and their types, in other words jacket, full colors, selective lacquer format, number of pages and, of course, ISBN number. Such data is not offered by similar publishing houses aimed at this particular audience, nor do other publishing houses such as the previously mentioned “Tipografia” SRL. The clients even have the possibility of browsing a few pages from the book, aside from the summary.

5. Conclusions

Although the contribution of the academic field in providing several ways of thinking about strategy and default on strategic management was significant, we believe that more than in any field working with managers was very successful, because it leads to an indisputable contribution to the development of new methods to put the strategy into practice. This explains why strategic tools developed by large consulting companies have been embraced by the strategic management literature, and are now widely discussed.

We must emphasize the fact that the experience gained during the interviews was a positive one thanks to the extremely open attitude of the interviewees. By approaching the subject „strategy” we managed to help the managers reflect upon the actions and strategic decisions they had taken over time. We believe that strategic management is a challenge for both theorists and practitioners in the field, stated by the fact that literature has no accepted definition of the process. This process has been considered only within large companies. Therefore, especially now when it has become clear that SMEs have become true engines for economic progress, understanding how the process of strategy formulation, review and control occurs, is necessary, not only for managers or employees of such enterprises but also for policy makers. Interestingly these concepts were taken and put into practice in the management literature, as something absolutely natural, an emergent process we can say. But before speaking about formulation or control, it is necessary to define the concept of strategy.

All the analyzed SMEs are applying a strategy that is formulated, implemented and evaluated formal or informal, explicit or implicit, depending on how advanced the knowledge of the managers in this field is. In regard to conceptualization of strategy, opinions are divided, as seen in the literature. It was interesting to observe how well we can identify some theories, even if they are not fully understood by the managers. However, in the way how the strategy is defined we see an increased attention to issues like action or objectives and unfortunately not on a plan. The Romanian managers are focused more on taking actions, showing that they are capable to react and on the objectives defined narrowly, showing to their employees and shareholders that profit or market share is pursuit. The lack of a plan, so a deep understanding of testing different clearly measurable solutions, is a big problem. This explains why most managers mentioned problems with suppliers. They do not mention bureaucracy, or flawed state policies, but their supplier’s network, which can be optimized and is at their reach. Therefore we felt that a familiarization with these concepts should be done as early as possible even before the establishment of their company and becoming entrepreneurs.

Finally, we wanted to point out that in the current economic climate marked by the financial crisis, formulation, implementation and evaluation of strategy are more relevant than ever, because it influences the efficiency of SMEs. Therefore the beginning is always very important. If mistakes happen while defining the concepts it will affect all enterprise functions and future development.

The paper has limitations as a result of data collection. A somewhat larger sample would obviously permit firmer conclusions to be drawn from the results. On the other hand a higher number would have not permitted such in depth analysis.

The research findings help authorities understand SMEs’ manager’s way of thinking. We contributed to the literature on SMEs and strategic management by focusing not on the process but on the interpretation given to the object of this process - the strategy.

Acknowledgements

This work was supported from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/89/1.5/S/59184 „*Performance and excellence in postdoctoral research in Romanian economics science domain*”.

References

- Barratt, M., Choi, T.Y., & Li, M. (2011). Qualitative case studies in operations management: trends, research outcomes, and future research implications. *Journal of Operations Management*, 29(4), 329-342.
- Băcanu, B. (2006). *Practici de management strategic. Metode și studii de caz*, Iași: Polirom.
- Borza, A., Mitra, C., Bordean, O., Mureșan, A., & Supuran, R. (2009). *Antreprenoriat. Managementul firmelor mici și mijlocii. Concepte și studii de caz*. Cluj Napoca: Risoprint.
- Chelcea, S. (2001). *Metodologia cercetării sociologice: metode cantitative și calitative*. București: Editura Economică.
- David, F. R. (2010). *Strategic management MyManagement Lab Series (13th ed.)*. Upper Saddle River, New Jersey: Prentice Hall.
- Grant, M. R. (2010). *Contemporary strategy analysis and cases: text and cases*. Chichester: John Wiley and Sons.
- Hitt, M. A., Ireland, R.D., & Hoskinsson, E.R. (2009). *Strategic management. Concepts & cases competitiveness and globalization (8th ed.)*. Canada: Publishing South-Western.
- Husted, B., & Allen, D. (2010). *Corporate social strategy: stakeholder engagement and competitive advantage*. New York: Cambridge University Press.
- Johnson, G., Scholes, K., & Whittington, R. (2009). *Exploring corporate strategy with MyStrategy Lab. (8th ed.)*. Harlow: Pearson Education.
- Kotler, P., Berger, R., & Bickhoff, N. (2010). *The quintessence of strategic management*. Berlin Heidelberg: Springer.
- Longenecker, J. G., Petty, J. W., Palich, L. E., & Moore, C. W. (2009). *Small business management: launching & growing entrepreneurial ventures (15th ed.)*. Mason, Ohio: Cengage Learning.
- Lynch, R. L. (2009). *Strategic management. (5th ed.)*. Harlow: Prentice Hall.
- Mazzarol, T. & Reboud, S. (2009). *The strategy of small firms: strategic management and innovation in the small firm*. Cheltenham, Glos: Edward Elgar.
- Popa, M. (2002). *Un model de management strategic*. Cluj-Napoca: Dacia.
- Simon, H. & Gathen, A. von der., (2010). *Das große Handbuch der Strategieinstrumente. Werkzeuge für eine erfolgreiche Unternehmensführung. (2nd ed.)*. Frankfurt am Main: Campus Verl.
- Welge, M. K., & Al-Laham, A. (2008). *Strategisches Management Grundlagen - Prozess – Implementierung. (5th ed.)*. Wiesbaden: Gabler.
- Zaharia, R., Cruceru, A.F., & Angheluta, A.V. (2009). Competitive and anti-competitive strategies on the Romanian market. *Transformations in Business & Economics*, 8(3), 60-76.

Appendix

Table 1: SMEs' main characteristics

Characteristics	Enterprise 1	Enterprise 2	Enterprise 3	Enterprise 4	Enterprise 5
Name of the enterprise	Tipografia	Expresso	Jolly	Term	Cuvântul
Year of establishment	1991	1991	1994	2006	1992
Total number of employees	45	10	49	6	5