

Zrinka Blazevic¹
Marijana Spoljaric²

ANALYSIS OF CROSS-SECTOR DIFFERENTIATION DURING STRATEGY FORMULATION

Abstract

Strategy as an organizational projection advocates structuring around clearly defined objectives which create market efficiency. It achieves a balance between business and environment, for the purpose of general well being (shareholders, employees, customers and the community). National work classification classifies 21 activities, which can be sorted into four sectors (primary, secondary, tertiary and quaternary). Each of them has its own special characteristics which are becoming a key component of differentiation of the sector in comparison to others. Therefore it can be assumed that the strategy of companies within each sector is set in accordance with the specificities of sector, and that there are components that differentiate strategy of a certain sector against strategies of other sectors. Objective of this work is to find specific components for the development of strategies for each sector and key components of cross-sector differentiation when setting up strategies among different sectors. The focus will be directed to the analysis of the strategical guidelines inside the different sectors, and to the comparasion of the economic and strategical growth of a sector. The research was conducted by the telephone poll with the 80 companies located in the Republic of Croatia, 20 for each sector. The first goal of this paper is to establish the level of strategical guidelines development of this croatian companies, by verifying their success in fulfilling the norms of development and used strategies. The second goal is to establish the common elements of strategy between a certain company and other companies from the same sector, meaning to verify if the companies inside the same sector form their strategies in a similar manner. This will be used to determine the key points of the cross-sector differentiation, and to present the strategical specificals of each sector.

Keywords

Differentiation, Sectors, Strategy

1. Introduction

Business strategy is fundamental for an organization suces in the highly-developed markets, therefore the development and execution of strategy represent the pivot of the business enterprise management and reflect the demands of the contemporary market values. Such market-oriented strategical planning becomes the managerial process of maintaining and augmenting the bond between the organisation's goals and the market possibilities, with the primary focus on the accumulation of profit, growth, and the achievement of the sustainable competatible advantage. Misdirected strategical decisions may jeopardize the organisation's existance. Growing competition forces a company to create a clearer business

¹ College of Management in Tourism and Information Technology in Virovitica, Croatia, e.mail: zrinka.blazevic@gmail.com

² College of Management in Tourism and Information Technology in Virovitica, Croatia, e-mail: marijana.spoljaric29@gmail.com

strategy which will differentiate it from the rest of the market. Many global companies, unlike domestic ones, have recognized the new marketing conditions and clearly defined the direction of their business operations.

Strategical decisions are seldom uniform, due to their derivation from the appraisal of values which mainly depend of the people's opinions, perceptions and suppositions, therefore eliminating the possibility of the unique approach to the strategical decision-making, applicable to every situation, organization or person. Theorists propose the strategical process model based on the analitical and rational approach to the questions (Stacey, 1997, p. 8) „How did we get here? Where we want to go? How to get there?“. Definitions of strategy are numerous, but the one most quoted in the scientific circles is the Chandler's definition from the study *Strategy and Structure* which states: „Strategy represents setting of the company's fundamental long-term goals and tasks, declaration of the activities directions and the allocation of resources necessary to achieve these goals.“ It is a successful, creative and innovative process that demands managing the opposites (Stacey, 1997, pp. 101–112) Strategy represents the reflection of the organization's growth and the allocation of the limited resources (Abell and Hammond, 1979, p. 14). Strategy is also considered to be an inspiration throughout which we seek to achieve the finite, usually long-term goal (Meler, 2005, p. 163). The goal is defined by planning decisions which represent interactions of company and its environment, but also by factors of economical and non-economical gains of the stock-holders, employees, buyers and community. Still, due to constant changes of the internal and external elements, it is necessary to track those changes and accordingly modify existing strategy. For the strategical control to be effective, the key variables which effect the strategy efficiancy must be properly recognized inside and outside of a company (Ranko, Delić and Škrtić, 1999, p. 178). The control activities encompass the control of achieved results in comparison to the set goals. If the control shows stagnation or regress, it is necessary to form a new strategy which will encourage the company progress throughout changes in the current business and the employees enivorment and so yield the profit gain. This initiative is called SPRINT (Dolye and Bridgewater, 1988, p. 189).

Considering previously stated components, necessary for the achievment of the high-quality strategy that would warrant the business success, we can conclude that the different companies have different response to the external and internal factors which guide the company strategy in a certain direction. A question arise: do the external factors have such notable effect that the companies inside the same sector, for which can be supposed that they have the similar external influence, guide their strategies in a similar directions.

2. Cross-sector differentiation in the strategy determination

By analyzing the strategical guidelines of numerous companies, one can notice a certain differences in the company directing and determination of focus on the key segments related to their growth and development. Companies may be grouped into the segments, inside of which exists the similar strategy-setting differentiation, which draws the conclusion that the companies from the same sector have the same strategical guidelines, therefore being differentiated from the companies from the different sectors, in regard of key

elements for the future development. Many common elements are noted, suggesting that the strategical guidance of a company has a significant effect on its further growth and development.

Therefore it is necessary to group the business activities inside the similar segments to point out their strategical specification. The national classification of business activities from 2007. divides the activities into 21 groups (NKD, 2007, 2008, p. 36), such as agriculture, forestry and fishing, up to the activities of the foreign organizations and entities. To narrow down this segregation to the less elements, we could divide the mentioned activities into the four sectors. Set into the primary, secondary, tertiary and quaternary sector, the activities are divided as agricultural, industrial and services. The primary sector activities are the one where a man finds the objects of his work in nature and by his work separates and adapts them for the further processing and consumption. The secondary economical sector comprises of the processing activities, so it often called the processing sector. The tertiary activities are services, which can be defined as untangible, immaterial, undividable activities, and currently employ most of the work force. The quaternary activities are specific services which as basic goal have the common welfare, not an individual personal gain. This division will be now shown graphically.

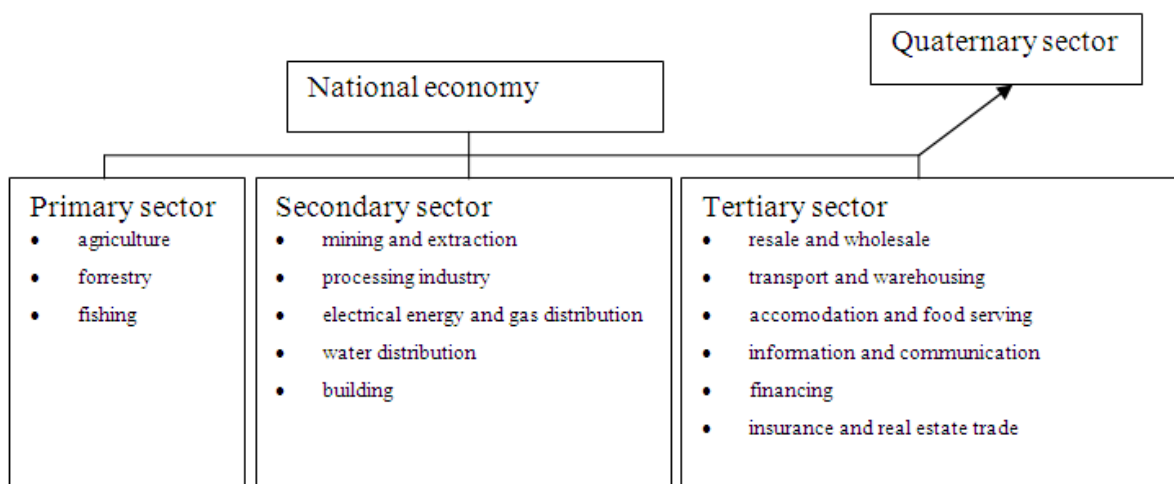


Chart 1: The structure of national economy (author)

Each of this sectors has its own specific aspects, which are the key components of the sectors differentiation. So it can be assumed that a individual company strategy inside a certain sector follows the specifical aspects of that sector. Based on the stated facts, we can draw a conclusion that there are the key components which are specifical for the same-sector companies strategies, and at the same time differentiate the strategy in relation to the other sectors strategies.

2.1. Hypothesis

The goal of this paper is to find the specific components for the strategy development of each sector, and the key components of the cross-sector differentiations used in a setting of a cross-sector strategy. The focus will be directed to the analysis of the strategical guidelines

inside the different sectors, and to the comparison of the economic and strategical growth of a sector. The research was conducted by the telephone poll with the 80 companies located in the Republic of Croatia, 20 for each sector. The first goal of this paper is to establish the level of strategical guidelines development of this Croatian companies, by verifying their success in fulfilling the norms of development and used strategies. The second goal is to establish the common elements of strategy between a certain company and other companies from the same sector, meaning to verify if the companies inside the same sector form their strategies in a similar manner. This will be used to determine the key points of the cross-sector differentiation, and to present the strategical specifics of each sector. Based on the previously presented data regarding the specific aspects of each sector, we can postulate the following two key hypotheses of this paper:

H 1. Each of these sectors has its own specific aspects which are the key components of the sector differentiation in regard to other sectors. It can be assumed that the company strategy inside each sector is following the specific guidelines of its sector.

H 2. It can also be assumed that there are components which differentiate the strategy of a certain sector in relation to the strategies of other sectors.

Analysis tried to identify the companies' strategies, and to determine their development and execution processes. The identification of the company strategy was conducted by analyzing the company's reactions to the market changes and other external influences. In addition to previous data, it was also analyzed which level of commitment is given to company's own development in search of new markets and entering new business activities. That was established by determining the level of attention given to research of internal and external environments and ability to express its own competitive advantages to achieve the recognizable and competitive strategy (Thompson, Strickland and Gamble, 2006). While analyzing the strategy guidelines, some of the questions also related to its execution.

The second part of the poll analyzes the vision and mission which many authors consider to be the most important elements of the strategical management, the stepping stone of the strategical management which provides the cultural cohesion that enables a company to function as a single collective (Buble, 2005, p. 90). This ensures the business directioning and the goal setting. Therefore, it was analyzed whether the vision and mission are focused on key factors such as customers, employees, owners and the communities within which the company operates as well as markets, technology, concern for survival, growth and increased profits. For comparison of vision, mission and goals of the companies, the analysis of directional statements was used and the analysis was based on the previously marked components.

Since McCarthy pointed out the necessity of accenting the 4P components (product, price, promotion and advertising) as the elements inside the strategy which warrant the profitability (Kotler and Keller, 2008, p. 19), the sizable part of the poll is directed towards its analysis. Research probed the level of commitment a manager shows to the market, market segmentation and the product development, and the ability to handle data while making decisions. The significant part of the poll analyzes benchmarking, which assures the safe way to forming a high-quality strategy, especially if executed with a special consideration to the Porter's „five forces“ competitive advantages (Renko, Delić and Škrtić, 1999, p. 127). And

analysis of the internal factors combined with the analysis of the external factors provides the creation of the information basis which will be foundation for the strategy development.

2.2. Methods of analysis

According to the previously stated data regarding the specific aspects of each sector, it is safe to assume that such specificity can be projected into the strategical guidelines of a certain company. Conclusion is that the quality of strategy development increases with each sector, which implies the significant difference of qualities of primary and quaternary sector in favour of quaternary sector.

Following the postulated assumptions regarding the cross-sectors differentiation in regards of the company strategy determination, next chapter will demonstrate the specificity of each sector, according to the analysis and comparison of several companies selected by random choice. Out of each sector 20 companies have been selected. Their strategies are separately analyzed, thus providing the data about their specific aspects, guidelines and the quality of production. This data was then used for inter-sector comparison, which gave us a clearer image of the sector directioning. Final analysis compared the gathered data in regard to specificity of each sector, seeking to prove existence or non-existence of the cross-sectors differentiation in the strategy development, highlighting the key components which cause the sectors differentiation.

The research was conducted by telephone poll, where the top management executives from each company stated their own positions on the strategical guidelines and the strategy-forming modes. Method of research was the Likert scale, which measured and ranked the managers' response to statements. Level of concurrence for the certain statement served to demonstrate the level of compliance to the certain issue, and to classify the strength of different sectors. The data collected through the survey questionnaire was analyzed using descriptive analysis and ANOVA test. In the text below the results of a complete analysis are presented. Designated indicators were adopted on the basis of the arithmetic mean of agreement, disagreement or lack of familiarity with specific component of company leadership.

3. Results of research

Gathered data indicate that there is a differentiation in implementation of strategies among companies of different sectors. As assumed, the specifics of each sector are reported by emphasizing the focus on essential components of strategy. In all sectors a significant emphasis was placed on quality of product or service, but businesses of primary and quaternary sectors stress out that the price is not a factor that is pointed out through strategy because it is imposed by the market. Similar data was obtained by analyzing the distribution and promotions within same sectors because the leadership believes that the market is sufficiently regulated to function by itself and requires no further emphasis of these components. It is also clear that the primary sector companies do not pay great attention to development of strategies stressing 4P components as do the other sectors. The

key to their strategy is a quality product that automatically creates demand. The following graph clearly shows that the strongest focus on the components of 4P is placed by companies of the secondary and tertiary sectors, with the lowest focus on price. Previously analyzed issue is further shown graphically in order to emphasize differentiation.

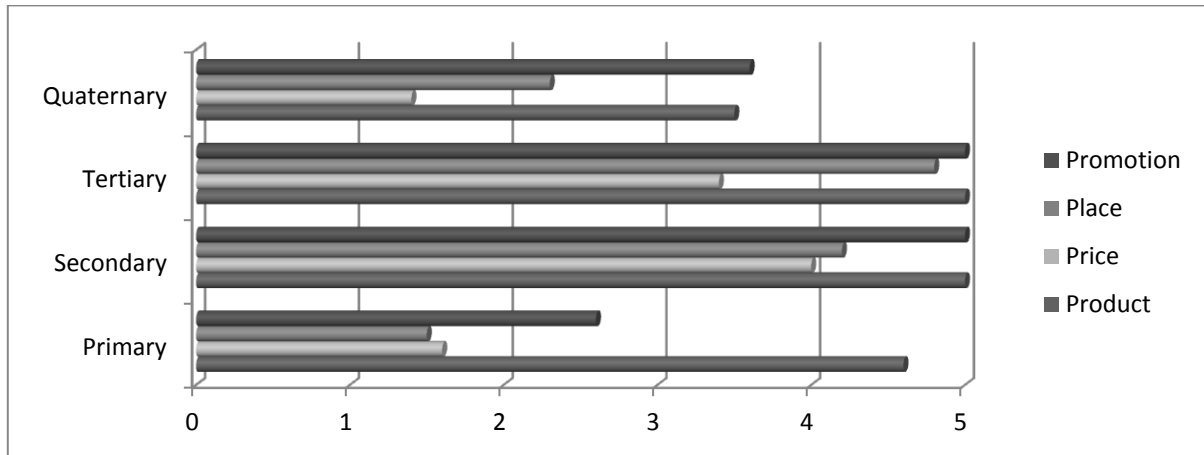


Chart 2: Cross-section differentiation when reflection on the components of 4P (author)

By analyzing the cross-sector differentiation, with strategic focus on product, by ANOVA test it is confirmed that a statistically significant difference exists between the arithmetic means of the samples (p -value is $3,4 \cdot 10^{-6}$), ie strategy of placing focus on the product is significantly different between sectors. Separately, by comparing quaternary sector with other sectors it can be concluded that there is a statistically significant difference between the arithmetic means of quaternary sector and other sectors in the attitude towards the importance of the product as a component of the 4P (with received p of 0,000335 and 0,05 in contrast to secondary and tertiary sectors). It can therefore be concluded that companies of quaternary sector do not show a strong need to emphasize product as companies of secondary and tertiary sectors do because of the specificity of the product or because of the products integration on the market.

Differential analysis on the formation of prices by using ANOVA test shows significant differentiation between sectors (p -value of $5,23 \cdot 10^{-12}$). However a separate analysis of sectors revealed no significant differentiation between primary and quaternary sectors ($p = 0.5671$) and the secondary and tertiary sectors ($p = 0.102284$), from which it can be concluded that the above sectors create price strategy in a similar way, ie the companies of secondary and tertiary sectors strongly emphasize price as a key strategic element. These assertions can be further substantiated by descriptive analysis shown below.

Groups	Product				Price			
	Count	Sum	Average	Variance	Count	Sum	Average	Variance
Primary	20	92	4,6	0,673684	20	32	1,6	0,884211
Secondary	20	100	5	0	20	80	4	1,052632
Tertiary	20	100	5	0	20	68	3,4	1,515789
Quaternary	20	70	3,5	2,894737	20	28	1,4	1,515789

Table 1: Descriptive analysis of strategic focus on product and price (author)

By analyzing strategic orientation on distribution, by using ANOVA test, results show a statistically significant differentiation between the analysis in each sector, and the overall cross-sector analysis ($p=1,37 \cdot 10^{-16}$). However, the most interesting is the analysis of focus on the promotion where a significant difference has been noted between the arithmetical means of samples ($p=1,93 \cdot 10^{-10}$), which indicates that there is a strong cross-sector differentiation in focus on promotion, although it was noted that between the primary and quaternary sectors there is no significant differentiation ($p=0,05103$). Thus we can conclude that the primary and quaternary sectors do not pay great attention to the promotion of the product, while secondary and tertiary sectors believe that the promotion is one of key components of their strategy. The above statement is shown in the following table.

Groups	Distribtion				Promotion			
	Count	Sum	Average	Variance	Count	Sum	Average	Variance
Primary	20	30	1,5	0,789474	20	52	2,6	2,357895
Secondary	20	84	4,2	1,010526	20	100	5	0
Tertiary	20	96	4,8	0,378947	20	100	5	0
Quaternary	20	46	2,3	2,221053	20	72	3,6	2,568421

Table 2: Descriptive analysis of strategic focus on distribution and promotion (author)

After analysis of key components of the strategy, managers received the question whether they are using benchmarking. Following data has been collected.

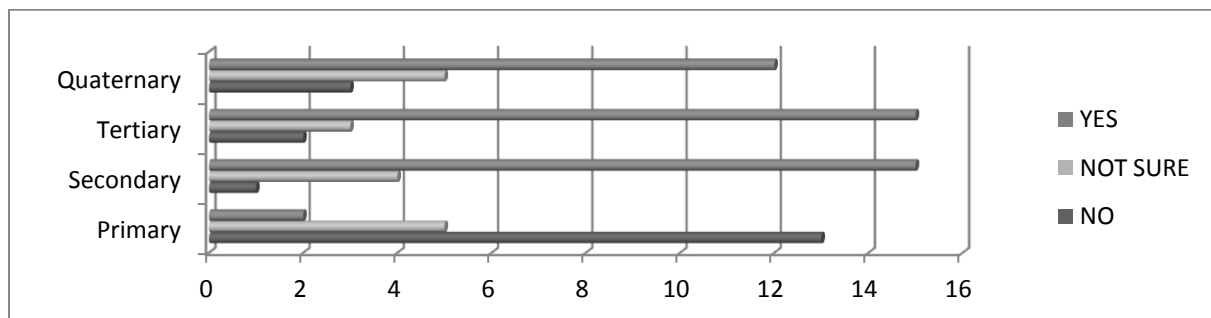


Chart 3: The data collected on the use of benchmarking (author)

And by using descriptive analysis the following indicators were obtained.

Groups	Count	Sum	Average	Variance
Primary	20	38	1,9	1,884211
Secondary	20	88	4,4	1,305263
Tertiary	20	86	4,3	1,8
Quaternary	20	78	3,9	2,305263

Table 3: Analysis of the implementation of benchmarking through different sectors (author)

From previously mentioned it can be observed that companies in all sectors except for the primary use benchmarking, which has indicated the differentiation between sectors through ANOVA test ($p=9,12 \cdot 10^{-8}$), separate analysis between sectors determined that the primary sector has influenced the reported differentiation ($p=2,5 \cdot 10^{-7}$), while among other sectors

there is no statistically significant differentiation (eg. $P=0,801$ between secondary and tertiary sectors, $p=0,25$ between secondary and quaternary sectors, $p=0,38$ between the tertiary and quaternary.).

In the analysis of key threats or five key forces according to Porter, managers in all sectors have expressed the view that the impact of existing competitors in the market is the strongest external force that has impact on the company, even though their impact is significantly lower on companies in primary and quaternary sectors than on companies in secondary and tertiary sectors. The reason for this is the specific markets and job descriptions in which competition does not have such a significant stake on the success of company operations. It is important to emphasize that managers of the primary and quaternary sectors point out that there is no concern about customers and substitution products for exactly the same reasons as stated above. However companies of the quaternary sector show a strong influence of the suppliers on its business, much stronger than companies of other sectors, particularly the primary sector.

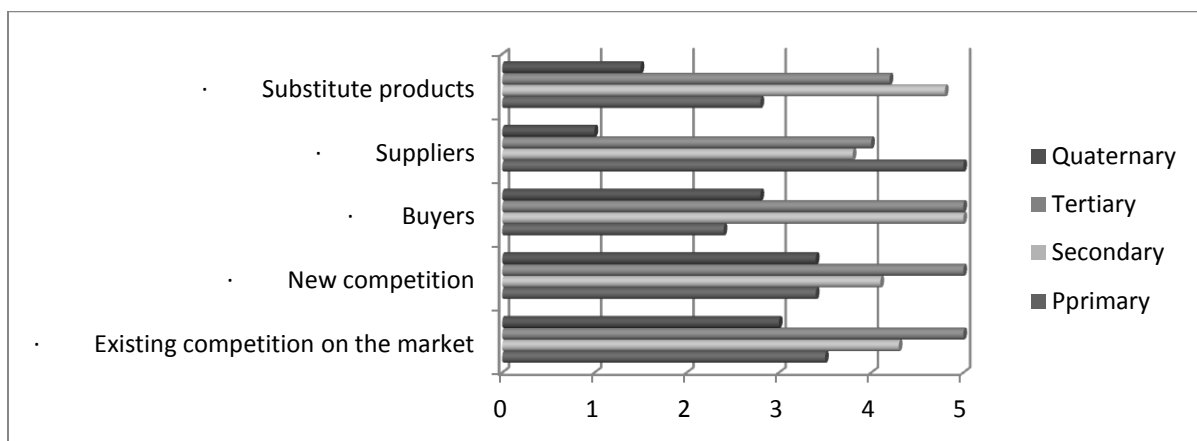


Chart 4: Key threats of companies are (author)

From chart shown above it is clearly evident that the impact of external forces is different on company's business between sectors, and it has strong implications for the creation of the company's strategy in the sector. The existence of a strong differentiation has also been proven with ANOVA analysis which at analysis of threats on the market ($p = 10,63 \cdot 10^{-5}$), analysis of the threat of new competitors ($p = 0,000528$), customers threats ($p = 6,15 \cdot 10^{-14}$), suppliers threats ($p = 2,63 \cdot 10^{-19}$) and threats from substitute products ($p = 2,12 \cdot 10^{-13}$) indicates a statistically significant difference between sectors.

Interesting results were obtained from a part of a survey that analyzed which are key components that are part of and were used in creation of the vision and mission. Managers were offered options to choose from and it is concluded that most managers believe that employees, concern for the survival, growth of the market and products are key components of strategic goals, vision and mission. It was also found that managers of primary sector consider that philosophy and self-concept are not an important component of the vision and mission, and a large percentage of them in the vision and mission statement do not include nor users nor concern for public opinion, which could be explained by the fact that companies in this sector produce intermediate products for the market which seeks them thus reducing the need for a strong attracting of buyers from the market. Regarding the

quaternary sector it can be noticed that they place a strong focus on all the components except the technology that is not considered an important strategic factor. It is important to note that companies of secondary and tertiary sectors emphasize that all of these components are very important for the development of their strategy, and it can be said that there is no significant differentiation in this segment among them.

The analysis results are listed in the following graph.



Chart 5: Key components of the vision and mission (author)

As a final component it is necessary to emphasize that the primary sector managers have suggested that strategic guidelines to subordinates are not transferred at all levels, which is a large obstacle for implementation of a strategy and a potential reason for the delay of the entire sector.

The last question asked the managers whether they think that their strategy is distinctive and competitive on the market. Gathered data is shown in the following table.

Groups	Count	Sum	Average	Variance
Primary	20	30	1,5	0,789474
Secondary	20	86	4,3	1,8
Tertiary	20	74	3,7	2,642105
Quaternary	20	80	4	2,315789

Table 4: Analysis of strategy competitiveness (author)

From the above data it can be viewed that the managers of primary sector companies are aware of the fact that their strategy is not competitive on the market and for this they are very different from the managers of companies from other sectors (in comparison with the secondary sector $p = 2,21 \cdot 10^{-9}$, with tertiary sector $p = 5 \cdot 10^{-6}$ and quaternary sector $p = 1,92 \cdot 10^{-7}$ which shows a clear differentiation). Thus it can be assumed that the under-developed strategy is a key reason for the stagnation of development of primary sector in comparison other sectors.

4. Conclusion

Each sector has its own specificities, both in business and in formulation of strategies. Analysis of sectoral specifications has shown numerous specifics. Although managers within all sectors are aware of the fact that only the product, its quality, price and access to buyers can point out the competitive advantage on the market, each of them puts the focus on the specific components that are of bigger importance to them.

In the turbulent times in which companies are currently positioning on the market a stronger focus is placed on the market, growth of the company and its survival. Main reason is the size, number and strength of competitors on the global market, to which the company is trying to counteract. Therefore, when setting up strategy employees must be a key factor in development of the company, and by stimulating them a significant progress can be achieved.

By stressing the fundamental values, beliefs, aspirations and ethical priorities of company, it becomes more important in the perception of key stakeholders, and thus it can achieve greater incentive in all its target groups for further work and effort with purpose of progress and development of company. By analyzing companies through various sectors, one can observe the existence of certain rules when setting up a strategy, but in parallel with this there is a huge difference in orientation of strategy among companies within different sectors. That form of orientation can be strictly linked to the sector within which the company is located. Thus we conclude that the strategy can be precisely directed, and that it is possible to set a narrower range of segments that a high-quality strategy should have, in relation to a particular sector, thus helping companies within a sector with a better strategic guiding.

5. Bibliography

1. Aaker, D. A. (2001). *Strategyc Market Management* (6th ed.). New York: John Wiley & Sons.
2. Abell, D. F. and Hammond, J. S. (1979). *Strategyc Market Planning, Problems and Analytical Approaches*. Upper Sadle River: Prentice-Hall.
3. Buble, M. (2005). *Strateški menadžment*. Zagreb: Sinergija.
4. Cardona, P. and Rey, C. (2009). *Upravljanje pomoću misije*. Zagreb: Mate.
5. Certo, S. C. and Peter, J. P. (1991). *Strategic management: concepts & applications*. Boston: McGraw Hill.
6. Doyle, P. and Bridgewater, S. (1988). *Innovation in Marketing*. Butterworth: Heinemann.
7. Kotler, P. and Keller, K. L. (2008). *Upravljanje marketingom* (12th ed.). Zagreb: Mate: Zagrebačka škola ekonomije i menadžmenta.
8. Meler, M. (2005). *Osnove marketinga*. Osijek: Sveučilište u Osijeku, Ekonomski fakultet.
9. *Nacionalna klasifikacija djelatnosti*. (2007). Retrieved 24.11.2012. from www.dzs.hr/Hrv/important/Nomen/ndk2007objasnjenja.pdf.
10. Pavičić, J. (2003). *Strategija marketinga neprofitnih organizacija*. Zagreb: Masmedia.
11. Sikavica, P., Bahtijarević-Šiber, F. and Pološki Vokić, N. (2008). *Temelji menadžmenta*. Zagreb: Školska knjiga.
12. Stacey, R. D. (1997). *Strateški menadžment i organizacijska dinamika*. Zagreb: Mate.
13. Thompson, A. A., Strickland, A. J. and Gamble, J. E. (2008). *Strateški menadžment: u potrazi za konkurentskom prednošć*. Zagreb: Mate.