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ENTERPRISES IN ECUADOR

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ABSTRACT

This article explores the nature and scope of Strategic Analysis Tools (SAT) application in SMEs[1] (Small and medium-sized Enterprises) located in emerging countries such as Ecuador (where there are no formal studies on the subject). It is intended to assess which of them may contribute to formulate strategic options and create awareness of relevant risks or distress specifically about continuity concerning their operations. Through the application of a survey to an intentional sample-selection of SMEs in Quito-Ecuador, we analyzed the consciousness about these instruments to facilitate the creation of strategic options, their contribution to assess their competitive position and their interaction with the improvement of other capabilities to let them possibly achieve superior performance. Our conclusion is that SMEs can take advantage of exploiting SAT by systematically considering relevant variables in order to assess their current and future possibilities to outperform competition. On the other hand,

[1] SME stands for small and medium-sized Enterprises. Factors such as the number of employees and turnover are basically considered to define them in regions across the globe. In Mercosur, firms are categorized as medium-sized enterprises if they have up to 300 employees or if they gross up to US$ 10 million in revenues.

the identification of which strategic factors these firms should pursue and its constant monitoring can help building sustainable advantages. Cultural barriers and unconsciousness of their benefits may explain their low usage rates. This is a qualitative investigation and the research design is transversal but not experimental.

Keywords: Strategic Analysis Tools; SME; Formulation; Competitiveness; Value

1. INTRODUCTION

As we state in our previous paper on this subject, we could realize that a representative portion of engagements of consulting executives at SMEs opt for very relevant choices that are intentionally or not addressed to outperform competition. However, minimum either effort or resources were utilized to systematically sustain the validity of their decisions. Despite the large economic contribution of SMEs in emerging market countries, there is little research on tools aimed at either measuring or improving their internal competitiveness. Quiñonez (2012) asserts that 95% of productive units in Ecuador are SMEs. In addition, highlights that competitiveness and strategic management are key elements to keep them sustainable (Álvarez Peralta, D. H. & Viltard, L. A., 2015).

In this sense, not only for practical but also for methodological reasons we should recognize any factors or at least any cognitive elements that managers of these firms include when making relevant choices. Lessard (2003) asserts that a firm within either national or international boundaries is subject to analysis at different levels such as the geographic scope of the industry and the competiveness of various locations. Acting in any of these contexts demands a strategic thinking to identify a set of issues, the selection or development of an appropriate framework to asses those issues and identifying a viable course of action.

In case of not finding any kind of framework, we may presume that intuition or their personal non-systematic assessment of the external and internal environments are the main resources to make this kind of decisions.

As we evidenced that in most of our sample SAT are barely applied, we focused in inquiring which other instruments or specific actions were taken in order to keep or improve their competitiveness. On the contrary, because of the size and significance of some representative SMEs that were part of the sample, we initially expected they might contribute with their own approaches that may challenge

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conventional theories. However, we found that in general even these firms allocate very few or no resources to take advantage to these tools.

As we described in our different case analyses, these Organizations' Management missed some relevant elements and or connections. We will discuss how the application of basic tools and especially how the systematization of them could have led their managements' teams to identify strategic areas threaten and let management to be more focused on. We will also try to assess the expertise of these firms on to apply insight from information that may be produced or obtained from inside the organization and from the outside, which is sometimes publically available.

1.1. Design: Methodology and analysis

Our methodology is qualitative and explores information gathered in a specific period of time (the last quarter of 2013 up to October 2014).

The analysis unit included the SMEs established in Quito, Ecuador. As explained on the next section, we could finally obtained 20 positives replies, which form our sample.

Since this is a pure qualitative research, we were focused on selecting firms that can be representative of the sectors to which they belong. Our purpose is not to obtain a statistical sample.

Instead, we focused on a large range of SME's including the specific intention to include those, which are largely acknowledged as the most representative of their sectors according to specialized magazines.

Besides, in order to arrive to relevant conclusions we interviewed principals of the SME's Chamber of the Province to support any evidence that the results of these surveys may produce. This chamber has organized their own sectors of interest in which they have special teams created for assisting them. The classification of sectors that we have used included the same criteria used by this organization.

In this paper, we will concentrate on results showed by the reply of a survey which was applied straight to managers or executives of firms legally established in Quito, Ecuador.

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The survey was applied by email and in some cases lively. When executives accepted an interview it was held in their respective offices because of their interest in knowing more details of the content and scope of the research.

The survey form included fifteen closed questions and four open to let us have access to their opinions and perceptions about the contribution of these instruments.

In addition, we targeted to knowing as complementary objectives, which were the basic additional resources and main actions, aimed at keeping or generating sustainable competitive advantages.

Finally, we have highlighted the likely utilization of competitive position indicators in order to rank benchmarks and assess capabilities to challenge offensive actions and make the most over opportunities that market may expose.

1.2.   Research Limitations/Clarifications

- The final sample is the best representation of the work done over companies to have their response and it complements a prior study done on the subject. (Alvarez & Viltard 2015).

- Data collection involved the execution of three basic tasks:

    o Configuration of the instrument for this purpose.

    o Application of the instrument.

    o Data available analysis.

- The form used to collect data included objective, definitions and clarifications in order to facilitate comprehension of the research and enhance the probability of obtaining replies the more accurate as possible.

- The definite sample included twenty SMEs that have positively replied. Concerning this group, three firms are representative of their respective sectors and belong to the following industrial sectors:

    o Importation of medical supplies.

  o Optical sector.

  o Importation of shoes and leather accessories.

• The whole sample except one firm had local ownership. The international firm is a petroleum service which is headquartered in the United States of America. This firm and another which represents the importation of medical supplies lately mentioned currently also operates abroad.

• Our SMEs sample includes a diversified number of sectors as shown bellows:

Table 1: SMEs sample´s Industrial sectors

Industrial sector	SMEs units	Weigh as %
Agriculture	3	10
Tourism	3	10
Metal-mechanic	1	3
Furniture installation	2	7
Textile and cloth design	2	7
Manufacturing	3	10
Shoes and accessories importation	1	3
Medical supplies importation	1	3
Construction	3	10
Health and medical services	5	18
Retail	1	3
Consulting	3	10
Optical	1	3
Petroleum services	1	3
TOTAL	30	100

As a qualitative research, results shown cannot be generalized. However, they are useful for assessing which factors may influence their low utilization rate in this specific firm´s category. We find it especially useful to identify which misconceptions may prevent managers of using these instruments properly.

1.3. Findings

The lack of consciousness about potential benefits of SAT application can provide along the vast majority of the SMEs managerial community and some cultural factors, such as the related to being daily-operation solving

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oriented, may cause their general low utilization rate we found in this firms' category.

1.4. Originality and Value

This research has been a first attempt to explore the quantity and scope of SAT in Ecuador and specifically in its Capital District, Quito. Actual consideration of managers and executives of value perception when using these tools can contribute to either assessing their competitive position or alternatively creating their own approaches to outperform competitors.

2. OBJECTIVE OF THIS INVESTIGATION

To verify the awareness level in respect to endurance and worthiness of SAT; specifically, its validity as a blueprint to facilitate creation of strategic options and make relevant choices to lead functional areas. If they can provide this functionality, we may expect that they result in conducting either actions to improve incrementally or radically competences that support strategic choices.

2.1. The survey approach

The analysis unit corresponds to SMEs located in Quito included in the sample.

The reply unit was the CEOs and managers to whom we directed the form designed to apply the survey.

Our survey included SMEs with the following characteristics:

- They are eager to invest mainly in areas of technology.

- They have little access to credit facilities.

- They may show more flexibility to adapt to eventual changes in the external environment.

- They may find difficulties to access to effective communication channels to final consumers.

Questions included in the sample were mainly addressed to inquire if whether or not their firms use SAT, which functions are in charge of this activity, which are

the main resources to evaluate competitors' actions, listing which SAT are used and any particular order of application, and finally, the kind of improvement introduced and their impact.

2.2.   The survey results

Before introducing general results of the whole sample, we will provide some insights on firms analyzed which are considered as representative SMEs in their respective sector.

At first, we refer to CIM, firm that is completely focused on importation of medical supplies. Its basic competitive advantage was gained at the foundation of the company two decades ago. Their executives were able to negotiate with prestigious vendors located in Germany, whose brands are very well positioned across Europe and America.

Since then, this company could sign exclusive distribution agreements that cover the entire country. In order to retain customers and win public biddings in both private and public sectors, the firm started at the beginning of this decade to obtain insight about their current and future key processes and especially those involved in sourcing, bidding, invoicing and post-sale services.

Improvement on these areas has been part of their basic strategy to outperform competition. In order to reach that goal, the company had to use VCA (Value chain analysis) to identify which of them were relevant to command a premium price and may provide a better attention to customer needs that may increase clients' loyalty.

Another competitive advantage of the company is technology itself, which is continuously demonstrated to customers during their post-sale visits. It is worth to mention that the continuous upgrading of their products to either perform tests or assist patients more efficiently is reinforced by knowledge transferred by their allied suppliers.

Secondly, we introduced COI (Centro Óptico Indulentes) in our previous paper which was presented as a case analysis. Specifically, we concluded that this optical company applied some of the SATs' set in a very limited and non-systematic way.

Lastly, one of the top SMEs that belongs to the shoes and leather accessories sector included in the sample was ZAP. This is a local company that originally imported shoes from related parties headquartered in Colombia. Afterwards, by the beginning of this decade started importing products from Panama and Brazil among other countries. Their distribution channel was exclusively retail though shops classified in two categories (A & B) which are located across the main cities in the country (basically, Quito and Guayaquil).

Executives of this company are aware that because of their relative high investment in merchandise which represents most of its working capital and assets, they should start thinking strategically about activities such as procurement, and marketing. However, they have not committed resources to actively take actions in this regard or applying SATs insights.

Management efforts are devoted at least half of their normal schedule to visiting shops and solving any operational matters such as salesmen deficiencies or visual-merchandising issues. On a weekly basis, they also monitor price levels and promotions of competition located near the shops where ZAP has presence.

Despite the fact that almost every year they launch promotional campaigns in radio and do marginal marketing activities such as renewal of displays in their shops, they sensed by the second half of 2014 that it was necessary to create a position for a designer. Nevertheless, they strongly believed that this position would also take care of all relevant marketing activities such as promotions, advertisement in media and social networks, market research among others. Unfortunately, their managerial structure and especially their human resources function was not able to identify the whole set of competences that this position should possess.

Although they believe that procurement has to be oriented to, the fashion-segment there weren't resources committed to classify any current or potential portfolio of products. In fact, purchases are based on particular criteria of the CEO and a procurement-assistant by considering which trends might be embraced by current or potential visitors at shops at the next season. Despite the huge significance of decisions, for example the range of investment involved and likely low turnover that rejection of clients may provoke, executives are not willing to contract at least a pilot project to micro-segment the market and exploit this insight.

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Kotler and Armstrong (2006) find this technique very useful to identifying a set of competitive advantages in terms of product (style, design, and durability), right people, and image among others. Applying this marketing technique would have let the firm not only design a customized marketing campaign but also improve their planning demand tasks and hence increasing their inventory turnover.

In addition, IT department did not have enough resources to build and keep databases well enough structured that can be used to apply further analysis.

Concerning the industry analysis, the company only monitors certain actions such as promotions launched by new multinational players such as Aldo and Xoxo. Although there is a lot of information provided by official and private web pages in regards to economic aggregates, their managerial team has not allocated any resources to organize data and obtain insights on position and trends compared to main competitors. In this regard, official institutions such as the Statistic National Bureau and controlling entities such as the "*Superintendencia de Compañías*"[2], provide on their web pages a great deal of information according to their corresponding sector.

Procurement activities such as a pre-selection of the mix of purchase orders and amounts to be procured to vendors are executed twice a year after attending international fairs in Central and South America. Despite the fact that there is enough time to optimize the purchasing-mix planning, the managerial team based their decisions on cost-benefit analysis exerted by the Accounting Department. Because this kind of decisions should involve well-structured financial approaches, simplicity of that insight may not be adequate under those circumstances. Furthermore, the Accounting Department is focused in complying with new fiscal regulations, which may be not worth for the company in terms of value.

After management realized that a better orientation of the market preferences may provide with information in order to be more accurate in identifying trends, they decided to add a deeper research activity to the visual merchandising's function. Once again, lack of abilities to recognize competences was present to not properly implement this key activity.

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[2] This controlling entity is the technical institution which acts independently which follows the activity, function and dissolution of businesses according to local laws.

In brief, the management style to obtain results was referred almost exclusively through closely monitoring productivity of the sales area. Additionally, their lack of strategic perspective may threaten their competitive position.

The general results of the thirty replies obtained can be summarized as follows:

- Although the whole set of firms included in the sample consider that utilization of SAT may reinforce their competitive position, 67% of them do not use any of these instruments.

- In firms where some SAT are applied, they are utilized by general managerial functions and sometimes with shared responsibility with the financial function, except the case of SIC (A firm dedicated to processes consulting) that preferred to support this activity with the contribution of the sales manager. Their intention to expand geographically in the local market may explain this decision.

- In regards to PEST application, firms that use SAT mention economic and technological variables as those that have more implications for their performance. The first acquire some relevance because they may create any value when differentiating from competitors. Technology is recognized as a way to command a premium price over their peers. However, because of the lack or economic resources, SMEs preferred to acquire any kind of technology when it becomes affordable and the price seems to be reasonable for their executives.

- The most popular and acknowledged tools among firms which use SAT are SWOT and VCA (Value chain analysis). Users of the first instrument produce their information basically through the brainstorming technique. As previously mentioned, firms such as CIM and COI used VCA specifically to improving process in some areas.

- Although the low utilization rate evidenced in this research, some actions of competition are constantly evaluated. To perform this task, these firms use client connections and vendors as well. Despite the fact that some of those actions are commented during Sales meetings, there is no effort evidenced to collect, process nor monitoring this information.

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- 75% of firms that use at least one of the SAT techniques took advantage of their sales force to inquire about competition's new actions in terms of service, quality and promotions.

- Despite the low utilization of SAT, the whole sample set made investments in areas which were considered of excellence. For instance, at least half of them made investments in areas of technology and marketing.

- COI and CIM used exclusively market share as competitive position indicators. Besides, SIC use their own indicators based on information provided by their partner and vendor Oracle. The number of certifications achieved and successful implementation cases are the main metrics used by this firm to benchmarking against their competitors.

- The incipient usage of SAT causes that the analysis of this sample does not contribute to show any patterns in the path of the application of different instruments. Thus, we could not use these results as a possible basis to propose a systematic order of application as we did in our previous research.

- In general, actions needed to improve competiveness were mainly focused to perform activities oriented to differentiate products or services, and using some negotiation power with vendors.

- Similarly, firms included in the sample introduced either incremental or radical improvement in their business. In regard to the first category, a better designing of products, the introduction of marketing activities and acquisition of technology were the preferred activities for the 50% of them. Radical improvement basically involved revision and upgrading of key processes.

3. CONCLUSIONS

Our study revealed that SMEs do not strictly use a set of SAT. A large portion of insights is intuitive and highly dependent of a very small managerial team (owners with some occasional assistance). The main conclusions of this investigation are described below:

- VCA, which was the second preferred instrument of analysis among firms that confirmed their utilization, dilutes its application to identify and list some of the main activities and sub-activities. However, these firms did not exploit its main

advantage through benchmarking its competitive position in terms of either create value or reduce costs.

- Firms did not use indicators of competitive position especially in terms of productivity or optimizing financial decisions. By exception, two of our sample mentioned that market share is their basic figure on this matter. However, it is very arguable that this indicator can be strictly related to measure better positioning in terms of competitiveness.

- The lack of awareness of benefits provided by some set of SAT prevents the capability to recognize and assess the real impact of strategic issues. Contextual assessment of elements inside and outside the firm may contribute to better judging and then suggesting viable alternatives.

- Information technology may become a crucial resource to produce process and structure systematically information. The higher degree of responsiveness on this issue and management's commitment to allocate enough resources in this area may lead to reach competitive advantages in terms of effective actions. E.g. sourcing and following actual client's trends and their value perception.

- The absence of methodological application of SAT may enhance the gap in capabilities to gain competitive advantages when compared to approaches made by multinational firms, which are used to base decisions on pilot projects and then accepting larger scope projects that contribute to optimized decisions.

- Embracing SAT as a likely resource to facilitate the creation of choices may also be used in some sequence to validate their individual output if compared to results obtained when they are applied as a set, and thus increasing probabilities to let them be instruments to facilitate value creation.

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ATTACHMENT I

List of firms included in the sample (arranged by sector)

FIRM	ORIGIN	SECTOR
Agriful	Ecuador	Agriculture
Agrirose	Ecuador	Agriculture
Rosas de la Montaña	Ecuador	Agriculture
Office solutions	Ecuador	Retail
Clínica Internacional	Ecuador	Health & Medical
Idytes	Ecuador	Health & Medical
Torres Médicas	Ecuador	Health & Medical
Medisalud	Ecuador	Health & Medical
Sermens	Ecuador	Health & Medical
CIM	Ecuador	Medical supplies
Alcristal	Ecuador	Construction
Evolux	Ecuador	Construction
Servicios técnicos industriales	Ecuador	Construction
Casa Kolping	Ecuador	Tourism
Comiexpress S.A.	Ecuador	Tourism
Segutouring	Ecuador	Tourism
Airprotek	Ecuador	Manufacturing
Plastimet	Ecuador	Manufacturing
Ecuacable	Ecuador	Manufacturing
Almetal	Ecuador	Metal-mechanic
Centro Óptico Indulentes	Ecuador	Optical
Generación Modular	Ecuador	Furniture installation
Diarte	Ecuador	Furniture installation
Magbor	Ecuador	Textile & Clothing Design
Soria	Ecuador	Textile & Clothing Design
Grupo Ideas	Ecuador	Consulting
Jorge López & Asociados	Ecuador	Consulting
SIC	Ecuador	Consulting
Swanberg	USA	Petroleum Services
ZAP	Ecuador	Shoes

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