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# Competitive advantages of SMEs. The case of the Lodz Metropolitan Area

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Small and medium sized enterprises (SMEs) play a major role in economic growth in developed and developing countries. For example, in the European Union, SMEs contribute to over 99% of all enterprises and more than 100 million jobs, representing 67% of private sector employment. In the Lodz Metropolitan Area (LMA) SMEs play a decisive role in economic development and their economic condition translates into the condition of the sub-region. Hence, the main objective of the paper is the assessment of SMEs operations in the LMA by the identification of development factors and barriers to economic activity. The paper uses the results of a direct study of the group of 171 small and medium sized enterprises conducted in 2012. We applied various statistical tools useful in processing data from questionnaires, e.g. cross-sectional analysis, averages, variation coefficients, Cramer's V, and internal consistency coefficient Cronbach's alpha.

The paper goes on to discuss the competitiveness of goods and services produced by companies included in the study by making reference to theories of sources of competitive advantage. Its important part will be devoted to the assessment of SMEs operating conditions taking account of 30 factors that facilitate or hamper business activity. The analysis will also cover enterprises' opinions on selling opportunities in a medium-term perspective. These opinions will be presented in various cross-sectional studies.

**JEL Classifications:** L21, L26, R11

**Keywords:** SMEs, competitive advantages, Poland, Lodz region

## Introduction

Small and medium-sized enterprises represent the most numerous group among economic operators and thus they play a significant role in the economy. They also exert major impact upon the development of individual geographic areas. The paper attempts to evaluate factors determining competitive advantages of operators based in the Lodz Metropolitan Area (LMA).

LMA is not an administrative unit but a settlement system centered around Lodz which grew and acquired its distinctive features from specific spatial and functional links. They are decisive for the territorial scope of the LMA, which traditionally included the metropolis (sub-region the city of Lodz) and the Lodz sub-region composed of counties directly neighboring the capital of the voivodeship (Zgierz, Brzeziny, Eastern Lodz, Pabianice). Lodz Metropolitan Area covers the area of 2862.8 km<sup>2</sup>, i.e. almost 1/6 of the total area of the Lodz voivodeship (Łódzki Obszar Metropolitalny, 2011).

This paper is based on the results of a direct study which was designed to primarily assess the operations of small and medium sized enterprises (SMEs) in the Lodz Metropolitan Area. The direct study was conducted between March and August 2012 among 171 entrepreneurs.

## Literature review

Literature provides an abundance of typologies of factors and strategies of winning and maintaining the competitive advantage on the market. It is usually stressed that the sources of competitive advantage can be both internal and external, which depends on decisions made by a company. The first group of factors depends mostly on the company itself, while the second one relates to the environment whose resources the company uses and whose needs it meets. Internal factors determine the development of a business and its competitiveness, however, how they are exploited remains largely dependent on external conditions (Bednarz, 2011). That is because economic operators always operate in a concrete region and are linked with the state and other businesses. Hence, the environment creates specific opportunities but, at the same time, it imposes requirements and limitations.

The literature stresses the importance of external impact of the local environment, in which businesses may exist, develop and achieve competitive advantage. Their links with local environment and the ability to flexibly respond to conditions it offers and are indispensable for attaining companies' strategic goals. The environment provides them with basic resources, offers institutional support or even moderates instability of markets. A company is more or less embedded in the different economic, societal, cultural and political contexts of its environment, which is composed of various mutually correlated or completely independent elements.

Building competitive advantage is not easy and it is considered the objective of firm's strategy (Porter, 1985). Its definition often highlights various aspects. Some stress the advantages of an enterprise appreciated by the market, which allow it to maintain or even improve its long-term effectiveness and ensure a harmonious development (Grant, 1991; Schoemaker, 1990). For others a firm enjoys a competitive advantage when it has the means to edge out rivals when competing for the favour of customers and its actions in an industry or market create economic value and when few competing firms are engaging in (Barney, 2002; Christensen, 2001; Besanko, Dranove, and Shanley, 2000). Thus the competitiveness can be attributed to only some operators engaged in the competitive struggle, i.e. to those who compete successfully. Besides, the feature is relative, meaning it always relates to features of another operator (Dzikowska, Gorynia, 2012). However, despite its widespread use in the theoretical discourse, the notion of competitive advantage remains unanswered (Rumelt, 2003; Postrel, 2006). Nevertheless, surely everybody agrees that the importance of the competitive advantage has recently increased (Coplin, 2002), which has inspired a substantial variety of ideas concerning its substance.

The concept of the basis of competitive advantage proposed by Porter (1985), the best known in literature, is an example of traditional theory of competitiveness. According to him, a business may effectively compete on the market following one of the three strategies: cost leadership, differentiation or focus (market segmentation). The first one is about being a low cost producer and the ability to offer prices lower than those of one's competitors. Differentiation strategy consists in supplying the customers with products or services that are different from those of the competition. Differentiating attributes may include: quality, brand image, specific features and other factors. Porter argues that a combination of low cost and differentiation strategies applied simultaneously by a business will lead to a failure. The company will lose its profitability and growth opportunities. However, there are exceptions to it and the most important among them is the adoption of the focus strategy which channels our efforts on a selected group of customers, specific assortment of products or a small geographic market. Then, on its target market, a business may compete with low costs, differentiation or one and the other.

Under present market conditions, seeking the sources of competitive advantage has become more complex compared to what Porter presented. Enterprises operating under the conditions of hyper-competition in a dynamic and unpredictably changing market environment must carefully analyze the quality of their assets and efficiency of their strategic decisions. Moreover, they must introduce prior adjustments to increasing market

requirements. These observations provided the basis for the development of new concepts initiated by the works of Wernerfelt (1984), Rumelt (1984), Barney (1986, 1991), Prahalad and Hamel (1990) in the 1980s and 1990s. They were based on three prerequisites: distinctive competencies, Ricardian economics and the growth of a firm. At present the studies have been joined into the concept of the resource-based view.

In the 1990s, researchers who were at that time interested mostly in the sources of sustainable competitive advantage shifted from industry to firm specific effects (Spanos and Lioukas, 2001). The main premise was based on the statement that firms compete on the basis of their resources and capabilities. An enterprise has got a competitive advantage if it is able to create more economic value than its marginal (breakeven) competitor in the market (Peteraf and Bergen, 2003). In order to create more value than the competitors, an enterprise must either enhance greater benefits with the same cost or produce the same benefits to lower costs (Barney, Clark, 2009). In practical terms it means a business makes a decision to lower the costs and becomes a leader in the market or differentiates a product or a service to be able to quote a higher price (Barney, Wright, 1998).

According to Barney (1991), a lasting competitive advantage is based on valuable, rare, imperfectly imitable and substituted resources. The so called organizational context comes in as an additional element, which may be boiled down to the assessment of enterprise's ability to make use of the resources. Hamel and Prahalad (1990), in turn, presented a view that the possibility to achieve competitive advantage depends on core competencies, which are unique, differentiate competitors and make an important contribution into company's value as perceived by the customers. The authors claim that knowledge and skills as well as strategic resources of an enterprise, when used in the market in an appropriate manner and time, ensure competitive advantage and market success. Hence their identification is the key to attain the leadership in the market.

Similar considerations can be found in the works by Stalk, Evans and Shulman (1992), Teece, Pisano and Shuen (1997) or Baretto (2010), who made references to the, so called, core capabilities, i.e. the set of strategic processes in an enterprise. The authors stressed, inter alia, the relevance of employees' skills and capabilities to flexibly and dynamically respond to changes in the environment (e.g. early detection of market signals, rapid shifts between the markets or the imitation strategy applied if necessary). Other important aspects include customers' perception (reputation), ability to make use of the technology, innovation, organization and management, and strategic assets, in particular, natural monopoly, specific cost advantages and benefiting from the impact of State regulations on the economy (Kay, 1993).

These ideas stress that, from the viewpoint of an enterprise, what counts are dynamic capabilities, which value consists in an appropriate configuration of resources rather than in the resources themselves. Competitive advantage is achieved because one can use them more quickly, more flexibly and in a more successful manner than its competitors (Eisenhart and Martin, 2000). On top of that, enterprises should be able to quickly learn innovations (Dosi et al., 2000). Researchers agree that the dynamic capabilities perspective contributed a lot to further theories (Helfat and Peteraf, 2003; Zott, 2003; Winter, 2003). In practice, Porter's idea of competitiveness and that of key competencies complement each other as taken together they give a comprehensive insight into internal structure of an enterprise and its environment. The need to integrate both approaches has been voiced many times in the literature (Spanos and Likoukas, 2001; Sheehan and Foss, 2009).

Recently, the researchers pay also a lot of attention to technology and innovation as indicators of competitive advantage of enterprises. Process innovation means new processes, which either reduce the cost of production or enable the production of new products (Harmsen, Grunert, and Declerck, 2000). Urbancová (2013) claims innovation contributes to the achieving of competitive advantage in several aspects, e.g., it enables growth by means of non-price factors (design, quality, individualisation, etc.), facilitates substitution of outdated products (shortening product lifecycles) or speeds up new product development in comparison to competitors. There are numerous studies in

different sectors that revealed the importance of innovation for gaining the competitive advantage (Abou-Moghli et al., 2012; Martin-de Castro et al., 2013; Jyoti, Rani and Kotwal, 2013).

## Study scope and method

The assessment of development conditions of SMEs was a part of a broader study on the evaluation of SMEs activities in the Lodz Metropolitan Area. The direct study was conducted between March and August 2012. It was a direct questionnaire-based study. Each questionnaire included demographics and was composed of several dozen closed and open questions. Some of them included rating scales.

The study included 171 businesses. Enterprises selected for the sample were divided into two categories of small and medium businesses in accordance with binding rules of classification.

Random and quota sampling was applied. For selecting the enterprises, we used the REGON database<sup>1</sup> and the results of our own statistical analyses. The results of the survey were digitalized. Various statistical tools were used for processing the questionnaire data, such as: cross analysis, mean assessment, coefficients of variation, variance analysis, Cronbach's alpha reliability coefficient for the scale and Cramer's V coefficient.

## Sample structure

The study included enterprises from 20 towns and villages in the Lodz Metropolitan Area. The sample was made of enterprises representing all the counties in the Area, nevertheless businesses from Lodz clearly dominated as they accounted for almost 73%. The proportion coincides with the share of the capital of the region in the total population of economic operators in the Lodz Metropolitan Area, which is 66% (Łódzki Obszar Metropolitalny, 2011). Economic operations centre in towns, thus the sample included only 9 operators based in rural areas.

TABLE 1. SAMPLE STRUCTURE

Location	Number of analyzed enterprises	
	Absolute	in %
Lodz	126	73.7
Other towns	36	21.1
Villages	9	5.2
Total	171	100.0

Source: Own studies.

The sample was composed of enterprises employing between 10 and 249 people. In accordance with binding classification, they were divided into the categories of small and medium-sized operators (Act on Freedom of Business Activity, 2010). The LMA is dominated by small businesses, which employ between 10 - 49 people and that is why they represented a clear majority (73 %) compared to medium-sized ones.

TABLE 2. EMPLOYMENT IN ENTERPRISES  
IN DECEMBER 2011

Employment:	No. of enterprises	
	absolute	in %

<sup>1</sup> National register of businesses kept by the Main Statistical Office.

10 - 49 people	125	73.1
50 - 249 people	46	26.9
Total	171	100.00

Source: Own studies.

Enterprises included in the sample represented diverse organizational and legal structures. Small operators could be divided into three more or less equal categories: private individuals, who conduct business activities (self-employment), limited liability companies, general and limited partnerships. Most of medium-sized enterprises were limited liability companies. Other legal structures, such as, self-employment, limited partnerships and joined stock companies were much more rare in the category.

TABLE 3. LEGAL STRUCTURE OF BUSINESSES

Type	No. of enterprises	
	absolute	in %
General partnership	21	12.3
Limited liability company	63	36.9
Joined stock company	7	4.1
Limited partnership	28	16.4
Cooperative	3	1.7
Private individual conducting business activity	46	26.9
Other*	3	1.7
Total	171	100.0

Note: \* Two partnerships in commendam and one State-owned enterprise

Source: Own studies.

The study included industrial and service enterprises. We left agricultural businesses aside as their share in the population of SMEs was marginal in the LMA (1.2%) (Łódzki Obszar Metropolitalny, 2011).

The analysis focused on enterprises from the biggest sections of the Polish Classification of Activities - manufacturing (C) and trade (G). Since other types of business activities were very much dispersed, the rest of enterprises were taken together as one group. Only construction businesses were distinguished. The study covered ca. 50 operators from each of the following sections: manufacturing, trade and repair of motor vehicles and other services. Construction businesses made a smaller group. Industrial and construction enterprises represented almost a half of studied medium-sized operators (48%). Small businesses were dominated by operators representing „other services” (63%).

TABLE 4. MAIN ECONOMIC ACTIVITY BY THE SECTIONS OF POLISH CLASSIFICATION OF ACTIVITIES (PKD)

Sector	PKD section	No. of enterprises	
		absolute	in %
Industrial sector including:			
manufacturing	C	56	32.7
construction	F	16	9.4
Service sector, including:			
trade, repair of motor vehicles	G	46	26.9
other services	H - S	53	31.0
Total		171	100.00

Source: Own studies.

Vast majority of enterprises (90%) were wholly owned by Polish capital. That was much more the case of small rather than medium-sized operators, where foreign capital was reported for only one fourth of enterprises.

TABLE 5. ENTERPRISES OWNED BY POLISH AND FOREIGN CAPITAL

Share of Polish capital:	No. of enterprises employing 10-49 people		No. of enterprises employing 50-249 people		Total no. of enterprises	
	absolute	in %	absolute	in %	absolute	in %
0%	1	0.8			1	0.6
1% - 50%	3	2.4	5	10.9	8	4.7
51% - 80%			4	8.7	4	2.3
100%	120	96.0	34	73.9	154	90.1
No answer	1	0.8	3	6.5	4	2.3
Total	125	100.0	46	100.0	171	100.0

Source: Own studies.

Relatively small group of businesses started before the systemic transformation. Until 1990 only 38 operators were established including 12, which started in 1989. Businesses established in the 1990s are the most numerous. Thirty two (32) enterprises were established after Poland's accession to the European Union. More than two thirds operate for over 10 years. That confirms their significant experience in running a business. The structure of the sample by the year of incorporation is presented in Table 6.

TABLE 6. THE YEAR OF STARTING A BUSINESS

Years	No. of enterprises	
	absolute	in %
- 1989	38	22.2
1990 - 1995	43	25.2
1996 - 2000	39	22.8
2001 - 2003	19	11.1
2004 - 2006	11	6.4
2007 - 2009	16	9.4
2010 - 2011	5	2.9
Total	171	100.00

Source: Own studies.

## Competitiveness of products and services

Reasons that impact the competitiveness of studied economic operators were identified using a closed-ended question with a seven-point survey response scale. Companies assessed 10 factors which influence their competitiveness. In the analysis we used distribution of answers and statistical ratios: mean response, variance and variation coefficient.

Almost all of the operators agreed that the quality of products and services positively impact their competitiveness and 63% of respondents decided the impact was positive to a large extent. Mean response was very high while the variation coefficient was low. Similar distribution of opinions was recorded for manufacturing companies which were asked about the quality of sales-related services. In general, the companies very favourably assessed their image and its impact on the competitiveness. Promotion campaigns and innovative products were perceived as less relevant for the competition.

Location as a factor of competitiveness was significant for a smaller part of the sample. Only for 40% of operators, both small and medium-sized companies, the location of a business in the LMA or in the commune had positive impact on their competitive advantage on the market.

Prices influenced the competitiveness of 64% of businesses and half of them assessed the impact as positive to a large extent. The strategy of simultaneous competing with price and quality (positive assessment to a large and small extent) was applied by 58% of companies. Following this option does not have to result in the absence of growth opportunities as companies applied the focus strategy and operated mainly on the geographically restricted market of the LMA, instead of the Region of Lodz and offered a limited range of products to a rather narrowly defined target group. Price was competition neutral in the opinion of 14% of businesses which competed with quality. Only very few operators (three) considered themselves competitive in terms of price but not in terms of quality.

The impact of competitors was assessed negatively; there were more negative than positive answers and the mean response was the lowest. Negative answers (almost a half) are interpreted as big negative impact reflected in the performance and exerted, according to businesses, by operators who compete with them. Positive opinions which stressed the weaknesses of competitors accounted for one third of all answers (Table 7).

TABLE 7. FACTORS INFLUENCING COMPETITIVENESS OF PRODUCTS (SERVICES) OFFERED BY BUSINESSES INCLUDED IN THE STUDY; OPINIONS OF BUSINESSES - RANKING BASED ON MEAN RESPONSES\*

No	Factors	Mean response	Standard deviation	Coefficient of variation in %*
1	Quality of products/services	6.52	0.82	12.6
2	Quality of customer care**	6.46	0.96	14.9
3	Company's brand and reputation	6.40	0.89	13.9
4	Specialization in production/ service	5.80	1.30	22.4
5	Promotion activities (e.g. advertising, discounts)	5.78	1.17	20.2
6	Innovative products/services	5.73	1.21	21.1
7	Prices	5.28	1.89	35.8
8	Location in the commune or district	5.09	1.68	33.0
9	Location in the Lodz Metropolitan Area	4.82	1.82	37.8
10	Competitors' strength	3.70	2.04	55.1

Note: \* Survey response scale, impact: positive to a large extent (7), positive to a medium extent (6), positive to a little extent (5), neither positive nor negative (4), negative to a small extent (3), negative to a medium extent (2), negative to a large extent (1).

\*\*The question was asked only to 56 industrial manufacturing companies.

Source: Own study.

## Operating conditions for businesses

In order to assess the conditions in which companies operate we used close-ended questions. 30 factors were assessed on a seven - point survey response scale. Businesses assessed the degree to which these factors facilitate or hamper their economic operations. Similarly to the competitiveness survey, we used response distribution and statistical ratios: mean values, standard deviation, and coefficients of variation.



TABLE 8. FACTORS WHICH FACILITATE OR HAMPER ECONOMIC OPERATIONS IN THE OPINION OF COMPANIES INCLUDED IN THE STUDY - RANKING BASED ON MEAN RESPONSES\*

No	Factors	Mean response	Standard deviation	Coefficient of variation in %**
1	Cooperation with suppliers and subcontractors	5.50	1.43	26.0
2	Sales opportunities	5.29	1.94	36.7
3	Prices paid for products/services	4.55	1.99	43.7
4	Social infrastructure - hotels, catering, entertainment, etc. ( <i>is it important to a company and to what extent</i> )	4.38	1.11	25.3
5	Support to companies from business environment organisations (e.g. development agencies, foundations, consulting companies, research centres)	4.30	0.96	22.3
6	Support to companies from the commune, county or region***	4.12	1.16	28.1
7	Security	4.06	1.22	30.0
8	Air infrastructure ( <i>is it important to a company and to what extent</i> )	3.94	0.88	22.3
9	Railway infrastructure ( <i>is it important to a company and to what extent</i> )	3.82	0.79	20.7
10	Attitude of commune's authorities to businesses	3.63	1.37	37.7
11	Attitude of regional authorities to businesses	3.61	1.29	35.7
12	Attitude of county authorities (Lodz) to businesses	3.54	1.26	35.6
13	Minimum wage	3.40	1.49	43.8
14	Availability of workers with adequate skills and qualifications	3.37	2.11	62.6
15	Possibility to dismiss workers	3.36	1.38	41.1
16	Human mentality (e.g. attitude to work)	3.32	1.92	57.8
17	Tax authorities and their operations	3.31	1.37	41.4
18	Justice	3.28	1.38	42.1
19	Frequently changing regulations issued by commune and county authorities	3.24	1.22	37.7
20	Environmental regulations ( <i>are they important to companies and to what extent</i> )	3.24	1.29	39.8
21	Salaries	3.02	1.55	51.3
22	Road infrastructure ( <i>is it important to companies and to what extent</i> )	2.96	1.74	58.8
23	PLN exchange rate fluctuations	2.86	1.38	48.3
24	Decision making lead time at various administrative levels in the Lodz Region	2.85	1.35	47.4
25	Illegal economy (unfair competition)	2.71	1.37	50.6
26	Competition	2.59	1.39	53.7
27	Local taxes and charges	2.55	1.50	
28	Frequently changing regulations at the central level	2.40	1.35	56.2
29	Cost of production/ service	2.33	1.51	64.8
30	Salary-related costs	1.93	1.36	70.5

Note: \* Survey response scale, factor: facilitates to a large extent (7), facilitates to a medium extent (6), facilitates to a small extent (5), neither facilitates nor hampers (4), hampers to a small extent (3), hampers to a medium extent (2), hampers to a large extent (1)

\*\* Standard deviation to mean response ratio. \*\*\* Options of the hampering factor were not considered

Source: Own study.

To start with, we validated the reliability of the measurement scale using the Cronbach's alpha coefficient (Ferguson and Takane, 2004). It measures the inter-correlation among answers to individual questions. The coefficient shows on a scale from 0 to 1 to what extent respondents' opinions are consistent. The higher the coefficient, the better the answers measure the item in question.

$$\alpha = \frac{k}{k-1} \left( 1 - \frac{\sum_{i=1}^k \delta_i^2}{\delta^2} \right)$$

Where:  $\alpha$  - Cronbach's alpha coefficient

k - number of questions (items)

$\delta_i^2$  - variance of responses to question i

$\delta^2$  - variance of the sum of responses to individual questions

In our test Cronbach's alpha was 0.842 meaning the measurement was highly reliable and the scores can be analysed statistically.

Distributions of responses to individual questions and values of statistical ratios are very much differentiated. It means companies differently assessed the impact of individual factors on the conditions in which they operate. They were divided into the following groups:<sup>1</sup>

- sales and purchases (5),
- costs of production (6),
- employment (3),
- infrastructure (7),
- relations with administration (9).

Two factors from the group „sales and purchases” - cooperation with suppliers and subcontractors and sales opportunities - were identified by all respondents as those which facilitate companies' operations the most. Positive answers outnumbered negative ones. Mean responses were the highest. For 70% of operators cooperation with suppliers and subcontractors facilitated company's operations and only very few highlighted difficulties in this area. This is the best score in the overall survey of conditions of economic operations. Sales opportunities were positively assessed by 2/3 of operators with only 20% of negative assessments. Prices were assessed less favourably. Opinions varied a lot which was confirmed by a high value of the coefficient of variation. Half of businesses were satisfied with prices and almost one third were of the opposite opinion.

Assessments of cooperation with suppliers and subcontractors, sales opportunities and prices were quite consistent in individual groups of businesses. There were no major differences between small and medium-sized companies operating in different sectors and industries and of different sales patters.

Other items from the group „sales and purchases” were assessed very negatively. Mean responses were among the lowest. The impact of competitors was considered a hampering factor by almost 3/4 respondents and the existence of illegal economy by 56%. Substantial portion of answers were extremely negative („factor hampering to a large extent”). Only few operators (14 and 4 respectively) considered the impact of competition and illegal economy positive.

Companies negatively assessed costs of production and their selected components: salaries, salary related costs, taxes, and local charges. Significant dominance of negative opinions resulted in the lowest mean responses. Salary related costs were assessed the most negatively. According to 57% of companies this factor hampers economic operations to a large extent. Positive opinions were expressed by as few as 8 businesses. Local taxes and total costs of production (service) were assessed little better. Half of the

<sup>1</sup> Number of scores is given in brackets.

companies declared negative impact of fluctuations of foreign exchange rate on their economic performance. For 40% the factor was irrelevant as they were not involved in exports or imports of products. Opinions on the impact of minimum salary upon the condition of a business were balanced when it comes to negative and positive responses. Opinions of small and medium-sized companies were consistent.

In the assessment of the impact of employment related factors on conditions of economic operations negative opinions clearly prevailed over positive ones. Difficulties in hiring employees with adequate skills were declared by 56% of companies while 30% were of the opposite opinion. Legal regulations concerning dismissing employees were assessed as irrelevant to the operations of a large group of companies (almost a half). Probably their employment is stable. For one-person businesses this factor was an obstacle to a large extent. According to them it makes conditions of economic operations more rigid and creates barriers to development. The factor referred to in the study as „human mentality”, which describes attitude to work in the opinion of most operators negatively impacts their operations .

Contrary to popular belief, transport (with the exception of roads) and social infrastructure had no special effect on businesses („it has no effect, neither facilitates nor hampers”). The opinion was expressed mainly by operators using the infrastructure to a small extent. Especially many assessments considered air transport the quality of which has no effect on almost 80% of businesses. Roads were assessed much more critically. The majority of businesses (58%) assessed them as poor and posing obstacles to their operations while as much as 28% out of that considered the obstacles to be significant. Neutral responses dominated in the assessment of the state of public security and justice.

More than two thirds of companies did not feel any support from business environment organisations. They either did not use the services of development agencies, foundations, consulting companies, research centres or the scope of cooperation was minor.

In most cases the attitude of administration at various levels was assessed as neutral. Few operators declared that their local authorities facilitate their operations. Some activities were assessed clearly negatively. The administration, mainly at the central level, was mostly blamed for the lack of stability in regulations. For more than two thirds of companies this was an obstacle, and for 37% it was a serious one. Administration in the Lodz Region was criticised for its slow decision making procedures. According to 56% of companies it negatively impacts the conditions in which they operate. Only 10 businesses (6%) stated the rate of decision making is adequate and helpful for company’s operations. A little less than half of businesses perceived tax offices and environmental regulations as obstacles to their operations.

The analysis based on close-ended questions in which operators assessed the impact of thirty factors on their performance was complemented and validated with open-ended questions. Businesses were asked to select three, out of thirty, the most important factors which facilitate or hamper their operations and to provide justification for their selection.

Companies presented 17 different opinions on factors the most decisive for their success. The distribution of responses was very dispersed. Although clearly the biggest group of companies considered sales opportunities the most facilitating factor but they represented a minority of 37% of companies. („*Sales are the heartbeat of any company, a business exists because of its customers.[...] The price of our products is adequate to their quality and we have no problems with sales*”). Three fourths of companies which declared sales opportunities as a strongly supporting factor were businesses operating on the market for more than 10 years, stable and with big market experience.

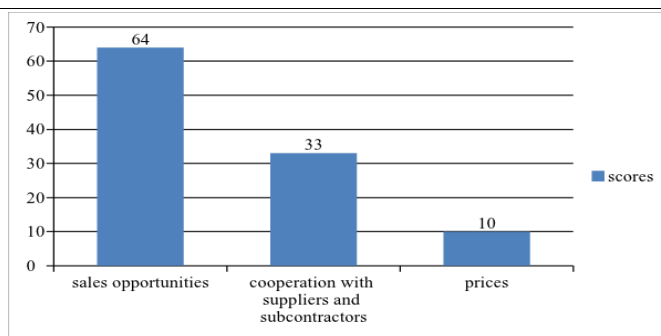
Cooperation with suppliers and subcontractors was the second facilitating factor based on the scores (19%). („*We are satisfied with our suppliers and that is why we have been working with them from the very beginning [...] Our suppliers offer materials cheaper than if purchased directly from the producer [...] We have good relations with our suppliers, which is crucial for retail sales[...] The key to business is having loyal suppliers*”).

Prices ranked third when it comes to importance but they were selected only by 6% respondents. *Prices cover the costs and let us make provisions for a more difficult future*). The remaining 14 reasons which impact the condition of an operator were selected occasionally. 13% of companies were unable to identify the most important condition for company's success.

Opinions in the open question with a ranking based on mean responses resulting from close-ended questions (Table 8) were highly convergent. In all aspects the same three factors ranked first (in different ranking order) (Figure 1):

- sales opportunities,
- cooperation with suppliers and subcontractors,
- price.

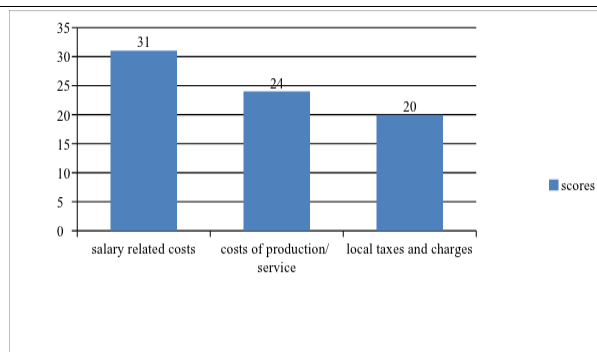
FIGURE 1. FACTOR IDENTIFIED BY COMPANIES AS THE ONE FACILITATING ECONOMIC OPERATIONS TO THE LARGEST EXTENT



Source: Own study.

In an open-ended question companies listed 22 obstacles to their operations. The biggest obstacle was identified in only 18% of ranks while the first three scored only 44%. Response distribution is dispersed more than for factors that facilitate business operations.

FIGURE 2. FACTOR IDENTIFIED BY COMPANIES AS THE ONE HAMPERING THEIR ECONOMIC OPERATIONS TO THE LARGEST EXTENT\*



Note: \*Factor with at least 10 scores.

Source: Own study.

Factors connected with the cost of production were considered the most troublesome for business operations (Figure 2):

- salary-related costs,
- total costs,
- local taxes and charges (“[...]outrageous local taxes, [...]high taxes but the streetlights are out, driving conditions appalling and I must pay for it myself”).

In the ranking based on mean responses to close-ended questions (Table 8) the above factors relating to costs, together with administrative efficiency, recorded the lowest scores. In the open question only very few operators mentioned administration as the source of major obstacles. It means the administration, despite critical opinions about its work, does not pose any exceptionally troublesome barriers to businesses.

## Growth opportunities for companies

Innovation resources in companies are low. They were assessed based on three categories (Table 9). Most companies did not have: ISO quality certificates, other quality certificates or patents, intellectual property rights to designs and trademarks. Only 10 operators held the rights to all three categories. They were owned much more often by medium-sized companies than by small ones. Rights in at least one category were held by more than 70% of companies employing 50 - 249 people and only 46% employing 10 - 49 workers. It means much higher innovation of medium-sized companies.

TABLE 9. CERTIFICATES, PATENTS, RIGHTS TO DESIGNS, TRADEMARKS HELD BY COMPANIES

Does a company have:	No. of companies employing:					
	10-49 people		50-249 people		Total	
	absolute number	as a % in the category	absolute number	as a % in the category	absolute number	as a % of all companies
quality management system certified to ISO standard	18	14.4	19	41.3	37	21.6
other quality certificates	20	16.0	16	34.8	36	21.1
patents, rights to industrial designs, trademarks	34	27.2	23	50.0	57	33.3

Source: Own study.

Less than half of the companies (43%) benefited from at least one type of support offered by business environment organisations (BEO) between 2008 - 2012; two thirds were medium-sized companies while small businesses represented only 37%. Medium-sized companies much more often establish relations with BEO. Assistance in drafting applications for EU funds was the most popular type of support. Technical cooperation with the BEO (new or modernized products, new technologies) was much more frequent than marketing support.

That could be due to the conviction that a good product itself can guarantee successful sales. Stress on technical aspects may also result from technical background of a large portion of managers and their disregard for issues pertaining to marketing and management (Table 10).

TABLE 10. COOPERATION BETWEEN COMPANIES AND BUSINESS ENVIRONMENT ORGANISATIONS (2008 - 2012)

Scope of cooperation:	Number of companies employing:					
	10-49 people		50-249 people		Total	
	absolute number	as a % in the category	absolute number	absolute number	as a % in the category	absolute number
Implementation of new products/services	11	9.5	14	30.4	25	14.6
Modernization of manufactured products/services	13	10.4	14	30.4	27	15.8
Implementation of new technologies	15	12.0	15	32.6	30	17.5
Developing marketing strategies	9	7.2	7	15.2	16	9.4
Marketing research	1	0.8	7	15.2	8	4.7
Drafting applications for resources available to companies (e.g. from EU funds)	23	18.4	17	37.0	40	23.4
Other	16	12.8	10	21.7	26	15.2

Source: Own study.

Effects of cooperation with the BEO were assessed rather positively. In the opinion of 17% of businesses they were very good and more than a half described them as good and up to their expectations. There were relatively few negative assessments. Cooperation was established principally with higher education institutions (mostly with the Technical University of Lodz) and scientific centres, less often with consulting and training companies and advertising agencies.

Out of 73 companies which benefited from the BEO support in the years 2008 - 2012 more than a half (43) considered it irrelevant to their operations (Table 8, item 5), meaning the scope of cooperation was very limited. Significant positive impact was declared by 20 operators. While the support of BEO covered 43% of companies, it was more intense only for 17% of the surveyed population of businesses.

There are 8 companies operating in the Lodz Special Economic Zone. Only a small portion of companies (17%) are members of industrial chambers and these are mainly medium-sized companies. Only very few operators are members of clusters (6). By remaining outside of their industrial organisations they restrict their possibilities to benefit from the experiences of other companies.

Companies had divergent views on future sales in the period up to 2014 in their respective sectors. Almost one third were unable to estimate them. They explained their lack of knowledge with highly uncertain macroeconomic and sectoral situation domestically and abroad. From among the rest, only a smaller portion expected deterioration. Despite rather gloomy economic forecasts for Poland and developed countries, many expected improvements on the market. Future sales opportunities were much better assessed for Poland than for the LMA. Companies expected the situation in their respective industries in Lodz and in neighboring counties to be worse than in the country as a whole. Perhaps the opinion is due to their better knowledge on the LMA market.

Export companies predictions of future sales in the years 2012 - 2014 were rather optimistic. They did not expect any crisis in their industries or they were unaware of any. Medium-sized operators were much more optimistic when it comes to their market

outlook until 2014 than small businesses. They more often expected increased sales both domestically (LMA and Poland as a whole) and abroad.

TABLE 11. STRUCTURE OF OPINIONS OF SMES ABOUT SALES OPPORTUNITIES IN THEIR RESPECTIVE INDUSTRIES IN THE YEARS 2012 - 2014

Sales opportunities in the industry will:	Lodz Metropolitan Area (LMA)		Poland		Abroad	
	as a % of the number of companies employing:		as a % of the number of companies employing:		as a % of the number of companies employing:	
	10-49 people	50-249 people	10-49 people	50-249 people	10-49 people	50-249 people
improve	22.4	28.3	28.8	54.3	20.0	41.3
not change significantly	25.6	26.1	26.4	8.7	16.8	10.9
deteriorate	21.6	13.0	13.6	8.7	4.0	6.5
hard to say or no response	30.4	32.6	31.2	28.3	59.2	41.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Own study.

Companies were moderately optimistic with respect to their sales in 2012 - 2014. Few claimed they stood no chances for improvement but as many as 43% declared improvements although to a very limited extent. Only one third were of the opinion that there will be very big or big opportunities of improved sales performance.

Operators expecting sales in their industries to improve to a very large or large extent were analyzed separately. Most of them declared sales in their industries will improve until 2014. Only very few expected any deterioration. They assessed the perspectives of their own sales in line with expected trends on the markets to which they sell.

TABLE 12. FUTURE SALES IN INDUSTRY IN THE YEARS 2012 - 2014 ACCORDING TO COMPANIES WHICH EXPECTED THEIR SALES TO IMPROVE TO A VERY LARGE EXTENT OR TO A LARGE EXTENT

Sales opportunities in the industry will:	Lodz Metropolitan Area (LMA)	Poland	Abroad
	Number of companies which assess their growth opportunities to be very big or big		
improve	27	40	30
not change significantly	12	7	7
deteriorate	3		1
hard to say or no response	15	10	19
Total	57	57	57

Source: Own study.

Sales forecast for an industry until 2014 may be translated into investment plans of companies. The survey identified to what extent these characteristics are inter-correlated. For that purpose we used the Cramer's V test. The analysis consisted of two options which took account of opinions on future sales possibilities in an industry in the LMA and in Poland. Results show a clearly weaker relation between investment plans and the future condition of an industry in the LMA than in Poland. Cramer's V coefficient for the first option amounting to 0.48 is much below the coefficient for the second option of 0.63.

TABLE 13. COMPANIES' INVESTMENT PLANS FOR THE YEARS 2012 - 2014

Company has got investment plans which are:	Number of companies	
	absolute	in %
far reaching	35	20.5
moderate	51	29.8
restricted	35	20.5
no plans	44	25.7
no response	6	3.5
Total	171	100.00

Source: Own study.

Significance test for Cramer's V produced different results for both options. For the first one the result was negative meaning the hypothesis on the relation between investment plans and sales possibilities in the LMA should be rejected. For the second option  $\chi^2$  (chi-square) was higher than critical value of  $\chi^2$  meaning the relation between investment plans and sales possibilities in Poland is statistically significant. In summary, there is statistical correlation between investment plans of companies and their assessment of sales possibilities in Poland but not in the LMA.

TABLE 14. MEASUREMENTS IN THE CRAMER'S V TEST OF SIGNIFICANCE

Item	Option 1	Option 2
Variable 1	Sales opportunities in an industry in the LMA in the years 2012 - 2014	Sales opportunities in an industry in Poland in the years 2012 - 2014
Variable 2	Companies' investment plans in years 2012 - 2014	Companies' investment plans in years 2012 - 2014
Number of categories of independent variable	4	4
Number of companies in the study	159	149
$\chi^2$	11.282	19.065
Cramer's V	0.48	0.63
critical value of $\chi^2$	16.919	16.919
Significance level	0.05	0.05

Source: Own calculations.

## Conclusions

As main factors contributing to the building up of a competitive advantage of a business entrepreneurs listed high quality of products, services and customer care, prices targeted to a clearly specified group of customers, brand and reputation, and specialisation. When assessing elements, which contribute to their business operations and their development they stressed cooperation with suppliers and subcontractors and sales opportunities. At the same time they were negative about the costs of production and their selected components. Contrary to popular belief, to the majority of operators transport and social infrastructure (e.g. health care, education) in the region have no effect on their businesses.



In the period 2008 - 2012 almost half of operators benefited from the assistance offered by business environment organisations. In most cases the scope of support was very limited and did not have any significant impact upon companies' operations.

Entrepreneurs from Lodz and from the Lodz Region were generally critical about the quality of law making and public administration although they admitted these were not decisive factors for the success or failure of their businesses. They put forward proposals, which, at least in part, should be of interest to the representatives of local authorities and central government.

Despite pessimistic economic outlook for Poland and for the world, most companies expect the situation will improve. Sales forecasts for Poland are assessed much more positively than for the LMA. Exporters expect relatively good sales performance on foreign markets.

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