

**TEN YEARS OF ECONOMIC
TRANSFORMATION**

**Volume II - Markets, Companies and
Foreign Business in Transition**

Ed. by Kari Liuhio

2001

N:o 16

**STUDIES IN INDUSTRIAL
ENGINEERING AND MANAGEMENT**



LUT

**LAPPEENRANTA
UNIVERSITY
OF TECHNOLOGY**

Volume II - Markets, Companies and Foreign Business in Transition

Contents

Foreword	i
Authors	ii
Markets and Companies in Transition	1
<i>Károly Balaton, Budapest University of Economic Sciences and Public Administration, Hungary: "The Process Dynamics of Organizational Changes in Hungary during the 1990s"</i>	2
<i>Nevenka Cuckovic, Institute of International Relations, Croatia: "Post-Privatization Ownership Structure, Restructuring and Corporate Governance: The Case of Croatia"</i>	22
<i>Rachel Doern, Stockholm School of Economics in St. Petersburg, Russia & Carl F. Fey, Stockholm School of Economics, Sweden: "The emergence of eBanking in Russia"</i>	48
<i>Jan Eklöf & Irina Selivanova, Stockholm School of Economics in St. Petersburg, Russia: "Total Quality Management Transition in Corporate Russia"</i>	70
<i>Marian Gorynia, Poznan University of Economics & Radoslaw Wolniak, Warsaw University, Poland: "The Competitiveness of Polish Firms on the Eve of Poland's Entry into the European Union"</i>	83
<i>Panu Kalmi, Helsinki School of Economics and Business Administration, Finland: "Who Likes Outside Owners? - A Test of Aghion-Blanchard Hypothesis with Survey Evidence from Estonia"</i>	101
<i>Lubomir Lizal, The Academy of Sciences, Miroslav Singer & Ashot Baghdasarian, PriceWaterhouseCoopers, the Czech Republic: "An Estimation of Euler's Equation of a Profit Maximizing Firm: The Case of the Czech Republic 1992-1995"</i>	126
<i>Jörgen Ljung, University of Linköping, Sweden: "Krenholm Holding Ltd. in Narva, Estonia: A Case Study of a Company in Transition"</i>	143
<i>Anita Lukka, Lappeenranta University of Technology, Finland: "Logistical Challenges in Russia"</i>	161
<i>Ovidiu Nicolescu, International Comparative Management Center, Romania: "Romanian SMEs Evolution Challenges and Perspectives during Transition Period"</i>	162
<i>Raimo Nurmi, Turku School of Economics and Business Administration, Finland: "Changes in Ownership and Corporate Governance in Finland during the 1990s: An Aspect of Transformation"</i>	182
<i>Anete Pajuste, Stockholm School of Economics, Sweden: "Corporate Governance and Stock Market Performance in Central and Eastern Europe: A Study of Nine Countries, 1994-2001"</i>	193
<i>Miroslaw Szreder & Andrzej Balicki, University of Gdansk, Poland: "Preparations and Attitudes of Small Enterprises to Poland's Accession to the European Union"</i>	225

<i>Juha Väättänen & Jari Jumpponen, The Research Group for Russian and East European Business, Lappeenranta University of Technology, Finland: "Connections at the Crossroads – The Russian Telecommunications Sector Entering the New Millennium"</i>	245
<i>Mark Wermus, Old Dominion University & Tomasz Mroczkowski, American University, the USA: "Study of Downsizing in Manufacturing Companies in Poland and Bulgaria"</i>	263
Foreign Business in Transition	272
<i>Giulia Faggio, Norwegian School of Economics and Business Administration, Norway: "Foreign Direct Investment and Wages in Central and Eastern Europe"</i>	273
<i>Igor Gurkov, Higher School of Economics, Russia: "Management Innovations in Russian Export-Oriented Companies: The Results of Large-Scale Surveys in Enterprises"</i>	295
<i>Inkeri Hirvensalo, Helsinki School of Economics & Tero Lausala, Finpro, Finland: "The Russian Territories of the Barents Region as Targets for FDI"</i>	312
<i>Nigel Holden, Copenhagen Business School, Denmark & Chiara Cannavale, University Parthenope of Naples, Italy: "Why Investors in East and Central Europe Should Build a Mutual Learning Dimension into Business Strategies"</i>	337
<i>Vadim I. Kapustkin, Nikita A. Lomagin, Sergei F. Sutyryn & Olga Y. Trofimenko, St. Petersburg State University, Russia: "International Dimension of Russian Transition"</i>	355
<i>Boicho Kolev & Boriana Pencheva, Foreign Trade Institute, Bulgaria: "Trade Liberalization with the Transition to a Market Economy: The Europe Agreement and the Development of Bulgarian Foreign Trade in 1996-2000"</i>	375
<i>Maarit Lindström, University of Helsinki, Finland: "Finnish Companies' Foreign Trade and FDI in the Baltic Sea Region: Transition Economies in Perspective"</i>	400
<i>Kari Liuhto & Jari Jumpponen, The Research Group for Russian and East European Business, Lappeenranta University of Technology, Finland: "Russian Direct Investment Abroad - Where Does Russian Business Expansion Abroad Lead?"</i>	426
<i>Marin A. Marinov, Gloucestershire Business School & Svetla T. Marinova, University of Birmingham, the UK: "Changes Caused by Privatization and Foreign Direct Investment in Central and Eastern Europe: The Case of Bulgaria versus the Region"</i>	460
<i>Jarmo Nieminen & Jorma Larimo, University of Vaasa, Finland: "Entry Strategies and Performance of Finnish Companies in Central and Eastern European Countries"</i>	475
<i>Tõnu Rooliht, University of Tartu, Estonia: "The Internationalization of Enterprises from Transition Countries: The Role of Networks and Inward FDI"</i>	501
<i>Tauno Tiisanen, The Research Group for Russian and East European Business, Lappeenranta University of Technology, Finland: "Foreign Investments in Transitional Russia"</i>	520
<i>Alf Vanags, Baltic International Centre for Economic Policy Studies, Latvia: "Latvian Trade Policy and Trade Policy Reform in the Transition"</i>	535
<i>Urmas Varblane & Ele Reiljan, University of Tartu, Estonia: "Industrial Restructuring and Relocation Strategies of Foreign Investors in Estonia"</i>	557

The Competitiveness of Polish Firms on the Eve of Poland's Entry into the European Union

Marian Gorynia & Radoslaw Wolniak

In the first part of this paper the concept and the basic components of competitiveness itself are investigated. Then, in order to evaluate the competitiveness of Polish firms as Poland draws closer to its goal of being accepted as full member of the European Union (EU), the analysis is structured in three dimensions: the domestic market, foreign markets and the unified market of the European Union. In each of these dimensions the competitiveness of Polish owned firms is viewed from the point of view of internal strengths and weaknesses of these firms, and then the opportunities and threats appearing in their external environment. In the last section the results of empirical research on the competitive potential of Polish firms are presented.

1. The Principal Dimensions of Competitiveness

According to received theory there are many ways of analysing and understanding firm competitiveness (Casson, 1991; Rugman & Hodgetts, 2000; Faulkner & Bowman, 1995; Porter, 1998; Hamel & Prahalad, 1990; Stalk et al., 1992; Hill & Jones, 1992). In this paper attempt is made to present a relatively comprehensive and multidimensional concept of firm competitiveness, reflecting the complexity of behaviour of the competing firms. At the same time, the approach used here includes the most important aspects of competitive enterprise behaviour.

Formulating the concept of competitiveness and later on an analytical scheme to understand it calls for the following differentiation: a) competitiveness *ex ante* versus competitiveness *ex post* and b) competitiveness on the home market versus, competitiveness on different foreign markets and competitiveness on an integrated regional market (in this case that of the EU). Competitiveness *ex post* is understood as the current competitive position. The competitive position achieved is the outcome of the firm's competitive strategy and competitive strategies of its rivals.

Competitiveness *ex ante* is the future (prospective) competitive position. It is defined by the firm's relative (to its competitors) capability to compete in the future through its competitive potential. In other words this is the level of competitiveness that is possible to be achieved. The structure and use of competitive potential is described by competitive strategy: planned or intended. Thus the firm's competitive strategy is an analytical category facilitating transition from competitive potential, i.e. potential competitiveness *ex ante* to the real competitiveness, i.e. executed *ex post*.

In order to reach a desired competitive position a company must have a distinct competitive advantage. Having competitive advantage is a *sine qua non* condition to achieve a desired competitive position. The competitive advantage can be of a cost-price and/or qualitative (differential) character. It is achieved through instruments of competition which are at the same time elements of competitive strategy. The instruments of competition include (see Hafer, 1999) in essence all those used in modern marketing management decisions.

It is also necessary to define the concepts of competitive potential and competitive position. Competitive potential of an enterprise can have a narrow and a broad meaning. In the narrow meaning of the term competitive potential embraces all resources used or available for use by an enterprise (Godziszewski, 1999; Grabowski, 1994). Resources can be classified into three groups (Godziszewski, 1999):

1. primary resources,
2. secondary resources,
3. performance resources.

Primary resources consist of the entrepreneur's philosophy and the capacity to assemble and combine in an enterprise the necessary tangible and intangible assets. Secondary resources include material factors of production (fixed assets, raw materials, intermediate goods, and equipment), human resources, innovations, distribution channels, enterprise organisation and information resources. Performance resources include concepts such as image (particularly brand awareness) and customer loyalty.

In a wider meaning of the term, the firm's competitive potential consists of the following elements (Gorynia & Otta, 1998):

1. corporate culture,
2. firm's resources (broadly conceived),
3. organisational structure,
4. strategic vision,
5. unique behaviour (implementing company strategy).

Corporate culture identifies economic behaviour preferred by owners, managers and employees. In some enterprises priority may be given, for example, to the delivery of superior value through innovations, in others through efficient distribution systems. Some firms may take risks willingly, other – with extreme reluctance. Generally speaking, corporate culture may be a factor strongly stimulating competitive and entrepreneurial behaviour.

Company resources usually determine the scope of its activities in the economic and social environment. Scarcity of some resources may limit such scale and scope of activities. Their flexibility and mobility may change the firm's position in its environment. Broadly conceived, firm's resources include human, technological, material, and financial resources as well as intangibles (e.g. reputation). Resources available to an enterprise reduce the set of behaviours possible under given environmental conditions to a set of feasible behaviours. The volume, character and allocation of the firm's resources also influence its capacity to gain competitive advantage.

Organisation of an enterprise determines whose preferences will be of greater or smaller significance in the firm. The organisational structure of the firm includes such concepts as division of authority, division of labour and the communication network. Enterprise behaviour is moreover influenced by its strategic vision which determines its objectives, mission and their execution. The importance of this vision depends on whether it is clear, supported by internal and external authority, based on experience and feasible.

The process of strategy creation in a company consists of two components: the process of formulating a strategic vision (plan) and the process of implementing the vision (plan) in practice. Each company has its own research, planning and performance procedures. External and internal factors are responsible for the fact that enterprises will be more or less inclined to change the set of procedures used. Moreover, external and internal factors are also responsible for the fact that the firm's behaviour will either come closer to the planned course of action (effective implementation of a clear strategic vision) or drift away from it due to the lack of a clear strategic vision or the inability to implement it.

A complex and detailed structure of competitive potential has been suggested by Stankiewicz (Godziszewski, 1999). Eleven functional-resource areas and 91 elements constituting those areas were identified in his concept of competitive potential. Competitive position of an enterprise emerges from the assessment of what the firm has to offer to the market and is reflected by the firm's market share and its financial situation. Standard indicators of financial standing include profitability relative to that of competitors from the same branch or industry and relative cost level. However in order to fully capture all the elements of competitive position the following concepts should be taken into account as well:

1. product features compared with those of competitor products,
2. perception of the firm and its products on the market, perception of the firm by its environment,
3. customer and brand loyalty,
4. costs of switching to other suppliers,
5. existence or likelihood of substitutes.

If by competitive gap one understands for the purposes of this paper the differences in competitiveness between the Polish and the European Union firms, then in the light of the above-mentioned terminology, the said concept of competitive gap can also be understood in the *ex post* sense (gap as a difference in competitive position) and in the *ex ante* sense (gap as a difference in competitive potential). Furthermore, it is also sensible to differentiate between a competitive gap understood as a state at a given moment (static competitive gap) and a competitive gap in a dynamic approach, meaning the process of change in the initial competitive gap, i.e. the sequence of states of competitive gap at different points in time (dynamic competitive gap).

Four further competitive gap dimensions can be established:

1. competitive gap as a difference in the current competitive position of a firm compared with that of its rivals. Detailed variables describing the competitive gap in this sense include the above-mentioned measures of the competitive position (market share and profitability) referred to the current situation,
2. competitive gap as a difference in the future competitive position of a firm compared with that of its rivals. It is described by a similar set of measures of competitive position referred however to some moment in the future,
3. competitive gap as a difference in the current (initial) competitive potential of a firm compared with that of its rivals. Competitive potential determines the firm's ability to compete and the range of plausible competitive strategies. Moreover, it is assumed that differences in the future competitive potential (referred to some moment in the future) will be significant for competing in the period after that moment,
4. competitive gap as a difference in the competitive strategy within the studied period of a firm compared with that of its rivals. Differences in the competition strategy can be reduced to differences in the outlined instruments of competition.

When the competitive gap between Polish enterprises and EU firms is investigated in the context of Poland's entry into the EU, one should keep in mind the above-mentioned dimensions of that gap. Measurement of this gap will have to include detailed variables referring to all of the said dimensions. The competitive gap (CG) can be presented as a vector:

$$CG = \begin{bmatrix} DCCPS \\ DFCPS \\ DCCPL \\ DCS \end{bmatrix}$$

Where:

- | | |
|-------|--|
| DCCPS | – differences in current competitive position |
| DFCPS | – differences in future competitive position |
| DCCPL | – differences in current competitive potential |
| DCS | – differences in competitive strategy |

For the needs of empirical research presented in the last section specific dimensions of competitive gap concerning competitive potential were formulated as questions in a questionnaire. Operationalisation has led to determination of detailed measurable variables specified in Appendix 1.

The above approach of classifying measures of competitiveness which serve as a tool to measure competitive gap corresponds with the concept of three aspects of

competitiveness suggested by Buckley et al. (1998). They distinguish three aspects of competitiveness or three groups of the measures of competitiveness:

1. competitive performance,
2. competitive potential,
3. management process.

The above-mentioned three Ps describe different stages of the competitive process. At the point of departure there is the competitive potential which is a certain input or outlay in the process of competing. Changes in the competitive potential occur during and due to the management process.

There is also a feedback effect between the different aspects of competitiveness. Competitive potential partly determines the management process but the management process in turn influences the extent and quality of the competitive potential. The results achieved also influence the volume and quality of competitive potential and have a further impact on the management process. These observations reinforce the conclusion that competitiveness and competitive gap cannot be treated as static concepts.

2. Factors of Competitiveness of Polish Firms

The average size of Polish firms, measured by their total annual turnover, is relatively small when compared with their EU counterparts. Another important aspect related to size, strategy and structure of Polish firms is that they are predominantly focused on the domestic market and have little foreign presence going beyond exports as the first stage of the internationalization process. This is evident in the fact that there are but a few Polish owned companies that can be classified as multinational in the sense of having invested in foreign production in many foreign markets. Thus three elements influencing a company's competitiveness: size, structure and strategy create at the outset a handicap for Polish firms when compared to their foreign competitors operating on the market of the EU and/or the domestic market of Poland.

Focusing first on the domestic market it is easy to observe that there is a marked asymmetry in the competitive position of Polish and foreign firms in favor, of course,

of the latter. The subsidiaries of foreign multinational companies (MNCs) operating in Poland are by themselves equal in size to the medium or large Polish firms. The foreign subsidiaries' structure and strategy drawing on and internally connected with the resources of their parent companies provide them with a tremendous competitive advantage vis-a-vis their drastically weaker and smaller Polish competitors. It may be argued that Polish firms have the advantage of better knowledge and access to information on the domestic market, including the country specific formal and, equally if not more important, informal and tacit knowledge of doing business in Poland. But this advantage is very much time constrained in that most of the foreign rivals and certainly all subsidiaries of MNCs can easily acquire, after a relatively short presence on the Polish market, the same or superior knowledge and expertise due to their larger financial resources and ability to capture prime managerial talent as well as the capacity to utilize superior support services (legal, consulting, accounting and marketing firms and agencies). The same is true with respect to supplier relationships with one modification - foreign firms bring along their own suppliers from abroad who in turn acquire their local competitors thus often putting the Polish customers of those acquired suppliers in a situation of competitive disadvantage.

R&D outlays and the resulting product innovations are a basic source of competitive advantage. Polish firms do allocate funds for this activity. However the absolute and relative (to total spending or to total sales) expenditures of domestic firms are considerably smaller when compared with those of MNCs. It is noteworthy to observe in this context that most MNC subsidiaries in Poland spend marginal amounts on R&D since the core of this activity is carried outside Poland and the Polish market is still considered as being suitable for placing products that are relatively obsolete or in the maturity stage of their life cycles (Wolniak, 1998).

Attitudes of management towards competitiveness, entrepreneurial spirit and a drive to challenge competitors on domestic and foreign markets all constitute a psychological layer of managerial motivations to compete. In this respect research described below points to a high degree of confidence of managers in Polish firms in being able to compete successfully in the EU market. Such motivation, if indeed it is deeply embedded in the minds of Polish managers, may to some extent compensate

for the weaknesses and deficiencies in the real competitive position of domestic Polish companies. But it also points out to the historic and cultural drawback typical to so many Poles that having a drive to win and combat your adversaries with little material, financial and intangible resources behind you will inevitably lead to a path with a high risk of failure.

In enhancing their competitiveness Polish companies expect support from the government and/or the local authorities. This is a rational if not obvious expectation from the business sector, especially in the case of an emerging economy in the process of transformation from a centrally planned to a market led system. It is augmented by the sad fact that in most key sectors and industries major and/or dominant market shares are already held by subsidiaries of foreign MNCs. Domestic Polish firms have not been able to effectively match the competitive advantages possessed by foreign entrants although they are continuing to implement strategies designed to redress this imbalance¹.

Surprising in the sphere of government support for domestic Polish firms is the fact that the approach and measures so far adopted have been predominantly neo-liberal and laissez faire in character. This in no small degree can be considered as one of the principal causes of the low competitive position of Polish versus foreign owned firms on the Polish market. All the more so when this tendency is coupled with intensive but incoherent attempts to attract foreign investment to Poland. Foreign firms investing in Poland have throughout the transformation period enjoyed tax and other fiscal privileges that were unavailable for domestic competitors. The underlying assumption behind this line of thinking was the conviction that foreign firms, especially large MNCs, would by investing in Poland bring in the much sought new products and superior technologies, management and marketing systems, and thus contribute to the upgrading and development of the whole economy.

¹ For an extensive presentation of the competitive strategies of Polish firms see Gorynia and Wolniak (2000).

It was further assumed at the start of the economic and social transformation process that the existing domestic assets, most of them state owned, would be more effectively privatized and restructured if they were sold to foreign companies that had a proven track record of success in international business. This however necessitated a radical improvement in the existing institutional, material, technical, service and social infrastructure which was highly inadequate to the needs of foreign investors or completely absent. The achievements and improvements in many of these elements of infrastructure have so far been quite outstanding. In this sense they have benefited the competitiveness of all firms operating on the Polish market: foreign as well as locally owned. But in other aspects building the competitive position and potential of domestic firms was left to the entrepreneurship, creativity and invention of their management and owners. The net effect today is that all those and other assets being at the disposal of Polish owned firms cannot match in key sectors those of their foreign owned counterparts. This is compounded by the still existing barriers in the form of government bureaucracy and red tape which also inhibit the functioning and expansion of both domestic and foreign businesses.

Domestic Polish firms have managed to stay abreast of competition in segments and/or market niches that by foreign MNCs were considered as relatively unimportant or less attractive. The inherent danger here is that as with time foreign firms experience a slowdown in sales or saturation of their principal markets they will be tempted to move into these previously neglected segments and niches eroding and possibly eliminating the dominance of local Polish competitors. This possibility is all the more real once the Polish market is fully opened to competition from the EU as Poland becomes its full member. Negotiated interim periods for adjustment for Polish firms will change little if there is no concerted action on the side of government policy actively enhancing their competitive potential and position. But so far there are no clear signs of this happening. Thus there are symptoms that if the Polish authorities will institute such measures later on it might prove to be "too little and too late".

The above observations apply to the competitive situation on the Polish domestic market. If attention turns to the competitiveness of Polish owned firms on foreign markets the situation can be unfortunately judged as much less favorable. It is difficult

to identify Polish firms operating on foreign markets in which these firms hold dominant or major market shares. This is because Polish firms are small and weak in terms of their firm specific ownership advantages². The market of the EU attests to this conclusion as well.

There is however a further important cause for the competitive weakness of most Polish firms operating on foreign markets. It stems from the conviction that exporting is a sufficient method of serving foreign markets. Polish owned firms venture very rarely beyond this stage into licensing, franchising or various forms of foreign direct investment. Business alliance formation to enter or operate on foreign markets is also primarily a theoretical concept. The relative absence of all those methods and forms is less due to insufficient perception of how foreign competitors have been entering and operating on the Polish market and much more to the consequences of insufficient material, financial and intangible assets.

In many industries moreover successful exporting is seen as a very difficult stage to reach anyway. For many Polish products meeting accepted quality standards is a problem and even if it has been solved there still lingers the negative country of origin or country of manufacture effect which, in order to be eliminated, requires massive advertising or other forms of promotion. In this sphere government funding of campaigns promoting Polish products is inadequate or only in its infancy stage.

Looking at the problems of competitiveness of Polish owned firms from a conceptual point of view the following pattern can be detected. These firms are perceived as competing with foreign owned companies firstly on the domestic Polish market, then on specific foreign markets and eventually to a wider extent also on the single market of the EU. In such a cross section analysis the competitive situation of Polish firms tends to evolve from a weak position on the domestic Polish market to a weaker position on foreign markets to a perceived weakest position on the EU market. This

² These advantages are conceptualized according to Dunning's eclectic paradigm of international production (see Dunning, 1988).

means that in practice Polish firms are and will continue to be an easy target for acquisitions from EU companies and/or will simply drop out of the market.

If (in a limited number of cases) Polish owned firms manage to demonstrate superior competitive performance on the domestic market their position on specific foreign markets will in the long run remain weaker if they refrain from going beyond exporting on the path of internationalizing their activities. This will lead to a relatively weakest position on the market of the EU if exporting continues to persist. On the other hand if Polish firms do undertake direct investment abroad and/or form strategic alliances with other domestic or foreign companies their competitive position is likely to improve on specific foreign markets. It should therefore become strongest on the EU market but this however does not mean that it will be strong enough to resist a takeover or merger attempt by a still stronger EU rival.

At the same time the situation of foreign owned competitors can also be projected using the same cross section framework. In Poland they have the strongest possible competitive position and potential due to dominant or major market shares, weak local and moderate international competition. Since in the majority of cases they are subsidiaries of large MNCs such position of strength is also evident in other non-EU national markets where they operate. In the EU, where competition is much more intense, their position can be considered as being weakest although this is a relative term and always implies a dramatically stronger position than that attainable by the most highly competitive Polish owned firms after Poland's entry into the EU.

Polish owned firms in order to survive and take advantage of the EU market have practically one two stage option open to them if they do not intend to loose their national identity: focus on improving their competitive position on the Polish market and embarking on the internationalization process. The key to the first part seems to lie in stimulating domestic rivalry³. Besides the firms themselves the principal actor here is the state which should allocate more funds for implementing measures

³ A similar solution for Japanese firms is advocated by Porter and Sakakibara although its implications and premises are different (see Porter & Sakakibara, 2000).

designed to eliminate the asymmetry between the terms and conditions of doing business in Poland open to and favoring foreign firms, and those available to domestic competitors. This should not in any case mean sheltering or outwardly intervening in the functioning of Polish owned firms. What is expected is a more facilitating, guiding and stimulating role, providing them with resources and showing them the instruments to innovate and upgrade their competitive potential.

Another sphere of economic policy measures should focus on supporting foreign direct investment by Polish owned firms. This also in no small measure should include an educational campaign designed to show the rationale for and advantages of investing abroad and/or cooperating through the formation of business alliances.

If the imbalance and asymmetry between the competitive position of Polish owned and foreign firms in Poland is not redressed in the near future then what can be expected upon Poland's entry into the EU will be a large scale expansion of companies from Poland to the EU market with only one distinctive feature: most of them will be subsidiaries of non Polish MNCs. The recurring question may be asked at this moment as to what difference does the national ownership of a company's equity make and what are its long term strategic consequences. But those are issues for further research falling beyond the scope of this paper.

3. Measuring Competitiveness of Polish Firms: An Empirical Study

The research was conducted in 2000 on a sample of 68 Polish firms under the following assumptions:

1. data collection was conducted through direct interviews, on the basis of a questionnaire, with representatives of top management of the selected firms (one representative from each firm),
2. questions covered managers' opinions concerning three aspects of competitiveness – competitive position, competitive potential and instruments of competitive strategy,
3. sample firms were chosen from different branches of the manufacturing sector,
4. the sample covered mainly medium-size and large enterprises.

Enterprises of different legal status participated in the study: 29 were limited liability companies, 27 joint stock companies, 4 civil companies, 3 one-man companies, 4 co-operatives and 1 state enterprise. As for the number of employees in the studied firms, the situation was as follows:

- up to 50 employees - 4 firms
- 50-100 employees - 10 firms
- 101-500 employees - 38 firms
- over 500 employees - 16 firms

In 1999 the sales recorded by those firms were as follows:

- up to 5 mln PLN - 3 firms
- 5-10 mln PLN - 9 firms
- 10-50 mln PLN - 25 firms
- 50-100 mln PLN - 13 firms
- over 100 mln PLN - 14 firms

In 1999 the share of exports in total sales was 35% on average with exports to the three largest EU markets constituting on average 26% of the total sales. The largest EU markets for the firms under consideration were Germany, France and Holland. The firms' forecasts for the years 2000, 2003 and 2005 anticipated that these markets would continue to play the most important role for their export sales in the future.

The results of the study on competitive potential are presented in Appendix 1 (in this paper we do not present the results concerning competitive position and competitive strategy). Respondents were given a set of 39 measures of competitive potential. The highest weights were attributed to the following measures:

- knowledge of the current and future needs of the customers (M=4.88),
- quality of the managerial staff – top management (M=4.76),
- reputation (image, recognition) of the firm (M=4.70),
- importance of quality assurance (M=4.69),
- technology development (M=4.67).

Results also showed that the following measures of competitive potential were of the least significance:

- quality of research and development staff (M=3.64),
- outlays for R&D (M=3.67),
- level of marketing techniques (M=3.67),
- employee attitude to change (M=3.69),
- employee approval of managerial staff (M=3.79),
- quality of the motivating system (M=3.79).

It was somewhat surprising that factors relating to R&D and to corporate culture were assessed as unimportant. As for evaluation of the current competitive potential of the studied firms on the home market, the highest measures were attributed to the following factors:

- importance of quality assurance (M=4.16),
- quality of the management system (M=4.11),
- quality of managerial staff – top management (M=4.09).

Thus, broadly understood quality seemed to be the most important asset of the studied firms as compared with their home rivals. Relative weaknesses of the studied firms on the home market included:

- R&D outlays (M=3.14),
- relative level of outlays for marketing (M=3.22),
- employee attitude to changes (M=3.23).

It should be underlined that low competitive potential appeared in those areas which were regarded by the respondents as less significant. Attention must also be paid to the fact that the assessment of the competitive potential of the studied firms in the future (3 years) was more optimistic than the current one. This concerns all factors of competitive potential. It may be a sign of an active and aggressive, and at the same time optimistic, approach of the studied firms to competition on the home market. Generally, it can be argued that in the opinion of the sample firm management both their current and future competitive potential on the home market looks good. Each of the factors of competitive potential obtained an average score above 3.00, which means that the studied firms performed better than their average home rival.

The situation looks different with respect to the three EU markets. As for 11 out of 39 measures of competitive potential referring to the current competitive situation, it was assessed that the Polish firms had lower competitive potential than their average rival on the EU markets (average score below 3.00). The lowest assessment concerned:

- relative level of outlays for marketing (M=2.40),
- level of marketing technology (M=2.48),
- R&D outlays (M= 2.56).

It is also significant that in none of the 39 measures the mean assessment of the current situation did not exceed 4.00 which indicated a slightly higher competitive

potential than that of the average rivals on the EU markets. This means that the studied Polish enterprises seemed to have a competitive potential similar to that of their average competitors on the EU markets. The highest assessment related to:

- quality of corporate finance management (M=3.86),
- quality of managerial staff – top management (M=3.61),
- importance of quality assurance (M=3.50).

Evaluations concerning the future are more optimistic. In 38 out of 39 measures these evaluations were higher for the future (3 years) than for the current period (the quality of corporate finance management which is quite highly assessed at present is an exception). The following measures achieved the highest score:

- reputation (image, recognition of the firm) (M=4.03),
- quality of managerial staff – top management (M=4.00),
- importance of quality assurance (M=4.00).

4. Final Remarks

The results of the empirical research sample confirm the existence of a competitive gap between Polish and EU enterprises in the sphere of competitive potential. Bearing in mind the limitations connected with the research method applied (gathering managers' opinions on the competitiveness of their companies) it should be underlined that although the above-mentioned competitive gap exists there are also grounds for optimism because:

- the gap is not perceived as enormous – i.e. average competitors operating on the EU market are perceived as rivals with whom the Polish firms can compete effectively,
- forecasts concerning competitive potential indicate that Polish firms assume an aggressive attitude and intend to reduce the currently existing competitive gap. If this is to be successful, it is necessary to reformulate competitive strategies of many Polish owned firms and obtain the much needed assistance from the state outlined earlier.

References

- Buckley P. J., Pass Ch. L. & Prescott K. (1988) Measures of international competitiveness: A critical survey, *Journal of Marketing Management*, 2.
- Casson M -ed. (1991) *Global research strategy and international competitiveness*, London: Basil Blackwell.
- Faulkner D. & Bowman C. (1995) *The essence of competitive strategy*, London: Prentice Hall International.
- Dunning J. H. (1988) *Explaining International Production*, London: Unwin Hyman.
- Godziszewski B. (1999) Potencjał konkurencyjności przedsiębiorstwa jako źródło przewag konkurencyjnych i podstawa stosowanych instrumentów konkurowania (Competitive potential of the firm as a source of competitive advantage and a basis of instruments of competing), In *Budowanie potencjału konkurencyjności przedsiębiorstwa (Building competitive potential of the enterprise)*, Ed. by M. J. Stankiewicz, Torun: TNOiK "Dom Organizatora".
- Gorynia M. (1998) The Polish Economy's International Competitiveness and Economic Policy, *Russian and East European Finance and Trade* 34 (4).
- Gorynia M. (2000) *Zachowania przedsiębiorstw w okresie transformacji. Mikroekonomia przejścia (Behaviour of the enterprises during transformation. Microeconomics of transition)*, Poznan: Wydawnictwo AE.
- Gorynia M. & Otta W. J. (1998) Zachowania przedsiębiorstw poznańskich w okresie przejścia – gra konkurencyjna i pozycja rynkowa (Behaviour of Poznan enterprises during transition – competitive game and market position), *Optimum – Studia Ekonomiczne*, 1.
- Gorynia M. & Wolniak R. (2000) Foreign Direct Investment and Competition Strategies of Domestic Firms in Poland. In *Foreign Direct Investment in a Transition Economy: the Polish Case*, Ed. by M. A. Weresa, London: University College.
- Grabowski T. (1994) Wzorzec rynkowego zachowania się przedsiębiorstwa (Model of market behaviour of the enterprise). In *Droga do rynku. Aspekty mikroekonomiczne (The road to the market. Microeconomic aspects)*, Ed. by W.J. Otta, Poznan: Wydawnictwo AE.
- Haffer M. (1999) Instrumenty konkurowania (Instruments of competing), In *Budowanie potencjału konkurencyjności przedsiębiorstwa (Building competitive potential of the enterprise)*, ed. M. J. Stankiewicz, Torun: TNOiK „Dom Organizatora”.
- Hamel G. & Prahalad C. K. (1990) The core competence of the corporation. *Harvard Business Review*, May-June.
- Hill Ch. W. & Jones G. R. (1992) *Strategic management theory. An integrated approach*. Boston: Houghton Mifflin Co.
- Porter M. E. (1998) *On competition*, Boston: Harvard Business School Publishing.
- Porter M. & Sakakibara M. (2000) Competing at Home to Win Abroad: Evidence from Japanese Industry, Mimeo, December.
- Rugman A. & Hodgetts R. M. (2000) *International business. A strategic management approach*. Harlow: Pearson Education Limited.
- Stalk G. & Evans P. & Shulman L. E. (1992) Competing on capabilities: the new rules for corporate strategy. *Harvard Business Review*, March-April.

Wolniak R. (1998) Ocena funkcjonowania w Polsce przedsiębiorstw z udziałem kapitału zagranicznego. In *Kapitał zagraniczny w Polsce*, Ed. by Z. Sadowski, Warsaw: Uniwersytet Warszawski, Wydział Nauk Ekonomicznych.

Appendix 1. Competitive potential of Polish firms

Weight of factor:

- 0 – no significance
- 1 – very small significance
- 2 – small significance
- 3 – average significance
- 4 – big significance
- 5 – very big significance
- 6 – enormous significance

NI – number of indications

M – arithmetic mean

SD – standard deviation

Scale of possibilities (as compared with average competitor):

- 0 – we are (will be) the worst
- 1 – we are (will be) much worse
- 2 – we are (will be) slightly worse
- 3 – we are (will be) average
- 4 – we are (will be) slightly better
- 5 – we are (will be) much better
- 6 – we are (will be) the best

ACP – assessment of our current potential

AAP – assessment of our anticipated potential

Measures of competitive potential	Weight of measure			Home market						3 largest EU markets					
				ACP			AAP			ACP			AAP		
	NI	M	SD	NI	M	SD	NI	M	SD	NI	M	SD	NI	M	SD
1. Possibilities of financing current activity	68	4,52	0,75	65	3,74	0,86	65	4,26	0,79	47	3,03	0,72	48	3,52	0,97
2. Possibilities of financing development from own funds	67	4,06	0,54	63	3,56	0,91	63	4,08	0,75	46	2,87	0,81	47	3,36	1,00
3. Possibilities of financing development from external sources	67	3,79	0,81	63	3,57	1,11	63	4,11	0,85	44	2,80	0,92	45	3,34	0,99
4. Quality of corporate finance management	67	4,46	0,82	63	3,94	0,68	63	4,44	0,82	46	3,86	0,96	47	3,85	0,95
5. Quality of corp. finance mgmt technology	67	4,16	0,77	63	3,84	0,75	63	4,35	0,84	46	3,17	1,00	47	3,66	1,06
6. Quality of production equipment	67	4,63	0,64	63	3,91	0,77	63	4,51	0,82	46	3,09	0,84	47	3,73	0,90
7. Development of new technologies	67	4,67	0,81	63	3,83	0,74	63	4,38	0,78	46	3,07	0,81	47	3,70	0,86
8. Flexibility of production system	67	4,28	0,87	63	3,86	0,73	63	4,32	0,74	46	3,28	0,87	47	3,68	0,90
9. Technical culture of employees	67	4,15	0,71	63	3,74	0,72	63	4,31	0,74	46	3,20	0,85	47	3,74	0,90
10. R&D outlays	67	3,67	1,14	63	3,14	0,74	63	3,70	0,83	46	2,56	1,05	47	3,37	0,92
11. Quality of R&D staff	67	3,64	1,09	63	3,37	0,84	63	3,73	0,86	46	2,81	0,85	47	3,22	0,92
12. Possibilities of purchasing modern construction & technological solutions	67	4,10	0,94	63	3,50	0,88	63	4,11	0,92	46	2,89	0,92	47	3,32	1,16
13. Quality of management system	67	4,52	0,79	63	4,11	0,78	63	4,52	0,84	46	3,38	0,94	47	3,79	0,89
14. Quality assurance	67	4,69	0,70	63	4,16	0,81	63	4,60	0,81	46	3,50	0,96	47	4,00	0,93
15. Access to key resources	65	4,32	0,79	61	3,82	0,76	61	4,26	0,83	45	3,12	0,88	46	3,56	0,95
16. Quality of supply – logistic staff	67	4,00	0,60	63	3,60	0,71	63	4,00	0,68	45	3,12	0,84	46	3,60	0,91
17. Knowledge of present & future customers needs	67	4,88	0,62	63	3,90	0,67	63	4,48	0,90	45	3,29	0,84	46	3,83	0,92
18. Knowledge of competitors	67	4,46	0,91	63	3,92	0,71	63	4,47	0,82	45	3,24	0,86	46	3,89	0,89
19. Marketing activity	67	4,19	1,03	63	3,60	0,86	63	4,27	0,84	45	2,80	0,93	46	3,48	0,96
20. Expansion on foreign markets	67	4,10	0,88	61	3,86	0,80	61	4,43	0,86	46	3,25	0,81	47	3,78	1,04
21. Quality of marketing staff	66	4,17	1,04	64	3,51	0,80	63	4,13	0,74	47	3,00	0,96	47	3,55	0,98
22. Quality of export-sales staff	65	4,09	0,86	61	3,65	0,73	61	4,19	0,70	46	3,10	0,86	47	3,60	1,00
23. Relative level of for marketing outlays	67	3,82	0,83	63	3,22	0,75	63	3,89	0,77	46	2,40	1,00	47	3,25	0,91
24. Level of marketing technology	67	3,67	0,93	63	3,29	0,73	63	3,90	0,74	46	2,48	1,02	47	3,33	0,95
25. Level of operational management	66	4,24	0,82	62	3,54	0,69	62	4,08	0,86	45	2,96	0,56	46	3,52	0,97
26. Level of strategic management	66	4,14	0,90	62	3,56	0,76	62	4,14	0,81	44	3,00	0,76	45	3,50	0,93
27. Quality of motivation system	66	3,79	0,82	64	3,31	0,75	64	3,94	0,68	47	2,88	0,77	48	3,41	0,85
28. Quality of managerial staff – top managmt	66	4,76	0,74	62	4,09	0,62	62	4,46	0,74	45	3,61	0,84	46	4,00	0,79
29. Quality of middle management	67	4,54	0,78	63	3,89	0,70	63	4,32	0,73	45	3,38	0,96	46	3,89	0,91
30. Degree of employee identification with company goals	67	3,96	0,93	63	3,58	0,75	63	4,11	0,78	45	3,14	0,86	46	3,71	0,90
31. Employee attitude to change	67	3,69	0,81	63	3,23	0,61	63	3,80	0,63	45	3,00	0,56	46	3,58	0,69
32. General professional level of employees	67	4,30	0,69	63	3,65	0,63	63	4,16	0,59	45	3,24	0,71	46	3,69	0,70
33. Level of innovativeness of employees	66	3,83	0,75	62	3,52	0,75	62	3,87	0,71	45	3,02	0,66	46	3,50	0,75
34. Employee willingness to improve qualifications	67	4,00	0,66	63	3,62	0,85	63	4,16	0,91	45	3,29	0,99	46	3,77	0,92
35. Employee approval of managerial staff	67	3,79	0,79	63	3,64	0,74	63	4,10	0,75	42	3,33	0,78	43	3,91	0,74
36. Employee willingness to co-operate	67	4,05	0,69	63	3,60	0,72	63	4,07	0,70	45	3,32	0,70	46	3,77	0,69
37. Working out a clear vision of company growth	67	4,37	0,82	63	3,65	0,73	63	4,16	0,80	45	3,27	0,71	46	3,81	0,69
38. Knowledge of firm and its products on market	67	4,49	0,84	63	3,90	0,79	63	4,55	0,91	45	2,96	0,87	46	3,77	0,94
39. Reputation (image, recognition) of firm	67	4,70	0,79	63	4,03	0,76	63	4,67	0,87	44	3,32	1,07	45	4,03	1,00