

A STRATEGIC APPROACH OF SMEs ACTIVITY IN THE CONSTRUCTION INDUSTRY IN DOLJ COUNTY

Prof. Tudor Nistorescu Ph. D
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania
Assist. Ludmila Păunescu (Railean) Ph. D Student
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania

Abstract: Faced with rapid changes of conditions in management, economic, social and even political, the construction activity, like all other industries is in a time, when, by taking a proper strategic directions depends its future development. Only a realistic strategic approach, coherent and implicit for SMEs in the construction industry will lead to minimize the risk of making mistakes and to generate a coherent response to situations and problems wich this sector of national economy are confronting. This paper describes current strategic trends of SMEs in the construction industry in Dolj county to overcome the crisis. Here are presented policy proposals to significantly improve economic and financial results for the company of construction, through rapid development and strengthening its market position which will lead to appreciable increase of competitiveness.

JEL classification: M10, M19, M21

Key words: strategies; construction industry; SMS; competitiveness; SWOT analysis

1. INTRODUCTION

In our days, the environment in which business operates is that of a global economy, which is in constant change and characterized by the existence of a wide variety of customers and competitors. Multitude of vendors that offer similar products and services, are struggling to streamline business.

SMEs in the construction industry currently in Dolj county, faces with more difficult and competitive pressure and that forces them to seek permanent solutions to enable a better market position. To achieve objectives in the construction sector SMEs of Dolj county it must operate their own strategies based on well founded in technical and economic report.

Growing importance and necessity of adopting a strategy is determined by the strong action of factors such as increased competition between domestic and foreign firms, the emergence and expansion of modern technologies, increase of the quality of services offered to the market, the business application of advanced machining strategies, leading to increased productivity and reduced costs.

The purpose of strategic approaches in the construction sector SMEs in Dolj county is to minimize risk of doing mistakes and create conditions for high

performance, through the development process consistency and rigor of action methodologies. The success of firms depends, in a large part, by the quality of strategies even more than by technology or financial resources.

2. RESEARCH METHOD

The main purpose of this research is the knowledge of crisis impact on SMEs in the construction industry in Dolj county and to conceive some strategic directions for achieve a much better competitive position of them in the market.

Our research aims to verify the validity of the following assumptions: "If construction sector is in a situation of economic recession, the most affected in terms of profitability will be the SMEs under 5 years age."

Sociological research conducted from March 2011 to June 2011 was conducted on a sample of 40 small and medium enterprises active in the construction industry in Dolj county.

Investigated population was composed by representatives of SMEs: managers, finance directors, human resources managers, etc.

Quantitative research was conducted using a standard questionnaire. The questionnaire was sent by electronic mail (e-mail) of respondents. The questionnaire includes introductiv questions, questions with one and more answers, assessment scales, response matrices and hierarchy questions, filter and dichotomous questions. Most questions were closed, except the last question which targeted attitude of interlocutors about strategic priorities that can be taken to increase competitiveness.

We performed a detailed SWOT analysis that will ensure increased awareness, to the environmental threats and opportunities, in wich working construction companies, determining a offensive and proactive attitude against change, by taking advantage of opportunities and reduce, uncertainties and risks.

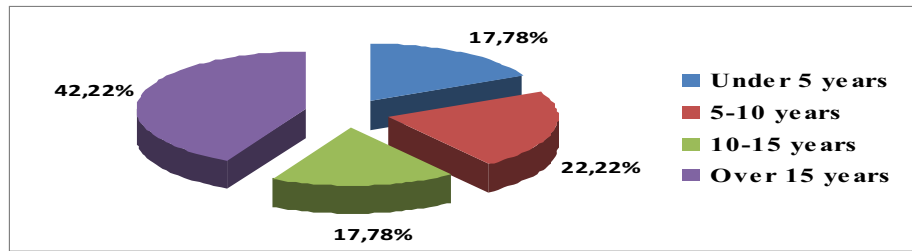
The contact data on SMEs in the construction industry were taken from a database available in site www.paginiaurii.ro. Data, so taken, were checked and completed, by consulting website of the Ministry of Public Finance of Romania.

In carrying out the research, we considered that the following criteria are relevant for our study sample:

- the year of establishment of the company (this variable is important for evaluating the company's market experience);
- total company sales (business dimension);
- number of employees (business dimension).

Data about the year of setting it up, turnover (according to the balance sheet submitted on 2009), the average number of employees - were collected from the website of Ministry of Public Finance of Romania .

Referring to the age of SMEs, as shown in Figure 1, most of the companies under investigation have been over 15 years old (42.22%), followed by companies aged between 5 -10 years (22.22%) between 10-15 years (17.78%) and 5 years old (17.78%). Most of the respondents (42.22%) represents companies founded after year 1990 in the transition period.



Source: own calculations based on data taken from the website of the Ministry of Public Finance of Romania

Figure 1. Structure of the sample according to firms age

As regards legal form, 84.44% of companies are limited liability companies, and 15.56% are joint stock companies (Figure 2).

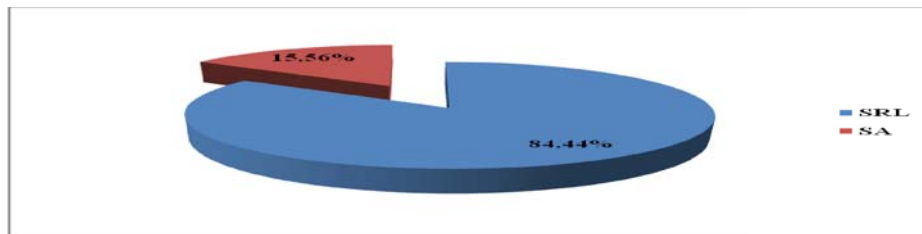
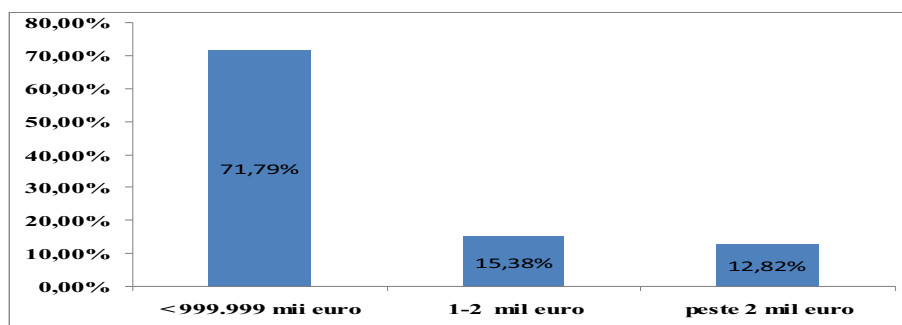


Figure 2. Structure of the sample according to legal form of SMEs

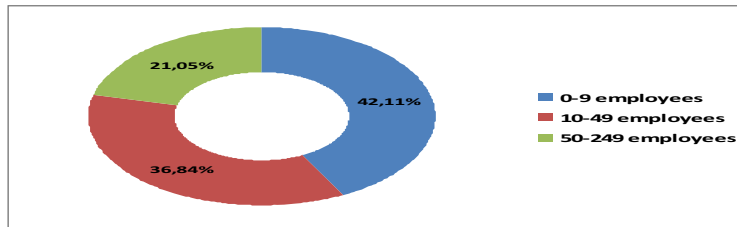
Firms in the construction industry, which responded to the proposed questionnaire, are companies with sales less than 12 million euros and are included in the category of small and medium enterprises (Figure 3). Thus 71.79% have turnover less than one million euro per year and 15.38% have between 1 and 2 million euro per year. Only a percentage of 12.82% of SMEs in the construction sector sampled, have a turnover exceeding 2 million euro annually.



Source: own calculations based on data taken from the website of the Ministry of Public Finance of Romania

Figure 3. Structure of sample based on the turnover

Representatives of SMEs who answer to the questions in the questionnaire, have belonged to companies with different numbers of employees. By reference to the variable analyzed, the sample structure is shown in Figure 4.



Source: own calculations based on data taken from the website of the Ministry of Public Finance of Romania

Figure 4. Structure of sample according to the number of employees in SMEs interviewed

Companies with fewer than 10 employees are dominant in the sample (42.11%). In second place we have companies with fewer than 49 employees (36.84%) and the third place between 50-249 employees we have a percent of 21.05%. The sample used in relation to the four variables above, determine their representativeness.

3. THE RESULTS OF RESEARCH

In the investigation we tried to identify main values on which should focus SMEs in the construction industry. Values indicate what is important for the company and what we must communicate the whole team involved in developing strategy.

Most of the respondents (86.96%) believe honesty and integrity have a important value for the unit they manage, while 65.22% of respondents believe that providing the highest quality services and trust are core values.

Of great importance to the firm is innovation (52.17%), and 4.35% of the investigated believe that a very little importance is the emphasis put on creativity, knowledge and specialization. Regarding the objectives of SMEs in the construction industry in Dolj county for period 2011-2012, the results of research show that for a large part of the firms (65.22%) was set as target the growth of earning rate, for 60.87% of the firms major goal is to ensure quality of product, service for customers and increase number of clients. Only a percentage of 21.74% have proposed maintaining the profits to the current level. This is shown graphically in Figure 5.

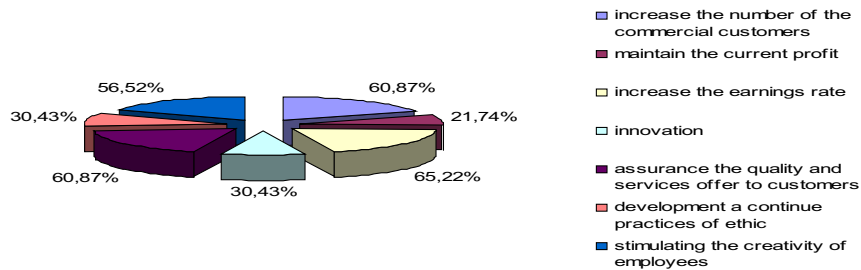


Figure 5. Structure of objectives for SMEs in the construction industry in Dolj county for the period 2011-2012

Entrepreneurs / managers in construction industry in Dolj county indicated that during the current period they facing with the following difficulties: a decrease in domestic demand (56.52%), corruption (56.52%), bureaucracy (60.87%), taxation and excessive controls (69.57%), employment, training and retention of staff (43.48%), poor quality of infrastructure (26.09%), inflation (30.43%), relative instability of the national currency (30.43 %).

A large proportion of all respondents (69.57%) recognized that in the period 2011-2012 are considering expansion the unit, and 26.09% of entrepreneurs do not know if they will expand. Only 4.35% of managers said they will not be extended, taking into account the difficult times facing.

In the event of expansions, 78.26% of respondents would choose services for extension and a percentage of 30.43% they will build a new space to conduct the business.

Only a percentage of 13.04% will implement a growth strategy via extern way namely: merger or acquisition of other units (Figure 6).

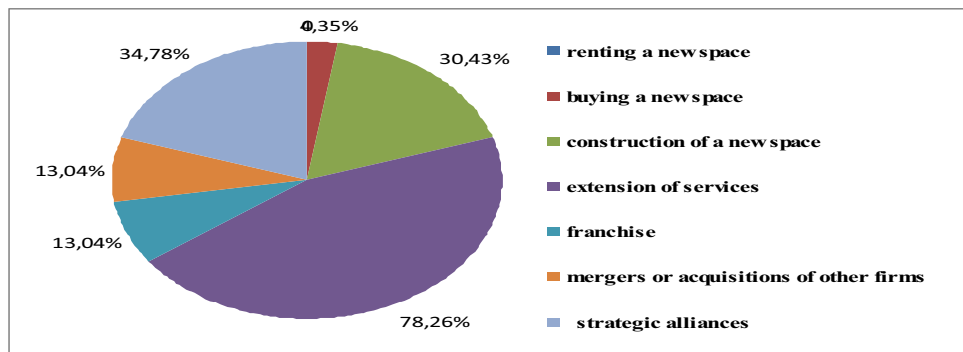


Figure 6. Possible variants of the expansion of SMEs in the construction industry in Dolj county for the period 2011-2012

In the current economic conditions, 60.87% of directors/managers choose strategy of cost and 56.52% of them choose price strategy. Strategy of stability is preferred by 60.87% of SMEs in the construction industry.

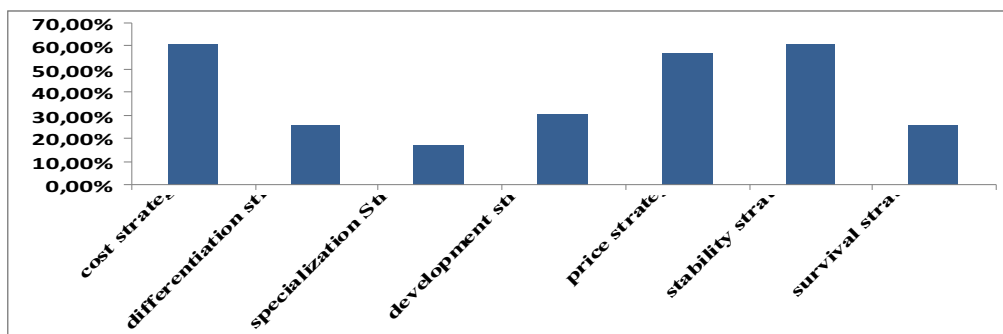


Figure 7. Strategies applied by SMEs in the construction industry in Dolj county to overcome the crisis

Only 30.43% of units choose the development strategy. To survive in a changing , uncertain and very dynamic environment, a percentage of 17.39% of the entrepreneurs " vote" a strategy of specialization, and 26.09% agree with the implementation of the strategy of differentiation (Figure 7).

In the study made on SMEs in the construction industry in Dolj county showed that a relatively low by 34.78% of entrepreneurs are addressed to specialized niche segments and a percentage of 65.22% mentioned that not focus on a niche .

The questionnaire also included questions about the future of SMEs in the construction industry starting from the results obtained so far. SMEs in the construction sector that are part of our sample had provided information about main indicators of potential and results recorded in 2011 (Figure 8).

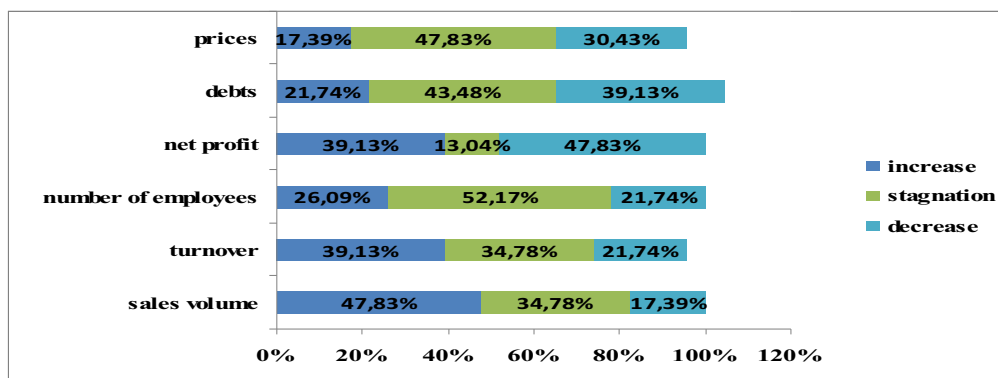


Figure 8. The main indicators of potential and results of SMEs in the construction industry in 2011

Prices have stagnated for a large proportion (47.83%) of SMEs analyzed and many entrepreneurs say they still stagnating the value of turnover (34.78%).

Instead, the staff has remained constant for more than half of SMEs wich have been the subject of research, increasing however for 26.09% of all enterprises.

Increasing the number of employees was due to the increase in business activity, correlated with economic stimulus measures.

A grave situation is registred by evolution of profit, which fell in almost half of SMEs (47.83%) and stagnated in 13.04% of them. For this reason we conducted a more detailed research on the profit recorded in 2011 according to age of SMEs (Table 1).

Table 1. The profit for SMEs in the construction sector in Dolj county, depending on the age of firms

age	under 5 years	5-10 years	10-15 years	over 15 years
profit				
increase	5,10%	10,80%	8,30%	14,90%
stagnation	4,12%	3,09%	4,05%	1,78%
decrease	15,36%	12,70%	10,60%	9,17%

From the study we found that 15.36% of SMEs that have less than 5 years are affected by decrease of profit and 14.90% of SMEs with over 15 years age record a

increase of profit. So, for firms that have entered the construction market by less time have a bigger decrease of profit compared to those who are older on market. One can say that the experience in this activity area and said the word.

A large contribution to this situation can be represented by loyal customers. By contrast, younger firms were hardly faced to the crisis as a result of their low portfolio of loyal customers, as well as because of reducing the prices of services as a result of reduced demand.

Since the phenomenon represented by the crisis has a major impact on the performance of economic activities, it is important to have a image of the measures adopted by entrepreneurs to cope current economic conditions. The measures taken by managers are presented in Figure 9.

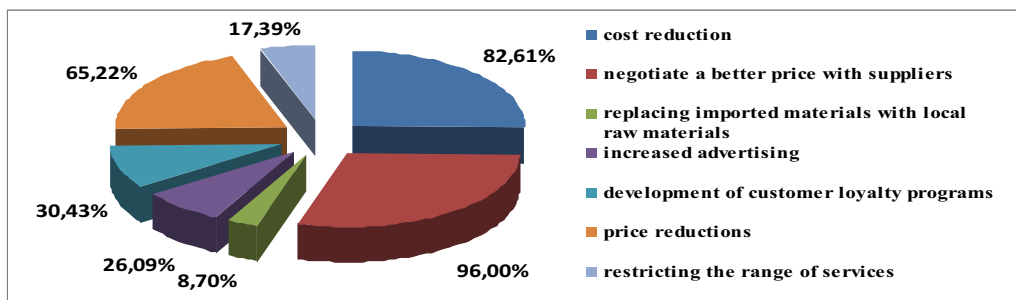


Figure 9. Anti-crisis measures taken by SMEs in the construction industry in Dolj county

The investigation revealed that 96% of subjects negotiate a better price with suppliers, 82.61% of them reduce the costs and a percentage of 65.22% reduce the prices. In a relatively low 26.09% of SMEs in the construction sector, increases the advertising to attract and stimulate wishes for potential customers. Only 17.39% of entrepreneurs consider that restricting the range of services, a measure which would lead to positive effects for the firm. A percent by 8.70 % of entrepreneurs are those who want to replace imported materials with local raw materials.

4. STRATEGIC RECOMMENDATIONS TO INCREASE THE COMPETITIVENESS OF SMEs IN THE CONSTRUCTION INDUSTRY IN DOLJ COUNTY

The crisis is a period complex and difficult for SMEs in the construction industry. Construction firms remain among the most vulnerable in to the crisis both in terms of legislation as well as the economic and social measures wick the government delay to implement.

We believe that fundamentation for current management on a rigorous strategy is likely to facilitate and increase the efficacy of integration in the complex and dynamic contemporary business environment in wich is placed .

To cope with competition becoming stronger and become competitive, SMEs in the construction industry in Dolj county must get out of the current status and to reinvent their own activities, their own structures, placed on new bases, radically changed from old ones.

Improvements to be considered with priority, aims: better establishment of long and medium term objectives, some improvements of strategy, implementation of concepts and methods of management.

From research conducted we found that most entrepreneurs focus on quantitative goals, reflected by financial targets. In the second place objectives of qualitative purposes, which characterized a policy or strategy with leading company efforts.

In the event of extensions we recommend that SMEs in the construction sector to merge and the reasons are: the need to achieve economies of scale, ameliorate market position, the reducing barriers to entry in other markets, the research and development cost reduction, speed up market entry by new products, increasing diversification, avoid competition, the opportunity to acquire and develop new skills.

Be taken into account that purchases can take the form of "friendly" or "hostile". In the first case there is cooperation between the management teams, in purpose of maintaining in posts and rewarding correct the managers of purchased company. In the second case is a struggle between the acquisition unit and the victim company.

SMEs in the construction industry that follow growth strategies are more attractive for investors and employees. A growing company amortize easier their mistakes and the environmental shocks. The resources at its disposal can be easily directed to the desired section, because there are reserves through nature of process.

The study on SMEs in the construction industry in Dolj county show that a relatively small number of managers is addressed to specialized niche segments. This is not gratifying, because the ability of a manufacturer that apply the strategy to serving a niche of market give him advantages to defend against of the five forces of competitiveness and the competitors serving more competitive segments not have the same capacity. The research conducted allowed us to perform an analysis of the potential of SMEs in the construction industry in Dolj county in interconnection with their competitive environment. Based on collected data we designed the matrix of points strengths-weaknesses and points opportunities-threats (Table 2) of SMEs in the construction industry in Dolj county. In developing the SWOT analysis we considered as representative those external and internal factors mentioned by entrepreneurs, who had rather large influence on carried activity. SWOT analysis is important because based on the results may be taken the best decisions in according to advantages and disadvantages of operating businesses in the industry, compared with competing businesses in specific economic context.

By combining strengths with opportunities resulting the following SO strategies, which use forces to take advantage of opportunities:

- focusing on a narrow market segment by providing quality services;
- increase sales volume by penetrating new markets;
- increasing the number of customers by developing services and use of new technologies;
- concentric diversification strategy based on technology.

The combination of weakness point with opportunities creates WO strategies:

- enhancing market image by creating a business partnership;
- achieve a surplus of money as a result of increased domestic sales and servicing of additional categories of customers;
- use of new technologies for the development and competitiveness.

Table 2. SWOT analysis of SMEs in the construction industry in Dolj county

<p>Strengths (S)</p> <p>Reasonable prices</p> <p>The ability to generate demand for their services</p> <p>Capacity of understanding and knowledge of customers</p> <p>Observed contracts with customers</p> <p>Quality Services</p> <p>Payment period</p> <p>Staff informed</p> <p>Direct contact with customers</p> <p>Flexibility in relation to customers</p> <p>Strong management</p> <p>Solid experience</p> <p>Rapid adaptation</p>	<p>Weaknesses (W)</p> <p>Services limited</p> <p>Poor market image</p> <p>Lagging behind in research and development</p> <p>Inability funding</p> <p>Competitive position deteriorated</p>
<p>Opportunities (O)</p> <p>Servicing of additional categories of customers</p> <p>The use of new technologies</p> <p>Assimilation of new services</p> <p>Making a business partnership</p> <p>Penetration into new markets</p> <p>Increased domestic sales</p>	<p>Threats (T)</p> <p>Excessive Taxation</p> <p>Corruption</p> <p>Bureaucracy</p> <p>Controls excessive</p> <p>The decrease in domestic demand</p> <p>Inflation</p> <p>Competition of imported products</p> <p>High borrowing costs</p>

The strategy adopted in such situations, the SMEs in construction industry in Dolj county can focus on opportunities for whose valorification which should improve some weaknesses. This alternative strategy is active and is based on development potential within the company, materialized in measures to improve the activity of different sides to mitigate or eliminate the weaknesses.

ST strategies that can be adopted by SMEs in the construction industry in Dolj county will focus on countering possible threats of competition environment by implementing the measures for valorification the strengths wich they have.

These are:

- reducing the effects of taxation by opening a branch abroad;
- increase domestic demand through capacity of understanding and knowledge of customers;
- aggressive advertising campaigns;
- increase domestic demand by increasing direct contact with customers and offering reasonable prices.

The combination of weaknesses with threats will result the following WT strategies:

- avoidance of domestic demand by offering a wide variety of services;
- internationalization of the company for reduce risks encountered on his own basic market
- accessing external funds nerambusabile;
- design flexible business plans;
- review of economic legislation for small and medium enterprises.

We believe that by choosing the right strategy can influence the impact of these forces for the advantage of SMEs. If we consider strategies Porter generic model for

SMEs in the construction sector in Dolj county, would be preferable to apply the strategy of differentiating, because 65.22% of SMEs differs from competitors by offering quality services.

The survey reveals that more than half of respondents are considering business expansion in the period 2011-2012, by extension of services.

A lot of SMEs were confronted with difficult problems because of the crisis. To survive in a changing environment with increased uncertainty and dynamic, more and more companies choose the strategy of stability or the strategy of cost.

By choosing neutral strategy we do not exclude some increase, which may be small and non-aggressive. Thus, the entrepreneurs choose to develop services to penetrate into areas close to their business. They believe that the adoption of concentric diversification strategy can bring reductions in some categories of cost, as a result of appearances of savings of operational by goal.

We found from research that SMEs in the construction sector in Dolj county establish their prices in different ways. They must decide in the first place, the place that you will occupy their products / services on the market - in terms of quality and price.

From the information gathered from managers indicated that compared with opponents the quality of their services is higher, as the 65.22% of respondents said, and 47.83% of entrepreneurs practice a price identical to their competitors. In table no. 3 are presented the new strategy-value wich can be adopted by SMEs in the construction industry in Dolj county.

Table 3. The new strategies quality-price

	SELLING PRICE			
		<i>High</i>	<i>Medium</i>	<i>Low</i>
QUALITY OF PRODUCT	<i>High</i>	1.Strategy of high value	2. Strategy of superior value	3.Strategy of exceptions
	<i>Medium</i>	4.Strategy of medium value	5.Strategy of acceptable value	6. Strategy of stiff price
	<i>Low</i>	7.Strategy of "robbery"	8. Strategy of false economy	9. Strategy of saving

Source: www.stiucum.ro

Given the current situation in which are the SMEs in the construction industry in Dolj county, for increase competitiveness it can successfully apply the strategy of superior value. Strategy 2 means: our products / services are as good quality as the competitors, but we ask for a lower price for it. An important step in the formulation of strategies to enhance the competitiveness of SMEs in the construction sector, is the knowledge of activity sector and their ability to cope with the forces acting within it. Entrepreneurs surveyed know competitive forces acting on the construction sector and may incorporate them and adapt them to be successful. From the data obtained from research, we tried to determine the attractiveness of construction sector from Dolj county for strategic unit (Table 4).

Table 4. Evaluation the attractiveness of construction sector in Dolj county

Sectorial force	High	Medium	Low
Ease of entry	x		
The power of suppliers	x		
The power of customers		x	
Rivalry between competitors		x	
The existence of substitute products			x
The rate of growth		x	
Market share		x	

Source: Adaptation from the writings of Kenneth J. Cook

Industry attractiveness is given by the presence or absence of threats exhibited by forces acting on each sector. More the threat degree of a force is greater, the less attractive is the sector. In the present case the attractiveness of the construction sector is medium. Strategic options recommended by us are not a goal in it self but is a managerial way to get out of the crisis and to increase the competitiveness of company.

5. CONCLUSIONS

The economic crisis has had and still has a great impact on SMEs in the construction industry in Dolj county. Analysis undertaken by us, have stressed a set of constraints, difficulties and major obstacles with which SMEs in the construction industry is facing today. Small and medium enterprises are very much affected by excessive taxation, corruption and falling domestic demand.

In the current economic conditions the leaders/managers in construction industries in Dolj county choose the strategy of cost, the strategy of price and stability strategy.

Entrepreneurs believes that these strategies will ensure the reasonable efforts from the part of employees, a consistency and convergence in time of decisions and actions, subordinated to achieving objectives precise and rigorous outlined.

From the study we found that 34.78% of entrepreneurs agree with strategic alliances in the event of expansion for the company they hold. The reasons for choosing this growth include: economies of scale that can be obtained, reducing disparities between the technical and production skills, because partners learn each other on the conduct of joint research, common use of technologies.

More than half of respondents expected business expansion in the period 2011-2012. It is known that the phenomenon is associated with the success, with increase of turnover with increasing profitability.

Managers of SMEs in the construction industry in Dolj county, estimate for year 2012 the growth of main indicators by potential and results.

Ways in which SMEs try to vary the tender on constructions in crisis conditions are different. Thus, many of respondents said that differentiate their offert from competitors through the diversity and the quality services for customers.

We have concluded that more firms in the construction industry know the behavior of competitors and can differentiate by them in a way that customers perceive as unique.

We also found that SMEs which were the subject of research know what customers are looking and coming to them for satisfy the needs. Entrepreneurs have the objective of increasing the number of customers which will determine the increase profitability. We believe that many aspects of the construction sector in Dolj needs improvements. Existing traditions, specific to each area should not be abandoned, but nor to constitute a barrier and lack of responsiveness to progress.

Under a social phenomenon, economically and politically inevitable, as is that of globalization, the technological experience and design from different parts of the world can be assimilated and linked to existing local resources, resulting in innovative ways of thinking based on the development of new concepts to meet the needs of evolving markets. Today, construction activity must be reporting to higher quality resources, resulted by the interaction between traditional and modern values, respectively regional and global.

The main conclusion that emerges is this: the companies that base their activity on strategies achieve superior economic results compared with the other.

With continuing economic crisis and lack of concrete measures to revive the economy and implicitly in the construction activity, is likely a stagnation or even compression of the construction sector, increasing the number of bankruptcies and increasing the number of unemployed causing lowering sector workforce.

REFERENCES

1. Constantinescu, D. Management, Editura Sitech, 2009;
2. Doval, E. Analiza strategică a mediului concurențial, Editura Fundației România de Măine, București, 2003;
3. Gavrilă, I., Gavrilă T. Competitivitate și mediul concurențial: promovarea și protejarea concurenței în Uniunea Europeană , Editura Economică, București, 2009;
4. Kenneth, J. Planificarea strategică pentru întreprinderi mici, Editura Teora, București, 1998 ;
5. Nicolescu, O. Verboncu, I. Management, Editura Economică, București, 1999;
6. Nicolescu, O. (coord.) Strategii manageriale de firmă, Editura Economică, București, 1996;
7. Nistorescu, T. Strategii manageriale, Editura Universitaria, Craiova, 2010;
8. Porter M.E. Despre concurență, Editura Meteor Press, București, 2008;
9. Porter M.E. Strategie concurențială, Editura Teora, București, 2001;
10. Popa, I. Management Strategic, Editura Economică, București, 2004;
11. * * * www.mfinante.ro