

# **STRATEGY FOR IMPROVING BUSINESS PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN THE SUPPLY CHAIN OF THE AUTOMOTIVE INDUSTRY**

The subject of the capstone project is the application of the cluster concept in order to integrate small and medium enterprises into supply chains of global automotive manufacturers. By incorporating global supply chains, through the subcontracting business dealings, multiple positive effects on local small and medium enterprises are achieved through expanding business and accessing global markets at lower costs, access to scarce resources, knowledge transfer and technological capacity development, acquisition of managerial skills, sales increase, growth and achievement of the economy's volume effects as well as increasing the competitiveness of the economy, creating new jobs, and reducing the effects of importing parts on the country's balance of payments. The cluster concept, as a network of affiliated companies in the value chain and providers of services, scientific research, education and other institutions and support agencies, has found widespread application in the automotive sector as a consequence of globalization and intensive application of the strategy of outsourcing, i.e. restructuring of supply chains in the emerging role of local suppliers. Clusters improve the competitiveness and business performance of small and medium-sized enterprises through the achievement of synergetic effects from shared resource use, development of competencies and risk sharing, exchange of information and knowledge and easier provision of the necessary resources through networks of vertical and horizontal relationships of cooperation, which increases the ability of these companies to integrate themselves in the supply chains of global companies.

Clusters play a role as mediators between local suppliers and multinational corporations. The aim of the capstone project is to define an analytical framework for formulating the strategy for improving the business performance of small and medium enterprises in the supply chain of the automotive industry. The current state and problems of international small and medium sized companies in the automotive sector point to the need for an analytical framework to provide information inputs to economic policy makers, thus finding ways to improve the position of these companies, particularly in the context of the inclusion potential of the automotive supply chain. When developing the analytical framework for formulating the strategy, I will start with the analysis of the cluster concept as an effective tool for improving business performance and competitiveness of small and medium enterprises and subsequently their inclusion in global supply chains. The cluster concept is further viewed from the aspect of its contribution to creating an environment that is advantageous for the development of supply chains. The analysis of selected case studies should enable the knowledge of the role and contribution of the cluster to integrate small and medium-sized enterprises into the supply chains of global companies and the importance of institutional support. The assessment of the situation and problems of small and medium-sized enterprises in the automotive sector will point to business aspects in which improvements are needed in order to increase the possibilities of their integration into the global automotive supply chains. In the process of defining the analytical framework, it will be inspected how the clusters in the automotive industry have a positive impact on the competitiveness and business performance of small and medium enterprises and whether the presence of large companies has a positive impact on the cluster competitiveness. The research will be carried out using a quantitative methodology in the data panel for 40 companies operating in the automotive sector. The impact of clusters will be analyzed from the aspect of efficiency and effectiveness, as two basic dimensions of business success.

The theoretical framework of the project can be seen in a wider and narrow sense. Observed in a wider sense, it includes all theoretical knowledge that can be used, and which more closely determines and explains the subject of research and contributes to the observation of the relevance and the actuality of the research problem. Viewed in the narrow sense, the theoretical framework includes theoretical knowledge and concepts of clusters and clusters of supply chains.

The cluster impact on business performance and enterprise competitiveness is analyzed from the aspect of efficiency and effectiveness as two basic dimensions of business success. Business efficiency will be determined on the basis of total revenue, as the value-added result of business activities, assuming that it reflects the integral dimension of company's competitiveness. Total revenues will be analyzed in relation to the basic assets and the number of employees that represent the approximation of classical proxy capital and labor factors, as well as labor costs and material costs reflecting cost-effective production and income-generating business assets. Business effectiveness will be analyzed on the basis of profitability of the company, measured by the profit margins indicator, asset turnover ratio and return on business assets. The application of the stochastic border analysis will enable the knowledge of quantitatively expressed efficiency of business operations. Econometric efficiency estimates will be used as inputs in cluster impact analysis and enterprise size on achieved performance. Using the statistical t-test, the impact on clusters on competitiveness (efficiency) and performance (effectiveness) of small and medium enterprises in and outside the cluster will be investigated, as well as the influence of large enterprises on the performance and competitiveness of the cluster.

The growing interest of scientists, experts and practitioners in researching the role and different aspects of small and medium-sized enterprises (hereinafter SMEs) is owed to the recognition that more than 95% of all enterprises in the world are SMEs, generating about 60% of the total employment of the private sector, and are a significant contributor to innovation, smooth regional development and social cohesion. SMEs represent the pillar of the private sector, and a strong and dynamic private sector in which businesses are investing, creating new jobs and increasing productivity is a prerequisite for economic growth and development. SMEs represent the most significant segment of developed economies since they make the most contribution to increasing employment, gross value added and turnover. Thanks to their basic characteristics, and above all their number, their flexible organizational structure and their inclination to innovative and risky business ventures, these companies are able to respond efficiently to the uncertainty of the global market. In this way, these companies stimulate the strengthening of competition, which has the effect of improving product and service quality, lowering prices, developing innovations and new technologies, and growth and development of national economies in general. The role of the SMEs is particularly relevant in the countries that are in the process of transition to the market model of business, with imminent problems of low levels of economic development, high unemployment and insufficient competitiveness. Under the conditions of globalization of the world economy and increasingly marked outsourcing of production, SMEs are becoming major players in supply chains of global manufacturers, providing materials, sub-assemblies and services to large companies and delivering goods to consumers. Establishing long-term relationships between global companies and SMEs through subcontracting represents a major developmental opportunity for SMEs.

In order to look at the basic features of these business entities, it is first and foremost necessary to establish a conceptual definition and then conduct an analysis of the characteristics, role and significance, the specificity of the management and the problems and obstacles faced by these companies when conducting business activities.

Under the concept of small and medium-sized enterprises, a heterogeneous group of business entities is represented in a structure of which are represented micro, small and medium enterprises operating in different spheres of economy, with different market and development orientations and different levels of skills, knowledge and capital and are equally represented in formal and the informal part of the economy. The SMEs sector also encompasses entrepreneurs, i.e. physical persons who independently carry out their activities, and who are incorporated into micro enterprises. Economic theory has not yet reached a consensus on the criteria for the classification of micro, small and medium enterprises. Under the conditions of growing importance and contribution of MSP sector to growth and development of national economies as well as the fact that the precise definition of these enterprises is a prerequisite for effective implementation of measures and support programs for their development, intensified attempts and efforts of representatives of scientific and professional public to provide a comprehensive and a commonly accepted definition of SE. Despite the contradictory and often conflicting views, the most widely used criteria for defining the size of an enterprise were differentiated by the number of employees, total annual income and total assets . Thanks to the simplicity and ease of gathering data on the number of employees, basically the largest number of SME definitions is exactly the mentioned variable.

## REFERENCES

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