

THE COMPETITIVENESS OF SMALL AND MEDIUM-SIZED COMPANIES IN THE  
PROVISION OF SERVICES

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## **Abstract**

*Title:* The competitiveness of small and medium-sized companies in the provision of services

The topic deals with SMEs in the Czech Republic in terms of provision of services in the catering industry within the current social, economic and technological change. The topic is focused on the competitiveness of SMEs in the service. The potential to increase the competitiveness of SMEs is derived mainly from an increase in the quality offered and in services, but also in developing new services.

*Key words:* competitiveness, small and medium-sized Enterprise, service, satisfied, consumer, identity

### *Introduction*

SMEs play a key role in the national economy in terms of creating a healthy business environment and they are of utmost importance for the development of the national economy, regions, individual cities and municipalities. They help to create a healthy business environment and to increase market dynamics. Developments of SMEs are generally considered to be a major factor in economic development, regardless of the economic advancement of the country.

Maintaining or improving competitiveness is closely linked with customer satisfaction. Therefore it is important to realize that competitive advantage is a satisfaction of customer and customer's satisfaction is given by the satisfaction of his needs. "Consumers are picky. Increasingly ignored by commercial traffic. Innovation is the only way to attract them. "Satisfied customers accompany business practices in relation to all products and services. This becomes a key factor that contributes decisively to the success of any business; it is the identification and use of data on the importance of customer satisfaction. Currently is necessary to consider a new dimension of competitiveness conception of a company, not only by examining its "hard" elements, which can be directly measured, but to enter the forefront of the so-called "soft" elements, which are difficult to be measured, but the importance of which is constantly growing. Over time the time and space becoming to be the specific competitive potential and competitive force multiplier of company.

### *Method*

The theoretical solution approaches have been verified in practical conditions, by the form of an empirical research, in which priorities have been identified for improving the catering service from a synthetic view of the industry.

The research was based on the analysis of business environment. The aim of this work is to propose a procedure towards the increase of SMEs competitiveness, to reveal new competitiveness factors in the service and to make generalizations on the basis of the practical survey results.

Both quantitative and qualitative research methods of social research such as interviews, monitoring were used for the research, as well as statistical methods/ including the single factor ANOVA with combination of VDA 6.1 system/ were used for validation, and the IDINMOSU model was used for evaluation of the competitiveness.

### *Findings*

Based on analysis of business environment and catering industry, it was found that the competitive and emerging sectors are primary services. Sector 56 - catering and hospitality is the tourism industry, which is considered the fastest growing industry. It is therefore appropriate to consider the issue of quality in services.

A hard competition is generator change in the market. Marketing influence and satisfied, loyal customer play the significant meaning in field of competition. A customer is the key element in present dynamic and competitive environment. Monitoring of the satisfaction is very important, since the identifier and customer preferences, which are the final source of revenue for the company are the value of satisfaction and its evolution over time. The gain or loss depends, among other things, on their satisfaction, and ultimately it has an impact on the reduction of interest on the company itself and it may weaken it economically. Then it is logical that a reduction in customer satisfaction may be reflected in the functioning of other internal company processes. Quality is the basis for the development of business of each company. Looking for a competitive advantage to have a strong market position is the way to compete in the market. Competitive advantage must be based on long-term differentiation from other companies in order to build their own strong identity. This is particularly important in terms of competition in the sector. Searching for market position in the competition is more difficult due to the so-called cross-competition, it is due to product groups, products and services, competition and competitive production and trade.

### *Conclusion*

In this research we have identified priorities for improving the catering services of general look at this field. Specific improvement priorities will depend on the establishment of each restaurant.

The customer must always be in the first position - this philosophy should apply especially in SMEs. Companies should not only have a clearly defined vision and mission, but they should shape the identity of their company, but also a SMART strategic plan.

In conclusion the topic gives recommendations and proposals regarding the increase in competitiveness, including practical applications. Considering the ongoing global economic crisis, the entrepreneurs must realize that **a satisfied customer is a real wealth**. Many entrepreneurs do not understand this simple truth. Personal recommendation was, is and will always be the best advertising. It is necessary that each entrepreneur should have this in mind. A loyal and satisfied customer is the key towards the competitiveness of the enterprise.

## 1. Introduction

Small and middle companies represent the key subjects in national economy as for healthy entrepreneurship creation, play significant role in progress of economy, regions and individual cities. Together they design healthy business environment and increase market dynamics. Development of small and middle companies is generally considered the main factor of economical progress not taking in account economical maturity of the country.

Sustainment or improvement of the competitiveness is closely connected with customer's satisfaction. Thus it is very important to realize the fact that the satisfied customer is thought competitive advantage and customer's satisfaction is given by meeting his needs. "Customers are demanding. They ignore commercial communication more and more. The only chance to attract them the innovations is".<sup>1</sup> Customer's satisfaction goes together with commercial action within the context of all products and services. By this it becomes the key factor contributing to business success significantly and therefore the detection and usage of the customers' satisfaction data is important.

At present time a research of new dimension of company's competitiveness is necessary not only on the basis of evaluation of its "hard" measurable elements but also hardly measurable "soft" elements, significance of which is growing. These elements are marked parts of competitive potential, among which identity, integrity, mobility and sovereignty are ranked. In course of time a time and space become specific competitive potential multiplying company's competitive effort.<sup>2</sup>

This contribution focuses on small and middle companies' competitiveness in the field of service. Potential for improvement of these companies competitiveness results mainly from improvement of the quality of service being offered and provided but also from developing the new services offers.

The aim of this contribution is to propose the procedure to small and middle companies' competitiveness increase and to reveal the competitiveness factors in the field of service.

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<sup>1</sup>KOTLER, Philip. *Inovativní marketing. Jak kreativním myšlením vítězit u zákazníků*. Praha: Grada Publishing, 2005. 200 s. ISBN 90-247-0921-X. 31s.

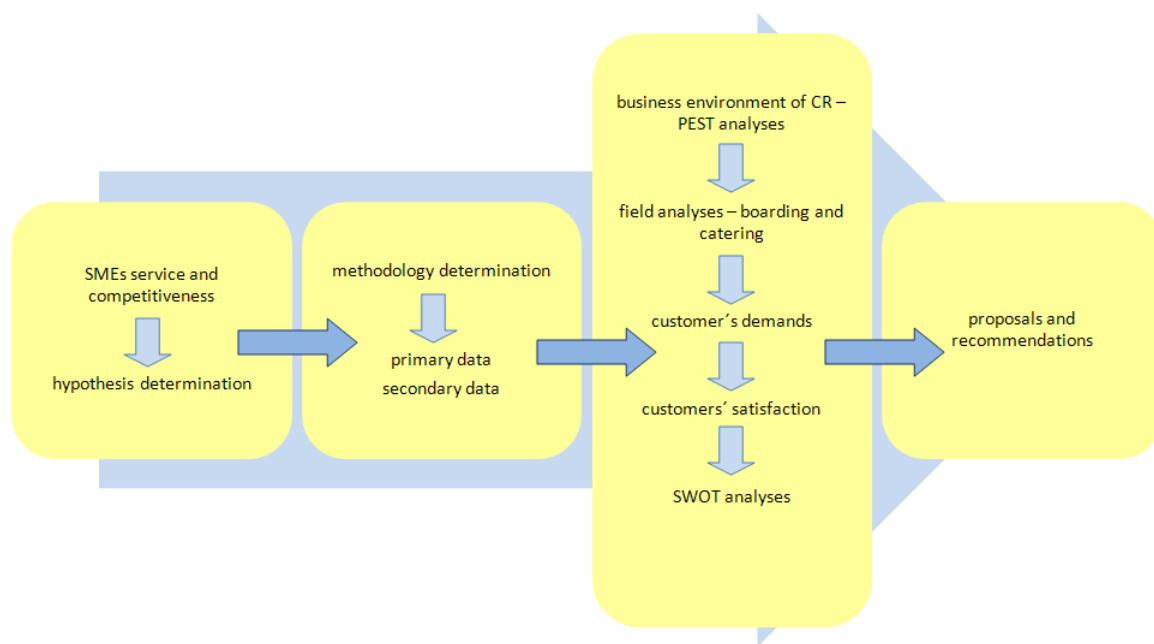
<sup>2</sup>MIKOLÁŠ, Zdeněk. *Jak zvýšit konkurenceschopnost podniku – konkurenční potenciál a dynamika podnikání*. 1. vydání. Praha: Grada Publishing, 2005. 200 s. ISBN 80-247-1277-6.

## 2. Research determination

On the basis of the observation and pre-research being provided by the authors since 2004 up to date the service providers of boarding and catering are assumed to know the customers' demands at least of 60%. This hypothesis will be proved by questioning the random sample of respondents, customers and service providers. To analyze these results there will be a methodology VDA 6.1 used added by the basic statistical processes and methodology ANOVA.

Within this questioning such services will be investigated, to which the customer gives the priority. Next step will be to prove the hypothesis that "Customer's demands are fulfilled to make him satisfied". If the first hypothesis will be approved, the aim of which is to find out customers' demands and chosen service attributes being important for the selected sample of customers then these results will be used within the customers questioning whether they are satisfied with boarding and catering services as for their importance and level. The second hypothesis will be formulated on the basis of the field observation having been provided by the authors since 2004 up to date as "Service providers know the customers' demands" and these demands are fulfilled to satisfy the customer. The hypothesis will be proved by the questioning as well and results will be evaluated by the statistical methods and will be visualized by creation of the customer's window and ray graph.

To achieve this goal there will be a topic of small and middle entrepreneurship and services elaborated including the usage of practically applied methods not being the part of this contribution. Determination of the customers' demands is to be considered starting point. The sample of companies and customers will be addressed using the small and middle companies' service of boarding and catering. After that there will be according to the gained data analyses the opportunities for improvement of current services competitiveness specified as well as potential new services being demanded by the customers.



**Figure 1: Processing<sup>3</sup>**

The synthesis of demands and facts determined on the basis of research will be provided by SWOT analyses and data verification will be applied to the concrete subject. The proposals and recommendations will be given in general for all restaurant facilities.

### 3. Customers' satisfaction

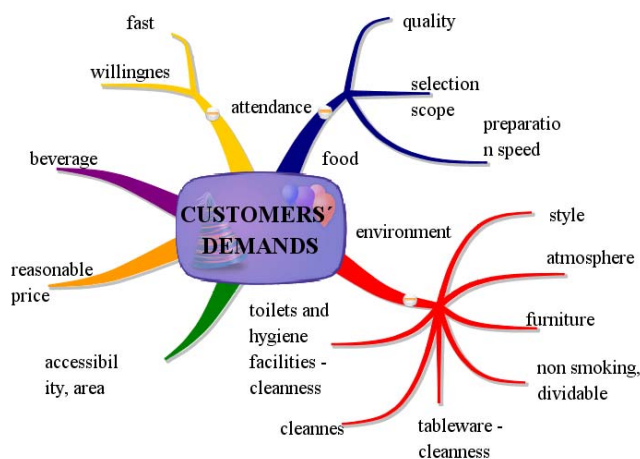
To find out real customer's satisfaction we have to know what he demands thus to find out his real demands. Restaurants' owners or generally all service providers very often recognize satisfaction in such way they determine customer's demands in advance but this is a great mistake right from the research start. Of course, then the research gives them the better results being not adequate to the reality. In fact, service provider considers the customer's demands such fact he thinks it is customer's demand.

#### 3.1 Customers' demands by their view

Customers' demands have been investigated by questioning. Secondary information sources – collective knowledge in the customers in the companies, complaints acquired by providers interviewing and observation will be available.

<sup>3</sup>Own elaboration.

Questioning of randomly chosen customers has been provided over the Czech Republic at different places within January and May 2010. Data collection as for customers' demands for boarding and catering has been focused on restaurants.



There have been addressed 582 respondents. "The most often test power is determined to 80 (0.80), and significance level (alpha level) 5% (0.05). "4 As for certainty 95% has been used, 5% admissible error and 3 % expected deviation rate. Calculated size of the sample is 457 respondents; to make

verification more quality bigger sample has been chosen. The questionnaire will be designed of only one question: "What are your demands for restaurants service and how important they are?" So, questions or answers prepared in advance will not be offered to the customer. Customer – respondent will fill in only 10 rows – demands and marks importance and quality of this demand fulfillment.

The fulfilled questionnaires will be elaborated by simple statistical methods, frequency of individual demands and their importance and fulfillment quality will be evaluated. The demands will be listed by frequency downward and 15 with the most often frequency will be selected. Regarding importance customer's evaluation will be changing, of course. Thus we choose one importance value representing a predominant opinion of the whole sample. The first data collection has been focused on customers' demands being recognized by them; there have been 49 demands for restaurants identified.

<sup>4</sup>PECEN, Ladislav; SVOBODNÍK, Adam. *Statistika nuda není: Spolupráce se statistikem musí předcházet sběru dat.* [online]. [citováno 17. 4. 2009]. Accessible on World Wide Web: <[www.pharmbm.sk/pdf/190.pdf](http://www.pharmbm.sk/pdf/190.pdf)>



**Table 1: The most frequent customers' demands for restaurants services.<sup>5</sup>**

Demands	Importance			total
	little	middle	very	
attendance - willingness	6	123	453	582
food – selection scope	12	114	135	261
food – quality		15	240	255
environment- atmosphere	3	99	138	240
cleanness - toilets and hygiene facilities	6	18	213	237
environment - style	9	87	129	225
reasonable price	15	123	78	216
beverages- quality	0	12	192	204
environment - cleanness	0	6	195	201
attendance - fast	0	45	132	177
environment – non smoking, dividable	0	48	111	159
environment – furniture	15	63	81	159
tableware – cleanness	0	6	144	150
food – preparation speed	0	39	99	138
accessibility, area	18	54	39	111

If we evaluate in detail the individual demands dominant role here attendance plays mainly, its willingness (politeness). Considering Paret's principles (20 - 30 % of items are critical) other roles play assortment and food quality. Determined attributes of service being thought important by the customers (the most frequency) will be used in other research – questioning the customers as far as their satisfaction with services is concern.

### 3.2 Customers' demands by providers view

The second data collection has been focused on small and middle companies – restaurants according to the Eurostat typology thus companies with maximum 99 employees. There have been 70 boarding and catering providers in the Czech Republic addressed aiming to find out what are the customers' demands by their view. The questionnaire is made of only

<sup>5</sup>Own elaboration.



one question: “What are the customers’ demands as for your restaurant and what demand is important for them?” Here 26 demands have been identified.

**Table 2: Customers’ demands by providers view <sup>6</sup>**

DEMANDS	importance			total
	little	middle	very	
food – quality		3	48	51
environment – style	9	18	24	51
environment- atmosphere	2	14	34	50
attendance- professionalism		5	42	47
attendance - fastness		29	17	46
food – portions size		19	25	44
reasonable price		26	17	43
food – selection scope		27	13	40
environment - cleanness		4	35	39
cleanness - toilets and hygiene facilities		11	25	36
attendance - willingness		11	24	35
environment – non smoking, dividable	2	21	12	35
parking	10	13	7	30
opening hours	1	9	16	26
environment – quiet, music	2	8	15	25

When comparing both tables only 10 times there is an agreement, in 5 demands providers and customers do not agree. When expressing these numbers in percentage then

<sup>6</sup>Own elaboration..

agreement represents 66,7%. The first hypothesis is valid i. e. services providers know customers' demands of more than 60%.

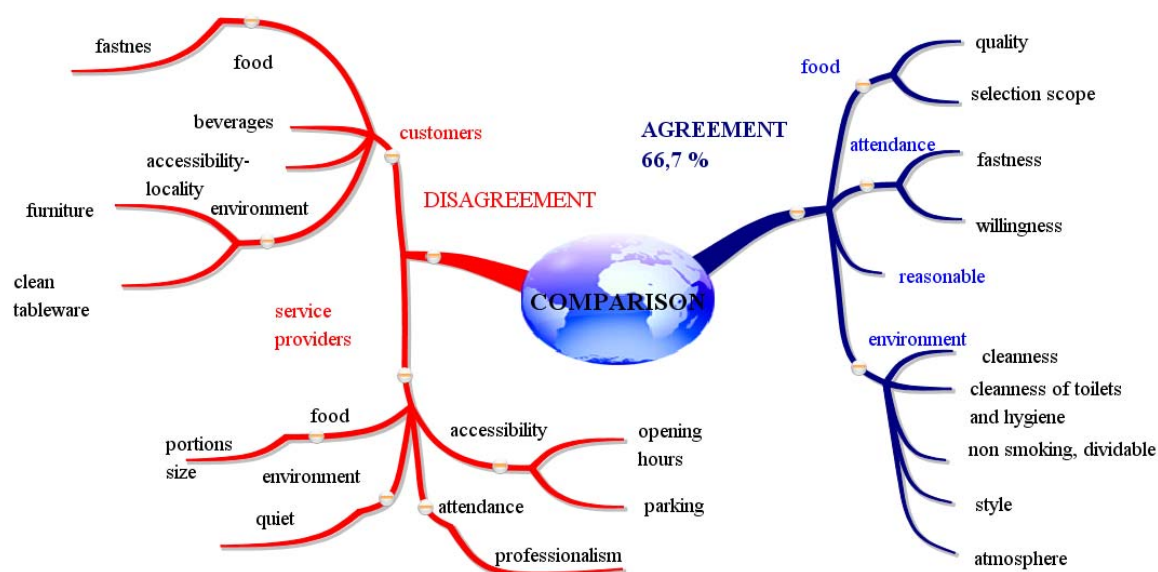
Primary the willing attendance sustains, second place goes to food quality (on the contrary of the third place originally) and the third place goes to cleanness of toilets and hygiene facilities. But the change of the rate can be seen also by other items. It is certain that first three items represent significant deciding priorities (20%), which have to be fulfilled. Other 60 % of items (i.e. 9, marked yellow) will be according to their performance level linearly impacting customer's satisfaction. The left 3 items (20%) will impact the customer only little i.e. if they will not be fulfilled the customer's satisfaction will not be significantly decreasing.

The providers know the customers' demands only of 66,7%, which can be interpreted in a way that the providers know the customers' demands only partly so here improvement is needed. We recommend the providers to research customers' demands at least 1 time per year.

As far as significance of individual demands is concern we have stated their importance and listed them downward according to their significance. Attendance willingness, food quality and toilets cleanness have been identified critical and must be fulfilled adequately otherwise bring customer's dissatisfaction. The other 9 items (60 %), from environment cleanness to reasonable price show the opportunities for improvement of customer's satisfaction.

The left items (20 %) impact satisfaction/dissatisfaction only slightly so there is no need to pay bigger attention to them.

The chosen 15 attributes – customers' votes represent necessary and linear demands. There also exist above standard services but this research does not consider them.



**Figure 2: Comparison<sup>7</sup>**

In the picture the result of the first hypothesis is presented. The fact that providers know customers' demands of more than 60% have been verified by the research and analyses. In the intellectual map there are agreements and disagreements shown in the superior groups including detailed structuring of demands from the customers and providers' perspective.

#### 4. Importance and quality of demands fulfillment

By the data analyses of demands for services 15 key service parameters have been identified. On the basis of customers' demands collected from the first research there have been the second data collection made. This collection considered importance and quality of demands' fulfillment from both costumers and providers perspective. Results are shown in customer's window.

<sup>7</sup>Own elaboration.

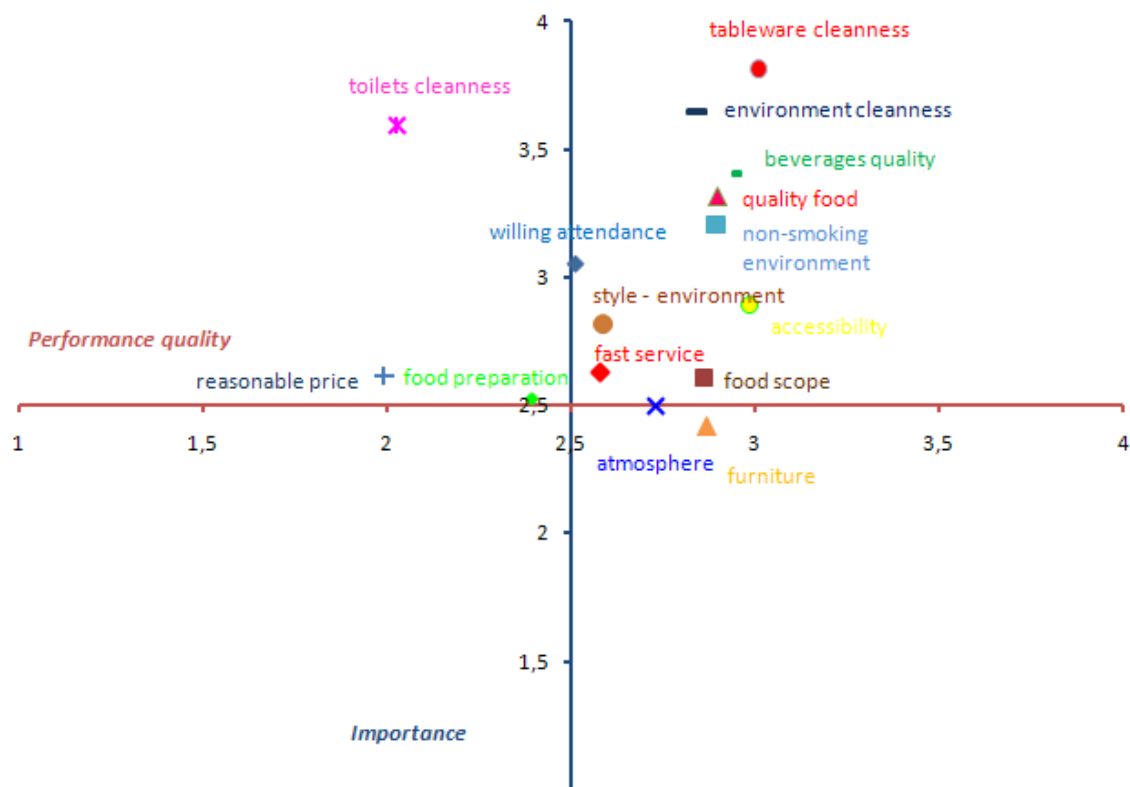


Figure 3: Customers' window<sup>8</sup>

Within this research the priorities for catering services' improvement have been identified from synthetic (general) view. Concrete improvement of these priorities will depend on the individual restaurant. Nevertheless generally valid steps will be considered:

- willing attendance (staff selection and its training),
- cleanness of toilets and hygiene facilities (control and cleaning more often, usage of adequate hygiene agents),
- reasonable price (means restaurant's expenses decrease – here many opportunities are given, e.g. choosing cheaper suppliers but keeping the same supplies quality, reducing usage of expensive semi-factured products, more suitable menu etc.),
- food preparation speed (improvement of communication between kitchen and attendance, higher qualification of kitchen workers, better kitchen equipment, etc.).

<sup>8</sup>Own elaboration.

In conclusion it can be said that this research can be done in very simple way so each provider can do it directly for his restaurant and the results modify to its concrete conditions. This fact can improve service quality without high expenses thus its competitiveness.

#### 5. SWOT analysis MSP in service providing

On the basis of entrepreneurship environment, boarding and catering analysis there have been found out that especially services will be competitive and developing fields. The field 56 – boarding and catering is the part of tourism industry being thought the most dynamically developing field. That is the reason to deal service quality topic.

STRENGTHS	WEAKNESSES
<p><b>Relationship marketing</b> – flexible reaction to customer’s demands, space marketing.</p> <p><b>Innovations’ source</b> – small and middle companies are the big source of innovations, they have bigger space for individual initiative, they have flatter organizational structure, innovation is important for survival and competitiveness of small and middle companies, owners-managers’ involvement in innovations realization is advantage, human potential is universal, there is no inclination to specialization.</p> <p><b>Flexibility</b> – small and middle companies react quickly to the changes in business environment, they are not wide investment properties loaded, therefore the change of the service field does not mean the big change of the organization.</p> <p><b>Service quality</b> – is done by identity and integrity of the small and middle companies when products and service quality are guaranteed by owner’s name.</p> <p><b>Qualified working staff</b> – staff of the small and middle companies is educated universally and willing to generalize their knowledge.</p> <p><b>Traditions on the markets.</b></p> <p><b>Originality of the Czech thinking and willingness to innovate.</b></p> <p><b>Need to identify him/herself with own country</b> – development of inside-country tourism.</p> <p><b>Knowledge of customers’ demands.</b></p> <p><b>Customers’ satisfaction.</b></p>	<p><b>Absence of financial capital</b> – small and middle companies are negatively impacted by capital accessibility needed for their independent activities. The biggest problems they have with acquiring of long-term capital. The businessman can dispose fo the capital according to his will. As this disposal is more limited the way to success is more difficult.</p> <p>Disadvantages of financing result from the fact those small companies and especially individual businessmen have narrower accessibility to the finances. The main sources of financing are: self-financing, shares of other shareholders, bank or supplier credit.</p> <p><b>Little finances for advertisement</b> – non-effective marketing and promotion.</p> <p><b>Absence of professional and actual information</b> – in law, economy, taxes. System of administrative work is more strict currently impacting companies’ expenses. Many regulations then create difficult situations thus a lot of work linked to it.</p> <p><b>Disregard for further professional education.</b></p> <p><b>Insufficient cooperation between the small and middle companies.</b></p> <p><b>Small opportunity to gain discounts from the suppliers.</b></p>

OPPORTUNITIES	THREATS
<p><b>Cooperation of small and middle companies</b>, nets involvement, involvement in profession organizations, creation of clusters and strategic alliances.</p> <p><b>Synergy resulting from cooperation of small and middle companies.</b></p> <p><b>New technologies use</b> – food preparation, staff education, and customers’ demands fulfillment.</p> <p><b>Taking care of the customer</b> – the basis is the satisfied customer.</p> <p><b>Alternative offers</b> – company having identity, rareness, traditional and regional gastronomy.</p> <p><b>Wide support for small and middle companies</b> – opportunity to ask for financial grant for further development – technology, export increase, business activities development, job positions increase, education.</p> <p><b>Education and staff qualification</b> – opportunity to use EU finances to educate the staff.</p> <p><b>Tax load decrease</b> – VAT decrease.</p> <p><b>Technologies</b> – use of new technologies and processes to decrease operating costs and make effectiveness higher.</p> <p><b>Service quality improvement.</b></p>	<p><b>Legislative conditions</b> – time consuming administrative work and bureaucratic processes.</p> <p><b>Economical situation and global insecurity.</b> The reasons of small and middle companies’ failure are being divided into two areas. General reasons and specific reasons. Among general reasons all economical aspects impacting entire market activity, companies’ status, successful or unsuccessful business can be found. Small and middle companies play significant role in economy – competitive element, ensure society’s stability and freedom, function as prevention against crisis, stabilize conjuncture, and employ inhabitants.</p> <p><b>Credit conditions</b> – too high interest rate increase problems with companies’ liquidity. The most of small companies need finances to develop and expand. High pressure on the businesses and interests and credit payments pay offs can bring the company to big problems and unfavorable financial situation. Banks do not consider small and middle companies good clients because of higher expenses on smaller credit and higher risk as well.</p> <p><b>Tax load increase</b> – VAT increase.</p> <p><b>Absence of professionals in the field of financing.</b></p> <p><b>Information accessibility.</b></p> <p><b>Domestic competition.</b></p> <p><b>Isolation.</b></p> <p><b>Energy.</b></p>

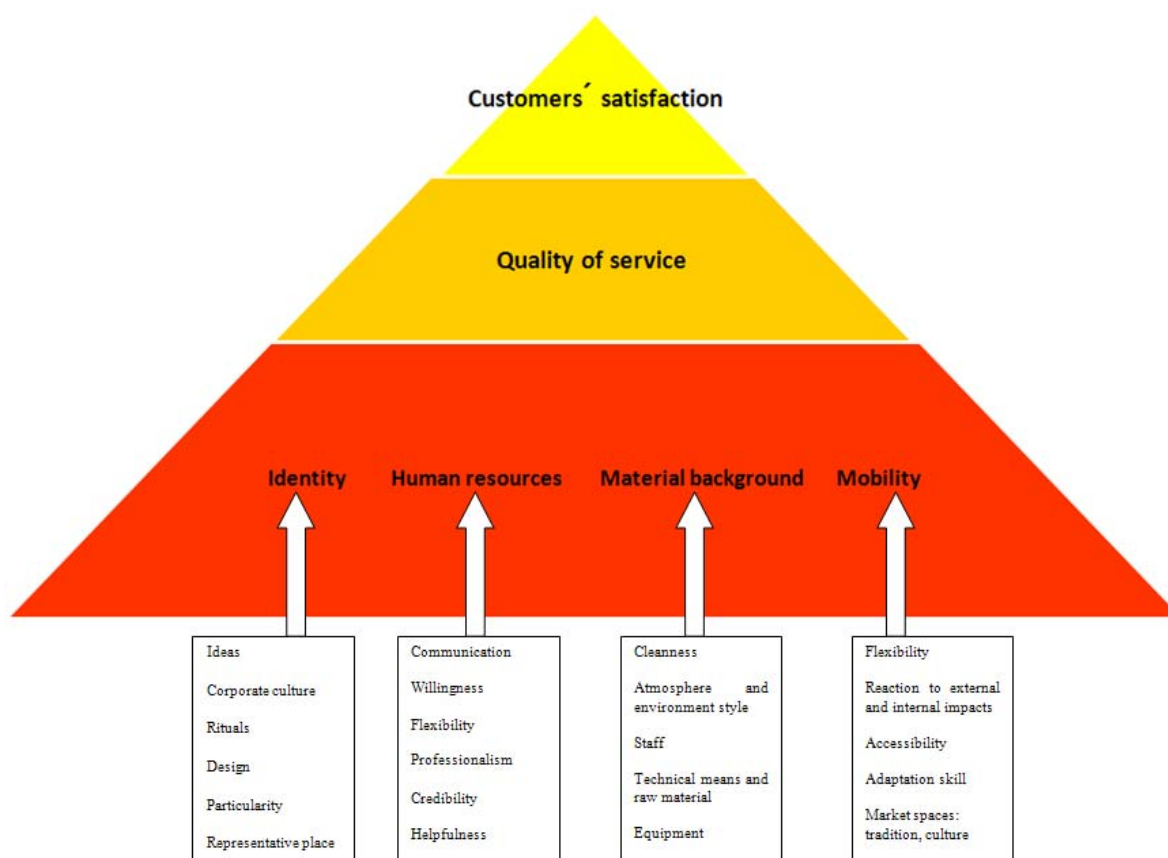
## 6. Conclusion

As for the quality in industrial organizations of the Czech Republic it is mainly thank to car industry comparable to Europe and the world as well. In the USA the services play the main role regarding the number of employees counting around 80% of all employees. Similar trend is also showing in the Czech Republic within last years.



In the frame of the research there have been priorities identified as for catering service improvement from the synthetic perspective of view. Improvement of concrete priorities will be depending on the individual restaurant.

Model of the general pillars leading to quality services and thus to customers' satisfaction and made of this work results is shown in further picture.



**Figure 4: Model of the general pillars leading to customers' satisfaction<sup>9</sup>**

To practically illustrate present status the research has been provided in the concrete company. On the basis of customer's satisfaction analysis as for general side of business environment and concrete restaurant there have been such spheres determined the restaurants have to focus on.

<sup>9</sup>Own elaboration

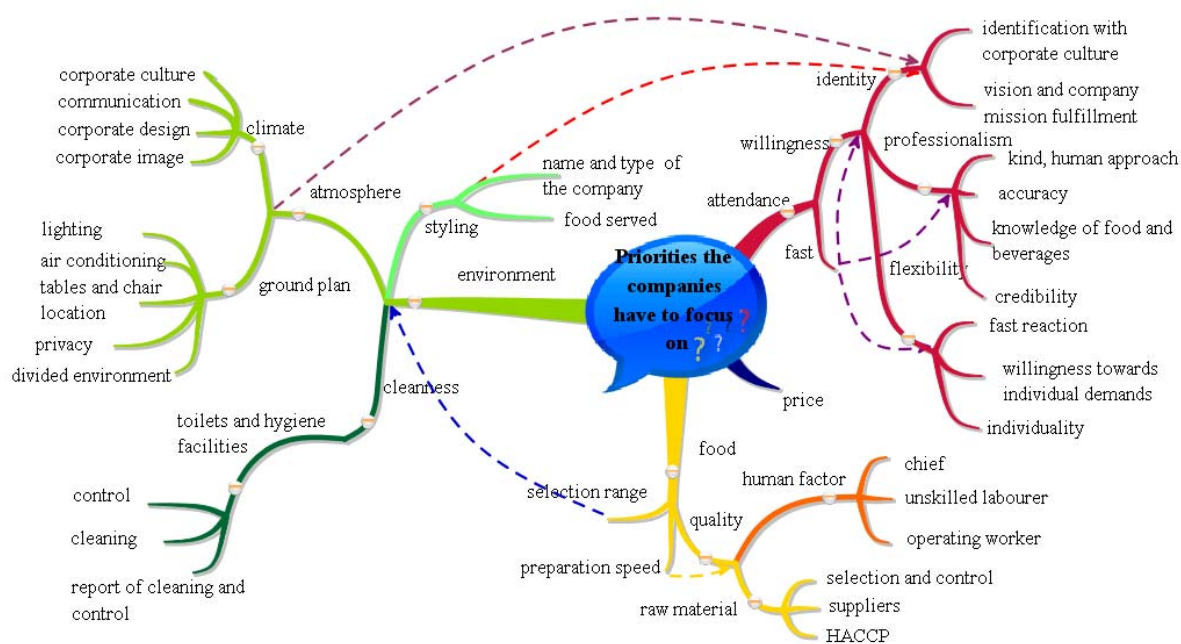


Figure 5: Priorities the companies have to focus on<sup>10</sup>

The customer always stays at the first place – this should be a philosophy of the small and middle companies. This philosophy applies helpful and correct approach. Companies should have not only clear vision and mission but they should also form their identity and strategic plan SMART.

Identity is a basic building stone for successful company because loyal employees work more quality, are faithful to their employer and bring uncountable value to him. Quality is considered determinant of service provided. In case the loyal employees provide quality services the customers are supposed to be satisfied. Satisfied customer is final source of company's income and at the same time the key element to achievement and sustainment of competitiveness.

Gastronomic present demands individuality. Thus only the companies with perfect and aimed service offer can become successful with regard to demography, changing life style and involvement of individual cultures in boarding and dining. There is also place for gastronomic and restaurants chains in the market but *to establish mainly traditional, regional family's restaurants and pubs is highly desirable. Such company is ideal having identity,*

<sup>10</sup>Own elaboration.

*significance and individuality with readable and clear offer programme. Providing traditional, regional gastronomy serves as good example.*

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