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RESEARCH ARTICLE

COMPETITIVE STRATEGIES AND THEIR CONTRIBUTION TO THE SUSTAINABLE GROWTH OF SMES IN THE SERVICE SECTOR OF MILAGRO CITY

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ABSTRACT

Small and medium-sized enterprises (SMEs) are currently present in all sectors of the economy, especially in the service sector. Its role in local development is vital, and its contribution to labor market integration cannot be disputed, as it has greatly contributed to employment through innovative business ideas. However, SMEs face problems related to resource management, which generates high costs and decreased sales against larger competitors, leading to a reduction in profitability. These problems have led to the development of descriptive and mixed methods designs (e.g., using qualitative methods) to assess the factors that cause imbalances in the sustainability of SMEs based on the study of small and medium-sized businesses in Milagro Canton. This study was performed to determine the weaknesses that affect SMEs, and to aid in the implementation of corrective measures on their competitive management.

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INTRODUCTION

SMEs are referred to as a set of small and medium-sized companies, as based on their sales volume, social capital, number of workers, and their level of production or assets. These factors represent the characteristics associated with these types of economic entities. SMEs are engaged in different types of activities such as wholesale trade and the less; agriculture, forestry, and fisheries; manufacturing industries; construction; transport, storage, and communication services; real estate; as well as services provided to businesses and the community, and social and personal services. In addition, the service sector represents the second largest sector in the economy, as 15.7% of companies engage in activities pertaining to architecture and engineering, business consultancy, or advertising, and 13.1% of SME revenues, the service sector can develop with lower levels of investment (SRI, 2009). SMEs wishing to survive any new changes in the market must be competitive and thus achieve a good position. Competitiveness is defined as the ability to generate greater consumer satisfaction, and the variables that measure these factors are numerous and include profitability, level of sales,

investment in infrastructure, human resources training, cost and pricing levels, positioning, and spending on marketing and advertising (Monreal, 2011). Competitiveness is currently the best measure to determine whether a business grows or not, if that business is fit to adapt to the challenges of this century, or if it is able to adjust to the changing requirements of the market. From this perspective, sustainable growth is a difficult task that must reward innovation and the application of procedures according to the size of the company – aspects that seem to be forgotten by several SME services.

The service sector constitutes an important generator of employment, and it represents a large part of the total gross domestic product (GDP) in both developed and developing economies; their growth and specialization have been apparent in practically all human endeavors. However, their analysis and study have not been as broad as is required for the sector; this is because in the economic history of a number of countries, industry and agriculture were the pillars upon which production was based. The beginning of the capitalist economic life across many nations is backed by an agricultural past; gradually, the nations became increasingly involved in industrial activities, and they later began developing services, at least in theory (Romero, 2010). Milagro is a canton where its economic characteristics are based on cities that are in the

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process of business development; there are currently 106 SMEs according to data provided by the National Statistical Institute and Censuses (INEC). Of these, there are 65 service sector accounts (INEC, 2010). An investigation was conducted to determine the reality of SMEs in this canton. Specifically, the aim was to determine the following:

To what extent do the levels of competitiveness of SMEs in the Milagro Canton service sector influence sustainable growth?

This research had the following objectives

General objective

To establish the extent to which the levels of competitiveness among SMEs in the service sector of the Milagro Canton influenced the sustainable growth of the business in this sector. This aim was achieved by developing a study that employed various research techniques to contribute to local development.

Specific Objectives

- Determine how the level of sales and profitability affect the Milagro Canton service sector SMEs.
- Analyze the extent to which the costs that characterize the operations of SMEs in the Milagro Canton service sector affect the established prices.
- Analyze the expenditures among the SMEs in the service sector of the Milagro Canton that are earmarked for the training of human talent.
- Examine the extent to which the expenditures earmarked for the implementation of marketing strategies affect the positioning of SMEs in the Milagro Canton service sector.
- Study how the strategic capacity of a given SME affects the Milagro Canton and its ability to adapt to changes in the market.

Considering that the Ecuadorian State currently manages a plan embedded within the National Plan for good living from 2013–2017, goal 8 confirms the importance of the study conducted. Specifically, it was performed to "Strengthen solidarity, and economic system in a sustainable way", which is strengthened through politica8.2. The plan strengthens the role of the state as a facilitator of production and market regulation by applying and strengthening mechanisms of control to ensure timely payment and fair wages and utilities; it also promotes paying a fair price for goods and services generated by work without the dependency ratio. It further encourages the channeling of savings into productive investment using a territorial approach, and it fosters the placement of credit for the domestic production of goods and services. Moreover, it identifies, controls, and punishes practices associated with abuse of market power. Finally, the plan regulates and controls the relative prices of the economy (price-bearing capacity for the producer, prices to the consumer, etc.) (Living, 2013-2017).

Theoretical Framework

The administration of SMEs should be more proactive and work strategically toward the achievement of competitiveness, so that a business can achieve and maintain a satisfied and loyal clientele that affords stability and sustainability.

SMEs should work to earn a competitive advantage that positions the business based on differentiation, leadership (in terms of costs), or focus on a specific segment that can be satisfied. A company can perform better than its rivals, but only if it is able to establish a difference that can be maintained. The SME must deliver greater value to its customers, or it should create a value that reflects lower costs, or both. What follows is a matter of arithmetic, resulting in superior profitability: delivering greater value allows a company to charge higher average unit prices, while higher efficiency results in the lowest average unit cost (Porter, 2011).

The elements that make a competitive company are:

- Motivate your employees
- Innovate and improve
- Stimulate leadership
- Use technology for the company's services
- Use the Internet and new information technologies
- Share and create public knowledge
- Promote globalization
- Get off the floor (among lower-level employees)
- Think about the future
- Manage change (Pedreño, 2011).

The following are some of the benefits that SMEs generate for society or for their owners:

- SMEs have a great capacity to generate jobs and they absorb a significant part of the economically active population;
- They easily assimilate and adapt to different types of technologies, or they produce items that are usually destined to supply local markets and basic consumer goods;
- They are established in various geographical regions, allowing them to contribute to regional development;
- They maintain maximum flexibility, which enables them to easily adapt to the size of the market, and they can increase or reduce their offers as necessary;
- The number of personnel employed by the company is low, so the manager – who is usually the owner – knows his or her workers and employees, enabling one to easily solve any problems that arise;
- Business planning and organization does not require large capital expenditures, and problems that arise can thus be resolved on the fly;
- SMEs maintain a control unit that allows them to serve as a proper link between administrative and operational functions;
- They produce and sell items at competitive prices, since their costs are not very large and their profits are not excessive;
- SMEs are in direct and personal contact with the consumers that these SMEs serve; and
- The owners of SMEs, who usually have a great amount of knowledge of the area that fly, allowing them to apply their income, talent, and capabilities to ensure the proper conduct of the business (Rodríguez, 2013).

Competitiveness generates new rules and enterprises, regardless of the size of the SMEs; speed is required to move according to changes in the market, and one must make rapid decisions. Moreover, bureaucratic structures should be reduced to move away from the status quo, which limits the capacity to adapt to change.

Competitiveness also requires true teamwork among staff members; however, anyone who is fully trained (i.e., individuals who have developed the skills needed to lead the institution toward efficiency and to take advantage of market opportunities) will ultimately contribute to the proper management of costs.

Under Porter's theory, competitiveness was analyzed and it was determined that research was based on the following assumptions:

General hypothesis

The levels of competitiveness of the SMEs in the service sector of the Milagro Canton influence the sustainable growth of businesses in this sector.

Specific hypotheses

- The sales level affects the profitability obtained by the Milagro Canton service sector SMEs.
- The costs that characterize the operations of the SMEs in the Milagro Canton service sector affect the established prices.
- The level of expenditures and the degree of human talent training in the Milagro Canton service sector SMEs is low, affecting job performance.
- Spending on the implementation of marketing strategies influences the position of SMEs in the Milagro Canton service sector.
- The strategic capacity that SMEs in the service sector of the Milagro Canton affects adaptation to the changes occurring in the markets.

Table 1. Description of Variables

Independent variables	Dependent variables
Levels of competitiveness	Sustainable growth
Level of sales	Profitability
Operating costs	Prices
Training costs	Job performance
Expenditure on marketing strategies	Positioning
Strategic management capability	Adaptation to change

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MATEIALS AND METHODS

This study examined primary sources and secondary sources, giving rise to exploratory, application, explanatory, and descriptive studies. In response to the need obtain in-depth knowledge of the reality of SMEs in the Milagro Canton, a data collection instrument was applied to explain and describe the relationships that exist between the research variables. The study population consists of SMEs in the service sector of Milagro Canton, which totaled 65 businesses (INEC, 2010).

The population was defined by taking into account aspects such as:

- Productive sector: area services.
- Number of employed personnel: 10–49 for small businesses, and 50–199 for medium-sized enterprises.
- Geographical area: Milagro Canton.

Since the size of the population in this study was less than 100, no calculations for the sample were performed. When selecting qualified informants, it was considered that these individuals are from SMEs in the Milagro Canton (specifically from the service sector); therefore, it is essential to clarify that these businesses yielded data provided by the GAD of the municipality of the Milagro Canton and the Ministry of Industry and Productivity (MIPRO).

The employed research methods included

Logical history method: History allows one to study the real trajectory of specific phenomena or events that have been carried out during one stage or period. This method is limited to describing the facts according to how they were raised.

Inductive–deductive method: Induction assimilates the individual actions that envelop each variable; as for the deductive method, this involves departing from a general principle to apply it to confirm the validity of a given hypothesis.

Analytic–synthetic method: We used this method to verify the relationship between the variables, allowing us to analyze each part that makes up the research.

Empirical method: This involved the use of a survey instrument; in this case, it involved a questionnaire that was developed featuring multiple-choice questions that were created based on predetermined scales.

Once the data were collected, the survey information was processed and organized in statistical tables and figures, which facilitated their interpretation and analysis. These tables present information in both relative and absolute terms.

RESULTS AND DISCUSSION

After administering the survey to those individuals who own or manage the SMEs of the Milagro Canton, we obtained the following results for each question:

The level of competitiveness of your business is

Table 2. Level of Competitiveness

Option	Relative frequency	Absolute frequency
High	5	8%
Middle	57	88%
Low	3	4%
Null	0	0%
Unknown	0	0
Total	65	100%

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Analysis: A total of 88% of the respondents indicated that the competitive level of their SMEs was medium, while 8% said that the level of competitiveness of their business is high, and 4% of businesses maintain a low level of competitiveness. This means that SMEs should strengthen their competitiveness and determine their competitive advantage when facing competitors of the same size; especially important is the pace at which the business is strengthened in the market.

How many years has the business been in the market?

Table 3. Number of Years the Business has been in the Market

Option	Relative frequency	Absolute frequency
0–2 years	0	0%
3–5 years	5	8%
6–8 years	18	28%
9+ years	42	64%

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Analysis: A total of 64% of businesses (SMEs) in Milagro have 9 years or more of experience in the market; 28% were in business for 6–8 years and 8% for 3–5 years. This means that SMEs are maintained throughout time, but they fail to generate growth or maintain a level of sustainability to ensure their livelihood. However, this position should change when entry barriers fall and they allow large competitors (which have greater economic power and offer better services at competitive prices) to succeed.

During the past two years, the levels of sales have been

Table 4. Behavior of the Levels of Sales

Option	Relative frequency	Absolute frequency
Increased	2	3%
Maintained	60	92%
Diminished	3	5%
Total	65	100%

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Analysis: A total of 92% of SME owners or managers indicated that their sales have been maintained, while 5% stated that their sales decreased, and only 3% expressed that their sales have increased. This indicates that SMEs do not grow; rather, they remain in the same state, which can be risky, especially given that great competitors arise in the market each day.

The profitability of the business is

Table 5. Level of Satisfaction with Regard to the Profitability of the Business

Alternative	Relative frequency	Absolute frequency
Very satisfactory	2	3%
Satisfactory	25	38%
Moderately satisfactory	36	56%
Less satisfactory	2	3%
Unsatisfactory	0	0%
Total	65	100%

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Analysis: A total of 55% of SME owners indicated that their profitability is fairly satisfactory; 38% of these businesses obtained satisfactory profitability, 3% obtained unsatisfactory

profitability, and another 3% expressed that their profitability was very satisfactory. This shows that we need to create a working strategy to enable SMEs to improve their sales, and thus their profitability, to protect against market competitors that have greater power or differentiation.

Costs related to the operations of the business are

Table 6. Costs of Business Operations

Option	Relative frequency	Absolute frequency
High	4	6%
Average	57	88%
Low	4	6%
Total	65	100%

Prepared: Ing. X. Zúñiga, Eco. R. Espinoza, CPA., H. Campos, and Karla Game

Analysis: A total of 88% of SMEs in Milagro have shown an average level of costs, while 6% have high costs and another 6% have low costs. This allows us to see that there are few SMEs that are handled efficiently, or that productively achieve low costs or costs that are low enough to compete on the basis of pricing in the market.

The prices of the services offered are

Table 7. Price Behavior

Option	Relative frequency	Absolute frequency
Larger than those of the competition	1	2%
Equal to those of the competition	55	84%
Less than those of the competition	9	14%
Total	65	100%

Prepared: Ing. X. Zúñiga, Eco. R. Espinoza, CPA., H. Campos, and Karla Game

Analysis: A total of 84% of SMEs in the service sector kept their prices equal to those of the competition; 14% said they their prices are lower than their competitors' prices, and 2% indicated that their prices are higher than those of competitors. However, when analyzing these responses, it can be inferred that those SMEs that handle prices equal to those of the competition sacrifice part of their profits since their costs tend to be higher. In the case of SMEs with lower prices, these businesses would hold a captive segment based on differentiation and leadership.

Clients buy giving priority a

Table 8. Priority Customer

Option	Relative Frequency	Absolute frequency
Price	13	20%
Service	24	37%
Quality	27	42%
Variety	1	1%
Total	65	100%

Prepared: Ing. X. Zúñiga, Eco. R. Espinoza, CPA., H. Campos, and Karla Game

Analysis: Quality of the priority at the time of purchase, was expressed by 42% of SME owners (based on the behavior of their customers' purchases), but 37% of SME owners expressed that their customers consider essential service, and 20% of SME owners indicate that their clients assume that price is the motivating element behind purchases.

This makes it clear that the three elements that motivate and influence purchases are: quality, service, and price.

How often do you apply marketing strategies in your business?

Table 9. Frequency of the Implementation of Marketing Strategies

Option	Relative frequency	Absolute frequency
Always	22	34%
A few times	28	43%
Occasionally	14	22%
Never	1	1%
Total	65	100%

Prepared: Ing. X. Zúñiga, Eco., R. Espinoza, CPA., H. Campos, and Karla Game

Analysis: A total of 43% of SME owners in the service sector of the Milagro Canton sometimes apply marketing strategies, while 34% always apply them, 22% occasionally apply them, and 2% never apply them. Therefore, it can be seen that these businesses need to improve marketing practices to improve their positioning and disseminate their services, capturing the attention and interest of customers and levando them as well to the shopping.

Consider how your business has adapted to the new ways in which the market behaves: requirements of the clients, the implementation of technology and advertising, providing excellent service, etc

Table 10. Level of Adaptation to the Business Market

Alternative	Relative frequency	Absolute frequency
Totally	21	32%
Average	42	65%
Partially	2	3%
Nothing	0	0%
Total	65	100%

Prepared: Ing. X. Zúñiga, Eco. R. Espinoza, CPA., H. Campos, and Karla Game

Analysis: A total of 65% of SMEs say that they fairly adapt to what the market requires; this means that an SME's adaptability is not complete, creating a gap in which other companies can come in to satisfy customers. Another 32% of SMEs do exhibit total adaptability; these SMEs are in a position to be competitive. Finally, 3% of SMEs partially adapt to the requirements of the market, putting them at a competitive disadvantage.

Conclusion

Competitiveness has become the maximum requirement for companies and businesses that want to stand out and stay in the market. SMEs in the Milagro Canton service sector cannot be an exception. However, they currently exhibit a feature that does not place them on the road to competitiveness: they tend to remain at a standstill over time (i.e., they generate revenue for their livelihood, but they do not grow as the years pass; moreover, they put their sustainability at risk, thus affecting their own development and that of their town). The level of sales among SMEs in the service sector has been maintained throughout time, serving as a factor that ensures profitability. However, the level of sales has not seen growth in recent

years, which has become a worrying aspect for SME owners. Service prices are affected by the costs of operations. This alarms those who manage these businesses, as service prices are influenced by a steady increase in the essential elements required to generate a given service. This results in discontent in the market, specifically as the demand tends to diminish as costs increase. With respect to human talent, if those who are engaged become dedicated to their work, but they do not receive the training that allows them to be more efficient, it affects the business. This is an unintended the effect faced by the owners of SMEs in the service sector, as they do not have the products required to train those who are part of their work payroll.

The positioning of SMEs in the service sector is not optimal; there are other businesses that are unknown, and still others that have failed to capture the loyalty of their customers. In conclusion, the positioning of SMEs is weak, which is the result of not analyzing or understanding the importance of economic resources (expenditures) in the implementation of marketing strategies. These strategies enable SME owners to delve into the interests and wishes of their clients, ultimately enabling the SME to cater its service offerings to those clients. The changes that are emerging in the market are many and constant; the tastes of customers vary, and clients are becoming more demanding. Providers obtain power during negotiations and this, of course, affects those SMEs that do not adapt to these changes. As a result, SME owners continue to maintain weak strategic capacity management.

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