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## **Developing Competitive Advantage on the Example of Internationalized SMEs in the Food Sector of Greater Poland Region**

**JEL classification:** *A12, F23, F61, L66*

**Keywords:** *competitive advantage, food sector, small and medium-sized enterprises, the internationalization of companies*

**Abstract:** *Omnipresent globalization engulfs more and more areas of life, which is why one of the most important processes in today's economy is shaping the so-called global village. Both globalization and the consequent internationalization constitute some of the biggest challenges for Polish companies. In addition, the intensity of competitive businesses in the global market forces companies to seek competitive advantages and improve their abilities in the process. The article contains the results of empirical research conducted in the years 2010-2011 in Greater Poland as part of the project titled "Determinants of competitive advantage of Greater Poland's food processing companies in the international market." This paper also contains data from both theoretical and empirical evidence on building*

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*competitive advantage in international markets provided by the analyzed group of internationalized SMEs. The aim of this study is to identify the factors determining the formation of competitive advantage of food processing companies from Greater Poland, which in turn contributed to the internationalization of those businesses. Secondary sources were used in pursuing the goal - theoretical implications were based on studies of literature, and they were verified by surveys. In addition, the following methods were used: description, visualization and statistical techniques. The time range of the undertaken work covers the years 2008-2011.*

## **Introduction**

Nowadays, companies face increasing difficulties associated with complex conditions for their development. These mainly include unprecedented dynamics of globalization and the new competitive conditions and the intensity of the competition. Thus, its growth poses new challenges for businesses today. It affects small businesses in a special way. The growing competition in foreign markets, more and more demanding customers and widely applicable international standards force businesses to constantly adjust to the changing conditions. In addition, the intensity of competitive businesses in the global market forces one to seek competitive advantage of companies, improving their ability in the process. Moreover, competitive advantage is dynamic, which means that under the influence of both external and internal changes in the business environment, various types of competitive advantage must be subject to evolution. And especially competing with their product offers in the international market the companies are in the first phase of internationalization. Literature offers a lot of advantages resulting from participation in the first stage of the international division of labor – the foreign trade. Therefore, in order not to lose their competitive position, companies must choose an appropriate development strategy beforehand, especially that the decision of foreign expansion does not remain an easy one.

The aim of this study is to identify the factors which determine the formation of competitive advantage of food processing companies from Greater Poland, which in turn contributes to the internationalization of those businesses. Secondary sources were used in pursuing the goal – theoretical implications are based on studies of literature, and they were verified by surveys. The time range of the work undertaken covers the years 2008-2011.

## **Competitive Advantage in the Theory**

Interest in corporate competitive advantage by theorists, practitioners and strategists proves that it is "at the heart of sustainable development and appropriation of value to a greater extent than managed by competitors" (Skawińska 2011, p 57). At the same time one should agree with the idea that competition is a ubiquitous phenomenon, so it is a must which boils down to building and protecting competitive advantages (Godziszewski 2006, p.10). Competitive advantage, therefore, is one of the basic concepts related to competition among companies. However, the same interest in the issue of competitive advantage stems paradoxically from the fact that in a global competition it has been increasingly difficult to achieve (Koczerga 2008, p. 90). Competitive advantage refers to the "configuration of components of competitive potential to enable the generation of more effective instruments of competition in comparison with other enterprises" (Stankiewicz, 2000, p. 103). It is also possible to find such definitions of competitive advantage that refer to its ability to implement a company's competitive strategy and rely on achieving and maintaining sustainable advantage (Cyrson 2002, p. 13). At the same time, M. Gorynia seems to present a fair view on this and believes that only a company with a competitive advantage in a particular place and time can be really competitive, if it possesses the ability to acquire and maintain this advantage (Gorynia 1998, p. 107). The essence of competitive advantage boils down to the fact that a company does something better or differently than its rivals, or is capable of actions that remain unreachable for its rivals, and thus achieves superior results (Godziszewski 2006, p.11). In turn, according to Barney, a competitive advantage can be achieved if a current strategy enables the creation of value for a customer and it is not a strategy used by current or future competitors (Barney 1991, p. 102).

Thus, it can be concluded that competitive advantage is not an absolute concept, but a relative category. One cannot talk about it without some reference point which most often refers to the results of competitors. According to D. Sz wajca, competitive advantage "is revealed as a result of the comparison of the results of potential competitiveness of enterprises operating within the same market." (Switzer 2012, p. 24)

Literature on management points to many lists that recognize different types of competitive advantages. The most common way of classifying competitive advantage is that proposed by M.E. Porter who represents the competitive positioning approach. According to him, we can distinguish cost advantage and differentiation advantage (Porter 2000). In addition, Porter's model takes into account the extent of competition and opportuni-

ties to compete in a sector or only in its part - a segment. M.E. Porter's competition model is shown in Figure 1.

**Figure 1.** The main types of competition by M.E. Porter

		Strategic advantage	
		Uniqueness perceived by the customer	Position of low cost
The Strategic objectives	In a sector scale	Differentiation	Cost leadership
	In a segment scale	Concentration	

Source: M.E. Porter (2000, p. 54).

According to Porter, it is possible to achieve a high market position with two possible advantages: cost advantage or quality advantage and by acting within the entire market or a segment. The latter strategy is called Porter's strategy of concentration (Romanowska 2004, p. 265).

The cost advantage of a company results from the following:

- External factors that may be associated with the position of a company in its environment (such as location which guarantees access to cheaper resources),
- Internal factors, mainly related to the allocation of resources; internationalized companies can achieve cost advantages through economies of scale associated with joining business networks and the scale of these networks reduces unit or operation costs.
- The time factor, which is related to the so-called effect of experience (learning) (Gorynia 2002, p. 88), and this experience increases productivity and specialization of a company.

In addition, this type of advantage most often leads to the adoption of a strategy of price competition which means that a company offers its products / services at lower prices than its competitors. However, as observed by H.G. Adamkiewicz-Drwiło, differences in quality make the markets in which producers compete only with price a rarity (Adamkiewicz-Drwiło 2002, p. 70). In other words, cost advantage refers to striving to minimize costs and to acquire cost leadership, thereby ensuring that a company becomes resistant to the actions of competition, including price reductions (Szwajca 2012, p. 30). The second type of competitive advantage, as proposed by M.E. Porter, is that a company offers customers something that has value for them and is also considered unique and what competitors are not able to offer. This advantage sometimes refers to qualitative advantage (e.g. Skawińska 2011, p. 64, Obłój 2007, p. 11, Koczerga p. 90.). It is worth noting that M.E. Porter also distinguishes another kind of advantage, which, however, does not belong to the group of core advantages. This is an advantage resulting from the concentration of business in a particular market segment. Thanks to the narrow market specialization a company can operate in a selected segment better than its competitors (Bednarz 2008, p. 184).

Another way to classify the types of competitive advantage was suggested by W. Wrzosek (1997, p. 5-6) distinguishing qualitative, pricing and information advantages. The first type of advantage is based on a situation when a company conducts qualitative changes that may affect both the services and the conditions of their offer. However, information advantage stems from a better access to information about clients, their tastes and needs (Adamik 2011, p. 20).

In turn, K. Obłój (2007, p. 412) lists four basic types of competitive advantage. The first one, the natural advantage which implies the existence of natural sources of advantage, and may include: location, access to resources, legal regulations (patents awarded to individual companies); The second one - the relationship between price and quality (which in turn implies that it is possible to build on the relationship between price and quality); The third one, a maintenance system increasing the cost of change – this advantage assumes constant, close and direct cooperation between suppliers. And the last type of advantage proposed by K. Obłój is a combination of systems which are able to effectively block possible entries of new competitors.

## **Developing a Competitive Advantage by Internationalized SMEs in Greater Poland – Survey Results**

### *Survey methodology and the characteristics of the analyzed sample*

The survey was conducted by the author\* in 2011-2012 within the framework of the project "Factors determining the development of competitive advantage of Greater Poland's food processing enterprises in international market."

The selection of groups to the nature of the research was purpose-layer in character. The layers were distinguished on the basis of such characteristics as: section, location, number of employees, legal status or area of activity. Then the representatives were drawn from the layers and it was verified how many of them operated internationally. Personal scope was applied to a group of small and medium-sized enterprises in the agri-food sector<sup>1</sup> of Greater Poland region. The study did not take into account micro-enterprises, as well as companies involved in the production of tobacco products. However, the time span of the study covers the years 2008-2011.

The study involved 29 food processing companies from Greater Poland\*. The territorial range of the study covered 7 districts, including 5 country districts and 2 townships. Assuming the classification of companies by number of employees, it can be stated that medium-sized companies dominated with 18 representatives, while the share of small businesses equaled to 11 companies. The distribution of the surveyed companies according to their size and their district has been presented in Figure 2.

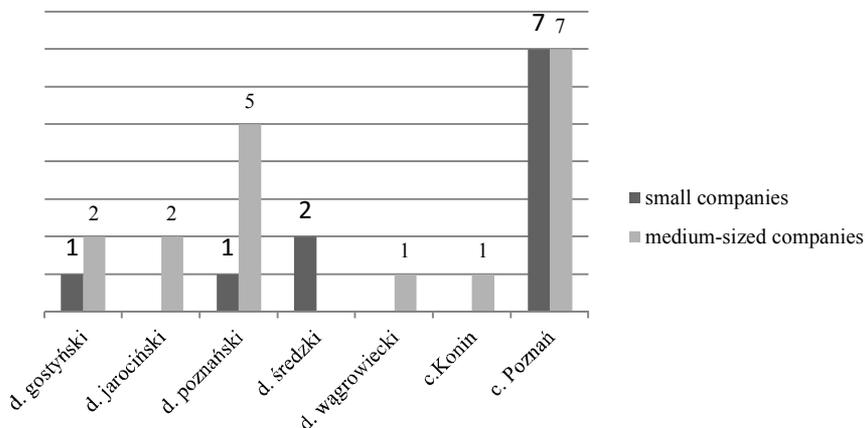
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<sup>1</sup> The agri-food industry was defined as a group of companies manufacturing products classified in section A, according to the PCA in 2011 based on CSO data.

\* The study covered all enterprises in the districts outlined by the criteria described above.

**Figure 2.** Distribution of surveyed companies by districts and size



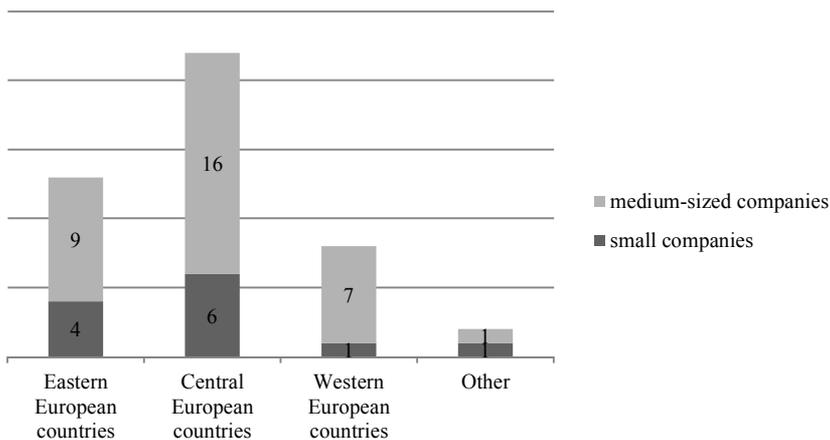
Source: own study based on survey results.

### **The Internationalization of Small and Medium-sized Enterprises in Greater Poland**

For years, the traditionally dominant forms of internationalization of enterprises in Poland (including those from Greater Poland) have been the simplest forms of trade, especially exports. This means that these companies decide to accept a lower risk of business activity in the market of the host country, while incurring low costs of such activity, but leaving the possibility of development in the form of more advanced forms of internationalization. Therefore, it seems important to discuss the contribution of exports in total production of companies. In the analyzed years there was a slight increase in the average value of exports in the total production of these companies. It mostly appears on the side of small businesses which between 2008 and 2011 almost doubled the share of exports in total production. This may be a proof of an advantage that these companies possess in the markets of third countries. In addition to the above, it can be concluded that the global economic crisis that began in 2009 has had very little impact on the economic performance of the analyzed enterprises. The year 2010 brought rise in exports to 12.5% and in 2011 it reached nearly 13% of the total production of the surveyed entities.

The geographical distribution of export markets of the surveyed enterprises is quite extensive and varied. These companies run most of their export activities in the markets of Central and Eastern Europe. The distribution of the surveyed companies depending on the direction of internationalization and company size is presented in Figure 3.

**Figure 3.** Distribution of the surveyed companies regarding the direction of internationalization and company size



Source: own study based on survey results.

The choice of internationalization can be determined by a company's strategy to enter foreign markets. In case of small and medium-sized enterprises in Greater Poland participating in the survey, the vast majority replied that they had applied ethnocentric strategy. The reason behind such choices lies in the cautiousness of entrepreneurs. Finally, these companies adopt international activities and choose to export their products only to markets resembling the national one. In other words, they find it possible to use a strategy similar to that implemented in the home market (see Budzyńska 2012, pp. 34-39).

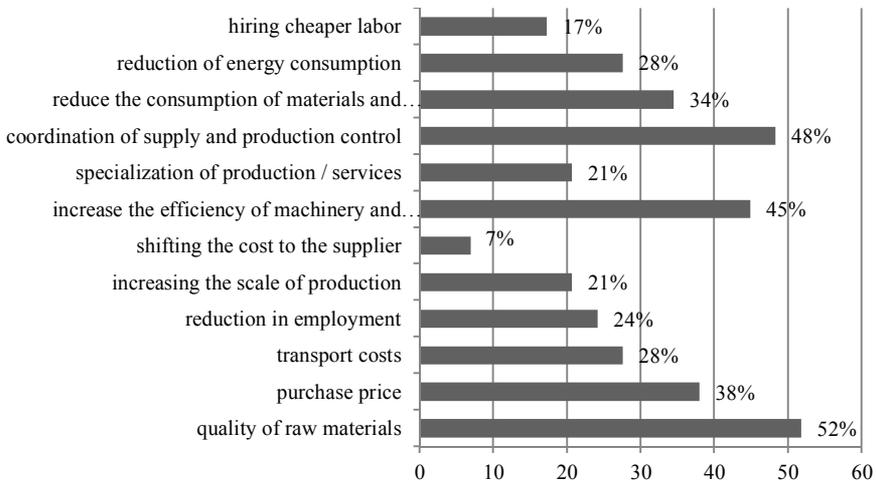
### **Competitive Advantage of Internationalized Enterprises**

Competitive advantage of enterprises operating in international markets depends largely on the strategies that a company adopts for implementation. Therefore, the following survey question turned out to be especially

important: What general competition strategies does your company implement in a foreign market? The vast majority of small and medium-sized enterprises involved in the study responded that it is a low-cost strategy – about 83% of replies. Subsequently, 38% of the responses regarded such strategies as diversification of the product and its sale and concentration (on a product or segment of consumers).

In addition, recognizing the low-cost strategy as leading among the surveyed enterprises, it seems reasonable to question the factors that lower the cost of production. In this case, the analysis of the responses showed that there is not one such factor. The surveyed companies reported three dominant factors. Over 50% of respondents felt that the most important factor in reducing costs is the "proper selection of raw materials in terms of quality." Subsequently, such incentives as "coordination of supplies and an increase in production" gained 48% of support and "an increase in the efficiency of machines and equipment" gained 45% of responses. The study found that the entrepreneurs of Greater Poland only slightly lower production costs by hiring cheaper labor – such replies were given by 17% of the respondents. However, only 7% stated that they usually move a portion of their costs to the supplier (Fig. 4).

**Figure 4.** Factors affecting the reduction of production costs



Source: own study based on survey results.

In order to examine the significance of the resources and skills of the surveyed companies in relation to the needs for the creation of sustainable competitive advantage in a foreign market, the questionnaire included the most important resources that may be encountered in the process. Replies were granted on a 5-point ordinal scale, where 1 means no resource / skill, and 5 – the ideal level. The distribution of replies to each statement is described by an arithmetic mean ( $m$ ), dominant ( $d$ ), median ( $m_e$ ), the first and third quartiles ( $q_1$  i  $q_3$ ) and quartile interval, equivalent to the difference of the third and the first reply quartile ( $q_3 - q_1$ ).

Among the determinants of corporate competitive strength the highest rated was human capital, where the arithmetic mean is 4.48 with as high median and dominant values ( $m_e=5$ ,  $d=5$ ). The discrepancy in responses to this statement was small ( $q_3 - q_1 = 1$ ). In addition to the aforementioned factor, the entrepreneurs of food processing industry perceive their competitive strength in social capital ( $m_e = 4$ ,  $d = 4$ ,  $m = 4.28$ ), the quality of fixed assets ( $m_e = 4$ ,  $d = 5$ ,  $m = 4.21$ ), the image of the company ( $m_e = 4$ ,  $d = 4$ ,  $m = 4.24$ ) and knowledge of both markets, consumers and competitors. Therefore, these factors constitute a set of determinants which allow the internationalized companies of the SMEs sector to create competitive advantage. However, in the eyes of company representatives the least important resources in building competitive advantage are the following: network cooperation, patents and licenses, and R & D (see Table 1).

**Table 1.** The assessment of corporate resources shaping competitive advantage

The state of resources and skills	m	D	quartiles			q <sub>3</sub> - q <sub>1</sub>
			q <sub>1</sub>	m <sub>e</sub>	q <sub>3</sub>	
Qualifications, skills and experience of employees (human capital)	4,48	5	4	5	5	1
The quality of machinery, production equipment and means of transport	4,21	5	4	4	5	1
Research & Development	3,10	3	2	2	4	2
Network cooperation	2,31	1	3	3	4	1
The quality management system (ISO 9000, TQM, GMP, ...)	3,52	3	3	4	4	1
The financial condition of the company	4,14	5	4	4	5	1

Table 1 continued

The state of resources and skills	m	D	quartiles			q <sub>3</sub> - q <sub>1</sub>
			q <sub>1</sub>	me	q <sub>3</sub>	
State of the art:						
about markets	4,28	4	4	4	5	1
about competitors	4,17	4	4	4	5	1
about consumers	4,24	4	4	4	5	1
State of logistics	3,76	5	3	4	5	2
Relationships with suppliers	4,00	5	3	4	5	2
Relationships with customers	3,97	3	3	4	5	2
Patents and Licenses	2,83	3	2	3	3	1
Such values as trust, loyalty and credibility (social capital) in relation to business partners.	4,28	4	4	4	5	1
Know-how (experience, knowledge, manufacturing process)	3,93	4	3	4	5	2
Foreign contacts	3,93	4	3	4	5	2
Ways to affect foreign consumers	3,52	3	3	3	4	1
Corporate image	4,24	4	4	4	5	1
Other (eg, computer aided) (what kind?)	3,33	3	3	3	4	1

Source: own study based on survey results.

In the light of such considerations, it is important that network cooperation still remains undervalued by enterprises. It was rated as the least affecting in creating competitive advantage. This phenomenon is worrisome from the standpoint of current theoretical findings which indicate that cooperation in business networks opens up many possibilities for expansion into foreign markets. A characteristic feature of this collaboration is its long-termness apart from interdependence and the lack of clear boundaries (see Gajowiak, Libertowska 2013, pp. 25-32).

### Conclusions

Small and medium sized enterprises are still an important part of the economy the state of which largely depends precisely on their condition. Thus, now it is important to undertake appropriate measures to support these entities. These actions should primarily be comprehensive in character, because the competitiveness of small businesses is affected by numerous factors.

Gaining and maintaining competitive advantage results from a broadly understood competitiveness. The current rapid changes occurring in the markets mean that entrepreneurs are less likely to plan over the long term. Therefore, these companies do not always operate on the basis of deliberate development strategy (Janiuk 2004). Moreover, small and medium-sized enterprises, in order to survive and succeed in markets (including the international market) must be competitive.

As a result of the confrontation between the presented theoretical considerations with the empirical research carried out, it seems that practice confirms the validity of the theoretical analysis. As a result, a number of the following conclusions are to be raised. First of all, it is worth noting that actions undertaken by companies in foreign markets are only the preliminary signs of activity. And the low attractiveness of foreign markets is associated largely with the fact that for such companies the main source of competitive advantage is the low cost of production, and thus price competition. In addition, internationalized SMEs in Greater Poland seek their advantage over competitors in the strategy of lower costs. It can result from both external factors (such as location ensuring access to cheaper resources) and internal factors associated with the allocation of resources. This is confirmed by the analysis of the factors affecting the reduction of production costs, which, according to the surveyed companies, identifies three main factors: "an appropriate choice of the raw materials in terms of quality", "coordination of supply and an increase in production" and "an increase in the efficiency of machinery and equipment." Moreover, there are no patterns of actions to guarantee any market success. It is rather intuitive to choose the strategy of internationalization.

Among the resources to build a sustainable competitive advantage of any food business in Greater Poland the highest rated was human capital (defined as the experience and skills of employees). In addition, other resources also proved to be important such as quality of assets, social capital and the corporate image. However, the least important resources in building competitive advantage turn out to be the following: network cooperation, patents and licenses, R & D – all quite disturbing from the point of view of theoretical considerations.

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