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A COMPETITIVE STRATEGY OF SMALL AND MEDIUM-SIZED ENTERPRISES IN DEVELOPING ECONOMIES

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TABLE OF CONTENTS

INTRODUCTION **1**

1 DEFINING THE CONCEPTS IN COMPETITIVE STRATEGY FOR EMERGING MARKET SMEs **3**

1.1 Market 4

1.2 Firm 5

1.3 Institutions 5

1.4 Resources 9

2 INSTITUTIONAL ECONOMICS IN COMPETITIVE STRATEGY MANAGEMENT OF EMERGING MARKET SMEs **12**

2.1 Market 12

2.2 Firm 15

2.3 Institutions 19

2.3.1 Property Rights 19

2.3.2 Agency Theory 21

2.3.3 Transaction Costs 22

2.3.4 Contracts 24

3 RESOURCE BASED CONSIDERATION IN COMPETITIVE STRATEGY MANAGEMENT OF EMERGING MARKET SMEs **25**

3.1 Value Creation 28

3.2 Managerial Role in Decision Making 33

4 RESEARCH METHODOLOGY **35**

4.1 Model Implications 37

4.2 Sampling, Validity and Reliability 48

DISCUSSIONS **50**

CONCLUSION **58**

REFERENCE LIST **61**

APPENDICES **68**

LIST OF FIGURES

Figure 1: industry analysis 18

LIST OF TABLES

Table 1: pre-treatment questionnaire results..... 38
Table 2: market analysis results..... 40
Table 3: industry analysis results..... 41
Table 4: institutional analysis results..... 42
Table 5: resource consideration results 43
Table 6: results summary..... 44
Table 7: sampling criteria 49
Table 8: in-depth interviews summary - market & industry 52
Table 9: in-depth interviews summary - institutions 56
Table 10: in-depth interviews summary – resource consideration 57

LIST OF ABBREVIATIONS

Consumer Price Index (CPI)

Euro (EUR)

European Union (EU)

Foreign direct investment (FDI)

Gross Domestic Product (GDP)

Herfindahl-Hirschman Index (HHI)

Intellectual-Property (IP)

International Business Machines Corporation (IBM)

International business (IB)

Joint-ventures (JVs)

Macedonian Denar (MKD)

Multi-national enterprises (MNEs)

New Institutional Economics (NIE)

Organisation of Economic Co-operation and Development (OECD),

Over-the counter (OTC)

Ownership-location-internalisation theory (OLI)

Purchase Power Parity (PPP)

Real options reasoning (ROR)

Resource value (RV)

Resource-Based View (RBV)

Serbian Dinar (RSD)

Small and medium-sized enterprises (SMEs)

Standard’s and Poor’s Global index (S&P Global)

State-owned enterprises (SOEs)

United States Dollars (USD)

Valuable, rare, inimitable, and nonsubstitutable (VRIN)

INTRODUCTION

Most research in emerging market competitive strategy is dedicated to common economic concepts such as foreign direct investments (FDIs) and multi-national enterprises (MNEs) (Grosse & Trevino, 2005). By contrast, theories and literature which observe small and medium-sized enterprises (SMEs) are more rarely considered (Ahi, Baronchelli, Kuivalainen, & Piantoni, 2017). Therefore, one of the primary research purposes of the thesis is to focus on developing a competitive analysis approach for this less represented but very important field in competitive strategy literature in the context of SMEs. Namely, in market economies SMEs are as important as MNEs since ninety-five percent of all companies around the world fall into the category of SMEs, and in low and middle-income countries these companies employ more than fifty percent of all employees (Beck, 2013). Moreover, even in developed countries such as the USA, SMEs participate with near 50% of total employment in the labour market (Main, 2022). Next, another fundamental purpose of the thesis is to examine competitive strategy in emerging markets. Thus, the goal is to emphasise that in emerging market conditions a more context based approach of competitive analysis is needed. Emerging economy research whose institutions differ significantly compared to those in developed economies shows increasing appreciation that formal and informal institutions, commonly known as the "rules of the game", shape the strategy and performance of firms - both domestic and foreign (Peng, Wang, & Jiang, 2008). Further, the two specific markets of interest chosen are the market in the Republic of Macedonia and the market in the Republic of Serbia. The goal is to examine whether these markets fall into the category of emerging economies and whether some unique contextual rules apply to active SMEs. It is fair to say that the scope of research of the Macedonian and Serbian markets is peripheral within competitive strategy literature and this thesis thus hopes to supplement the diversity of available literature by specifically focusing on these two markets. Therefore, I summarise the motivational factors and goals behind this thesis: the first is the emphasis of a potentially under researched but important area of competitive strategy literature in the context of SMEs; the second is to examine whether unique competitive dynamics of firms apply within contexts of emerging markets; the third is to specifically focus on the Macedonian and Serbian markets as two peripheral cases in competitive strategy literature and therefore contribute to scholar diversity.

I then turn to define the fundamental scholarly concepts upon which this thesis build its logic. Firms differ in competitive strategies deployed based on technologies and knowledge, scale economies, capital and industry entry barriers, product differentiation, cost advantages etc. (Porter, The Structure within Industries and Companies' Performance, 1979). Thus, via Michael Porter terminology I focus on two general and flexible concepts that measure firm competitive performance which propose that a competitive strategy is employed when a company has either cost advantage or differentiation advantage (higher customer

willingness to pay of its product) over competitors (Schmidt & Keil, 2013). For the context of emerging market SMEs, I focus on sources of competitive dynamics relating to both the external environment of operation and the internal resource capabilities of the firm. Namely, strategic choices are not only driven by industry condition and firm internal resource capabilities, but are also driven by the formal and informal constraints of institutional framework (Peng, Wang, & Jiang, 2008). In that sense, in chapter 1 I firstly introduce the role of formal and informal institutions in emerging markets. Emerging market growth is not only done under the exact norms of the neoliberal doctrines of developed economies, but also under variates of state capitalism models (Stephen, 2017). Hence, the main purpose is to stress the potential of formal and informal institutions to significantly affect production and transaction costs and hence the profitability and feasibility of engaging in an economic activity (North, 1991). Secondly, chapter 1 also defines concepts of firm potential for cost and differentiation strategies by improving internal resource portfolios. In other words, resources theory evolves around the possibility of firms to create value and capture heterogeneity of demand by improving internal resource capabilities. The two theoretical backgrounds upon which the thesis builds its conceptual case are the New Institutional Economics (NIE) theory and the Resource-Based View (RBV) theory. NIE theory is presented in chapter 2 and used to extrapolate hypotheses and analyse the external environment or more specifically the context of institutional dynamics in emerging markets. Subsequently, chapter 3 works on RBV theory and derives hypotheses with specific resource considerations related to SME competitive strategy.

Once theoretical considerations are observed and variables are defined I look to test the hypotheses through in-depth interviews with SME managers from the Macedonian and the Serbian market. The aim is to understand the relevance of the factors which can potentially impact the cost and differentiation advantages a firm can create over its competitors. Hence, in chapter 4 the idea is to present a methodology for a multilinear regression where weights would be appropriated to each independent variable and how they impact the dependent variable (resource value exhibited as the firm's competitive improvement). It is important to stress that this area of the research is limited as the sample object is very small and the statistics inferred in the form of means and distribution are insignificant.

Finally, the thesis provides an empirical solution through the established Cournot equilibrium model. The model is chosen because it follows the shift in market clearance dynamics as a result of changes in price and output mechanisms which are a direct derivative of both consumer preferences (capturing surplus) and firm's cost of production, hence easily adaptable to the conceptual reasoning in this thesis. Namely, a firm wants to acquire a resource and measure its value by the improved product market performance whilst accounting for investment (Schmidt & Keil, 2013). Thus, assigning the weights of the independent variables to either cost improvement strategies or differentiation improvement strategies and the consequent shift of market dynamics is explained in detail in Appendix 2. In summary, in a theoretical sense the aim of the research is to help entrepreneurs define variables which significantly impact competitive strategy of emerging market SMEs.

Moreover, a practical implication is forwarded since the thesis provides an empirical representation for implementation of the theoretical reasoning.

1 DEFINING THE CONCEPTS IN COMPETITIVE STRATEGY FOR EMERGING MARKET SMEs

Emerging economy business research has become a new normal, research questions have shifted from explaining unfamiliar phenomena and contexts to analysing ongoing managerial challenges such as the management of resources and capabilities under institutional idiosyncrasies (Meyer & Peng, 2016). Hence, by focusing on both institutional idiosyncrasies and resource based considerations, this chapter aims to define the relevant concepts of competitive strategy of emerging market SMEs. Thus, the thesis wants to emphasise a holistic approach of analysis in competitive strategy literature by focusing on the internal firm capabilities, but as well examining the impact of the external environments on firm performance.

The emphasis is foremost on the environment where emerging economy SMEs operate. This thesis tries to examine how much the Macedonian and the Serbian markets fall into the category of emerging or developing economies, how firms interact in those markets and how those interactions reflect firms' governance structures. Namely, Ronald Coase in his work ″The Firm the Market and the Law″ *(1988)* elaborates how these three components interact in market economy and stresses the importance of analysing behavioural principles rather than simply succumbing to the principles of utility maximisation theory (Coase, 1988). Therefore, when analysing the impact environments have on firm competitive strategy I focus on a context based approach and distinguish the following three elements: (1) the market as the infrastructure and realm in which the firms operate; (2) organisations or firms which are agents that are commercially engaged in the market; (3) and formal and informal administrative institutions which exhibit regulatory framework and fair competition, hereafter addressed only as institutions. The relevance of such outlook is further emphasised since this research focuses on emerging markets and within such contexts institutions capture the complex and rapidly changing behaviours between organisations and environments (Peng, Wang, & Jiang, 2008).

In terms of resource considerations and competitive strategy, relevant literature has mostly focused on firms' internal organisational capabilities represented as their tangible and intangible resource endowments (Chen, Michel, & Lin, 2021). Thus, this thesis focuses its conceptual reasoning on value creation opportunities by deploying scarce and/or complementary resources. In addition, the resource consideration provides a closer analysis of the bargaining strength of emerging market SMEs and how managerial decisions impact the competitive position of the company.

Conclusively, firms shouldn't only look at internal resources but also consider their external environment and reconceptualise their strategy based on how firms think of industries and define competitors to gain strategic advantage (Chen, Michel, & Lin, 2021). Furthermore, institutional economics in combination with industry and RBV theory, will not only help sustain a strategy tripod, but also shed significant light on one of the most fundamental questions such as ″What drives firm strategy and performance?″ (Peng, Wang, & Jiang, 2008). The key point of interest is how resources fit in firm competitive strategy, how resource outlook complements institutional economics, and how the two streams can be integrated into a simple empirical resolution. Appendix 2 presents the empirical model which relates to both cost improvement and differentiation improvement with consideration to all concept factors influencing competitive strategy of emerging market SMEs.

1.1 Market

Regarding the market dynamics in emerging market SME competitive strategy, this thesis follows a two-step logic by firstly address the market size or realm in which firms operate, and secondly emphasise the infrastructure or stability of the market. In their work (Ojala & Tyrväinen, 2007) contemplate that empirical findings suggest approximately 70% of country choices of software SMEs can be explained by market size expressed and geographic distance of the market, with purchasing power also being positively correlated. Further, traditional variables such as corruption and political risk, inflation and currency volatility negatively affect FDI, whereas market size positively correlates to investment in a market (Grosse & Trevino, 2005). Scholar literature unanimously states that larger market size is always positively correlated with investments both for SMEs and MNEs. However, market instability correlates negatively to investments. In terms of market size, a firm's major objective in expanding internationally is to gain access to markets that offer a larger customer base with indicators such as Gross Domestic Product (GDP) and GDP per capita used as most common determinants for market size and market attractiveness (Ojala & Tyrväinen, 2007). For a more detailed outlook a firm might also want to look at industry proportion to GDP in order to understand its market size more closely. Relating to market stability an appropriate way to measure it is to measure the market dynamics in times of crisis. Namely, fundamental market-oriented institutional change in emerging markets such as Korea was felt after the financial crisis in late 1997, which served as an important institutional inflection point (Kim, Kim, & Hoskisson, 2010). Hence, by following the monetary metrics during economic crises, market stability can be measured through variables such as currency volatility, inflation rates and country-risk rates. Altogether, this thesis tests the relevance of market size and market stability in relation to SME competitive strategy through the outlook of real options reasoning (ROR). In other words, ROR relates to ability to identify, maintain, and exploit real options in the business environments (Ahi, Baronchelli, Kuivalainen, & Piantoni, 2017). Hence, in this thesis I emphasise whether and how much emerging market SME entrepreneurs can actually choose their market of

operations or whether they are mostly attached to markets in their close geographic and institutional proximity. This in turn will raise the question whether market size and market stability significantly impact the location of investment for managers of emerging market SMEs.

1.2 Firm

Institutions are composed of formal rules and regulation (common law, statute law, regulation and enforceability) and informal rules (norms of behavior), whereas organisations are the players that are bound by a common purpose to achieve objectives, which can be categorised as political bodies, economic bodies (firms), social bodies (churches, athletic associations, clubs) and educational bodies (universities, schools) (Kozenkow, 2013). In other words, firms are defined as economic bodies or the agents that are commercially engaged in the market. To closely observe firm competitive logic both conceptually and empirically I first classify the firm's position in relation to industry competitors, based on firms' resource portfolios and size. There are two theoretical streams that deal with this question. One is the industry competition view introduced famously by Michael Porter in his scholar studies on competitive strategy management and industry analysis, stating that the origin of competitive advantage is the structure of an industry and firm positioning relative to industry competition (Kim & Hoskisson, 2015). The second stream would be the RBV theory and how firm resource deployment impacts competitive strategy. Namely, internal elements such as tangible and intangible resources allow for the identification and consideration of idiosyncratic resource positions and heterogeneity of firms (Chen, Michel, & Lin, 2021). In my analytical approach I encourage the managers to use both the industry overview and the RBV theory. In this thesis however I use the industry analysis to classify the position of the firm in the supply chain, a more macroeconomic outlook. Consequently, NIE theory and RBV theory can complement such analysis by empirically juxtaposing firms in the same industry based on their cost portfolios and resource portfolios. Lastly, as part of industry analysis a manager may also want to conduct a calculation for Herfindahl-Hirschman Index (HHI) to measure the market concentration and closely examine the horizontal dynamics of firm sizes on the market.

1.3 Institutions

Empirical works in institutional economics prove significant relation between institutional variables and economic performance (Kozenkow, 2013)**.** This is even more relevant when discussing emerging economies such as Macedonia and Serbia since compared to developed economies emerging economies have less sophisticated institutional frameworks such as ineffectively enforced property rights, weaker capital markets along with deficiencies in areas like human capital and transportation infrastructure (Meyer & Peng, 2016). These inefficiencies in emerging economies lead to extra cost of doing business (Grosse &

Trevino, 2005)**.** In that context, firms aspire to adjust cost minimising strategies in relation to idiosyncratic institutional and industry environments. Institutional economics developed as an alternative to Neoclassical Theory because the neoclassical economic outlook has a non-institutional approach since it assumes institutional variables such as property rights, enforceability of contracts, capital markets and corporate governance, operate costless or are even ignored from the analysis (Kozenkow, 2013). Competitive strategy literature puts this overlook down to the dynamics of development of Neoclassical Theory since it comes from scholars from developed economies which treat rule of law, regulation, monetary stability, as a given condition in competitive analysis. However, institutional variables of emerging economies exhibit high diversity and instability and need to be analysed contextually (Meyer & Peng, 2016). Hence, in relation to institutional framework this thesis focuses to understand the firms' cost strategies through the theory of NIE. NIE theory is selected and relevant for several reasons. Firstly, it is probably the only institutional economics stream that has risen to the level of theory. Secondly, it is a summary of four ″institutional economics″ Nobel Prize winners in the names of Douglass North, Ronald Coase, Oliver Williamson and Elinor Ostrom (Glachant, 2014). Ultimately, it improves applicability of neoclassical theory by focusing on concrete and observable variables such as property rights, transaction costs, contracting and enforceability, and how they serve as incentives for economic performance (Kozenkow, 2013). When discussing observable variables, regulatory framework involves the capacity to establish rules, to determine who has conformed to such rules, and, as necessary, to manipulate sanctions to influence behavior (Grosse & Trevino, 2005). Namely, NIE theory is interested in the rationale of governance choices (governance strategy relating to institutions; and governance structures relating to industry affiliates), how those minimise transaction costs and maximise opportunity (Trienekens, 2012). The concrete observable variables as part of NIE theory are property rights or the ex-ante institutional arrangements, transaction costs as the ex-post governance cost of a company, and contracting theory as ex-ante incentive alignments between firms (Kozenkow, 2013).

In that context, firstly I draw the attention to property rights, how they are assigned and what is their role in competitive strategy. Namely, property rights are created and assigned as edict or contract by a state or a governing institution as legal aid of innovation, development, introduction of new resources, as well as to improve cost strategies and decrease rent dissipation (Lai, Davies, & Lorne, 2016). In other words, property rights are assigned to safeguard capital investment, technology, knowledge, ownership, intellectual property and interactions of firms (Casson, 2015). Hence, the state and the government create what are known as common property rights accessible to all firms, as oppose to contractual agreements between firms (Lai, Davies, & Lorne, 2016). Moreover, states or governing bodies do not only participate in economy planning by assigning rights, they also affect competitive outcomes between firms by moderating infringements to previously assigned rights. Hence, institutions matter because they must both define property rights and enforce regulation (Peng, Wang, & Jiang, 2008). Further, the alternatives of market entry faced by

SME managers in emerging markets, are determined by the limited capability to gather and use information (Ahi, Baronchelli, Kuivalainen, & Piantoni, 2017). Namely, state variables such as contractual and information frameworks can improve financial, capital and credit systems and hence influence SMEs' competitiveness (Beck, 2013). Therefore, I summarise the three implicit variables of property rights: the rule of law and/or regulation; enforceability and compliance with regulation; and market protection (information accessibility). All three variables belong to the so-called formal institutions. In the aim to achieve simplicity and measurability I use property rights to examine whether institutional framework satisfies basic profit incentives for SMEs to even operate in the market. Namely, trading occurs only under minimum contract fulfilments being guaranteed by the regulatory framework (Henning, Henningsen, & Henningsen, 2012). In contrast, when regulatory design is prohibitive to the firm and positive returns cannot be achieved the firm will not operate in the market. Meaning, institutional entry barriers are a constraint and deter investment (Grosse & Trevino, 2005).

Next, the thesis pursues to explain the logic of setting alternative governance structures for emerging market SMEs. Solely focusing on organisational tasks and technology whilst treating institutions as background to understand strategic behaviour of firms, would be very difficult in emerging economies (Peng, Wang, & Jiang, 2008). Hence, this thesis emphasises agency theory which comes from the Anglo-American system underpinning dispersed ownership, control and how governing institutions resolve principal-agent (shareholder-manager) conflicts in order to reduce ″agency loss″ (Peng, Wang, & Jiang, 2008). However, when governing market rules are vague firms tend to rely more intensively on relationships and business networks (Meyer & Peng, 2016). Meaning, emerging economy institutional environment is deemed unreliable to resolve conflicts and optimise cost of doing business therefore driving firms to find alternative governance structures. Namely, firms rely more on networks and relationship strategies, developing abilities to minimise transactions and enforce contract using norms instead of litigation (Meyer, Estrin, Bhaumik, & Peng, 2009). To measure such logic I employ a two sided observation of market-oriented institutional condition. In relation to business-group-affiliated firms and independent firms, institutional change manifests in either periods of institutional friction, or periods of institutional market convergence (Kim, Kim, & Hoskisson, 2010). In other words, this thesis argues that efficient market institutions will encourage managers to freely access arm's length market resources, whereas inefficient institutional framework will drive managers to rely on trust relationships with network affiliates. A firm tries to optimise cost in relation to acquiring local resources because such transactions may be suboptimal due to the institutional environment governing those transactions (Meyer, Estrin, Bhaumik, & Peng, 2009). Thus, poorly regulated markets emphasise the dominance of informal institutions which either help firms overcome performance obstacles for positive value creation, or conversely informal institutions undermine the effectiveness of formal institutions participating in value destruction (Meyer & Peng, 2016). In this thesis I focus mostly on positive value creation and how SMEs in emerging markets can overcome obstacles by setting alternative governance structures. This

is even more relevant since informal governance decisions are usually associated with micro-enterprises (Beck, 2013). In summary, through the logic of agency theory this thesis examines how SMEs in Macedonia and Serbia assign governance structures in relation to institutions, both formal and informal. Agency conflicts are moderated by market-oriented institutions, which in turn directly affects cost and benefit structures driving firms into alternative governance decisions (Kim, Kim, & Hoskisson, 2010).

Further, I focus on transaction cost theory. Oliver Williamson and Douglass North explicitly put transaction cost theory as part of NIE theory (Peng, Wang, & Jiang, 2008). In accordance with transaction cost theory, organisations make an effort to ″align transactions″, which differ in attributes, costs and competencies (Geyskens, Steenkamp, & Kumar, 2006). Moreover, individual transaction costs are determined by the structure of an agent's ego-centric (personal) business network (Henning, Henningsen, & Henningsen, 2012). Thus, firms aim to set governance structures to reduce cost associated with transactions (Grosse & Trevino, 2005)**.** I use transaction cost theory to explain governance competitive decisions in relation to network members, both in forward and backward supply chain transactions. Transaction characteristics are largely explanatory for governance structures in a value chain, where the cost of transaction is decided by factors such as partner's performance and uncertainty (Trienekens, 2012). Namely, every participant in the industry value chain has a ″characteristics function″ that determines how much value is created by that participant within the chain exhibiting the vertical power dynamics of the market (Chatain & Zemsky, 2011). In that context, this thesis firstly analyses asset specificity. The logic is to examine whether specific assets exhibit potential for bargaining power of the focal firm, allowing the firm to bargain input prices upon other network members. Highly specialised assets dictate the path dependency and switching costs of firm operation (Schmidt & Keil, 2013). Therefore, value chain power is represented as a dependence relationship between the two trading firms exemplified in processes such as production, purchasing, packaging, distribution etc. (Trienekens, 2012). Next, the focus is on uncertainty of transactions. I will look upon strategies for SMEs on how they can more easily predict transaction outcomes and optimise cost through trust relationships. Namely, SMEs have strong desire for informal integration in network systems because it allows benefits for participants to trade at low or no cost (Cooke, 2007). Based on their behaviour, network members get appropriate reward or punishment delegated by other members in the period after a transaction has been completed (Henning, Henningsen, & Henningsen, 2012). Lastly, transaction frequency refers to the extent to which transactions recur (Geyskens, Steenkamp, & Kumar, 2006). The underlying logic is that the speed and ease with which transactions are carried out affects the cost structure of the firm. Thus, in relation to transaction cost theory this thesis underlines the main dimensions of interest: asset specificity, uncertainty in transaction, and frequency and ease of transaction – along these dimensions actors choose the most efficient governance structure to coordinate economic transaction. Transaction cost economics stress out the ex-post cost of contracting and search what is the most efficient governance structure model in which all actors are assumed to optimise cost, even if they are not fully informed

and have to deal with uncertainty, from organisation of the production process to product sale (Kozenkow, 2013) In summary, transaction costs efficiency can be measured as the ex-post performance of the firm with considerations to both institutional and industry governance decisions.

The last concept within NIE theory is contracting. Generally, between its concepts NIE theory doesn't have well delineated variables. Despite the large number of empirical studies conducted to understand transaction insights, applications have not always been cumulative (Geyskens, Steenkamp, & Kumar, 2006). In addition, in this analysis I already cover the vast majority of institutional logic as part of property rights, agency theory and transaction cost theory, so I want to keep contracting simple whilst also adding value to the analysis. Namely, a contract is a bottom-up private agreement between two or more parties (between firms and/or between institutions and firms) created upon previously established common property rights (Casson, 2015). Thus, contracts can be a form of self-governance which complements rule-based systems (Henning, Henningsen, & Henningsen, 2012). Moreover, contracts are commitments to allocate resources and control rights with the aim to provide efficiency (Kessler & Leider, 2012). In order to add value to the analysis I therefore emphasise the two factors that reflect contract completeness, which are access to relevant resources and prescribed protection. These factors in turn should exemplify the established payments and/or commitments each party needs to carry out.

1.4 Resources

In the previous chapters the emphasis was on governance strategies relating to both institutions and industry members, and how those relate to the cost structure of firms. In other words, the focus was more on external factors surrounding the firm. In that context, the RBV theory became relevant because academic research was mostly interested in external market capabilities, but less in internal organisational capabilities (Chen, Michel, & Lin, 2021). By any means a governance decision that improves competitive advantage can be considered as part of firm's internal resources. However, this also denotes the complexity of how resources should be defined. In essence, the difference is that institutions and governance are mostly part of firm's cost strategy in relation to external factors, whereas resources and their deployment are the internal capabilities that allow for both cost improvements and differentiation improvements. *Firm strategic resources* are any semipermanent firm assets, capabilities, organisational processes, attributes, information, or knowledge that enables a corporation to implement strategies that improve its efficiency and competitive position (Gibson, Gibson, & Webster, 2021). Thus, I look at resources as both tangible and intangible internal capabilities that allow the firm to create and sustain competitive advantage (Chen, Michel, & Lin, 2021). Physical resources refer to plants, equipment, raw materials, whereas intangible resource refer to human capital, organisational capital, network embeddedness etc. (Gibson, Gibson, & Webster, 2021). A dominant theory in competitive strategy literature is the RBV theory. As one of the main contributing scholars

Edith Penrose in her 1959 ″The theory of the growth of the firm″ laid the foundations for the RBV theory arguing that heterogeneity of firm resource characteristics, the context of the external environment, organizational and managerial resources, is what gives firms competitive advantage in the long-run (Penrose, 1959). Another important RBV theory scholar is Jay B. Barney with his publications from 1986 to 1991 on the importance for a firm to identify its valuable resources among all of the available resources to gain sustainable competitive advantages over other firms (Maiti, Krakovich, Shams, & Vukovic, 2020). His widespread theory on characteristics of resources is still relevant among scholars, observing that strategic resources generate sustained competitive advantage if they are valuable, rare, inimitable, and nonsubstitutable (VRIN) (Barney, 1991). In this thesis however it is not the case of academically following the scholars but rather adapt the model for analysing competitive strategy for the Macedonian and Serbian SMEs. Thus, four elements emerge as relevant concepts for this analysis within the context of RBV theory.

The first element of analysis is the value-based approach which refers to both industry-level analysis and firm-level analysis (Chatain & Zemsky, 2011). Thus, value created is the increase on demand-side value in product markets exhibited as the difference between customer willingness to pay *w,* for firm's *i* output and the firm's production costs (Schmidt & Keil, 2013). This is relevant since the RBV theory and firm competitive strategy are based on the concept of economic rent (Maiti, Krakovich, Shams, & Vukovic, 2020). Hence, based on future product market returns and position on the market, firms have different willingness to pay for a resource. Firms either differ in readiness to pay in factor markets or the maximum amount they are willing to invest to develop the resource internally (Schmidt & Keil, 2013). In other words, there is an interdependent role between customers' willingness to pay for firm's output and how much a firm is willing to invest in a resource, denoting the market position of firms. Next, I look at the resources which contribute to value creation in emerging market SMEs. Resource heterogeneity and imperfect mobility of strategic factor markets in different markets explains how firms create and sustain competitive advantages (Kim & Hoskisson, 2015). Therefore, a firm that creates higher value in product markets than its competitors due to superior resource endowments has a competitive advantage. These resources contribute to a two-way spread, either in the direction of cost improvement or by increasing customer's willingness to pay (differentiation improvement). Traditionally, RBV theory associates firm cost structures with the cost of acquiring resources in strategic factor markets and/or the cost of developing resources internally (Schmidt & Keil, 2013). However, resource cost along with transaction costs can also be associated with institutional uncertainty and information asymmetries (Kim & Hoskisson, 2015). This in turn gives a flexible outlook on cost structures, where the concept allows for cost improvement due to efficient governance decisions as elaborated in part to institutional economics. In addition, cost structures can be improved by acquiring a strategic resource relating to all firm assets, organisational capabilities, information, technology etc. (Chen, Michel, & Lin, 2021). In terms of differentiation, firms may compete in a market with an endogenous customer base where price sensitivity is high and only horizontal differentiation dynamics such as design,

service, feature improvements, are allowed (Chatain & Zemsky, 2011). In contrast, a firm may want to serve an exogenous customer base in a vertical value chain which allows for price negotiations. Namely, a firm through its value chains may develop better production processes, technologies, labour inputs, logistics, organisational capabilities etc. (Trienekens, 2012). In the case of emerging market SMEs, managers should thus recognise the position of the firm in the industry and the supply chain. This in turn will dictate the strategic position of the firm and whether customer willingness to pay can be increased, both in the direction of horizontal and vertical improvement. Thus, the emphasis in the analysis is on possibilities of emerging market SMEs in acquiring a scarce or a complementary resources which brings forth competitive improvement.

The analysis further introduces the elements of value capture and competitive performance. This is important since the central focus in a value-based analysis is on value capture or how total industry value creation is divided among the various players (Chatain & Zemsky, 2011). Meaning, a firm bargains its value created in product markets against customers, suppliers and other stakeholders in order to appropriate price (Schmidt & Keil, 2013). Hence, price is a function of value capture. SMEs are decentralised high in number traders, and in such market conditions each participant knows that neither his nor her trade can affect market price (Armstrong, Core, Taylor, & Verrecchia, 2011). In that context, the third RBV consideration is that SMEs strive to keep factor markets efficient by collaborating as a unit. Namely, for SME competitive strategy in particular, horizontal ties and relational governance is positively correlated with sourcing of collective resources (Mesquita & Lazzarini, 2008). Value captured in product markets is thus important for a manager because it measures the firm's competitive performance. The fourth and last concept regarding firm internal resources is the manager's ability to make competitive decisions. In a temporal sense, valuable and rare resources give competitive advantage, whereas inimitability allows for rarity to run long-term (Schmidt & Keil, 2013). This is emphasised in order for entrepreneurs to recognise that competitive performance is a multi-period operation. A manager's ability to define ex-ante resource value before a resource is acquired as the ex-post product market impact as a result of value created, is critical. (Schmidt & Keil, 2013). The temporal separation is made which through a longitudinal approach in subsequent periods can answer whether particular market based assets and capabilities are sources of sustained competitive advantage (Gibson, Gibson, & Webster, 2021). Namely, RBV strategy outlook is static, it does not determine firm competitive advantage when competing against time. Therefore, companies like International Business Machines (IBM), Philips, Apple, use the RBV strategy of VRIN to collect their valuable technical resources, but also have management practices to compete against time (Maiti, Krakovich, Shams, & Vukovic, 2020). In summary, the four broader concepts of resource based improvement for the Macedonian and Serbian SMEs are: value creation and market position; resource type and competitive improvement; bargaining strength and appropriating value capture; and manager's ability to recognise demand-side value creation opportunities.

2 INSTITUTIONAL ECONOMICS IN COMPETITIVE STRATEGY MANAGEMENT OF EMERGING MARKET SMEs

2.1 Market

There are many theories and streams which analyse market structure and market size which at some point can become overwhelming and unnecessary for managers. In the context of the simplest market distinction I denote that this thesis only focuses on market economies as opposed to centrally planned economies. Companies are embedded in a complex of horizontal, vertical and business support relationships with other companies and other organisations supporting inputs and services such as advisory services, credit facilitators and transportation companies, where horizontal relationships refer to co-operations and price agreements versus vertical relationships which follow all stages in the supply chain (Trienekens, 2012). Market size therefore relates to the realm in which the focal company conducts transactions, both in terms of inputs and procurement and in terms of sales or the firm's end market. From a competition stand point, a manager should define the space proximity of the market through ″nodal markets″ (specific network nodes with a price formation mechanism) versus ″zonal markets″ (the managerial zone of each existing network operators), in addition to ″market coupling″ (process of unification of markets) and ″market splitting″ (dissolution of markets) (Glachant, 2014). To add to the complexity of the approach, these nodal and zonal formations belong to both horizontal and vertical market dynamics. For instance a standard practice of market coupling are investment treaties and bilateral agreements between countries, which serve to foster institutional governance across markets, higher standards of legal protection for investors, free flow of capital, avoidance of double taxation, and ultimately a more favourable investment climate (Grosse & Trevino, 2005). These coupling practices can integrate both a widespread base of customers (horizontal dynamics) and a specific customer group in a supply chain mechanism (vertical dynamics), upon which certain nodal price mechanisms will form within the zone of operation. To provide simplicity and clarity I avoid the vertical dynamics when analysing market size and instead treat it as an industry variable. In this chapter market proximity is simplified based on available sources such as statistical data.

A firm may turn to public data released by national and international institutions and organisation. Current literature provides evidence that market size in terms of GDP and GDP per capita has a strong impact on the selection of a target country when strategizing, however vertical market structures are largely ignored (Ojala & Tyrväinen, 2007). Therefore, for this case study of SMEs in Macedonia and Serbia I turn to data released by the national government agencies, respectively. For Macedonia the ″State Statistical Office″ releases annual and quarterly reports on total GDP, GDP per industry as well as GDP per capita, all databases expressed both in nominal terms and in values adjusted for inflation. As a reference point Macedonia in 2021 had a total GDP (constant prices) of Macedonian Denar (MKD) 681.934 million or close to Euro (EUR) 11 billion, and a GDP per capita (nominal

prices) in 2020 of MKD 316.488 or EUR 5.070 (State Statistical Office Republic of Macedonia, Gross Domestic Product, 2022) (State Statistical Office Republic of Macedonia, GDP Per Capita, 2022). The Serbian government agencies also release similar statistics. Namely, the ″Statistical Office of the Republic of Serbia″ reports that Serbia in 2021 had a GDP (constant prices) of Serbian Dinar (RSD) 5.920.010 million or around EUR 50 billion, whereas GDP per capita (nominal prices) in 2021 was RSD 917.442 or EUR 7.803 (State Statistical Office Republic of Serbia, 2022). As previously mentioned GDP indicators are references to horizontal market structure, whereas vertical chain networks of the company are not closely observed by public institutions. If we add the vertical market size the relationships among these constructs are not very clear (Ojala & Tyrväinen, 2007). However, companies prefer bigger sized markets with higher disposable income or higher purchasing power by consumers (Grosse & Trevino, 2005). Thus, the index of Purchase Power Parity (PPP) allows managers to look at the purchasing power of consumers based on the ″basket of goods cost″ approach if they wish to do so. In conclusion, from a statistical outlook Serbia should be a more desirable entrepreneurial destination because of its market size both in GDP and GDP per capita.

Next, managers should look at potential instabilities of markets before investing. Markets work smoothly in developed economies, "the market-supporting institutions are almost invisible whereas markets work poorly in emerging economies, "the absence of strong formal institutions is conspicuous (Peng, Wang, & Jiang, 2008). Even though this implies an extreme outlook of either perfect or chaotic market structure, it is more realistic that emerging market SMEs operate somewhere in-between this spectrum. Markets are always changing and as any institution it might be adapted, changed, rearranged, repaired, etc., to deal with many of its so-called “market deficiencies” (Glachant, 2014). These so-called deficiencies can be measured as the capacity of the market to deal with uncertainty, which in turn can be observed in a state of crisis through indicators such as currency valuation, inflation and property rights. Specifically, inflation reflects internal economic stability and whether governments can maintain monetary policy, whereas depreciation in host country exchange rate affects long-term planning and capital investment risk (Grosse & Trevino, 2005). Firstly, currency exchange-rate fluctuation exhibits time-related contemporaneous correlation to other markets and is an indicator of market performance (Kim, Kim, & Hoskisson, 2010). In the case of the Macedonian and Serbian economy, MKD to United States Dollars (USD) exchange rates have been stable from 2015 onwards with a 2021 average exchange rate of fifty-two MKD for one USD, whereas the RSD has grown a bit stronger in relation to the dollar in that same time period with a 2021 average exchange rate of ninety-nine RSD for one USD (OECD, 2022). Exchange rates determine industry-specific variables regarding the firm’s vertical market size since they reflect the stability on country of doing business (Ojala & Tyrväinen, 2007). Currency devaluation and volatility can bring economic or political upheaval, in which case investors must incur costs to prevent transaction and translation losses when host country currencies depreciate, however it may also entice investors in the case when undervalued currencies allow access to cheaper labour

and cheaper production (Grosse & Trevino, 2005). Hence, the emphasis here is more on investing with a stable currency. Next, consumer price index (CPI) as an inflation indicator shows that from 2010 to 2021 CPI has increased for 18,5% in Macedonia and 52,2% in Serbia (The World Bank, Consumer Price Index, 2022) (The World Bank, Consumer Price Index, 2022). Looking at the CPI for both countries there are clear temporal spike trends in correlation to global financial crises. It is also important to mention that the government statistical offices of both countries also release data on CPI. Inflation is therefore relevant because it is an indicator of macroeconomic stability, price stability, ultimately whether countries can manage monetary policies. Another way for managers of emerging market SMEs to quickly assess market stability is to look at the risk premiums of a country. Namely, Aswath Damodaran a professor at Stern School of Business at New York University, releases annual reports on country risk premiums, equity premiums and credit default swap spreads. Other credit rating databases on country risk premium rates such as Moody's Investors Service and the Standard's and Poor's Global (S&P Global) index, are available. Based on some of this data the Macedonian market is rated as a Ba3 moody rating, whereas the Serbian market is rated at a Ba2 moody rating (Damodaran , 2022). In other words, on Moody's Country Risk Premium rates from AAA being financially excellent and C being the lowest quality, both the Macedonian and the Serbian market qualify as countries with moderate investment risk. However, it is important to mention that SMEs are not eligible to trade on stock markets because of their size so they have to use over-the counter (OTC) security markets which aren't explicitly referred in the aforementioned databases but are still implicitly part of the country's risk premium rates. Yet another example are property rights and regulation which also involves changing "the rules of the game" if it is to be analysed in a game-theoretic economic framework (Lai, Davies, & Lorne, 2016). Regulation is assigned to protect legal ownership of resources, provide access to information, control the quality of the market and allow for fair competition. Managers choose market channels based on market-access limitations such as supporting infrastructures to reach markets, access to demand and price information, and specific market requirements like production quality control (Trienekens, 2012). A database that references property rights, judicial system, government integrity, is released by the Heritage Foundation via the Economic Freedom Index, where both Macedonia and Serbia are rated as moderately free markets globally ranked at 53 and 59 respectively (Heritage.org, 2022). It is important to stress that property rights are tightly related to regulation and institutions, because institutions affect market structures through law and regulation, restricting competitive practices such as cartelisation, acquisitions and mergers (Meyer & Peng, 2016). Thus, in this competitive analysis of SMEs property rights are placed as an institutional variable rather than a market variable.

With consideration to all publicly released market data relating to GDP indicators, investment risk, volatility of market parameters, it is fair to say both the Macedonian and the Serbian economy qualify as emerging markets. However even though larger markets are more attractive and market stability is preferred, the question remains how much these

emerging economy SMEs can actually choose their market of operations. Firstly, managers of SMEs have limited resources, knowledge and network relationships at the initial stage of market entry (Ojala & Tyrväinen, 2007). Secondly, SME managers are faced with information scarcity about a foreign market and therefore unable to make an assessment on investment returns so they commit low amounts of resources to mitigate risk, whereas their decision making and market knowledge improves over time (Ahi, Baronchelli, Kuivalainen, & Piantoni, 2017). Hence, information asymmetries lead to classic market failure because manager cannot assess quality of information prior to exchange (Meyer, Estrin, Bhaumik, & Peng, 2009). Thirdly, institutional distance, cultural distance and knowledge distance between home and host country brings forth higher costs of doing business both for SMEs and MNEs (Maekelburger, Schwens, & Kabst, 2012). In that context, importance of geographic distance is the greatest for the first country selection and that the importance of market size is related more to the subsequent country selection (Ojala & Tyrväinen, 2007). In summary, SME managers calculate profitability indexes based on capital and resource power, information on profitability outcomes and geographic and cultural distance from the market. Thus, the issue of finances and capital budgeting in SMEs is raised, as under ROR an investment is as attractive as the future cash returns discounted for their present value divided by the present day investment cost under constraints such as time (Campbell, 2016). This relates to the financial budget capacity as firms are faced with higher business culture distance when exploring foreign markets, which in turn weakens their ability to make an accurate valuation of their net capital investment. A firm entering a foreign market for the first time may incur high costs of doing business also known as liability of foreignness (Casson, 2015). Thus, in relation to SME entrepreneurs in Macedonia and Serbia on why they choose to operate in the home market, with considerations to capital budgeting, information scarcity and market distance, I propose the following hypothesis:

Hypothesis 1a: Emerging market SMEs prefer to invest in markets of bigger size and higher stability, however due to capital and information scarcities are mostly confined to operate in markets close to their geographical and institutional proximity.

2.2 Firm

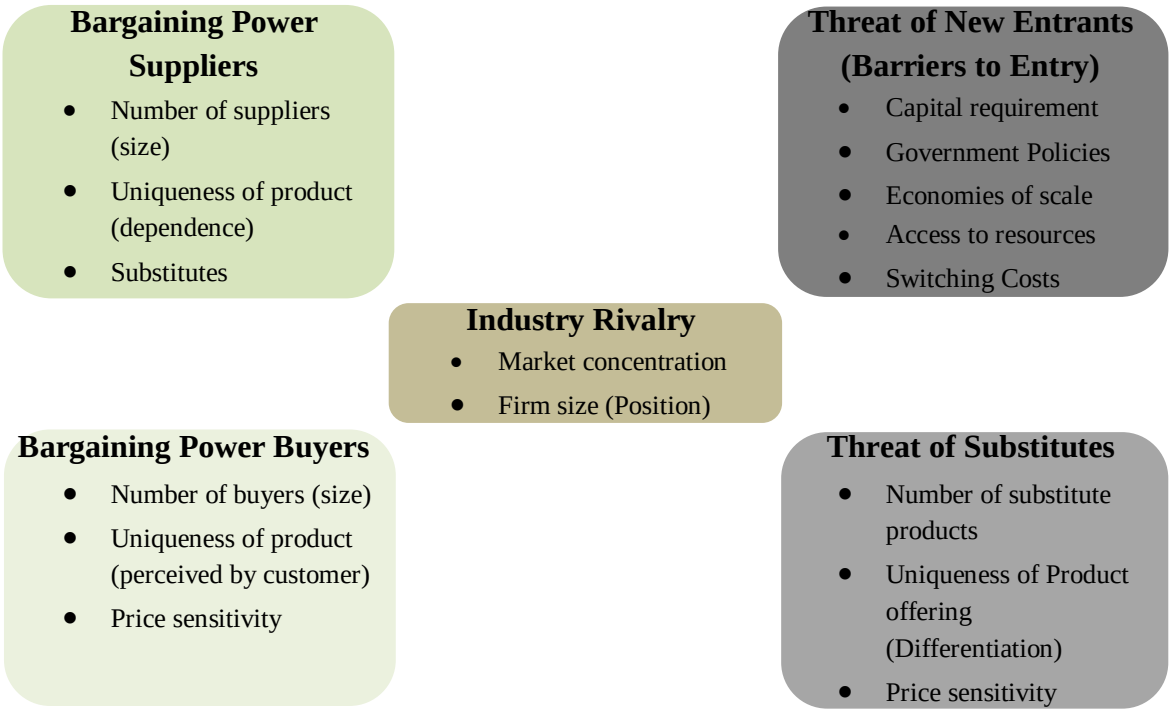
In regards to firm competitive strategy it is important to denote how resource endowments affect the position of the firm in relations to the industry and competition. (Chen, Michel, & Lin, 2021) refer to the flagship work of Jay B. Barney ″Firm Resources and Sustained Competitive Advantage, 1991″, contemplating how he was dissatisfied with implicit assumptions treating firms as homogeneous in resource portfolios and how those resources were readily mobile across firms, neglecting the viewpoint of firm heterogeneity, idiosyncratic resource bundles and relative immobility of resources across firms. Moreover, firm relationships are formed in clusters to support vertical and horizontal effectiveness in

the networks of business (Trienekens, 2012). Meaning firms conduct transaction within the industry with both buyers and suppliers, thus denoting firm relationships as industry-specific variables in the context of vertical markets (Ojala & Tyrväinen, 2007). Industry elements can also help classify firms based on their supply chain (industry) position as per their resource and size, providing the basis when sampling firm cohorts and analysing competitive strategy. (Meyer & Peng, 2016) typologically define four types of emerging market organisations: foreign entrants; local incumbents; entrepreneurial firm; and multinationals. I therefore define the sampled firms for this analysis as local entrepreneurial firms that fit the dynamics of SMEs both in terms of size and resource endowments. When discussing firm competitive state in the industry or its resource endowments in relation to competition, a well-established theory for such analysis is the industry analysis of Michael Porter. In that context, a manager can do a case study analysis of the industry structure and competitive dynamics by focusing on five points: threat of new entrants; threat of substitute products; bargaining power of suppliers; bargaining power of buyers; and degree of industry rivalry (Porter, Industry Structure and Competitive Strategy: Keys to Profitability, 1980). This theoretical reasoning is summarised in Figure 1. In regards to threat of new entrants also addressed as entry barriers in competitive strategy literature, a manager should look whether the capital requirements for market entry are too high. Namely, a manager can measure the extent of barriers to entry by the size of the fixed costs required to serve the market (Chatain & Zemsky, 2011). Moreover, potential governmental policies, regulation, access to resources and switching cost can also work as entry barrier for firms. Exemplary of such emerging market is the Indian economy where competitive interactions are influenced by industry and resource-based factors however they are enabled by market-openness reforms. (Peng, Wang, & Jiang, 2008). Last but not least, economies of scale can also deter managers from making positive market entry decisions. This is especially important for small-scale producers since they depend in many cases on other parties across the supply chain, such as intermediaries, transporters or exporters, which provide input supplies and credits on the one hand and market access on the other (Trienekens, 2012). Industry scales come from technological origin and division of labour, whereas firm scales come from organisation and cooperation (Casson, 2015). Meaning, a firm market entry may simply be impeded because of the sizable scale of production and higher cost efficiency of other firms. Next, a manager should focus on the potential product substitutes, or more specifically whether market products are either highly differentiated or consumers perceive firm offerings as homogeneous and switch easily between them. The more heterogeneous and dynamic raw supply stage is, more market orientation knowledge will be upstream in the value chain, which reflects the dynamism and heterogeneity of the end market consumer determined as the degree of market orientation at different stages of the value chain (Trienekens, 2012). This very much relates to the number of products, their similarity as well as the price sensitivity buyers have in relation to them. Extreme rivalry is often captured as Bertrand price competition with undifferentiated products bringing endogenous customer base to each company and creating horizontal differentiation dynamics, whereas vertically differentiated products allow for price negotiations and an exogenous customer base

(Chatain & Zemsky, 2011). In other words, in case of non-niche markets and customers not distinguishing between firm products a customer base will be very price sensitive and a manager should focus on horizontal differentiation such as design, service, product features, distribution etc. Conversely, in the case of vertical differentiation customers rank the products by its value in the supply chain and therefore price mechanisms can be negotiated to a particular customer group. Price mechanisms integrate the entire supply chain through information exchange on prices costs and margins (Trienekens, 2012). Therefore, nodal price formations will be exhibited as part of firm's backward and forward supply chain operation with consideration to the zone of network operations (Glachant, 2014). This leads well into the issue of degree of bargaining power by both suppliers and buyers, which also gives a manager a fair assessment of their company position within the value chain. Bargaining power arises because the rivalry of firms differs in different stages of the value chain (Chatain & Zemsky, 2011). A good way to measure those dynamics is to recognise at which stage does value added to the product occurs. In other words, unequal power relationships in these chains and trade barriers impact the distribution of costs and benefits over the chain participants due to differentiation dynamics (Trienekens, 2012). More specifically, upstream and commodity markets are usually homogeneous and not suitable for differentiation, hence no higher value can be added to the product. In contrast, the more a company can differentiate its offer the higher the potential for value added. This logic can be applied when analysing both the forward (downstream) and backward (upstream) supply chain links, because higher value added and less substitutable product offering give the focal firm a stronger bargaining position. It is important for the manager to recognise vertical (forward and backward) and horizontal (forward) competition dynamics, where the first relate to implicit competition whereas the latter denotes to immediate competition. Immediate competition are the firms that serve the same end market as the focal firm and hence this competitive analysis focuses its empirical reasoning in Appendix 2 onto horizontal dynamics. That is not to say that this model is not applicable for vertical dynamics, where SMEs can capture characteristics such as larger scale economies and diversity benefits (Beck, 2013). In such case a manager should understand the shift in immediate competition dynamics. Lastly, the degree to horizontal industry rivalry can be measured by market concentration and it can simultaneously serve as a measurement of the firm's size on the market. I believe HHI would be an easy method to complement the analysis of understanding the position of the firm on the market. To conduct such analysis a manager should denote the number of firms n, sum up the squared market shares s_i of all individual firms (i=1, $j \neq i$) where $i, j \in \{1, \dots n\}$, and multiply that number by 10.000 to get the market concentration index, as so:

$$HHI = 10000 \sum_{i=1}^{n} s_i^2 \qquad (1)$$

FIGURE 1: INDUSTRY ANALYSIS



SOURCE: OWN WORK

In summary I put forward the following hypothesis:

Hypothesis 1b: Emerging market SMEs have capital and scale scarcities which allow them to only serve non-niche markets with undifferentiated products exhibited in a fierce price competition, are low supply chain value contributors and compete in low market concentration.

A special emphasis however should be weighted on SMEs that compete in the high technology sector as they play a big role in the global market and have been described as ″born global″ because of their strong international focus (Ojala & Tyrväinen, 2007). High tech SMEs have specific entrepreneurial characteristics since they are by vocation technology intensive, internationalise at their early life stages, compete in global markets and thus should be analysed as a distinguished firm category (Filatotchev, Liu, Buck, & Wright, 2009).

2.3 Institutions

Resource endowments and firm specific differences are the factors that drive firm competitiveness and performance, whereas institutions are the regulative, normative and cognitive structure that provides stability and social behaviour (Peng, Wang, & Jiang, 2008). This chapter is therefore dedicated to enfold the effects which state institutions have on emerging market SMEs.

2.3.1 Property Rights

In terms of institutional economics a managers should firstly denote the variables upon which governance decisions are made. In that context, I stress the importance of property rights as an essential element of NIE theory. In NIE theory, the role of property rights is to uphold legal order by establishment of public system that leads to efficiency, ability to enforce compliance with such system, and consider operating incentives under information asymmetry conditions (Kozenkow, 2013). Therefore, the state releases ″top-down″ common property rights which allow basic operation and positive profit returns, which can be measured as: the law that facilitates the business operation of firms; the capacity of the state to delegate minimum justice when individual property rights are infringed; the basic market information accessibility (prices and costs) (Lai, Davies, & Lorne, 2016). Namely, institutions support market efficiency by having well-defined legal framework along with its enforceability regimes and information systems (Meyer, Estrin, Bhaumik, & Peng, 2009). In that context, I first consider the legal framework of operations or the common law facilitating business. In developed economies, firms' ground decisions only based on resource consideration since market participants assume that institutions have no negative impact on performance (Peng, Wang, & Jiang, 2008). Conversely, emerging markets are characterised as having poor physical infrastructures, weak institutional infrastructures, unbalanced trade relationships, unfavourable social and political conditions, information asymmetries and weak enforcement regiments (Trienekens, 2012). For instance, the existence of corruption can be a big problem. If a group of people has discretionary power to design regulation upon which economic rents are evident and the judicial system fails to sanction potential violations, there are strong evidence of corruption (Grosse & Trevino, 2005). Furthermore, tax and tariffs, general trade barriers, complex networks of rules and regulation, can all increase the cost of doing business. Therefore, a manager should consider whether the legal framework of property rights facilitates a platform that allows the firm to be profitable. Next, a manager should consider how fairly the regulator distributes justice in the case of property rights and contract infringements. Compliance with property rights and contracts is achieved when institutions are able to detect and punish cheating (Henning, Henningsen, & Henningsen, 2012). In that context, the power of the state lies in enforcing punishment in cases of infringement and therefore upholding rule of law (Lai, Davies, & Lorne, 2016). However, NIE theory underlines that emerging market institutions usually have problems with both assigning property rights and exercising property rights (enforcing

contracts) (Kozenkow, 2013). Therefore, in relation to competitive strategy a regulator must distribute minimum justice on property right infringements to allow market profitability, otherwise emerging market SMEs will opt not to enter the market. Finally, lack of transparency of financial data on firms, industries, general shortages, shortage of specialised financial intermediaries, mergers and acquisitions, can all lead to increase in costs (Meyer, Estrin, Bhaumik, & Peng, 2009). Meaning, inability to forecast price and cost mechanisms along with cost of transacting can make emerging market SMEs hesitant to enter. The obvious cost of organising production is having access to relevant information on price mechanisms (Casson, 2015). Moreover, the cost of gathering information and randomness in the process of discovering partners can bring inability to potential buyers to acquire information about suppliers, or may even fail to find any (Chatain & Zemsky, 2011). I therefore emphasise the impact of institutions to change search costs over time with introduction of new technologies and information transmission centres (Chatain & Zemsky, 2011). In addition, institutions also have the ability to protect SME entrepreneurs in case of antitrust and colluding practices. In practice, colluding efforts to monopolise markets are difficult to prove and antitrust laws are difficult to enforce (Peng, Wang, & Jiang, 2008). Thus, the role of the state is to provide transparency on assigning property rights and keeping the fairness of competition in the market economy. In summary of these three implicit property rights variables I propose the following hypothesis:

Hypothesis 1c: Emerging markets SMEs will enter the market only if regulating property rights provide the least conditions for profitability, minimum justice is delegated to property rights infringements and there is sufficient information (prices and costs) on future competitive outcomes.

In regards to property rights there is no unified measurement in competitive strategy literature. Namely, existing literature has not subscribed to common definitions and measurements for institutions, the process of their change, and how they influence economic growth (Kozenkow, 2013). This thesis analyses property right framework, enforceability of justice and information scarcity, through a binary approach. Meaning, depending on these conditions the firm can make only two choices, to either enter or avoid the market. The thinking behind it is that I don't believe formal institutions participate in firms' competitive improvements simply because an institutional change makes improvements across the market therefore keeping the playing field levelled for all SMEs. In other words, regulatory institutions only improve the cost efficiency of operating in the market. Studies offer inconclusive empirical evidence on market oriented institutional change, some claiming that a positive change leads to firm specific competitive improvements whereas others fail to find such positive effects (Kim, Kim, & Hoskisson, 2010). Namely, it is more likely that when institutional regulation is ″positively upgraded″ it simply overcomes ″market deficiencies″ and brings higher social welfare across the market (Glachant, 2014). This

however might be conspicuous in clear cases of corruption when property rights are assigned under preface of ″improvement″ for specific purposes like firm favouritism. But as mentioned this thesis focuses on competitive strategies for positive value creation as opposed to rent dissipation.

2.3.2 Agency Theory

I then examine the logic of alternative governance structures with regards to institutions and network members. When discussing the environment where the firm operates scholars have mostly focused on industry and resource based variables, whereas institutional variables have recently started becoming more relevant (Peng, Wang, & Jiang, 2008). Therefore, for managers it is crucial to distinguish governance structures: those assigned in relation to partners driven by resource consideration (cost/benefit ratio); and governance decisions relating to formal institutions (cost incurred due to political, cultural and normative environment) (Casson, 2015). Agency theory is a great fit for such analysis. In emerging economy business it is important to consider how national institutions resolve conflict between agent and principals as well as principal-principal relationship and therefore how do institutions and markets affect governance structures such as incentives for joint-ventures (JVs) or state-owned enterprises (SOEs) models (Meyer & Peng, 2016). A two sided logic is employed. The analysis considers institutional arrangements as ″strong″ if they support the voluntary exchange underpinning an effective market mechanism. Conversely, institutions are ″weak″ if they fail to ensure effective markets or even under-mine markets as in the case of corrupt business practices, causing friction between market policy and firms (Meyer, Estrin, Bhaumik, & Peng, 2009). Therefore, the first scenario involves institutions being market-oriented by facilitating the business needs of the affiliated firms, which then drives firms toward arm's length market transactions with complete confidence. In the second scenario however, institutions and regulation are weak and therefore a firm more cautiously engages on the market by rather looking for network affiliates or business partners with which trust building relationships are more important. In other words, firms try to reduce uncertainty coming from instability of regulatory institutions by forming governance structures based on informal institutions, such as mature businesses forming business groups or foreign entrants partnering up with a local firm (Meyer & Peng, 2016). An example of such informal institution is the Chinese ″Guanxi″ culture which is a network of interpersonal relationships, alliances of firms both on micro and macro level, serving as a substitute for formal institutions (Peng, Wang, & Jiang, 2008). It is important to note that during the period of institutional frictions, business group affiliations, bigger firms, or SOEs may not challenge state-based logic on market policies, in which case these firms participate in value destruction on the market (Kim, Kim, & Hoskisson, 2010). Unduly leniency toward some firms may be a consequence of these firms having nonmarket political assets which they use to influence political outcomes (Bonardi, 2011). Thus, this drives other firms to either build informal business trust relationships rather than voluntarily turn to arm's length

market transactions, or avoid the market altogether. I argue that emerging market SMEs are unable to optimise competitive efficiency by addressing only cost versus benefit logic when setting up governance structures due to the inefficiencies of formal regulatory framework. Namely, in emerging markets there are inconsistencies and friction between formal institutions and informal institutions, and the changes in those conditions are a continuous variable (Kim, Kim, & Hoskisson, 2010). This in turn drives managers to mitigate ″agency loss″ and lower costs by mandatorily developing informal trust relationships with network affiliates. In fact, managers weigh risk by assigning governance structure to minimise ″cost of transaction″ and ″cost of enforcing contracts″ under the regimes of both formal and informal institutional regulation (Casson, 2015). To emphasise the logic of governance structure impact on competitive strategy of emerging market SMEs, I propose the following hypothesis:

Hypothesis 1d: Emerging market SMEs are embedded in informal trust relationships with other network affiliates in order to optimise ″cost of transacting″ and ″cost of contract enforcement″, a competitive condition otherwise unfeasible solely under formal regulatory regimes.

2.3.3 Transaction Costs

Next, I focus on transaction cost theory and the governance decisions of the firm in relation to network affiliates. In this paragraph I want to emphasise how firms develop these governance decisions under the regimes of agency theory. Transaction cost theory has become the most dominant framework for explaining boundary decisions of organisations (Geyskens, Steenkamp, & Kumar, 2006). When looking at governance structures one should examines how one party (principal) delegates assignments to another party (agent) to perform a certain task, which provides measurement of output of the supplying party (transferring risk to the agent) and measurement of behavior/processes of the agent (transferring risk to the principal) (Trienekens, 2012). This risk is governed by the vertical transactions companies conduct (flow of products and services from first production stage until end consumer) and/or the horizontal relationships with competition forming price mechanisms. The three variables that determine cost governance decisions in relation to network affiliates are: asset specificity; uncertainty; and frequency. The first variable in asset specificity serves as proxy of the compensation value the firm gains when conducting a trade. Competitive advantage comes from assets as a unique advantage that helps a firm earn higher returns than its competitors in an industry (Kim & Hoskisson, 2015). The underlying logic is that high asset specificity brings the potential for higher returns because it is used to service particular transactions. The authority relationships and hierarchical control procedures available through vertical integration are assumed to embody dependence and safeguarding capabilities (Trienekens, 2012). Meaning, the more dependent

the focal firm is in relation to other network members, the less the firm can control the cost of transaction and must rely on market transactions. Conversely, a firm can dictate cost structures associated with both purchase and sales only if it is a high value distributor within the chain network. This is relevant since value chain participants differ in terms of value creation capabilities (Chatain & Zemsky, 2011). However, competitive risk is affected by the degree of asset specificity since specialised assets exhibit higher path dependency, higher switching costs and therefore higher financial risks (Schmidt & Keil, 2013). The second variable relates to uncertainty, or the ability of the company to successfully conduct the transaction without incurring extra costs. Uncertainty arises when relevant contingencies surrounding a transaction are unpredictable, and performances cannot be ex-ante verified (Geyskens, Steenkamp, & Kumar, 2006). In that sense, formal and informal rules determine how people transact goods and services (Kozenkow, 2013) On one hand, efficient markets depend on market-based supporting institutions to reduce cost associated with transaction (Grosse & Trevino, 2005). Knowing that SMEs are limited in ability to internalise vertical markets, the strategy will always be to turn to the lowest bidder on the marker (benefit versus cost) in order to insure a cost optimising strategy knowing that under efficient institutional environment no extra costs will be incurred. Hence, efficiency of political institutions may be measured by how closely an actual political market approximates a zero transaction cost (Grosse & Trevino, 2005) On the other hand, in case of weak institutional idiosyncrasies a firm will try to access resources by forming JVs and informal relationships (Meyer, Estrin, Bhaumik, & Peng, 2009). Namely, self-governance among a group of actors with repeated exchange among different partners can work if communication within the group permits a collective memory of cheating and group members punish cheaters by refusing to trade with them, a condition called social exchange (Henning, Henningsen, & Henningsen, 2012). In a sense, the network provides its own mechanisms of enforceability by refusing to trade with cheaters and hence keeping members honest. Meaning, emerging market SMEs can better predict outcomes of transacting and reduce uncertainty under the protection of network governance. The last transaction cost variable relates to frequency of transaction in terms of their ease, speed and efficiency, with complementary consideration to both common trading needs and governing institutions. Global trading can be encompassed as the matching frequency of transactions between buyers and sellers on the market (Henning, Henningsen, & Henningsen, 2012). Namely, frequency cost is the relationships between intermediate and final products' demand cost structures in which the entrepreneur wants to replace many costly short-term contracts with one long-term cheaper contract whilst maintaining efficiency in vertical integration by controlling price and quality of service (Casson, 2015). However, policymakers should create an effective institutional culture and market environment to facilitate firms' collaboration (Xie, Zeng, Zang, & Zou, 2017). In summary, the central question of transaction cost theory is whether a transaction is more efficiently performed within a firm (vertical integration) or by autonomous contractors (market governance) (Geyskens, Steenkamp, & Kumar, 2006). This logic applies differently to both resource factors (MNEs vs. SMEs) and institutional factors (developed vs. emerging markets). In regards to resources, MNEs want to optimise transaction costs, by establishing

supply chain control and improved managerial coordination through internalising common dependence links such R&D (transfer knowledge) and raw materials (transfer of capital) (Casson, 2015). Most scholarly research on competitive strategy of big enterprises focuses how MNEs acquire valuable assets through FDIs (Teece, 2014). In contrast, SMEs have limited ability in internalising vertical markets since they simply do not have the financial and knowledge means to integrate forward and backward chain repositories. In that regard, a firm may lack capabilities in vertical structures due to difficulty to transfer knowledge, managing labour, managing distribution channels etc. (Meyer, Estrin, Bhaumik, & Peng, 2009). Relating to the institutional environment, emerging markets business groups and MNEs create internal capital markets that facilitate transaction costs and information flows to fill institutional voids (Kim & Song, 2017). Conversely, SMEs work as network affiliates since cluster firms manage to obtain better competitive resource than firms outside of the cluster (Pulles & Schiele, 2013). Hence, in emerging markets there is a positive transaction cost benefit for firms integrated in specialised firm (industry) clusters than for outsiders (Cainelli & Iacobucci, 2015). I thus propose the following hypothesis:

Hypothesis 1e: Emerging market SMEs accept market cost prices due to low power in vertical chains, have low switching costs and low financial risk, and use informal networks to improve certainty and efficiency of transaction outcomes.

2.3.4 Contracts

To conclude I focus on contracts as a process of decentralised and heterogeneous bilateral and/or multilateral cooperative agreements negotiated through bargaining (Glachant, 2014). The idea is to introduce a governance strategy exhibited in contract completeness to minimise cost and maximise efficiency. The contract incompleteness comes from agreements which display undefined direct costs of contracting and non-verifiability of outcomes (Kessler & Leider, 2012). However, self-governance corresponds to relation-based governance, i.e. the fact that cooperation is sustained via specific structures of interactions among actors (Henning, Henningsen, & Henningsen, 2012). Relational governance is stressed because unlike cost effects due to formal institutions, contracts as economic agreements are the bargaining capacity of firm managers. The two negotiable elements that I propose for contract completeness are: access to relevant resource and knowledge; and prescribed protection. Relating to access to resources, a firm may have various contractual needs to establish governance relationships, such as: 1) a governance of the workers' tasks flows at the workshop level; 2) a governance of the managers' behavior at the corporate level; 3) a governance of financial risks and investment financing by allied banks acting as long-term close stakeholders; and 4) a governance of input supply flows from affiliated suppliers acting as another long-term close stakeholder (Glachant, 2014). In that sense, depending on relevant resource the contract should allow the firm maximum

access. Furthermore, by use of contracts firms try to establish use of technology and use of know-how (Casson, 2015). Meaning, not only do contracts give access to technology and resource, they are also a platform for knowledge sharing. Imperfections in intermediate product markets can be overcome by knowledge flows through contracts: on raw component flows (cost prices), quality and continuity of supply, tax advantages, Intellectual-Property (IP) protection of knowledge, etc. (Casson, 2015). Licensing would be a classic example of a contractual agreement which gives completeness in both access to resource and knowledge sharing. The second and final component to provide contract completeness is the underlying protection within the contract. In other words, the contract should establish norms that are endogenous to a local partnership (induced norms) which agents are beholden to follow (Kessler & Leider, 2012). Under the logic of agency theory this thesis already argued the case of how emerging markets force SME managers to follow informal or normative governance structures in order to optimise cost. Hence, managers of emerging market SMEs in the absence of efficient legal system take efficient prosocial actions in the form of ″handshake agreements″ to compensate for enforceability and other limitations (Kessler & Leider, 2012). By contrast, in a market-supporting environment prescribed contractual obligations are protected by the regulator. In summary, the following hypothesis is proposed:

Hypothesis 1f: Emerging market SMEs optimise efficiency through contractual completeness by gaining access to relevant resource and knowledge, and prescribing protection in the form of endogenous norms of trade.

3 RESOURCE BASED CONSIDERATION IN COMPETITIVE STRATEGY MANAGEMENT OF EMERGING MARKET SMEs

As part of institutional economics the thesis has focused mostly on explaining competitive advantage through governance decisions and cost strategies. Conversely, firm boundaries may also reflect technology, transport and communication cost, resource endowment, distribution and location, barriers of trade etc. (Casson, 2015). RBV theory holds that managers should select the strategy that best utilises their internal resources relevant for external opportunities in order to achieve sustained competitive advantage (Gibson, Gibson, & Webster, 2021). As much as arguments about the external environment and governance strategies to minimise cost stand, a manager should also proactively look at the firm's internal resource portfolio. Generally described, *firm strategic resources* are any semipermanent firm assets, capabilities, organisational processes, attributes, information, or knowledge that enables a corporation to implement strategies that improve its efficiency and competitive position (Gibson, Gibson, & Webster, 2021). Resources are thus both tangible and intangible internal capabilities that allow the firm to create and sustain competitive

advantage (Chen, Michel, & Lin, 2021). Managerial judgement on demand-side value creation opportunities is the factor that influences resources in strategy planning (Schmidt & Keil, 2013). It is therefore important for managers to properly define the resources which allow value creation and competitive advantage. Resource value relates to the difference between product market value creation accounting for differences in customer preferences and cost of production. In other words, the ex-ante resource value is defined as the ex-post product market impact (Schmidt & Keil, 2013). In that sense, this competitive strategy analysis is very flexible in its empirical resolution as it tries to build an empirical model able to measure competitive dynamics for both the external environment and internal firm characteristics. Hence, by prescribing all competitive decisions (external governance decisions and internal resource deployment) as resources affecting a competitive outcome, a manager can measure firm performance in product markets. The empirical model which is derived from Cournot market competition logic is presented in this chapter and elaborated in detail in Appendix 2. In the context of external environment, under the temporal regimes of competitive strategy this thesis has previously denoted property rights, agency theory and contracting as the ex-ante decisions of governance structures, whereas transaction cost is measured as the ex-post cost impact of governing decisions. Moreover, relating to resource consideration as per the scholar insights of Jay B. Barney a firm acquires a valuable resource when it is: lucky; when proprietary information of a firm allow superior expectations of resource value; when the resource exhibits complementarities with the existing resource base of the firm. However, in the empirical setting it is not the case of following scholar approaches when discussing multi-period stages in competition, but rather recognising the longitudinal approach in analysis or the stage before a resource has been acquired and the impact the resource has had after it has been acquired. Since firms make decisions before the impact period in product markets, in the empirical setting I focus on the resource value as ex-ante value to the firm. The analysis focuses on horizontal dynamics and competition, where firm improvements in vertical structures is analysed as the shift in immediate competition to align with horizontal competition.

Conceptually when analysing firm internal capabilities based on RBV theory principles, this thesis does try to align with some of the fundamental scholarly approaches whilst also progressively try to propose its own preconditions for the empirical model. Thus, I propose the following conditions for acquiring a valuable resource: (1) the firm's ability to create value through its ex-ante market position; (2) its ex-ante resource base, which allows for acquiring a complementary resource; (3) its position in inter-organisational networks, which gives it access to privileged information; and (4) ability of firm managers which allows superior judgment concerning the value-creating potential of the resource (Schmidt & Keil, 2013). Firstly, regarding value creation and market position, firms need to deploy and manage resources in product markets which then reflect the extent of customers' value for that firm's offering. I use the product market value creation argument to reflect on the firm's market position, since the higher the customer willingness to pay for a firm offering the stronger the market position of that firm. Thus, depending on the value impact in product

markets, different firms value resources differently. Namely, suppliers of rare resources can bargain away the value of what resources create in product markets, so a company has a limit to its willingness to either invest in factor markets or develop the resources internally (Schmidt & Keil, 2013). Therefore, resource value is firm idiosyncratic and firms should be careful not to overpay for a resource. In summary, I argue that firms in stronger position will always pay more to attain the resource to keep their leadership status and hence enjoy value creation advantages. Secondly, both industry and firm resources are the basis for value co-creation based on complementary dynamics. Complementarity capabilities of firms come in the form of unique organisational skill, physical and non-physical assets, technology etc. Namely, recent frameworks talk of whether a company is organised to make use of valuable, rare, inimitable and nonsubstitutable resources because the resource in itself doesn't give competitive advantage, it is the organisational capability of the company which creates competitive advantage (Gibson, Gibson, & Webster, 2021). Firm resources as well as its partners' resources are part of the broader ″ecosystem″, which allow for complementary horizontal and vertical cooperation, and value creation (Chen, Michel, & Lin, 2021). Hence in the context of SMEs I argue that complementary resources can be pooled between companies and do not necessarily need to be internalised. Thirdly, depending on information endowments and production technology used, firms are differently positioned in the value chain and have a different bargaining power (Trienekens, 2012). In relation to knowledge about future outcomes, when future outcome expectations are widely known and all firms have equal access to information, there is no uncertainty and ex-ante resource value is exactly the same as the ex-post product market performance. However, a firm that is a part of inter-organisational network and can access privileged information about value creation in product markets is a firm that benefits from information asymmetry denoting why differences in information endowment as well as conditions of uncertainty lead to firm-idiosyncratic and even subjective resource value (Schmidt & Keil, 2013). I hence argue that information asymmetry works in favour of centrally positioned firms giving them higher bargaining power when compared to SMEs. Lastly, even as low value contributors the final decision is down to the capability of SME managers to utilise the resource in product markets. Namely, management practices coordinate and redeploy the internal and external resources to gain the competitive advantage over the competitors (Maiti, Krakovich, Shams, & Vukovic, 2020). In summary, resource value is a function of both internal (the firm's resource base and its managers' characteristics) and external factors (the firm's market position as a proxy of customers valuing the firm's output, as well as access to information) (Schmidt & Keil, 2013). Based on these four condition this thesis splits the concept by analysing first a state of accurate information where expected outcome is equal to realised outcome. In this instance all future performance outcomes are known by all firms and condition of no uncertainty rule the market. This is relevant since even in this state firms still value resource differently based on two aforementioned factors which are the firm's strength exhibited in its market position and firm's resource endowments which allow for complementarities. In the second stage of building the model the thesis will relax

the assumptions of perfect information and focus on information asymmetries and the importance of managers in decision making.

3.1 Value Creation

In order for resources to allow value creation and competitive advantage they need to be valuable, rare, inimitable and nonsubstitutable (Gibson, Gibson, & Webster, 2021). Value creation v_t^i comes from increasing the spread between customer willingness to pay (differentiation strategy) w_t^i for market products of firm *i*, and the cost of production (cost strategy) c_t^i, at a specific time *t* (Schmidt & Keil, 2013). Thus, focal firm's value creation as well as market position can be presented as:

$$\begin{aligned} & w_t^i - c_t^i; \\ & v_t^i = w_t^i - c_t^i \end{aligned} \tag{2}$$

Furthermore, focal firm's bargaining strength is the appropriated weight (price) $p_t^i \in [w_t^i, c_t^i]$ in the market versus its competitors. In other words the firm uses its strength for value capture, denoted as:

$$p_t^i - c_t^i \tag{3}$$

Where a firm *i* has a stronger market position over a competitor *j* and there is disparity in the spread between the two firms, the following formula applies:

$$w_t^i - c_t^i > w_t^j - c_t^j \tag{4}$$

Conversely, firms compete with undifferentiated products in a market of fierce price competition in the case of equal spread $w_t^i - c_t^i = w_t^j - c_t^j$. An assumption is considered that all firms operating on the market have a positive spread $w_t^i - c_t^i > 0 \; \forall \; i$. I then introduce the concepts of competitive advantage and competitive performance. Namely, competitive advantage refers to superior value creation, whereas competitive performance refers to superior value capture (Schmidt & Keil, 2013). A firm uses its bargaining power to turn competitive advantage into performance. Furthermore, this analysis turns to examine the direction of the spread. More specifically, a firm can deploy cost reduction advantages by decreasing cost $\Delta_{t+1,c}^i$ in proportion to the amount of customer's willingness to pay for

its product. In addition, a firm can also improve the spread by increasing the customer's willingness to pay $\Delta^{i}_{t+1,w}$, whilst keeping cost structures unchanged. The improvements go both ways. The improvement is a temporal process, the first period or decision time for resource deployment and the latter period which is a measurement of the market position after the resource has been deployed (Schmidt & Keil, 2013). Thus, the change in focal firm *i* competitive advantage in the latter period in relation to competition can be measured as so:

$$\Delta^{i}_{t+1} = v^{i}_{t+1} - v^{i}_{t}; \tag{5}$$

The competitive improvement of focal firm in the latter period is measured under the assumption that positions of all other competitors remain the same. There are two types of source that bring competitive improvement, singular improvement and complementary improvement. Firstly, a resource may improve a firm market position without interacting with other resources that a firm has (Schmidt & Keil, 2013). Singular competitive improvement of the firm is a subscript of customer willingness to pay (differentiation) *w* and cost *c*. Thus, a singular improvement can come from a governance decision or new technology that reduces production costs $\Delta^{i,sin}_{t+1,c}$, or an improvement in the technology of performance which increases customer's willingness to pay $\Delta^{i,sin}_{t+1,w}$. Singular competitive improvement comes from a resource which has to be scarce (rare) and increase value creation of the firm compared to rival firms, hence improves firm's market position. If a resource is not scarce anyone can acquire it and there will be no competitive improvement by the firm. Secondly, resources create higher value as a consequence of interacting with firm's existing resources in way that the resource combination is complementary (Schmidt & Keil, 2013). Here, the direction of the spread can also go both ways in the direction of cost improvement $\Delta^{i,com}_{t+1,c}$, and in the direction of increased customer's willingness to pay $\Delta^{i,com}_{t+1,w}$. The improvement in this instance comes from scarcity of resource combinations rather than singular resource scarcity. Principle of complementarity is important in analysing multistage production, it is also the basis for vertical integration (Casson, 2015). With a longitudinal approach a firm can measure whether it continuously keeps a superior market position over competitors. In other words, when other competitors cannot imitate and/or provide substitute for firm's capacity to impact product markets, it is said the firm has sustainable competitive advantage. To round it off with reference to both cost and differentiation improvement, as mentioned previously the model follows the doctrine of holistic competitive approach based on both the external market environment and the internal firm capabilities (Chen, Michel, & Lin, 2021). Thus, a firm with market position $w^{i}_{t} - c^{i}_{t}$ which sells a quantity q^{i}_{t} at a time *t* for a price p^{i}_{t} has a profit performance on the market exhibited as so:

$$\Pi_t^i = q_t^i \bullet (p_t^i - c_t^i);$$

$$\Pi_{t+1,\Delta}^i = q_{t+1,\Delta}^i \bullet (p_{t+1,\Delta}^i - c_{t+1,\Delta}^i); \quad (6)$$

$$RV^i = \Pi_{t+1,\Delta}^i - \Pi_t^i \Rightarrow RV^{i,sin,com} = \Pi_{t+1,\Delta c,\Delta w}^i - \Pi_t^i$$

Where the profit market performance in the latter period (after resource deployment) is represented as the competitive improvement. Since the product market profit is measured through a price mechanism it therefore relates to value capture. Moreover, the competitive improvement goes in both directions, cost optimising strategies and improving customer's willingness to pay (differentiation) with regards to both singular and complementary resource deployments. Under the regime of two periods, resource value *(RV)* is the incremental improvement of profit performance or the difference between periods. In case of cost improvements an assumption is made that the change in customer's willingness to pay is zero $\Delta_{t+1,w}^{i,sin,com} = 0$. Conversely in the case of differentiation improvement an assumption is made that the change in cost reduction is zero $\Delta_{t+1,c}^{i,sin,com} = 0$.

RBV is characterised with neoclassical economics equilibrium model (Chen, Michel, & Lin, 2021)**.** The model in this thesis derives resource value based on Cournot competition model, where *n* differentiated firms compete with each other in a product market. As previously mentioned the presumption is that all firms have positive value creation $w_t^i - c_t^i > 0 \; \forall \; i$. In addition, all resources are scale free with no diminishing returns and customers buy either one or zero products from one of the firms. Knowing that $v_t^i = w_t^i - c_t^i$ as the ex-ante market position, where $v_{t+1}^i = w_t^i + \Delta_{t+1}^i - c_t^i$ is the ex-post market position of the firm, with all other firms being positioned the same $v_{t+1}^j = w_{t+1}^j - c_{t+1}^j$, under conditions of either singular or complementary resource improvements the ex-ante resource value can be rewritten as so:

$$RV^{i,sin} = \frac{1}{(n+1)} \Delta_{t+1}^{i,sin} \bullet \left[n \bullet v_t^i + n \bullet v_{t+1}^i - 2 \sum_{i=1, j \neq i}^{n} v_{t+1}^j \right] \bullet s \quad (7)$$

This shows that resource value is an increasing function in both ex-ante period and ex-post period.

In this stage of building the model, the focus is on accurate information and no market uncertainty, however even under such regimes firms differ in how they value resource based on their market position $w_t^i - c_t^i$ and their resource base which allows for complementarities. First, a firm in stronger market position can reap higher benefits from a scarce (singular) resource. Therefore a stronger positioned firm's incentive to invest or willingness to pay for a resource is always higher than weaker positioned firms even if incremental improvements are the same across all firms. Namely, market strength may come from ability to apply resource to a wider base, expect a higher output, superior internal resource portfolio, market knowledge, network position, and therefore a firm has different market opportunities emphasising that comparative market analysis between firms can be made by focusing on single sectors and industry specific variables (Ojala & Tyrväinen, 2007). Moreover, the classic Ricardian theory of comparative advantage emphasises factors of production, input resources, capital, land, labour, as heterogeneous and imperfectly mobile resources across countries and firms (Kim & Hoskisson, 2015). In addition, from a marketing sense firms create value by increasing customer satisfaction, loyalty and profitability (Kumar & Reinartz, 2016). Thus, resource value is the driver in product market value creation as a function of customer's willingness to pay for firms output. Product market performance is a function of price and firms adjust prices to balance between increasing margin and increasing output. Therefore, a firm that creates more value relative to competitors can potentially capture more of that value denoting profit performance as $\Pi_t^i = q_t^i \bullet (p_t^i - c_t^i)$. Firms that increase customer's willingness to pay can charge higher prices and enjoy differentiation strategies (Schmidt & Keil, 2013). In summary, based on value creation and value capture dynamics a firm with stronger market position will have an advantage over weaker positioned firm, even though they apply the same market strategy. Second, the focus is on the resource base of the firm which allows for complementary improvement making resource value firm idiosyncratic. The model underlines that resource pluralism and institutional uncertainty, can function as opportunity for value creation and value capture (Ocasio & Radoynovska, 2016). As previously mentioned within transaction cost theory, it is difficult to promote a case where SMEs fully internalise vertical structures to capture complementarities. In contrast, SMEs should focus on forging collaborative ties which exhibit complementary competencies, common production solutions and inputs, knowledge sharing, technology, pool common resource (e.g. logistic infrastructure), which otherwise are prohibitively costly for individual firms (Mesquita & Lazzarini, 2008). For SMEs, complementary resource can be attained in inter-organisational networks which bring benefits otherwise unreachable to individual firms (Agostini, 2016). Namely, not all resource complementarities need to be owned by the company (Schmidt & Keil, 2013). Thus, an advantage from complementarity can also arise as a result of knowledge sharing as one of the common variables in this concept. With regards to acquiring a scarce resource and improving market position as well as improving competitive advantage due to complementary competencies, formula 11 in the appendix (see Appendix 2) fits for both concepts. I therefore propose the following hypotheses:

Hypothesis 2a: A firm with ex-ante better position on the market has a greater value for a resource and/or the higher the competitive improvement attainable due to a resource the greater the value of that resource to a firm.

Hypothesis 2b: Regardless of the direction of the competitive spread in the forms of cost improvement or differentiation improvement, ceteris paribus, the resource value is the same.

Hypothesis 2c: The more applicable the resource base of a firm to a complementary resource, the greater the value of that resource to the firm.

Hypotheses 2a-c are similar in a sense that they all pull in the same direction since conditions such as market position as well as resource base which allows for complementary improvement are in favour of higher resource value to a firm. However, contrary to those propositions a potential disruptive technology or disruptive resource may exhibits negative complementary effects to firms in stronger market position and its resource endowments, which outweighs both the singular and complementary resource competitive improvements. In such case, market leaders and firms with better resource endowments fail to acquire the resource, which in turn is acquired by a weaker firms. Namely, disruptive effects come from disruptive strategic factors such as innovation and technology which cause decay in previously established barriers to imitation thereby increasing the danger of new entrant and making it difficult for established firms to sustain competitive advantage (Kim & Hoskisson, 2015). In the case of SMEs however, the dynamics regarding disruptive factors are different because financial commitments to assets among SMEs are relatively low. Namely, SMEs are part of an interdependent system assembly or commitments of mutual assistance with vertical partners (Mesquita & Lazzarini, 2008). In such industry structures SMEs more easily avert major losses and successfully mitigate supply interruptions. This is relevant since cost and resource structures are exhibited in the path-dependency of firms following the position of the firm over time (Maiti, Krakovich, Shams, & Vukovic, 2020). In that regard, I put forward the following hypothesis:

Hypothesis 2d: SMEs have low capital commitment within vertical chains and are therefore more resilient to adverse events caused by disruptive technology.

3.2 Managerial Role in Decision Making

The previous chapter was focused on building the model upon regimes of perfect information on future impacts in product markets or a state of no uncertainty across the market. Even in such conditions firms value resources differently based on their market position and their resource base which allows for complementarities. In this chapter however, the focus is on examining a more realistic scenario where information asymmetries exist and managers have different assumptions of how resources impact future product markets.

Information asymmetries on factor market resources have an impact of how firms value the same resource differently. Different firms have different types of access to information. Based on Jay B. Barney's strategic factor theory, transaction costs and resource valuation affect the efficiency of product markets (Kim & Hoskisson, 2015). Hence, information access is an investment problem since all firms try to monopolise internal information and assets (Schmidt & Keil, 2013). In the context of SMEs however, the thesis has emphasised on multiple occasions that SMEs are low value contributors within vertical chains and they do not possess assets of high specificity and high value. Therefore, internalising information regarding factor markets may only bring short-term success for SMEs since their dependency on larger vertical partners is evident. Information asymmetry has a positive relation with firms' cost of capital in excess of standard risk factors when markets are imperfect and no relation when markets approximate perfect competition (Armstrong, Core, Taylor, & Verrecchia, 2011). In other words, firms in central positions act as information keepers because they have access to different stakeholders and can therefore set prices due to imperfect mobility of resources (Schmidt & Keil, 2013). Moreover, big enterprises such as extraction MNEs have power asymmetries and can downgrade the welfare of economies (Bobby Banerjee, 2018). Conversely, safeguarding the efficiency of factors markets for SMEs means implicit commitments to share information and mutually assist one another as part of a collective strategy (Mesquita & Lazzarini, 2008). Thus, managers of SMEs benefit from internalising information only if such resources or assets are part of imperfectly mobile markets. In perfect competition however, SMEs benefit from inter-organisational cluster setting as it improves information, knowledge and innovation (Franco , Esteves, & Rodrigues, 2020). In summary, SMEs have no benefit of internalising information on factor markets since no trader in perfect competition can affect the price (Armstrong, Core, Taylor, & Verrecchia, 2011). As an example, a firm that is peripherally positioned within the vertical chain such as a SME communicates only to a few stakeholders. In contrast, broker firms or centrally positioned firms have access to diverse stakeholders such as suppliers, customers, alliances and thus have better access to information (Schmidt & Keil, 2013). This is why SMEs interact with each other to form information channels as part of social-networking (organisations, alliances, suppliers, customers), which allow access to privileged information (Schmidt & Keil, 2013). In accordance with these dynamics, managers value resources differently based on multifaceted investment decisions (costs, potential cash

flows, capital budgeting) under information and time constraints (Campbell, 2016). I hence propose the following hypothesis:

Hypothesis 2e: As participants in perfect competition dynamics SMEs strive to keep factor markets efficient by forming social-networks for information sharing to counteract centrally positioned firms which operate in imperfect market competition.

Information asymmetries were also analysed as part of property rights as one of the proxies for institutional efficiency on the market. In that regard, the context was more on institutions safeguarding the market of colluding practices by enforcing antitrust laws. However, as part of resource valuation, information asymmetry is the ability of managers to efficiently trade in factor markets within the dynamics of market competition in which the firms operate.

The final point of why resource value is firm idiosyncratic is to answer why managers of SMEs interpret the same information differently when considering the valuation of a resource. The main factor which drives managerial decisions is the external environment and the ability of managers to recognise demand-side value creation opportunity under conditions of information asymmetry and uncertainty. A manager is also a reflection of the organisation and thus in RBV theory one of the main points of relevance is the organisational resource (Greve, 2021). Under the regimes in the previous chapter all managers valued resources the same because they had a clear expectation of the future outcomes in product markets and thus all firms had the same risk preferences. This was done to emphasise the importance of firm's market position and its resource base which allowed for complementarity improvement. Unfortunately, having complete certainty on future outcomes is not the case in reality especially not when discussing emerging economies and SMEs. The environment is thus relevant since the entrepreneurial climate in emerging markets is characterised by diversity and instability (Meyer & Peng, 2016). By looking at the stakeholders a firm can accurately define its operating environment accounting for customers, trading partners, government institutions as part of their stakeholder's network and community (Gibson, Gibson, & Webster, 2021). A manager of an emerging marker SME thus can easily integrate institutional economics with resource consideration to define the relevant variables when analysing demand-side value creation. Namely, accurate means and distribution can be ascertained to future states and turn an environment of uncertainty into a form of mathematical risk (Schmidt & Keil, 2013). Based on defining the environment as a stakeholder network, a manager which more accurately converts uncertainty into risk will accurately determine the resource valued for the firm. However, specifically for SMEs the issue of capital cost to acquire information is critical. Even though SMEs would benefit from reducing information asymmetry to provide accurate demand-forecast, such cost of asymmetry reduction may be higher than benefits of the capital gains (Armstrong, Core, Taylor, & Verrecchia, 2011). For instance due to the illegitimacy of formal institutions,

emerging market SMEs have limited strategic choice and may even need to pay bribes for access to product markets, factor markets, technology etc. (Kim & Hoskisson, 2015). Therefore, the cost versus the capital gain disparity has to be considered when managers of emerging market SMEs aim to more accurately value a resource. Finally, this type of ability to accurately ex-ante value a resource may come from the manager of the SME and/or the organisational routines of the firm to filter such decisions (Schmidt & Keil, 2013). In that context, the following hypothesis applies:

Hypothesis 2f: The more accurately a manager of emerging market SME ascertains environmental risk without overpaying for information access, the closer the firm's ex-ante resource value to the ex-post product market impact.

4 RESEARCH METHODOLOGY

In this chapter, the attention is to emphasise the research methodology in competitive strategy management with regards to challenges faced by emerging market SMEs. It is important to mention that relevant literature has not conformed to unified variables for analysis within competitive strategy management (Kozenkow, 2013). This thesis thus aims to identify multiple problem statements and avenues relevant within competitive strategy research. Firstly, SMEs in low and middle-income countries employ more than fifty percent of all employees (Beck, 2013). This in turn testifies to the important role SMEs play in market economies. However, academic research on MNEs and developed markets is significantly more substantial compared to that of SMEs and emerging markets. Hence, the motivation behind the thesis is to contribute to this less represented subfield in competitive strategy literature in the context of competitive strategy of emerging market SMEs. Next, with consideration to both institutional environment and resource consideration, the demands for analysing competitive strategy for MNEs and developed markets are significantly different to the demands for examining SMEs and emerging markets. Namely, MNEs can choose investment location and prefer to invest in countries with lesser institutional uncertainty (Grosse & Trevino, 2005). In addition, MNEs adjust competitive strategy to factors such as internalising key resources and subsidiary performance (Peng, Wang, & Jiang, 2008). Moreover, MNEs set up intra-organisational networks to facilitate knowledge flows (Boyle, Nicholas, & Mitchell, 2016). By contrast, SMEs face problems such as fierce competition at early stages of life-cycle and hence have suffered from low survival rate (Maiti, Krakovich, Shams, & Vukovic, 2020). In addition, SMEs in emerging markets face problems because regulatory institutions have not converged toward those of contemporary Western economies and institutional and economic diversity in these economies remains high (Meyer & Peng, 2016). Thus, in the absence of unified framework, exploratory research was used since it best fits to define a problem more precisely, identify

relevant courses of action, and gain additional insights before an approach can be developed (Malhotra, 2010). The research is primarily of qualitative nature even though it does provide some basic descriptive statistics such as averages and standard deviation. This type of exploratory research using qualitative methods is well suited when small samples provide the insights of the problem statement as is the case in this thesis. The respondents to the primary research questions were SME managers from the Macedonian and Serbian markets and an identity card of the respondent firms is presented Appendix 3. The primary research began by propositions being presented to the respondents as elaborated in chapters 2 and 3 and derived from established academic paradigms and axioms in competitive strategy literature. Thus, the focus was on identification of general problems and components relevant to build a conceptual scheme based on theoretical statements (Malhotra, 2010). The problem statements relate firstly to the external environment of firms exhibited in emerging markets, and secondly in the context of limited value creation capacity of SMEs. Therefore, the thesis builds is research reasoning upon the complementary capacity of property rights economics (NIE theory) and RBV theory (Foss & Foss, 2005).

In the context of institutional economics, based on academic literature the thesis separates three points of interest. The first relates to the analysis of the market. Market size has been commonly denominated in standard variables such as GDP, GDP per capita and vertical market structure (Ojala & Tyrväinen, 2007). Further, conducting business in a foreign countries such as transition economies may bring increased levels of uncertainty resulting from high inflation, opaque regulatory environments, underdeveloped judicial and financial systems and corruption (Grosse & Trevino, 2005). Therefore, the analysis proposes that the impact of market size and market stability within the Macedonian and Serbian economy are to be observed as a variable of SME competitive firm strategy. Secondly, different levels of rivalry affect both the industry structure and the firm's ability to develop (Chatain & Zemsky, 2011). I therefore focus on industry analysis in order to understand the firm's competitive position within supply chains. Other theoretical streams also examine resource portfolios of firms such as the RBV theory, interested in firm resource heterogeneity as specific source of competitive advantage (Kim & Hoskisson, 2015). However, RBV theory and firm internal resource consideration do no give good analytical results for macroeconomic trends, hence this analysis deemed fit to treat the industry review and RBV theory as two distinguished categories. Thirdly, I focus on how the institutional environment affects firm competitive strategy. Even though competitive strategy sometimes doesn't look beyond the so-called ″task environment″ which mostly relates to economic variables such as market demand and technology, firms are significantly influenced by the environment represented as the formal and informal institutional constraints under which they operate (Peng, Wang, & Jiang, 2008). Thus, I turn to NIE theory and propose three concepts of interest. The first relates to property rights as a proxy of the efficiency of formal institutions and I complement the analysis with regards to firm governance structures in relation to informal institutions. Particularly, when institutions are weak JVs and local partners are a good choice for resource accessibility (Meyer, Estrin, Bhaumik, & Peng, 2009). The second

concept considers transaction cost theory. Namely, scholarly research analyses Oliver Williamson's pioneer work ″Economic Institutions of Capitalism″ (1985) with regards to asset specificity, bounded rationality, transaction costs, adaptation to uncertainty, governance structures, safeguards and credible commitment (Glachant, 2014). Moreover, competitive literature discusses SMEs' entry modes using the same theories as theories employed by the MNEs, including transaction cost theory and Dunning's ownership-location-internalisation (OLI) theory (Ahi, Baronchelli, Kuivalainen, & Piantoni, 2017). Based on emerging market SME transaction cost logic therefore the thesis builds its reasoning how firms set alternative governance structures to minimise costs with consideration to both institutions and resources. This thesis completes the logic of NIE theory by proposing contracting as third concept of interest where the question of contract completeness is raised as a proxy of firm efficiency.

With regards to RBV theory, the thesis proposes four points of interest. The first relates to value creation and market position. Value added is the difference between the cost of inputs such as high or low-skilled labour, technology available, capital power to invest, and the returns in product markets (Timmer, Erumban, Los, Stehrer, & de Vries, 2014). Therefore, the thesis examines potential conditions and strategies which improve the firm's cost structure and/or create higher value in product markets. Secondly, the consideration is how SMEs can acquire complementary resources to gain competitive advantage. Hence, SMEs look to manage inter-organisational capabilities by forming resource alliances and co-dependent partnerships, rather than internalising their resources (Ahmed & Pratap, 2021). Thirdly, SMEs strive to form social-network relationships to counteract bigger firms on competitive prices in input markets. Namely, large-scale producers have a lot of power negotiating the prices for input markets and hence reduce average costs of production (Huynh, 2021). The last concept relates to the ability of managers to capture competitive advantages. Thus, organising competitive structure in relation to resource capabilities and value creation is critical (Pertusa-Ortega, Molina-Azorin, & Claver-Cortes, 2010).

I therefore hope that the proposed points of research help build a case of relevant factor variables which allow a more nuanced firm strategy relating to emerging market SMEs. I follow a case study approach where few selected units are intensively examined (Malhotra, 2010). In this thesis the two emerging market units selected and analysed are the Macedonian market and Serbian market.

4.1 Model Implications

To analyse competitive strategy in an emerging market, firms shouldn't only look at their internal resource base but also reconceptualise their strategy based on the regulatory framework (Chen, Michel, & Lin, 2021). Meaning, for emerging market SMEs resources and capabilities are important but the host economy and its institutions as proxies of the ″rules of the game″ are also relevant (Meyer, Estrin, Bhaumik, & Peng, 2009). Based on

these two approaches in institutional economics and resource consideration with the aim to address the challenges of emerging market SMEs, I presented the two elementary propositions of the thesis to the respondents. Firstly, respondents were asked whether formal institution of host economy significantly impact competitive strategy. Moreover, the respondents were asked whether potential institutional friction can be bridged by establishing informal relationships with network affiliates. Secondly, potential value creation opportunities in product markets were examined and whether they significantly impact the competitive strategy of the sampled emerging market SMEs. All respondents agreed to the relevance of the outlooks as presented in Table 1. These steps represented the preliminary questionnaire.

TABLE 1: PRE-TREATMENT QUESTIONNAIRE RESULTS

Concept Variables / Firms	Dummy Co. (1:1)	Vet Co.	Bar Co.	MiniM Co.	AirCon Co.	Massage Co.	All Firms' Answers per Concept Variable
A. Do formal institutions significantly impact the cost of doing business?	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	(5:5)
A. Do you believe informal institutions mitigate ″agency loss″?	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	(5:5)
B. Degree of differentiation significantly impact competitive improvement?	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	(5:5)
/Matching Concept Variables per Firm	(3:3)	(3:3)	(3:3)	(3:3)	(3:3)	(3:3)	/

SOURCE: OWN WORK

Next, I separated the main questionnaire or treatment examination in two major segments. Firstly, the conceptual variables are derived from *hypotheses 1a-e* as conclusions which fall back on the theoretical background of NIE theory. Secondly, the remaining conceptual variables are incurred from hypotheses *2a-f* built upon the theoretical background of RBV theory. In terms of institutional economics I focus on three key elements: market of operations; firm's position in the industry; and the institutional environment where the firm operates. The three elements of competitive strategy analysis in a broader sense relate to Ronald Coase's work ″The Firm the Market and the Law″ *(1988)*. In the questionnaire, these

three elements were part of units 1, 2 and 3 or as represented in Table 2, Table 3 and Table 4, respectively. Furthermore, the results related to resource theory implications on competitive strategy were examined under unit 4 of the treatment questionnaire and are presented in Table 5. There is an additional column with dummy variables which follows an ideal scenario of answers as if they were completely matching the theoretical background used to juxtapose the answers of the respondents.

The first unit relates to the markets of operations. Higher level of GDP and especially GDP per capita in the target country increases the attractiveness of the country (Ojala & Tyrväinen, 2007). Thus, the questionnaire asks the respondents how satisfied they are with the market size. In terms of size and market proximity, the vertical trade relationships which follow the supply chain are also part of the market (Trienekens, 2012). Hence, the questionnaire asks whether network affiliates sufficiently service market needs. However, the supply chain dynamics is more closely observed in the second unit as part of the industry analysis and firm components. Once data is acquired on market size potential, I asked whether market instability is a major problem. Namely, higher value exchange rates and stable inflation indexes make markets more attractive since earnings are expected to depreciate less frequently and less rapidly (Grosse & Trevino, 2005). Finally, the thesis argued that under ROR emerging market SMEs are less likely to invest in foreign markets even if those markets are more appealing. Respondents agreed that market consideration is less relevant when analysing strategic decisions for emerging market SMEs. This is the case since effects such as limited knowledge, firm financial capabilities, country risk, geographic and cultural distance, play an important role when investing in a foreign market (Ojala & Tyrväinen, 2007). The concept variables and the respondents' market ratings are presented in Table 2.

The second unit of the questionnaire examined the industry dynamics, stating that a firm which has competitive advantage can earn higher returns than other industry members (Kim & Hoskisson, 2015). Michael Porter's industry competition view is used to understand the firm's industry position and examine the horizontal and vertical dynamics of competition. Porter's analysis consists of five components: threats of new entrants; threat of substitutes; industry rivalry; bargaining power of suppliers and customers (Figure 1). I asked the respondents to give me feedback on these concepts and how they categorise their firm position within the industry denoted as immediate competitors as well as implicit competitors (supply chain), and what implications does that have on competitive strategy. All industry ratings of the respondents are presented in Table 3. In addition, the thesis used this concept to filter population samples for analysis (see chapter 4.2 on sampling).

The third unit of the questionnaire was dedicated to formal and informal institutions and their impact on the cost strategies of firms, in particular firms which operate in emerging markets. As per NIE theory the concepts of interest are property rights as the ex-ante institutional arrangements, transaction costs as the ex-post governance cost of company, and contracting theory as ex-ante incentive alignments between firms (Kozenkow, 2013). In

addition, the concept of agency theory is introduced as a remedy to institutional inefficiency since weak institutions make market access to resources to be prohibitively costly (Meyer, Estrin, Bhaumik, & Peng, 2009). All results of the respondents' answers are presented in Table 4.

TABLE 2: MARKET ANALYSIS RESULTS

Concept Variables (Market) / Firms	Dummy Co. (1:1)	Vet Co.	Bar Co.	MiniM Co.	AirCon Co.	Massage Co.	All Firms' Answers per Concept Variable
1.1. Is market size attractive (GDP, GDP per capita, PPP)?	**Yes**/No	**Yes**/No	Yes/**No**	Yes/**No**	Yes/**No**	**Yes**/No	(2:5)
1.2. Do network operators facilitate your operations well?	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	(5:5)
1.3. Is market instability prohibitively costly to operate?	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	(5:5)
1.4. Is the benefit/risk ration satisfactory?	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	(5:5)
1.5. Can you invest in a bigger and more stable market?	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	(5:5)
/Matching Concept Variables per Firm	(5:5)	(5:5)	(4:5)	(4:5)	(4:5)	(5:5)	/

SOURCE: OWN WORK

TABLE 3: INDUSTRY ANALYSIS RESULTS

Concept Variables (Institutions) / Firms	Dummy Co. (1:1)	Vet Co.	Bar Co.	MiniM Co.	AirCon Co.	Massage Co.	All Firms' Answers per Concept Variable
2.1. Are capital requirements for industry entry high/low?	High/**Low**	High/**Low**	High/**Low**	High/**Low**	**High**/Low	High/**Low**	(4:5)
2.2. Are there competitors with significantly higher scale of operations? (Immediate competition)	Yes/**No**	Yes/**No**	**Yes**/No	**Yes**/No	**Yes**/No	Yes/**No**	(2:5)
2.3. Is the product market homogeneous ?	**Yes**/No	**Yes**/No	**Yes**/No	Yes/**No**	**Yes**/No	**Yes**/No	(4:5)
2.4. What is the price sensitivity of consumers?	**High**/Low	**High**/Low	**High**/Low	**High**/Low	High/**Low**	**High**/Low	(4:5)
2.5. How do you rank as a value creator next to vertical chain partners?	High/**Low**	High/**Low**	High/**Low**	High/**Low**	High/**Low**	High/**Low**	(5:5)
2.6. How would you rate the market concentration of your industry?	High/**Low**	High/**Low**	High/**Low**	**High**/Low	High/**Low**	High/**Low**	(4:5)
/Matching Concept Variables per Firm	(6:6)	(6:6)	(5:6)	(4:6)	(3:6)	(6:6)	/

SOURCE: OWN WORK

TABLE 4: INSTITUTIONAL ANALYSIS RESULTS

Concept Variables / Firms	Dummy Co. (1:1)	Vet Co.	Bar Co.	MiniM Co.	AirCon Co.	Massage Co.	All Firms' Answers per Concept Variable
3.1. Do property rights significantly influence the cost of doing business?	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	(5:5)
3.2. Is enforcing punishment, upholding rule of law, satisfactory?	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	(5:5)
3.3. Is market information on price formation mechanisms predictable?	Yes/**No**	**Yes**/No	Yes/**No**	**Yes**/No	Yes/**No**	**Yes**/No	(2:5)
3.4. Does improvement in property rights allow firm specific advantage?	Specific/**General**	Specific/**General**	Specific/**General**	Specific/**General**	Specific/**General**	Specific/**General**	(5:5)
3.5. Do informal relationships significantly improve cost efficiency?	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	Yes/**No**	(4:5)
3.6. Can you negotiate input prices? (or accept market quotas)	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	(5:5)
3.7. Are informal contractual agreements necessary for efficiency?	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	(5:5)
/Matching Concept Variables per Firm	(7:7)	(6:7)	(7:7)	(6:7)	(7:7)	(5:7)	/

SOURCE: OWN WORK

The last unit of examination presented to the respondents related to RBV theory. It examined the basic dynamics of competitive improvement and creating value and whether the spread of improvement can go in both the direction of differentiation and cost efficiency. Once the elementary dynamics where established the questionnaire presented the respondents with relevant questions to the context of emerging market SMEs. Namely: market position; scarce and complementary resources; factor market efficiency; and managerial impact on

decision making were the four points of interest. In a broader sense, the conceptual setup relates to the resource based paradigm that competitive advantage comes from resources which are valuable, rare, nonsubstitutable and inimitable (Gibson, Gibson, & Webster, 2021). In addition, the concept of the resource based paradigm was also used to build the framework for the empirical model presented in Appendix 2. The questions and respondents' results related to unit 4 in the questionnaire and are presented in Table 5.

TABLE 5: RESOURCE CONSIDERATION RESULTS

RBV Theory Concept Variables / Firms	Dummy Co. (1:1)	Vet Co.	Bar Co.	MiniM Co.	AirCon Co.	Massage Co.	All Firms' Answers per Concept Variable
4.1. Can you recognise heterogeneity among competition? (value created)	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	(5:5)
4.2. Can you impose prices in product markets?	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	(5:5)
4.3. Are there any scarce resources available?	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	**Yes**/No	Yes/**No**	(4:5)
4.4. Are there strategic opportunities for complementa ry resource?	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	(5:5)
4.5. Any firms in a privileged market position? (information)	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	**Yes**/No	(5:5)
4.6. Is network communicati on relevant to input market efficiency?	**Yes**/No	Yes/**No**	**Yes**/No	Yes/**No**	**Yes**/No	Yes/**No**	(2:5)
4.7. Are there any disruptive technologies which endanger the market?	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	Yes/**No**	(5:5)
/Matching Concept Variables per Firm	(7:7)	(6:7)	(7:7)	(6:7)	(6:7)	(6:7)	/

SOURCE: OWN WORK

Finally, Table 6 exhibits some elementary descriptive statistics including means expressing how accurately the answers of the respondents match the ″ideal scenario″ of the conceptual hypotheses, as well as the standard deviation of the answers. A simplified technique of the Likert-scaling was used, where respondents were asked to allocate a value to the hypotheses (Malhotra, 2010). The means and standard deviation are supposed to measure whether the proposed hypotheses have relevance to the SMEs and how far are their real life scenarios from the proposed mean. Since the response was binary and respondents could either agree or disagree, the level of sensitivity was very low which hinders the accuracy of the results. It is important to mention that the answers of the respondents even though inclined towards either agreeing or disagreeing with the proposed hypotheses (as documented in the questionnaire), provided a more sensitive inclination towards the units of response. In other words, terminology such as relatively agree or somewhat disagree was used by the respondents, but as mentioned the measurement criteria did not capture the sensitive nature of the responses. Even though the result numbers are quite close to the supposed ″ideal scenario″ where all firms' real life situation completely matches the hypotheses presented, the sample size is so small that it is difficult to infer conclusive evidence. Therefore, the units of research are propositions based on logic derived from competitive strategic literature, and provide value of insight rather than conclusive data. Thus, based on the theoretical background in competitive strategy literature and the cases of interest represented as SMEs in the Macedonian and Serbian markets, a general class of conceptual variables is summarised.

TABLE 6: RESULTS SUMMARY

/Firm	Matching Means to Concept Variables Per Firm (all units - 1; 2; 3; 4)	Composite Mean (All Firms)	Deviation (Per Firm)	Standard Deviation
Vet Co.	0,92	0,856	0,064	0,064992307
Bar Co.	0,92		0,064	
MiniM Co.	0,8		-0,056	
Air Co.	0,76		-0,096	
Massage Co.	0,88		0,024	

SOURCE: OWN WORK

In summary, this conceptual set of variables can be reduced to a more manageable data size for further factor analysis. In the proceedings, the thesis tries to do so by simplifying *conceptual hypotheses 1a-e* and *2a-f* to build a model for factor analysis. All units of measurement follow hypothesis *2b* in that irrespective of the direction of the spread (both cost and differentiation improvement), the value of the resource to the firm remains the same *ceteris paribus.*

The first variable is the market of operations and its effects on competitive strategy for emerging market SMEs. As an elementary standpoint, entrepreneurs could thus define the horizontal dynamics (price competition) as the extent of the customer base served by the firm and its rivals. In addition, vertical dynamics (network operators) are relevant for market proximity but this thesis analyses them as part of firms' industry dynamics. Horizontal markets are therefore the price proximity where industry firms compete. In the case of emerging market SMEs the argument however is that market location does not impact competitive strategy since entrepreneurs face capital and information scarcities and are confined to only operate in domestic markets. Potential limitations here might be whether or not location is also irrelevant for developed market SMEs. It is possible that developed market SMEs face fewer problems such as have lesser problems financing start-ups due to access to transparent and efficient funds and banking, have more transparent institutions facilitating their business needs, have access to larger market areas due to ″market coupling″ practices such as trade agreements or even market unions such as the European Union (EU). In relation to conceptual hypothesis *1a* (chapter 2), the following unit of measurement for factor analysis can be forwarded:

H)1 H_0: $\beta_1 = 0 \rightarrow$ Market location has significant impact on competitive strategy of emerging market SMEs; H_1: $\beta_1 \neq 0 \rightarrow$ Due to capital and information scarcity market location has no significant impact on competitive strategy of emerging market SMEs.

The second variable of interest is the firm, or more specifically the position of the firm in the industry and how that reflects the firm's competitive strategy. Conclusions upon the established theory in Michael Porter's industry analysis in terms of competitive strategy can be incurred. Namely, it is relevant to understand the position of the firm within the supply chain and to understand the firm's competitive strength to both vertical partners and horizontal competitors. The vertical chain dynamics of emerging market SMEs enforce upon them competition with non-negotiable market prices for both inputs and product market prices. Thus, based on industry analysis concepts: bargaining power of suppliers and customers; threats of entrants and substitutes; industry rivalry; firms are in different positions when constructing competitive strategy. For instance, SMEs need to rely on intermediaries (input producers, transport, services) and accept market prices when trading. By contrast, bigger firms may internalise vertical markets and dictate prices in oligopoly market dynamics. In turn, firms are positioned differently within supply chains and thus have different value creation and value capture dynamics. Therefore, in relation to

conceptual hypotheses *1b, 1e* and *2a* (chapters 2 and 3, respectively), the following unit of measurement can be presented:

H)2 H_0: $\beta_2 = 0 \rightarrow$ Supply chain position of firms has no significant impact on value creation advantages of emerging market SMEs (competitive strategy); H_1: $\beta_2 \neq 0 \rightarrow$ Supply chain position of firms has significant impact on value creation advantages of emerging market SMEs (competitive strategy).

Another variable of interest relevant to competitive strategy of emerging market SMEs is property rights. Property rights is the legal market framework created and delegated by formal institutions. In addition, firms need to have timely access to relevant information to operate on the market. Thus, property rights can be expressed as a proxy variable of the efficiency of formal institutions to provide firms with efficient operation on the market. Since the proposition of the model is to appropriate weights to the variables, it is of the researcher's interest to examine how significantly property rights affect competitive outcomes. Thus, in line with conceptual hypothesis *1c* (chapter 2) a unit of measurement can be introduced as such:

H)3 H_0: $\beta_3 = 0 \rightarrow$ Property rights as proxy of the efficiency of regulatory market framework have no significant impact on competitive strategy of emerging market SMEs; H_1: $\beta_3 \neq 0 \rightarrow$ Property rights as proxy of the efficiency of regulatory market framework have significant impact on competitive strategy of emerging market SMEs.

The fourth variable derived from the theoretical background of NIE theory and Agency Theory is resolving agency conflict and how it reflects competitive strategy of emerging market SMEs. Agency conflict is theoretically analysed as the efficiency of market institutions to deal with principal-agent friction. In accordance with conceptual hypothesis *1d* (chapter 2), the general idea in this research is whether emerging market SMEs can achieve optimal cost efficiency by only relying on legal institutional framework to deal with agency conflicts. Alternatively, SMEs are forced to forge informal trust relationships. Hence, the following unit of measurement can be put forward:

H)4 H_0: $\beta_4 = 0 \rightarrow$ Informal trust relationships in emerging markets have no significant impact on the cost efficiency of SMEs (competitive strategy). H_1: $\beta_4 \neq 0 \rightarrow$ Informal trust relationships in emerging markets have significant impact on the cost efficiency of SMEs (competitive strategy).

Next, the entrepreneur or manager of an emerging market SME has the task to make efficient competitive decisions. With consideration to NIE theory and RBV theory in the context of local institutional idiosyncrasy, entrepreneurs of emerging market SMEs should:

contractually engage in trade agreements that allow them maximum resource access; contractually prescribe maximum protection; and accurately ascertain future outcomes on investments. Meaning, a factor variable exhibited in an organisational framework to approach investments decisions significantly affects the performance of the firm. This type of measurement can also be a proxy of manager's performance. In this particular case, with factors of consideration related to conceptual hypotheses *1f* and *2f*, a unit of measurement can be presented as so:

H)5 H_0: $\beta_5 = 0 \rightarrow$ Contract completeness has no significant impact on competitive strategy of emerging market SMEs; H_1: $\beta_5 \neq 0 \rightarrow$ Contract completeness has significant impact on competitive strategy of emerging market SMEs.

The sixth variable of interest is related to the resource base which allows for complementarities. Complementarity potential can be developed by internalising vertical markets as is the case for larger firms. In contrast, SMEs can achieve complementarity by working together to integrate mutual assets (Mesquita & Lazzarini, 2008). Thus both internalising as well as integrating external complementary competencies significantly improves firms' competitive performance. Hence, the following unit of measurement can be drawn on the basis of conceptual hypothesis *2c*:

H)6 H_0: $\beta_6 = 0 \rightarrow$ Resource base which allows for complementary improvement has no significant impact on competitive strategy of emerging market SMEs; H_1: $\beta_6 \neq 0 \rightarrow$ Resource base which allows for complementary improvement has significant impact on competitive strategy of emerging market SMEs.

The seventh variable which can be measured is related to adverse technology or disruptive technology. In the context of SMEs, the emergence of disruptive technology doesn't affect entrepreneurs' competitive strategy since SMEs do no own assets of high specificity which compel highs switching costs. In line with conceptual hypothesis *2d*, the following unit of measurement can be derived:

H)7 H_0: $\beta_7 = 0 \rightarrow$ Disruptive technology has significant impact on competitive strategy of emerging market SMEs; H_1: $\beta_7 \neq 0 \rightarrow$ Disruptive technology has no significant impact on competitive strategy of emerging market SMEs.

The eight and last variable relates to information sharing among social-networks in emerging markets as per conceptual hypothesis *2e*. Namely, SMEs can significantly improve their efficiency if information on factor markets is easily accessible. However, firms in a central position which facilitate multiple traders (stakeholders) have access to a more diverse set of sources and want to internalise information to gain competitive

advantage. By contrast, for product inputs SMEs are dependent on larger stakeholders within the supply chain and cannot always access information to trading prices in chain links. Thus, emerging market SMEs try to foster social-networks to collaborate in information sharing in order to keep factor markets efficient.

H)8 $\beta_8 = 0 \rightarrow$ Social-networks for information sharing among emerging market SMEs have no significant impact on the efficiency of factor markets (competitive strategy);
H_1: $\beta_8 \neq 0 \rightarrow$ Social-networks for information sharing among emerging market SMEs have significant impact on the efficiency of factor markets (competitive strategy).

The thesis proposes a factor analysis procedure, to reduce all conceptual variables to manageable data set suited for appropriating means and distributions, as well as summarising results (Malhotra, 2010). Once an appropriate sample size is acquired other descriptive statistics can be run such as ANOVA statistics to examine the distributions and variances more closely, R-square statistics to omit irrelevant predictors, correlations to describe the direction of relationships between the variables etc. The idea is to create a multi-linear regression which will appropriate the weights of the independent variables on the dependent variable. Through constant sum scaling respondents can appropriate weights for each of the Betas (β) which in turn will reflect how much each independent variable influences the competitive improvement. The competitive improvement as the dependent variable is exhibited as either differentiation improvement or improvement in cost efficiency due to the deployment of a singular resource or a resource with complementarity effect $\Delta_{t+1,c,w}^{i,sin,com}$. Thus, each resource type has its own value which will improve the competitive position of the firm as shown in formula 7 (see chapter 3) and extended in Appendix 2. Namely, the competitive improvement is elaborated as an empirical model with Cournot competitive dynamics which is explained in detail in Appendix 2.

4.2 Sampling, Validity and Reliability

The sampling process for the purposes of this thesis begun by firstly identifying the target population. The target population is the collection of elements or objects that possess the information sought by the researcher and about which inferences are to be made (Malhotra, 2010). Since the objects of interests were emerging market SMEs specifically relating to the Macedonian and Serbian economy, a necessity for defining a framework to sample the population objects emerged. The sampling unit or element was obtained using a nonprobability sampling technique of convenient elements mainly selected by the interviewer (Malhotra, 2010). Moreover, this research has aimed to define a common nomenclature by which samples can be retrieved from. I deemed Porter's industry analysis as a relevant theoretical background upon which samples from the target population can be filtered. Based on Figure 1 (chapter 2) and the second questionnaire unit represented in

Table 3, the thesis has selected the following criteria presented in Table 7 to match the sampled objects and provide homogeneity.

TABLE 7: SAMPLING CRITERIA

(2.1; 2.2;)	(2.3; 2.4)	(2.5)	(2.6)
Firms' threat of new entrants is moderate to high	Firms' threat of substitutes is moderate to high	Firms have low to moderate bargaining power in relation to both/either suppliers and customers	Firms compete in markets with low concentration
Agree/Disagree	**Agree**/Disagree	**Agree**/Disagree	**Agree**/Disagree

SOURCE: OWN WORK

As Table 7 shows based on theory and respondents' answers all firms (the sample unit representing the population) are homogeneous. The only major limitation is that the selected firms do not belong to a single industry, however due to the scope and accessibility of the research it was not possible to examine single industry samples. In turn, the thesis emphasises that for future related researches it would be better for entrepreneurs to juxtapose their firms to the nearest industry rivals. The sample provided in this research is small and non-representative for descriptive research even though some descriptive statistics have been inferred. The analysis obtained is of qualitative nature for the purposes of exploratory research, selected to generate maximum insight, and is of primary nature since it was obtained for the goals of this thesis. In addition, single cross-sectional research design was used where sample of respondents is drawn from target population and information is obtained only once at a single point in time (Malhotra, 2010). For a more detailed research project, entrepreneurs may want to use cohort analysis where a consistent unit sample is treated over different time intervals which will allow them to follow market changes over a longitudinal approach. With regards to the research techniques employed in the thesis, there are certain criteria which provide validity and reliability of the data. Namely, since in-depth interviews were made with respondents, there was no non-response error. By contrast, other types of errors are difficult to measure since descriptive statistics were limited. Hence, mean values and probability distributions could not be ascertained. Moreover, it was difficult to put a measure on how strong the cause-and-effect relationships of the independent variables was to the dependent variable (significant impact on competitive strategy). In terms of reliability, a suitable scaling method needs to be designed so that the measurement results upon the variables of interest would always be accurate. In that sense, as already mentioned a simple Likert-scale technique was employed where respondents delegated weights to the

independent variables in relation to how much they affect competitive strategy. However, it is important to say that the sensitivity of the scaling was very limited since it only prescribes binary values where respondents' answers were documented as if they either agree or disagree with the statements. In reality, when the in-depth interviews were conducted even though respondents' answers were aligned to the results presented, the degree of sensitivity was much more nuanced.

DISCUSSIONS

The aim of the thesis is to examine the unique context of competitive strategy of emerging market SMEs. Firstly, the analysis focused on whether formal institutions negatively affect the competitive performance of these SMEs. Secondly, a case was made and corroborated by respondents that informal trust relationships improve the performance of the firms. Lastly, resource based considerations to differentiation and cost improvement dynamics were proposed. In summary, all conceptual variables were reduced to a set of measurable factor variables (see chapter 4). The inferences of the findings follow the reduced and simplified set of measurement units rather than the conceptual variables directly inferred from scholar literature. The in-depth interviews summary is presented in Table 8, Table 9 and Table 10. The thesis proposes appropriating weight to each independent variable and its influence on the dependent variable prescribed as resource value in the empirical model (see Appendix 2). Resource value is thus a proxy of all competitive decision either influencing differentiation improvement or cost improvement.

In terms of findings and practical implications, reflecting on scholar literature the thesis established the unique challenges faced by emerging market SMEs. Firstly, market dynamics were examined through available data. The data available is mostly focused on macroeconomic trends, such as GDP, CPI and Exchange Rates in databases such as the Organisation of Economic Co-operation and Development (OECD), the World Bank, the State Statistical Offices of Macedonia and Serbia, etc. However, as much as these statistics are informative they do not relate specifically to competitive strategy of SMEs. Moreover, in relation to the market it is probable that market performance in general does not significantly impact competitive strategy of emerging market SMEs, and that this logic also applies to SMEs in the Macedonian and Serbian economy. One thing that surely matters is that firms must all work profitably and have satisfactory returns to even operate on the market. Other than that all respondents which are entrepreneurs stationed in either Macedonia or Serbia claimed that they can't at this present time invest in a foreign, richer and more developed markets. Most named reasons are lack of capital power to invest and not knowing the probability of success. Evidence however suggest that some established SMEs can invest money in foreign and richer markets, but they all mostly operate in the

home markets. The answers of the in-depth responses relating to market dynamics and competitive strategy are summarised in Table 8.

Next, the thesis analyses value chains in both horizontal and vertical market proximity which follow the stages from raw-material producer to end consumer (van Dijk & Trienekens, 2012). Thus, the aim to examine the role of these SMEs in the vertical chain and understand their competitive strength. In addition, the chain position served as a basis for identifying firm samples. These issues were examined through Michael Porter's industry analysis (see Chapter 2). Upon collection of primary data all firms matched a fairly unified firm profile. In terms of the five concepts of industry analysis (see Chapter 2), in home economies entry capital requirement for servicing the markets as called by the respondents ranged from EUR 20 to 50 thousand. Most of it can be deemed relatively low as average entry investment amounts to approximatively four to five times the annual GDP per capita in either the Macedonian or the Serbian market. The costs mostly related to the industry of operation rather than the country. AirCon Co. a Serbian contractor company in the ventilation industry added that equipment for working in the industry can cost more than EUR 50 thousand, making them the exception. In terms of scaling the operations of competitors, respondents relatively differently assessed this issue. MiniM Co. a Macedonian company corroborated that the Mini Market and Supermarket industry had significant scale disparities between firms, some servicing much larger customer base. In addition, Bar Co. as a company that mostly operates on the Macedonian market with small coffee and wine exports in neighbouring markets as a licensed distributor, also confirmed that there are some firms which service a larger customer base and operate as franchises, such as bars operating in larger malls and administrative centres. AirCon Co. also confirmed larger scales are possible even as case of firm favouritism when certain firms get government projects or large projects such as buildings sites. Other respondents didn't see such scale disparities. Relating to scaling in general respondents corroborated that market concentration is relatively low. Moreover, inferences were also made that horizontal and vertical dynamics allowed for some differentiation and value creation. The SMEs examined confirmed that vertical markets could be acquired as complementary competencies but mostly through market transaction rather than internalising. The respondents corroborated that their companies accept market prices for both inputs and outputs and have low bargaining strength. Namely, there is a difference between value creation and value capture dynamics among different stages of the value chain (Lutz, 2012). Thus, all respondents operate as low supply chain contributors, accept input prices, product markets are relatively homogeneous and price competition is strong. Finally, all respondents confirmed that stronger competitor firms in better position have a value creation advantage. The respondents' answers from the in-depth questionnaires are summarised in Table 8.

TABLE 8: IN-DEPTH INTERVIEWS SUMMARY - MARKET & INDUSTRY

Conceptual hypothesis *1a → H)1* Does market location significantly impact competitive strategy?	Vet Co.	• **Horizontal dynamics:** Market size satisfactory, returns are good. **Network facilitators:** Generally good, pay tolls are high, some remote roads are of moderate quality. **Market stability:** Due to Covid-19 and Ukraine War inflation recently high (expenses supersede salary), national currency exchange rate is stable. **Invest in bigger markets:** Lack of capital, lack of knowledge on success probability.
	Bar Co.	• **Horizontal dynamics:** Profitable but moderate returns, relatively non-attractive market, small margins. **Network facilitators:** Barely satisfactory, constant supply chain frictions, orders are late or temporarily inaccessible (alcoholic beverages, other inputs). **Market stability:** Prices rocketed, customer purchasing power decreased, national currency stable. **Invest in bigger markets:** Lack of capital, unsure of probability of success (culture and location dictates the business model).
	MiniM Co.	• **Horizontal dynamics:** Profitable but relatively non-attractive, customer wants the cheapest brand. **Network facilitators:** Good, variety of products, but parking for delivery pick-ups a problem across the country (law exists difficult to implement due to poor urban planning). **Market stability:** High inflation, people buy basic goods, currency stable. **Invest in bigger markets:** Lack of capital and knowledge.
	AirCon Co.	• **Horizontal dynamics:** Depends on the customers, physical persons have no money, legal entities are richer but hard to get to them – already have contractors. **Network facilitators:** Very good, highways are good, supply chain is fast through Piraeus Port, equipment expensive. **Market stability:** High inflation, prices of copper and tin rocketed, living expenses exceed earnings. **Invest in bigger markets:** Lack of capital, initial investment may exceed EUR 100 thousand.
	Massage Co.	• **Horizontal dynamics:** Attractive, few public clinics (long waiting lists), people want private therapy. **Network facilitators:** Good, accessible inputs (creams, tapes). **Market stability:** Inflation yes, but people in dire needs, no earnings friction for me. **Invest in bigger markets:** Capital, knowledge and language barriers.
Conceptual hypothesis 1b, 1e, 2a → H)2 Does supply chain position significantly impact value creation advantages?	Vet Co.	• **Capital entry requirements:** Low to moderate can start with EUR 30 thousand. **Competition operation scale and market concentration:** Around 20 firms on the market, all similar scale/margins, low market concentration. **Product homogeneity and price sensitivity:** Homogeneous products, price is crucial. **Value contribution in vertical chains and accepting input prices:** Low value contributor, accepts input prices – licensor administers margins on end products.
	Bar Co.	• **Capital entry requirements:** Low. **Competition operation scale and market concentration:** Higher scale operators yes - franchise bars, bars in malls/ administrative centres, concentration is relatively low, margins similar. **Product homogeneity and price sensitivity:** Homogeneous, customer is price sensitive. **Value contribution in vertical chains and accepting input prices:** Low value contributor, accepts input prices.
	MiniM Co.	• **Capital entry requirements:** Low to moderate around EUR 35 thousand. **Competition operation scale and market concentration:** Concentrated market, scale leaders exist, may have cost advantages but respondent thinks industry margins are similar. **Product homogeneity and price sensitivity:** Some heterogeneity (location, assortment, scale, brand), customer price sensitive for basic goods, less for unique brands (wine, beer, etc.) **Value contribution in vertical chains and accepting input prices:** Low value contributor, accepts input prices.
	AirCon Co.	• **Capital entry requirements:** Moderate at least EUR 50 thousand, expensive equipment. **Competition operation scale and market concentration:** High scale operators exist, concentration moderate, vertically diverse firms (service and montage, retail and distribution, production). Margins similar. **Product homogeneity and price sensitivity:** Moderate homogeneity and price sensitivity - equipment, technical support offer degree of heterogeneity. **Value contribution in vertical chains and accepting input prices:** Low contributor, accepts input prices.
	Massage Co.	• **Capital entry requirements:** Low EUR 20 thousand or less. **Competition operation scale and market concentration:** Larger scale operators yes, concentration low, industry margins similar. **Product homogeneity and price sensitivity:** Homogeneous and price sensitive market, chiropractors have some advantages over other studios. **Value contribution in vertical chains and accepting input prices:** Low value contributor, accepts input prices.

SOURCE: OWN WORK

In relation to institutional economics, the relevance of regulatory framework has significant impact on the cost of doing business since politically complex institutional designs can create disincentives among resource users (Saunders, 2014). Namely, respondents deemed property rights as not very efficient to service the markets seamlessly. Tax evasion and possible competitor firm privileges due to corruption and favouritism are possible. Ambiguity of legal framework and enforcement of law is a big issue. Enforceability of infringements was rated negatively, respondents corroborated that pursuing remuneration through the judicial systems is too long and too costly. AirCon Co.'s manager said that they sued a company for EUR 60 thousand for contractual infringements, won the case after 6 years and barely got the money back. Related to infringements, although respondents did not altogether discredit the judicial system they all said they would rather avoid it. In addition, all respondents agreed that improvements in regulation efficiency will bring a collective improvement among firms and enhanced market welfare. Relating to the state safeguarding fair competition and providing transparent information of price/cost formation mechanisms, respondents mostly rated this negatively. Common problems include safety protocols, poor regulatory acts, volatile price changes etc. In contrast, Vet Co. a B2B distributor and licensee for veterinary medicine in Macedonia said that their industry usually has fair prices since the licensors or bigger brand companies dictate the prices and margins in this industry. However, the manger also said that some imperfect markets are definitely associated with potential corruption and the state generally doesn't do a great job in safeguarding fair competition. Thus, the thesis proposed an alternative concept which suggests that informal trust relationship positively affect the performance of firms when regulatory framework is weak. All respondents agreed that close collaborators increase the efficiency of work and that they would rather turn to a long-term partner than to a new possible cheaper option on the market. Some respondents claim that a company should be very careful when operating in these markets. Namely, on occasions the managers of these firms were never reimbursed by clients and claimed that debt collection through the judicial system is very difficult. However, there is one respondent who claims informal relationships do not have any impact which is a sports and therapy massage studio Massage Co. in Macedonia. In that particular case, the company doesn't feel the need to establish close cooperation with network affiliates. Finally, the role of the manager in decision making has obviously the most significant impact. This also relates to the company's organisational resources and capabilities as significant factors in implementing implement strategy (Chatzoglou, Chatzoudes, Sarigiannidis, & Theriou, 2018). Thus, the measurement unit of interest is completeness of contract by allowing maximum access to resources, maximum prescription of protection, and ascertaining the future return, which was deemed as very important by all respondents. In relation to completeness of contract, some respondents incurred overly costs due to having incomplete paperwork for imports. Moreover, respondents claimed that approaching transactions and trade agreements without normative protection in the form of trust and lack of legally prescribed protection have made them losses. Massage Co. emphasised that normative contracts are important and dealing with the state is a lost cause. Here the respondent somewhat contradicted themselves as per their

previous answers to *H)4*, but persisted because of reasons claiming that informal relationship only apply to contracts as per *H)5* and not to general cooperation. In general respondents are not very satisfied with both the formal and informal punishment delegated to cheaters. Respondents mostly agree with the proposed hypotheses and agree that the contextual nature of operating in an emerging market for SMEs is of significant impact to competitive strategy. In summary, in emerging markets educated entrepreneurship by linking knowledge based resource and business intentions is important (Ratten, Ferreira, & Fernandes, 2016). All answers from the in-depth interviews are summarised in Table 9.

Next, the aim was to examine whether there are improvement possibilities with acquiring either scarce resource or complementary resource. Respondents do not see any possibilities for acquiring scarce resources, except for AirCon Co. whose manager claimed there is a possibility of acquiring expensive equipment or even patenting certain types of equipment. Furthermore, all respondents positively rated resources of complementary nature. Thus, value creating through resource deployment has significant impact of firm competitive strategy. Higher returns captured in product markets reflect the value of the resource. Therefore, firms which benefit more from a resource are more likely to pay a higher price for it. As mentioned a firm better positioned in the value chain which can exhibit same improvement due to resource deployment, will value that resource more highly than other competitors because it wants to retain its leadership status. Respondents agree with such statements. In addition, all respondents don't feel threatened by any potential disruptive technology as they have no high path dependency due to expensive and specific assets, thus have low switching costs. Again AirCon Co. is the only respondent which claimed that there is some asset specificity in the industry, such as huge investment in equipment, but no disruptive technologies were endangering its work. All in-depth responses are presented in Table 10.

As part of the resource consideration in light of present day events the market is in a state of inflation due to the war in Ukraine and the post Covid-19 crisis. Respondents claimed that some input prices have been raised enormously and unjustifiably. In a marketing sense, customer satisfaction is a key resource for firm growth (Pansari & Kumar, 2016). However, there is a resource dependence imbalance in trade between multinationals and local firms (Jun, Jiang, Li, & Aulakh, 2014). In that context, as per the respondents the states have not provided enough protection and some more powerful chain participants are suspicious of overpricing the markets. By contrast, to increase bargaining strength and oppose powerful firms, SMEs use social capital in the form of networks since it brings benefits such as information, knowledge, and resource sharing, as significant factors influencing competitive strategy (Chisholm & Nielsen, 2009). Moreover, for SMEs variables such as network capital, knowledge spill-overs and network resource access allow for economic growth (Huggins & Thompson, 2015). Even under such scholarly claims, respondents relatively scuffed the proposition that social-networks significantly influence the efficiency of factor markets. A few respondents however said that due to such communication they were able to understand the overly priced markets more closely, but could do relatively little about it.

The discussion is still open whether collaboration of network members can serve as a counteract strategy to centrally positioned firms by increasing the efficiency of factor markets. Namely, as mentioned Vet Co. said that the licensor as the bigger chain participant prescribed minimum prices by which their products can be distributed in the Macedonian market, effectively dictating the prices and profit margins of the licensee. In this regard, the manager of Vet Co. said the input prices were fair unlike the claims of other respondents. All respondents' in-depth feedback is presented in Table 10.

The findings follow the logic of the reduced set of eight variables proposed as shown it Tables 8, 9 and 10. In contrast, the results of the questionnaires presented in Tables (1, 2, 3, 4, 5, 6) follow the conceptual variables inferred from scholar literature. Since the sample unit is small it was better to conduct an open-ended exploratory questionnaire. The thesis proposes a logic for analysis where weights would be appropriated to measurement units using constant sum scaling. Finally, competitive decisions can be measured as the extent to which the dependent variable exhibited through resource value in the context of either differentiation or cost improvement affects competitive improvement of emerging market SMEs. The Cournot market dynamics empirical engine used to calculate the improvement in market performance of emerging market SMEs due to resource deployment is presented in detail in Appendix 2.

In relation to limitations, the scholar literature upon which this thesis builds its conceptual logic is quite diverse. Conclusions on firm competitive performance with resource considerations have been exceedingly broad (Costa, Cool, & Dierickx, 2013). Moreover, NIE theory has a widespread use and is associated with a vast literature (Hodgson, 1998). For instance, marketing literature examines value creation through lifetime customer value, segmentation of customer groups, customer retention tactics, as relevant concepts in firm competitive strategy (Gupta, et al., 2006). Conversely, this analysis examines value creation and competitive strategy through the external environment and internal resource capacities of emerging market SMEs. In summary, the context nature of the research is relevant when discussing emerging market SMEs. Namely, scholars such as Elinor Ostrom's contemplated that effective research is to target the more relevant institutions rather than focus on the Oliver Williams's so-called ″economic institutions of capitalism″ (Glachant, 2014). In addition, MNEs have completely different business models and points of analysis compared to SMEs due to the size disparities and resource portfolios of the firms (Mihailova, Panibratov, & Latukha, 2020). Therefore, the resource consideration approach for SMEs and MNEs has totally different demands. Thus, an inference for future research would be that selecting relevant points of research when analysing competitive strategy of different firm types and different markets is critical.

TABLE 9: IN-DEPTH INTERVIEWS SUMMARY - INSTITUTIONS

Conceptual hypothesis *1c → H)3* Do property rights significantly impact cost structures?	Vet Co.	• **Do property rights allow profitability?** Profitable to operate but weak regulatory framework (possible corruption, some firms neglect trade laws and go unpunished, tax evasion, etc.). **Dealing with infringements:** Unsatisfactory, can seek justice but too long and too costly. **Fair competition (information on price and costs):** This industry relatively yes, profit margins are relatively determined by licensors.
	Bar Co.	• **Do property rights allow profitability?** Yes, but competitors may neglect regulation (possible corruption, overlooking indoor smoking law, evading tax, etc.). **Dealing with infringements:** Unsatisfactory. **Fair competition (information on price and costs):** No, some competitors disrespect competition, unpredictable law changes, significant and unjust input price increase – state does little to prevent this.
	MiniM Co.	• **Do property rights allow profitability?** Minimum profitability, problems (parking regulation for distributors, tax evasion, protocols on elevator safety, security). **Dealing with infringements:** Unsatisfactory. **Fair competition (information on price and costs):** No, state laws non-transparent (some bigger input suppliers increased prices dramatically during inflation period, yet state suddenly froze margins for everyone), poor practices big companies pay electricity rates as SMEs.
	AirCon Co.	• **Do property rights allow profitability?** Yes, problems include state taxes on small business are high (winning taxes, complicated tax reimbursement in case of losses). **Dealing with infringements:** Unsatisfactory. **Fair competition (information on price and costs):** No, uneducated competition, price change volatility, dumping.
	Massage Co.	• **Do property rights allow profitability?** Yes, but nobody fully follows regulation in this industry, will end up with losses. **Dealing with infringements:** Don't deal with the state, lost cause. **Fair competition (information on price and costs):** Yes.
Conceptual hypothesis *1d → H)4* Do informal trust relationships significantly impact cost efficiency?	Vet Co.	• **Does informal governance improve cost efficiency?** Yes. **Do you prefer long-term partnerships or the lowest price/quality bidder?** Trust relationships important, known-how experience crucial, switching partners incurs learning costs.
	Bar Co.	• **Does informal governance improve cost efficiency?** Yes. **Do you prefer long-term partnerships or the lowest price/quality bidder?** Long-term partner**,** small traders we ″watch each-others back″, if I need something I get priority treatment.
	MiniM Co.	• **Does informal governance improve cost efficiency?** Definitely yes. **Do you prefer long-term partnerships or the lowest price/quality bidder?** Trust partner/stability is key, contracts are a formality.
	AirCon Co.	• **Does informal governance improve cost efficiency?** Yes. **Do you prefer long-term partnerships or the lowest price/quality bidder?** I want long-term security, I don't know if new partners are technically competent to execute the tasks.
	Massage Co.	• **Does informal governance improve cost efficiency?** No. **Do you prefer long-term partnerships or the lowest price/quality bidder?** I don't see how anyone can trick me, I go and buy what I need everything is accessible in the stores.
Conceptual hypothesis *1f, 2f → H)5* Does contract completeness significantly impact competitive strategy?	Vet Co.	• **Endogenous trade norms predict transaction outcomes:** Legal and informal contract prescription both mandatory. **Contract must allow full resource access:** Yes, incomplete contracts have brought losses to the company. **Network members punish cheaters by refusing to trade:** Definitely, reputation is key.
	Bar Co.	• **Endogenous trade norms predict transaction outcomes:** Yes alcohol access even on Sunday. **Contract must allow full resource access:** Yes. **Network members punish cheaters by refusing to trade:** Somewhat, big traders get away with a lot.
	MiniM Co.	• **Endogenous trade norms predict transaction outcomes:** Legal and informal contract prescription both mandatory. **Contract must allow full resource access:** Yes. **Network members punish cheaters by refusing to trade:** Yes, competition is strong, especially customer relationship is important.
	AirCon Co.	• **Endogenous trade norms predict transaction outcomes:** Informal relationships are key, lost a lot of money and time on ″papers″ and enforceability. **Contract must allow full resource access:** Yes, incomplete contracts have brought losses to the company. **Network members punish cheaters by refusing to trade:** Yes, we talk in the industry and know the ″bad players″, but punishment is weak or slow.
	Massage Co.	• **Endogenous trade norms predict outcomes:** Normative contract, don't trust judicial system. **Contract must allow full resource access:** Yes. **Network members punish cheaters by refusing to trade:** Yes, customer trust is important.

SOURCE: OWN WORK

TABLE 10: IN-DEPTH INTERVIEWS SUMMARY – RESOURCE CONSIDERATION

Conceptual hypothesis *2c → H)6* Does a resource base which allows for complementary improvement significantly impact competitive strategy?	Vet Co.	• **Opportunity of acquiring scarce resource:** No. **Opportunity of acquiring a complementary resource:** Yes, pet shop, farm, clinic - enclosing business circle.
	Bar Co.	• **Opportunity of acquiring scarce resource:** No. **Opportunity of acquiring a complementary resource:** Yes, private labels (wine, coffee, beer) and other, but difficult in this industry because all types of resources are accessible to everyone.
	MiniM Co.	• **Opportunity of acquiring scarce resource:** No. **Opportunity of acquiring a complementary resource:** Yes indoor bakery, home delivery.
	AirCon Co.	• **Opportunity of acquiring scarce resource:** Yes can patent equipment. **Opportunity of acquiring a complementary resource:** Yes, production, retail etc.
	Massage Co.	• **Opportunity of acquiring scarce resource:** No. **Opportunity of acquiring a complementary resource:** Yes, respondent considers spa and beauty treatments.
Conceptual hypothesis *2d → H)7* Does disruptive technology significantly impact competitive strategy?	Vet Co.	• **Disruptive technology impact:** Respondent claims market has no major disruptive technology in sight.
	Bar Co.	• **Disruptive technology impact:** Respondent claims market has no major disruptive technology in sight.
	MiniM Co.	• **Disruptive technology impact:** Respondent claims market has no major disruptive technology in sight.
	AirCon Co.	• **Disruptive technology impact:** Respondent claims market has no major disruptive technology in sight.
	Massage Co.	• **Disruptive technology impact:** Respondent claims market has no major disruptive technology in sight.
Conceptual hypothesis *2e → H)8* Do social-networks for info sharing significantly improve factor market efficiency?	Vet Co.	• **Network communication impact on factor market efficiency:** Generally insignificant. In terms of market products, prices and margins are dictated by the licensors. The big brands compete among themselves.
	Bar Co.	• **Network communication impact on factor market efficiency:** It can have an impact. Through network communication I found out some companies work in breach of law and go unpunished, and other input prices rose significantly due to ″inflation profiteers″. Can't do anything about it.
	MiniM Co.	• **Network communication impact on factor market efficiency:** Generally insignificant, but I am sure some competitors have privileged information access.
	AirCon Co.	• **Network communication impact on factor market efficiency:** Significant, in the last 10 years many more distributors emerged, usual channels of input imports in this industry (for Serbia) come through Piraeus port. In turn, it increased supply and decreased price of inputs. Respondent works with a few other network members (retailers) they make independent imports (bulk orders) and get fairer input prices.
	Massage Co.	• **Network communication impact on factor markets:** Not significant, there are too many products/brands on offer (inputs), usually bigger corporations, prices are known.

SOURCE: OWN WORK

Relating to both the conceptual hypotheses and the following reduced set of variables, the thesis does not provide significant descriptive statistics. The sample unit is very small and therefore means and distribution statistics of the concepts impacting competitive strategy of emerging market SMEs are insignificant. Future research could hence be more explicitly focused on appropriating the weight and relevance of independent variables to the dependent variable (competitive improvement of emerging market SMEs). Moreover, the summary of the respondents' results is done on a firm level rather than per variable. Meaning, the research had five measurement units to infer its statistics from, which were the bulked answers of all variables per firm. Future research should thus focus on treating each individual variable as its own unit response and infer descriptive statistics. Unfortunately, due to the small number of respondents it wasn't possible in this instance. However, the

results inferred were valid enough to make some general inferences through qualitative research. Most significantly, the general inferences that formal and informal institutions have significant impact on competitive strategy of emerging market SMEs seem very valid.

The thesis however does provide an empirical solution through the long established Cournot equilibrium model of market competition. Appropriated weights on independent variables could thus be inputted into the model and managers could calculate the shift in competitive power of their firm in relation to other market competitors. The resolution of the model is very simple as it allows for both cost and differentiation improvement, making the process of prescribing the factors of improvement quite simple. Namely, researchers could denote the source of competitive improvement as a resource which either improves the cost efficiency of the company or it increases the willingness to pay of customers in market products. The thesis proposed multiple concepts which might be of relevance to emerging market SMEs. In terms of the empirical solution there are several limitations. Conceptually the model doesn't account for several relevant constraints such as the budget constraint of firms to invest and whether those resources are physically accessible to firms in case of potential trade barriers. Moreover, the empirical solution apart from the focal firm treats all other firms on the market as static, meaning it does not account for their improvement strategies. In addition, no scale economies are accounted for. However, the model is flexible enough in a sense that if it is applied as a longitudinal observation method it might be able to follow market changes both to the focal firm and its competitors.

CONCLUSION

Common applications of competitive strategy follow institutional changes by analysing market liberalisation, financial policy reforms, FDIs, tax reforms and privatisation (Kim, Kim, & Hoskisson, 2010). Looking at the problem at hand related to Macedonian and Serbian SMEs, these common methods offer little in analysing competitive strategy. Namely, small firms in emerging market economies face higher costs of transacting due to inefficient regulatory framework, information asymmetries, search costs, and contract enforceability problems (Meyer & Peng, 2016). Moreover, FDIs and internalisation theories are usually associated with MNEs (Teece, 2014). Conversely, resource strategies of SMEs significantly differ from strategies implemented by MNEs since SMEs are in no position to internalise resources, invest in subsidiaries, establish intra-organisations for knowledge flows etc. In summary, the thesis in its analytical approach tries to understand the context of the external environment or the regulatory framework in emerging markets and the specific resource consideration related to SMEs, in order to infer nuanced insights for competitive strategy of emerging market SMEs.

To gain thorough insights of the external environment of firms, the thesis focuses on three components: the market as the proximity and infrastructure of operations; the firm's position

in the supply chain (industry overview); and the outlook of institutional economics on business operation. In terms of the market, the thesis aims to denote the market size in which firms compete and market stability, as two factors influencing competitive strategy of emerging market SMEs. Namely, market size is denominated through indications such as GDP and GDP per capita (Ojala & Tyrväinen, 2007). In addition, the market instability is a reflection of volatile inflation indexes, volatile depreciation of national currencies, as well as instable institutions, which are factors that hinder long-term planning and contribute to capital investment risk (Grosse & Trevino, 2005). In summary, via respondents' answers propositions are inferred that due to capital scarcities, lack of information and ability to ascertain future returns, markets which are geographically and culturally more distant are less accessible to SME entrepreneurs. Thus, market location of investment is insignificant in relation to competitive strategy of emerging market SMEs.

In relation to the firm's position in the industry, transactions with buyers and suppliers denote the relationships a focal firm has to vertical markets (Ojala & Tyrväinen, 2007). The analysis of the thesis is primarily interested in two points related to industry competition. Thus, I firstly stress that all emerging market SMEs are low chain contributors and compete in high competitive markets with fierce price rivalry, denoting their relatively weak bargaining strength to both consumers and suppliers. Secondly, I used the industry analysis as exhibited in Michael Porter's industry origin of competitive advantage to understand whether all respondent firms are relatively homogeneous in terms of their industry position, validating the sample choice for the research. In regards to the first count, respondents claimed industry position significantly impacts competitive strategy of Macedonian and Serbian firms. Relating to the second count, all respondents had a relatively homogeneous firm portfolio which makes them coherent for the purposes of the research.

The last component of environment analysis were the formal and informal institutions and their impact on competitive strategy. Through the prism of NIE theory complemented by agency theory, three general conceptual problems were raised. The first, relates to formal institutions, how states define and delegate property rights and whether that is something of relevance for SMEs operating in emerging markets. The managers of SMEs in Macedonia and Serbia corroborated that formal institutions operate inefficiently, enforceability of infringements is weak and information transparency of state on future market outcomes (such as colluding and anti-trust) is also unsatisfactory, hence have significant impact on competitive strategy. However, in spite of all the claims respondents did not disregard formal institutions altogether and agreed that property rights allowed for profitability on the market. Property rights were complemented by conceptual problems related to agency theory, or the argument that in the absence of efficient protection during trade exchanges provided by formal institutions, informal institutions and trust trade-relationships improve market performance thus forcing managers to cautiously engage in arm's length transactions. Respondents corroborated that informal relationships and long standing trust-trade supersede the cheapest available arm's length market transaction in emerging markets. The second institutional concept is in relation to transaction cost theory. The inferences

made suggest that when it comes to resource dependence transactions, emerging market SMEs are low contributors to value chains, have a lesser risk of transaction, smaller switching costs and weak bargaining strength (accept market prices for both inputs and outputs). Moreover in relation to institutional economics impact on transactions, uncertainty arises when relevant contingencies surrounding a transaction are unpredictable (inefficient institutions, weak enforcement regimes), and performances cannot be ex-ante verified (Geyskens, Steenkamp, & Kumar, 2006). Hence, respondents agreed that as emerging market SME managers they need to establish a governance strategy with consideration to both industry relationships and institutions in order to optimise transactions costs. The third and final institutional component is contracting. Thus, emerging market entrepreneurs need to engage in contracts which allow maximum access to sought resource and prescribe maximum protection both legally and normatively to achieve contract completeness. By mathematically representing future state outcomes of a contractual engagement, managers need to turn state of uncertainty into state of risk (Schmidt & Keil, 2013). Based on the experience of the respondents contract completeness exhibits significant impact on competitive strategy of emerging market SMEs.

Once the external environment is considered, to complement the analysis the emphasis is on the internal resource portfolios of firms and whether it allows for competitive advantages. I use the logic for value creation as the difference between the increase of customers' willingness to pay and the cost of production for a firm's offering (Schmidt & Keil, 2013). Namely, a firm creates value by either differentiation strategy with deploying a resource which drives costumers to pay more in product a market. Alternatively, firm can increase value created if it decreases cost of production. The conceptual reasoning is observed to put forward four relevant points of interest relating to the emerging market SMEs. The first relates to firms in superior market position as bigger firms always value the same resource more highly than firms in weaker position. This is the case since a firm in a better market position will be always prepared to pay more for a resource to keep its superior position when compared to weaker firms, even if the improvement from that resource is the same for both firms. The analysis of the respondents' answers showed that they agree that stronger firms usually get to acquire more significant resource and keep market leadership in the industry. The second conceptual base states that firms which have a resource base more suited for applying complementary resource attribute higher value to a resource. I argue that SMEs want to establish a business model which allows them to integrate complementary assets by pooling resources with other network collaborators, which helps them access resources that would otherwise be prohibitively costly to internalise (Mesquita & Lazzarini, 2008). All respondents attributed favourably toward complementary competencies and their significant impact on competitive improvement. In case of possible new disruptive technology however, most SMEs are relatively safe as they do not have big capital commitments. The third concept relates to social-networks providing information on factor markets. SMEs benefit from being embedded in collaborative networks to counteract the bargaining strength of centrally positioned firms. Namely, information asymmetry has a

positive relation with firms' cost of capital in excess of standard risk factors when markets are imperfect and no relation when markets approximate perfect competition (Armstrong, Core, Taylor, & Verrecchia, 2011). Conclusively, based on the answers of the respondents it seems that SME collaborative networks do not improve efficiency in factor markets and that market forces dictate prices. Lastly, the fourth point of internal resource consideration is the ability of the managers to predict future outcomes as a consequence of a resource deployment without overpaying for information access. Managers take specific decision in context of opportunity seeking since internal firm resources and capabilities, institutional context as well as cultural norms posit as elements for value creation (Maurer, Bansal, & Crossan, 2011). Thus, from the evidence gathered managerial judgement on the ex-ante value of resource and its ex-post market impact is important.

Based conceptual considerations I then propose reduced set of variables to be used as measurement units impacting competitive strategy of emerging market SMEs (see chapter 4). The limitations are that due to the small sample size no significant descriptive statistics were inferred. Namely, samples bigger than 100 responses in future research would provide more descriptive evidence. I propose a multilinear regression model in which the defined variables in the reduced set inferred from respondents' answers, would have appropriated weights and hence their impact on competitive dynamics and market equilibrium will be documented. This is complemented by an empirical solution through Cournot equilibrium model of market competition (see Appendix 2), where the model provides simplicity in a sense that the weights of the variables can be assigned as either differentiation or cost improvement of the firm, allowing for flexibility when managers calculate the future impact of the resource value.

The thesis focuses both on emerging markets as the external environment factor impacting competitive strategy and SME internal resource capabilities as opportunity for value creation. In relation to the external environment, I want to contribute to scholarly literature by providing context based analysis of the Macedonian and the Serbian market for active SMEs. Namely, even though degrees of institutional uncertainty can act as a barrier to business operations, it can also provide opportunities for entrepreneurs (Tracey & Phillips, 2011). Moreover, regarding internal resource capabilities I focus on adapting established concepts such as value creation via cost improvement and differentiation strategies, to the needs of emerging market SMEs. Therefore, the thesis hopes to contribute to a nuanced way of outlook toward analysis of competitive strategy management of emerging market SMEs.

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APPENDICES

Appendix 1: Povzetek (Summary in Slovene Language)

Običajne aplikacije sledijo institucionalnim spremembam z analizo liberalizacije trga, organizacijske ekonomije, tehnologije, reform finančne politike, neposrednih tujih naložb, davčnih reform, privatizacije in drugim. Če obravnavani problem pogledamo na primeru makedonskih in srbskih MSP, lahko ugotovimo, da te običajne metode pri analizi konkurenčne strategije ne ponujajo veliko. Nasprotno pa se podjetja v nastajajočih tržnih gospodarstvih soočajo z višjimi transakcijskimi stroški zaradi, denimo, neučinkovitega regulatornega okvira, asimetrije informacij, stroškov iskanja in izvrševanja pogodb. Naloga je analitično usmerjena v razumevanje konteksta zunanjega okolja, v katerem MSP delujejo, in poskuša ugotoviti, ali ima okolje pomemben vpliv na konkurenčno strategijo podjetja. Za temeljit in natančen vpogled v zunanje okolje podjetij naloga razdeli pristop k analizi konkurenčne strategije MSP trgov v razvoju na tri komponente: bližina dejavnosti; položaj podjetja v dobavni verigi; in pogled na teorijo NIE. Z vidika trga so zanimive velikost trga, izražena kot BDP in BDP na prebivalca, ter stabilnost trga, prikazana z indeksi inflacije in depreciacijo valute države. Če povzamemo, je analiza ugotovila, da so zaradi pomanjkanja kapitala, pomanjkanja informacij in zmožnosti ugotavljanja prihodnjih donosov trgi, ki so geografsko in kulturno bolj oddaljeni, manj dostopni malim in srednjim podjetnikom, zato manj pomembno vplivajo na konkurenčno strategijo. V zvezi s položajem podjetja v panogi se uporablja analiza panoge Michaela Porterja, ki pravi, da konkurenčna prednost izvira iz strukture panoge in položaja podjetja glede na konkurenco v panogi. Rezultati analize kažejo, da položaj v panogi bistveno spreminja in vpliva na konkurenčno strategijo podjetij, kot je razvidno iz primera makedonskih in srbskih podjetij. Na podlagi skupnih imenovalcev so bile komponente panožne analize uporabljene tudi za opredelitev populacije anketirancev in preverjanje homogenosti vzorčne enote. Zadnja sestavina analize okolja so bile formalne in neformalne institucije ter njihov vpliv na konkurenčno strategijo. Skozi prizmo teorije NIE, dopolnjene s teorijo agentskih razmerij, so bili namreč izpostavljeni štirje splošni konceptualni problemi: vpliv formalnih institucij (lastninske pravice) na konkurenčno strategijo; vpliv neformalnih institucij (odnosi zaupanja in trgovanja) na konkurenčno strategijo trgov v razvoju; optimizacija transakcijskih stroškov ob upoštevanju položaja panoge in institucionalnega okolja; pomen popolnosti pogodb za stroškovno učinkovitost podjetja. Glee na odgovore anketirancev imajo vse štiri komponente pomemben vpliv na konkurenčno strategijo makedonskih in srbskih MSP. Predvsem neučinkovitost formalnih institucij močno vpliva na stroškovno strukturo podjetja. Nasprotno pa so anketiranci potrdili, da neformalni odnosi zaupanja in dolgoročno sodelovanje pomagajo ublažiti izgube, ki jih povzročajo formalne institucije, in izboljšati uspešnost njihovih podjetij.

Po obravnavi zunanjega okolja je za dopolnitev analize poudarek na portfeljih notranjih virov podjetij in na tem, ali omogočajo konkurenčne prednosti. Diplomsko delo v veliki meri sledi znanstvenemu pristopu Jaya B. Barneyja, ki je v svoji publikaciji iz leta 1991 ″Firm Resources and Sustained Competitive Advantage″ postavil temelje za klasifikacijo

virov, ki omogočajo konkurenčne prednosti, kot dragocene, redke, nepopolno posnemljive in nezamenljive. V smislu konceptualizacije upoštevanja virov v konkurenčni strategiji MSP na nastajajočih trgov so bile predstavljene štiri glavne točke: ali boljši tržni položaj omogoča ustvarjanje večje vrednosti; ali MSP z bazami virov, ki omogočajo boljši dopolnilni razvoj, prinašajo večje konkurenčne izboljšave; ali imajo MSP koristi od izmenjave informacij v socialnih omrežjih, da bi preprečila pogajalsko moč podjetij s centralnim položajem; in ali je managerska sposobnost ugotavljanja prihodnjih stanj donosa pomembno povezana s konkurenčno strategijo. Če povzamemo, je bila večina točk pomembna za vse anketirance in pomembno vpliva na konkurenčno strategijo. Namreč, podjetja z močnejšim položajem so vedno v ugodnejšem položaju, komplementarne kompetence so bile za vse anketirance med ključnimi strateškimi dejavniki, managerske odločitve pa so v preteklosti močno vplivale na konkurenčne rezultate podjetij. Vendar se zdi, da so družbena omrežja, izmenjava informacij in kolektivna pogajanja za doseganje učinkovitosti trga dejavnikov v primerjavi s centralno pozicioniranimi podjetji še vedno predmet razprave pri obravnavi konkurenčne strategije MSP.

Za konec so bili vsi koncepti, ki izhajajo iz strokovne literature, predstavljeni kot preprostejši in logičnejši nabor spremenljivk, ki se uporabljajo kot merske enote, ki vplivajo na konkurenčno strategijo MSP na trgih v razvoju (glej poglavje 5). Omejitve so prisotne zaradi majhnega vzorca, zato niso bile izpeljane pomembne opisne statistike. Vendar naloga v svoji analizi zagotavlja empirično rešitev s pomočjo Cournotovega modela ravnovesja tržne konkurence (glej Dodatek 2). Ko so dodeljene uteži vsem dejavnikom, ki vplivajo na konkurenčno strategijo, model zagotavlja poenostavljenost v smislu, da se lahko vse uteži dodelijo kot diferenciacija ali izboljšanje stroškov podjetja, kar omogoča fleksibilnost pri izračunavanju prihodnjega vpliva vrednosti vira na trg proizvodov.

Appendix 2: Cournot equilibrium model of market competition

- **Central logic to valuing a resource**

The resource value (*RV*) is calculated under assumptions of no uncertainty (all future market performances are known). Furthermore, no exogenous factors influence resource performance and there are no implementation difficulties. Hence, the resource value is the difference between the ex-post incremental change in firm market performance after the resource has been deployed (state of competitive improvement), and the ex-ante product market performance before the resource is deployed. The model is a Cournot equilibrium of *n* differentiated firms under the assumption that all firms on the market have positive spread $w_t^i - c_t^i > 0 \; \forall \; i$.

$$RV^i = \Pi_{t+1,\Delta}^i - \Pi_t^i \tag{1}$$

- **Customer Dynamics**

Customer preferences differ in both differently valuing each firm's offerings and in the intrinsic value or preference a customers has for a market product. Customer's heterogeneous willingness to pay is denoted as $w_t + d$, where *d* is individual preference and willingness to pay independent for firm offerings and has a varying value across all customers which are distributed uniformly $(-\infty,0]$ with a market density of $s > 0$. Moreover, for firm's *i* offerings w_t^i is the willingness to pay that is the same for all customers in regards to specific firm offering. This model allows for heterogeneity in customer willingness to pay, with respect to any firm as a non-finite negative distribution for customer preferences. This is not a problem since $w_t^i - c_t^i$ are the conditions for the firm to produce which is always going to be a finite function. Thus, customer preferences results in a downward sloping demand curve $-\frac{1}{s}$. Customers buy either one or none of each firm offerings. With p_t^i the price firm *i* charges, a customer will buy the offer which gives him the highest customer surplus $w_t^i + d - p_t^i$ (unless this value is negative for all firms, in which case consumers will not buy). Hence, customers active on the market are those that have a value of $w_t^i + d - p_t^i \geq 0$ for at least one of the firms' offerings.

- **The ex-ante market position before resources are deployed**

The case of no competitive improvement is first derived, where customers do not discriminate (are indifferent) against different firm market products. For all firms to be active the condition should be as so:

$$w_t^i - p_t^i = w_t^j - p_t^j = \delta \mathrm{w} \; \forall \; i,j \in \{1, \ldots . \mathrm{n}\} \tag{2}$$

Customers buy only if $w_t^i + d - p_t^i \geq 0$, where the value appropriated by customers (consumer surplus) is δw_t. Active customers $s \bullet \delta w_t$ clear the market when all firm quantities are considered:

$$Q_t = s \bullet \delta w_t \tag{3}$$

Since we are talking about the ex-ante condition where all firms have equal consumer surplus (δw_t), knowing that $\delta w_t = \frac{Q_t}{s}$ and $\delta w_t = w_t^i - p_t^i$, the inverse demand market function (all firms) is:

$$p_t^i = w_t^i - \frac{Q_t}{s} \tag{4}$$

Considering all firms want to maximise profit the function with respects to the focal firm *i* output q_t^i and the output of all other firms $Q_t^0 = \sum_{j=2, j\neq i}^{n} q_t^j$ is:

$$\Pi_t^i = q_t^i \bullet \left(p_t^i - c_t^i\right) = q_t^i \bullet \left(w_t^i - c_t^i - \frac{Q_t}{s}\right) = q_t^i \bullet \left(w_t^i - c_t^i - \frac{q_t^i}{s} - \frac{Q_t^0}{s}\right);$$

hence,

$$\Pi_t^i = q_t^i \bullet \left(w_t^i - c_t^i - \frac{Q_t^0}{s}\right) - \frac{q_t^{i2}}{s} \tag{5}$$

Under Cournot competition regimes we get the following first order condition as a profit maximising function:

$$\frac{\Delta \Pi_t^i}{\Delta q_t^i} = w_t^i - c_t^i - \frac{Q_t^0}{s} - \frac{2q_t^i}{s} = 0 \Rightarrow \left(w_t^i - c_t^i\right) \bullet s - Q_t^0 - 2q_t^i = 0 \Rightarrow Q_t^0 = \left(w_t^i - c_t^i\right) \bullet s - 2q_t^i$$

Therefore,

$$2q_t^i = \left(w_t^i - c_t^i\right) \bullet s - Q_t^0 \tag{6}$$

With consideration to formula 6 having *n* differentiated firms in the market, knowing that $v_t^i = w_t^i - c_t^i$ and $Q_t^0 = \sum_{j=2, j\neq i}^{n} q_t^j$, the following matrix is presented:

$$\begin{aligned} 2q_t^i + q_t^j + \cdots q_t^n - s \bullet v_t^i &= 0 \\ q_t^i + 2q_t^j + \cdots q_t^n - s \bullet v_t^i &= 0 \\ q_t^i + q_t^j + \ldots 2q_t^n - s \bullet v_t^i &= 0 \end{aligned} \tag{7}$$

To isolate a linear function for firm *i*, I input the inverse matrix, hence:

$$\begin{vmatrix} q_t^i \\ q_t^j \\ q_t^n \end{vmatrix} = \begin{vmatrix} \frac{3}{4}v_t^i & -\frac{1}{4}v_t^j & -\frac{1}{4}v_t^n \\ -\frac{1}{4}v_t^i & \frac{3}{4}v_t^j & -\frac{1}{4}v_t^n \\ -\frac{1}{4}v_t^i & -\frac{1}{4}v_t^j & \frac{3}{4}v_t^n \end{vmatrix} \bullet s$$

Thus, the linear function of firm *i* (i=1, $j \neq i$) where $i, j \in \{1, \dots n\}$ and n=3, is:

$$q_t^i = \left(\frac{3}{4}v_t^i - \frac{1}{4}v_t^j - \frac{1}{4}v_t^n\right) \bullet s = \frac{1}{4}\left[3\left(w_t^i - c_t^i\right) - \left(w_t^j - c_t^j\right) - \left(w_t^n - c_t^n\right)\right] \bullet s$$

Or

$$q_t^i = \frac{1}{n+1}\left[n\left(w_t^i - c_t^i\right) - \sum_{j=2, j\neq i}^{n}\left(w_t^j - c_t^j\right)\right] \bullet s \qquad (8)$$

And the equilibrium profit maximising function will be:

$$\Pi_t^i = \frac{1}{(n+1)^2}\left[n\left(w_t^i - c_t^i\right) - \sum_{j=2, j\neq i}^{n}\left(w_t^j - c_t^j\right)\right]^2 \bullet s \qquad (9)$$

- **The ex-post market position after resources are deployed with consideration to competitive improvement.**

The equilibrium formula changes when firm *i* has a resource that allows for competitive advantage. In the case of cost improvement formula customer indifference remains as in formula 2, the total demand is given in formula 3 and the inverse demand is given in formula 4. Thus, only marginal cost decreases and the new equilibrium is:

$$\Pi_{t+1}^{i,\Delta} = \frac{1}{(n+1)^2}\left[n\left(w_t^i - c_t^i + \Delta_{t+1}^i\right) - \sum_{j=2, j\neq i}^{n}\left(w_t^j - c_t^j\right)\right]^2 \bullet s \qquad (10)$$

In the case of differentiation improvement total demand is given in alignment with formula 3, as so:

$$\left[w_t^i + \Delta_{t+1}^i - p_t^i - \sum_{j=2, j\neq i}^{n}\left(w_t^j - c_t^j\right)\right] \bullet s = \sum_{i=1}^{n} q_t^i = \mathrm{Q}_t^d \qquad (11)$$

And the inverse demand function is:

$$p_t^i = w_t^i + \Delta_{t+1}^i - \frac{Q_t^d}{s}; \tag{12}$$

And,

$$p_t^i = w_t^i - \frac{Q_t^d}{s}, i \neq 1 \tag{13}$$

The equilibrium product market performance changes to:

$$\Pi_{t+1}^{i,\Delta} = \frac{1}{(n+1)^2}\left[n\left(w_t^i + \Delta_{t+1}^i - c_t^i + \Delta_{t+1}^i\right) - \sum_{j=2, j\neq i}^{n}\left(w_t^j - c_t^j\right)\right]^2 \bullet s \tag{14}$$

The equilibrium formula is the same irrespectively of the direction of the spread, either represented as cost improvement (formula 11) and differentiation improvement (formula 14). However, the price set by the firm decreases in the case of cost improvement and increases in the case of differentiation improvement.

- **Resource Value**

The resource value is the difference between the period before resource has been deployed and the product market performance in the period after deployment. It can be presented as so:

$$RV^i = \Pi_{t+1,\Delta}^i - \Pi_t^i$$

$$RV^{i,sin} = \frac{1}{(n+1)}\Delta_{t+1}^{i,sin} \bullet \left[n\left(w_t^i - c_t^i\right) + n\left(w_t^i + \Delta_{t+1}^i - c_t^i\right) - 2\sum_{i=1, j\neq i}^{n}\left(w_t^i - c_t^i\right)\right] \bullet s \tag{15}$$

Or,

$$RV^{i,sin} = \frac{1}{(n+1)}\Delta_{t+1}^{i,sin} \bullet \left[n \bullet v_t^i + n \bullet v_{t+1}^i - 2\sum_{i=1, j\neq i}^{n} v_{t+1}^j\right] \bullet s$$

The empirical solution for the complementary improvement is the same as is for the singular resource improvement.

Appendix 3: Firm Identity Card

Company /	Industry	Average annual revenue in EUR thousands – size	No. employees	Location	Market of operation	Years active
Vet Co.	Wholesale distributor (licensee) of veterinary medicinal products and pet accessories (B2B & B2C)	120 – 150 Small enterprise	3	Macedonia	Macedonia	Since 2013
Bar Co.	Hospitality & distributor of wine and coffee as a licensee	250 – 350 Small enterprise	9	Macedonia	Macedonia (Hospitality and distribution); Serbia & Montenegro (distribution)	Since 2009
MiniM Co.	Minimarket - retailer (brick & mortar)	150 – 200 Small enterprise	4	Macedonia	Macedonia	Since 2017
AirCon Co.	Contractor in the ventilation industry (montage, service and retail)	180 – 250 Small enterprise	3	Serbia	Serbia	Since 1993
Massage Co.	Massage and therapy services	50 – 70 Micro enterprise	2	Macedonia	Macedonia	Since 2017