

SUCCESSFUL COMPETITIVE STRATEGIES OF LARGE CROATIAN AND SLOVENIAN ENTERPRISES*

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In this research report, the authors identify and analyze the successful samples of strategic behaviour of large Croatian and Slovenian enterprises, as well as their similarities and dissimilarities. The research has encompassed the levels of corporate and business strategy (i.e. the strategy of a diversified firm and its strategic business units/areas), as well as the analysis of strategic performance and sources of competitive advantage. The research consists of two parts: the theoretical foundation for the analysis of the successful patterns of strategic behaviour and the empirical analysis, based on the primary data collected during the research project.

The research findings confirm many of the theoretical premises regarding the strategic behaviour of enterprises in a transition environment, but not all of them. It was confirmed that collaborative strategies, especially joint venture and strategic network development strategies, present an important strategic orientation. Main motives for choosing and implementing the dominant strategic orientations are in the increase or at least maintenance of an enterprise's

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market shares and in the reduction of relative costs. On the other hand, the authors did not confirm that the ("old") large enterprises would mostly implement some type of "minimalist" strategy (aiming on mere survival), but that the majority of enterprises implement the turnaround strategy in its last phase (i.e. phase of renewed growth). Empirical findings also suggest that a major part of large enterprises already implement the strategy of developing higher forms of internationalization. Literature that deals with transition issues usually implies that only foreign firms would implement such a strategy.

Regarding the strength and sources of competitive advantage, the top managers' assessments of their strategic business units' level of competitive advantage indicate a rather "optimistic" picture. Although the statistical relationship between the units' levels of competitive advantage and their long-term financial performance was tested, it did not get needed statistical support. As sources of competitive advantage, enterprises try to exploit much more frequently the product or service differentiation rather than cost effectiveness. They attempt to create their product differentiation by developing higher product or service quality, by developing relationships with partners, by learning, by using an advantageous location, and by developing a proper climate in their organizations. Human and organizational resources are much more important for establishing enterprises' competitive advantage than physical and financial ones, according to the top managers' assessments. However, the statistical test did not give support to the hypothesis that a relationship exists between the firms' human and organizational resources and the enterprise's financial performance. Top managers assessed that the most important capabilities of enterprises for creating a competitive advantage are managerial capabilities and those linked to an enterprise's processes. A statistical test did not support the hypothesis that a positive relationship exists between these capabilities and firms' financial performance.

The most frequently implemented types of business strategies in the surveyed enterprises are: investing strategy, growth strategy, product (service) differentiation strategy and collaborative strategy with joint venture strategy as the dominant type. Due to the predominant implementation of growth and investing strategies, the majority of enterprises do not have their product portfolios in a strategic equilibrium, which leads to a certain degree of developmental and financial instability. Enterprises mainly disregard the formulation and implementation of Porter's generic types of business strategies. This might also imply that they disregard the issue of building their competitive advantage. Top managers assess that a very high share of their strategic business units has some type of competitive advantage. However, there is no compelling empirical evidence to justify such an opinion.

1. INTRODUCTION

1.1. Strategies in transitional economies

The majority of the research projects of business firms operations in transitional economies focus on the state viewpoint, i.e. what can governments do and what they really do in transitional environments for enterprises to be as effective as possible. Our approach is different. It follows the logic of “the enterprises’ focused viewpoint” (Peng, 37). We are interested how individual enterprises strategically behave and react to changes in the external environment.

1.1.1. Institutional framework in transitional environment

Transitional countries have no well-elaborated legal and judicial system. Their private ownership framework is in the process of emerging. Many institutions have been established, but they are still not well anchored. A number of institutions of a well-developed market economy are still missing. Some institutions of the previous communist (socialist) system (for example, the organization of public bookkeeping in Croatia and partly in Slovenia) are still active. The existing political system is still rather unstable. The weak legal framework increases business risk and requires strong usage of “links and friendships”.

The privatization of previous state (social) enterprises has not been concluded yet. This fact does not enable enterprises to grow either by using internal expansion or external growth modalities (for example, acquisitions). Frequently, enterprises implement strategies of developing clusters (what enable them to diminish business risk), joint ventures and other co-operative strategies. Networking, based on knowing the “right individuals” and establishing contacts with them, is also a popular strategy for achieving an enterprise’s competitive advantage and objectives more easily in transitional environments. Burt defines establishing a network as an individual’s attempt to mobilize personal contacts for exploiting entrepreneurial opportunities (Peng, 59). Jones et al. define networking as a firm’s effort to cooperate with others in order to obtain and sustain competitive advantages (Jones et al., 915).

Motives for developing a network strategy are not exclusively institutional. They are also economic and cultural-organizational. Networking can exploit the economy of scale and economy of scope. It can mean an easier access to needed resources and improved organizational learning. It contributes to a better

business decision-making too by enabling to take different cultural influences more effectively into account.

1.1.2. Strategies of state-owned enterprises

State-owned enterprises most frequently implement one of the following strategies:

- ❑ Asking for government support
- ❑ Maximizing profits on the basis of a retrenchment strategy or turnaround strategy (disinvesting, reducing work-force, liquidating unprofitable strategic business areas, reducing costs, etc.) or even of an unrelated diversification strategy
- ❑ Strengthening contracts with agents (managers) to provide managers with better stimuli, and owners with more efficient control over managers' efforts and achievements
- ❑ Developing resources and capabilities or different forms of long-term co-operation (joint marketing, joint ventures, strategic alliances, joint R&D, mutual licensing or developing entrepreneurial clusters).

1.1.3. Strategies of privatized and restructured enterprises

Limitations for formulating strategies of privatized and restructured enterprises are related to weaknesses that stem in management and employee buyouts as well as in problems linked to individual owners. Limitations may appear even in enterprises controlled by outside investors because of weaknesses in governing systems (regarding investors' influences on managers, investors' possibilities to exit - sales of capital stakes, etc).

A "minimalist" strategy could be perceived between typical strategies of privatized enterprises (i.e. an orientation on muddling through or aiming at survival and nothing more). Raising capital and turnaround strategy or corporate restructuring are other typical strategies of privatized business firms.

1.1.4. Strategies of newly founded enterprises (start-ups)

Entrepreneurship became an important factor in a number of economic sectors. Besides the expansion of private farming, one can perceive as a serious development the appearance of a "grey economy" (semiprivate, in shadow, black market, underground, illegal and/or illegal economy), of enterprises founded by "old executives" and of enterprises founded by professionals.

Three types of strategies that are implemented by start-ups can be identified:

- ❑ Those oriented on innovations, flexibility and change;
- ❑ Those oriented on networking either among entrepreneurs and managers or with government officials;
- ❑ Those oriented on boundary blurring either between the state and private sector (tax and government controls avoidance) or between the legal and illegal.

1.1.5. Strategies of foreign companies

Foreign companies that entered or are entering in transitional economies most frequently apply the following strategies:

- ❑ Export strategy
- ❑ Strategic alliances (licensing, franchising, joint ventures)
- ❑ Subsidiaries (either as newly founded or as acquired business firms).

Key success factors of no equity forms of strategic alliances as strategies are linked to diminishing or avoiding risk. Equity forms focus on joint ventures because domestic governments stimulate them. Some countries allow no other modality. Joint ventures require high coordination between both partners, flexible and broad-minded managers, joint decision-making, open communication and strong support by headquarters.

Founding new subsidiaries in a transitional environment is quite a risky strategy for foreign firms. Buying out a capital share in joint venture or an acquisition is the most frequently used way for establishing a firm abroad. Investing a lot in expatriates-managers, in training and in developing a firm's capabilities is the key for achieving success with a subsidiary in a transitional environment.

1.1.6. Firm's location advantage

Clusters of enterprises appear as a phenomenon, linked more to a specific location and less to individual countries. The location evidently creates competitive advantages in transitional countries. A cluster is a geographically proximate group of interconnected enterprises and associated institutions in a particular field linked by commonalities and complementarities (Peng, 249). Most foreign firms are active only in clusters in several regions of the transitional countries.

1.1.7. Key influential factors on a firm's strategy choice and performance in transitional economies

Three main groups of factors that determine firms' successful strategies in the transitional environments are shown in Figure 1.1. They relate to firms' successful strategies, not differentiating enterprises on individual kinds (state, privatized domestically, domestic start-up or foreign). The country in which an enterprise has its roots originally, the business conditions in a particular industry in a given country, and a firm's specific resources as well as capabilities determine, according to this hypothesis, the differences in formulated strategies of individual enterprises. Different strategies produce then differences in an individual enterprise's performance.

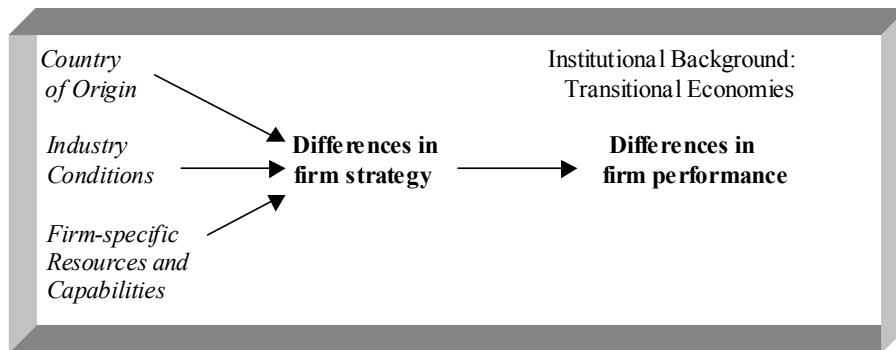


Figure 1.1: Why do Enterprises Differ Regarding Their Strategy and Performance

A theoretical generalization of this kind will be the starting point of our research which will be constrained at the successful competitive strategies of large, domestically-owned enterprises in Croatia and Slovenia.

1.2. Research purpose and objectives

The joint international research offers an opportunity for identifying successful strategic behavior samples of large Croatian and Slovenian enterprises on a comparative basis as well as their similarities with research findings in other transitional countries. A comparative analysis should discover differences and particularities linked to the specific Croatian and Slovenian environment in regards to resources and capabilities too.

Research objectives are defined on the theoretical and pragmatic level. The theoretical research of the large Croatian and Slovenian enterprises' successful

competitive strategies should derive the similarities and differences between the prevailing theoretical paradigm in general, for the transitional countries in general and the identified strategic practices in our two selected transitional countries. These findings could mean a contribution to the existing strategic management theory.

According to our pragmatic research objectives, our research endeavor should develop pragmatic directives and models, which might be to assist Croatian and Slovenian managers in large enterprises in their strategic decision-making. The research findings should offer, to management teams of large enterprises in both countries, new insights regarding successful strategic options (strategies); what might be important inputs in their practical strategic decision-making.

1.3. General research method

We intend to review relevant scientific literature on large enterprises' competitive strategies as well as the findings of relevant empirical studies. By applying the deductive method, analysis, method of elimination and synthesis, the theoretical basis needed for empirical investigation of successful competitive strategies will be developed.

The main research instrument for empirical investigation, i.e. a questionnaire, will be developed on the derived theoretical basis. The questionnaire will be sent, as previewed, to 20 - 25 large enterprises selected out of six industries in each of the two countries: food-processing, chemical, textile, electro industry, trade and tourism. The sample will include, minimally, two large enterprises from each of the countries and each of the stated industries. The large-size enterprises will be defined according to the officially (legally) accepted definition in Croatia and Slovenia.

The empirical survey of large enterprises' strategies, the motives for their selection and implementation as well as their financial performance will be carried out either by interviewing managing directors (or one of the senior managers) in the companies or by collecting relevant information by mailed questionnaire. The empirical survey will be directed to corporate and business strategies. We will treat business strategies as strategies of subsidiaries or as strategies of strategic business units in companies.

The collected empirical material will be enlarged by relevant financial and other data, accessible in public databases. The empirical data will be processed

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Successful Competitive Strategies of Large Croatian and Slovenian Enterprises (Research report)

with SPSS 10, where the emphasis will be given to descriptive statistical analysis. We intend to use the regression analysis and hypothesis testing too.

Our research findings are presented in this report which consist of four main parts: Introduction, Theory, Empirical Part and Conclusion. Otherwise, there are eight chapters: Introduction, Corporate Strategies, Sources of Competitive Advantage, Business Strategies, Measuring Enterprise Performance, Methodological Approach, Empirical Research Findings (with three subchapters) and Conclusion (with three subchapters).

2. CORPORATE STRATEGIES

2.1. Term and determination

An enterprise that operates business in various industries confronts three levels of strategies: corporate or complete, business, and function strategies. On the first level, a portfolio of business areas is primarily determined. Thus, the enterprise determines activities in which it will be active, as well as the way of managing with business units.

Corporate strategy must secure the final result that will be larger than the total result of individual business units. Enterprises, with a sufficiently homogeneous structure of a product, usually do not develop corporate strategy, but only business and function strategies.

2.2. Types of corporate strategies

In relation to the direction of enterprise development, a corporate strategy can be classified in the following manner:

- ❑ growth strategies
- ❑ stabilization strategies
- ❑ accumulation strategies.

Among the three mentioned above, growth strategy is the most frequently used in enterprises. Wheelen and Hunger state Glueck's research, according to which the frequency of use of the growth strategy is six times higher than that of the stabilization strategy, and seven times higher than the usage of the accumulation strategy (Wheelen, Hunger, 1990, p. 207).

This is understandable because, in very dynamic environments, enterprises can survive only if they are focused towards growth. Growth strategy is also very attractive for managers because growing enterprises cover possible mistakes and inefficiencies in business much easier. Besides that, large enterprises are less likely to be acquired than the smaller ones, leading to a safer position for the managers of larger enterprises.

From written sources, a whole range of classification of possible enterprise strategies can be found. Each of them arranges strategies from a particular standpoint. One of the possible classifications is shown in Figure 2.1.



STRATEGIES FROM THE ASPECT OF:			
Relations between products and markets	Usage of synergy	Portfolio of concept	Growth
▪ Market elaboration ▪ Market development ▪ Product development ▪ Diversification	▪ Orientation on raw material ▪ Orientation on technology ▪ Orientation on markets	▪ Disinvestments ▪ Exploitation ▪ Investment ▪ Segmentation	▪ Expansion ▪ Preservation ▪ Consolidation ▪ Accumulation
STRATEGIES FROM THE ASPECT OF:			
Competition	Width	Participation	Integration
▪ Attack ▪ Defense	▪ Concentration ▪ Accumulation	▪ Independence ▪ Cooperation ▪ Participation	▪ Forward ▪ Backward

Figure 2.1: Classifications of strategies
(Source: D. Pučko, *Strategic management*, 1996, p. 177)

2.2.1. Growth strategies

Ansoff, in this two-dimensional matrix of growth (markets and products), distinguishes four basic strategies for the growth of enterprises: market elaboration, which he divides into operative development and abandonment of a product; product development; market development; and diversification¹. Some authors further divided Ansoff's matrix by adding one more degree to each dimension (more about this can be found in Litter, Sweeting, 1987, p. 126). In

¹ Similar classification is used by Haspeslagh and Venison who state three relevant standpoints of corporate strategy (1991 – p. 32):

- ❑ Elaboration (strengthening) of the essential area on which the enterprise operates, which means renewal of competitive abilities in existing business area of the enterprise.
- ❑ Development of existing business area, regarding the use of existing competitive capabilities in new activities or the transfer of new competitive capabilities in the company in order to use them in existing activities.
- ❑ The research of new business areas, which includes the penetration into the new industries, which demand formation of new competitive capabilities. It is a conglomerate type of diversification.

widening the concept of an enterprise's growth with technological substructure, it is possible to talk about eight basic strategies of enterprise development:

- ❑ Strategy of market elaboration, i.e. operative development, is based on the preservation of all three existing substructures: market, technological and product substructure.
- ❑ Strategy of market development is based on the preservation of the existing product substructure and technological substructure, as well as penetration into new markets.
- ❑ Strategy of product development is based on the preservation of market and technological substructure, as well as on the changes in product substructure.
- ❑ Strategy of limited productivity-market diversification is based on the preservation of technological substructure, as well as on the changes in the remaining two substructures (introduction of new products for new markets).
- ❑ Strategy of development of technological substructure is based on the development of productive competence of the enterprise, along with a preservation of the existing product and market substructure.
- ❑ Strategy of limited market-technological diversification is based on the preservation of the product substructure and on the development of productive competence, as well as on the winning of new markets.
- ❑ Strategy of limited productive-technological diversification is based on the preservation of the existing market substructure and on the changes in product substructure, as well as technological substructure.
- ❑ Strategy of complete diversification is based on the changes of all three basic tangible substructures of the enterprise. If those changes run in the direction of abridgement of tangible substructures, then it concerns the strategy of specialization.

Rumelt, in his research on the efficiency of strategies in the largest corporations in the USA, on the basis of Wrigley classification, has introduced the following general systematization of development strategies (Rumelt, 1974, p. 11)²:

- ❑ Strategy of development of homogeneous activity (homogeneous business program, with quotient of specialization between 0.95 and 1),
- ❑ Strategy of development of prevailing activity (predominant part of income comes from the main activity, quotient of specialization is between 0.7 and 0.95),

² Quotient of specialisation reflects share of the enterprise's income relative to its highest productivity-market activity, i.e. on the largest strategic business area of the company.

- ❑ Strategy of development of related activities (concerns various business activities connected to some core competencies or source of enterprise; quotient of specialization is below 0.7), and
- ❑ Strategy of development of unrelated activities.

Some other authors emphasize, as two main corporate growth strategies, the strategy of concentration, which is directed towards one industry, and the strategy of diversification directed to various other industries. Strategies can run through external (connective) or internal growth (own development). The strategy of concentration can be horizontal or vertical (backward or forward). On the other hand, it is necessary to take into consideration the fact that vertical integration often deals primarily with the entrance into new industries, and thus, with diversification, can be divided on concentric and conglomerate (Wheelen, Hunger, 1990 – p. 208).

In his research, Porter has identified four concepts of corporate strategy of diversified corporation that enterprises had put in practice. (Porter, 1987 – p. 49):

- ❑ portfolio management
- ❑ restructuring
- ❑ transfer of business practices, and
- ❑ connection of activities for various business units (sharing activities).

Concepts are not mutually exclusive; they are based on different mechanisms of producing value and they require various ways of organizing and managing a diversified corporation. The nature of the source of enterprise determines abilities and needs for the diversification of business. Enterprises with specialized sources can complete within a narrower network of activities (connected), while those with a more general nature of source complete in a wider network of activities which do not need to be connected to one another (Collis, Montgomery 1998 – p. 73). Business diversification can be achieved in three ways: by connecting another enterprise, by strategic coalition, or by internal development. It is necessary to establish to what extent the enterprises have diversified their business during the development of strategy, and also which method, of those mentioned, they have chosen. It is also important to define factors that determined a particular choice.

2.2.1.1. Traditional orientation of diversification

The degree of business diversification is usually measured in two ways (Montgomery, 1982 – p. 299-307; Pitts, Hopkins, 1982 – p. 620-629):

- Using the statistical indexes (e.g. SIC in the USA). This method is used by many researchers (Jacquemin, Berry, 1979 – p. 359-369; Palepu, 1985 – p. 239-255;...). Such an approach contains an implicit hypothesis that two activities are similarly inserted in the standard classification of activities (“SIC” cipher in the USA). Further, they have to have similar features considering the input in the cycle of production and also similar productive-technological and market features. However, for all of that, the fact that the strategic and statistical definition of the industry usually does not correspond is neglected.
- Using some other, more subjective measures of connection among activities.

Statistical classification of activities is usually used in researches on the efficiency of individual types of business diversification. This approach is particularly used by American authors, who have at their disposal detailed and exact data on the efficiency of individual types of business diversification. This is based on standard classification of activities according to different industries. Markides and Williamson emphasize that traditional measure of the connection between two enterprises is incomplete because they neglect “strategic meaning” and similarity of company assets. The traditional view of the degree of enterprise diversification is limited because it equalizes the benefits of diversification with statistical exploitation of economies of scale, and therefore, neglects the basic contribution of the mentioned diversification to the development of long-term competitive advantages. This contribution would be in potential for widening the stock of strategic assets and formation of the new, in a quicker way and with lower costs, in comparison with competitors who did not conduct such business diversification (Markides, Williamson, 1994, p. 149)³.

³ Authors clearly define and separate strategic assets and core competencies of the enterprise. Strategic assets are the assets of the enterprise that enable the achievements of competitive advantage on the basis of relatively lower expenses of differentiation of products, i.e. services. Strategic assets of the company have to have the three following characteristics: Imperfectly replaceable, imperfectly tradable and imperfectly imitable. This asset is usually specific for a particular market. An example for this can be Honda’s network of sellers and services shops in the motor vehicle industry. The core competencies result from experience, knowledge, skills and systems.... that a company owns or uses in order to reduce expenses or time needed for forming new or widening existing strategic assets. The examples of core competencies in Honda’s case can be its capability to produce competitive motors or experiences in the establishing competitive network of sellers for a particular product. Honda can use strategic assets and core competencies in diversification in the lawn mower industry, where the distributing network for mowers would represent separated strategic assets resulting from the same core competencies of the company

2.2.1.2. Strategic standpoint of enterprise diversification

Shelton suggested the use of four criteria for the determination of diversification degrees. He defined business areas as associated, which are similar regarding at least three of the four following criteria. However, if on the contrary, this would concern unassociated enterprises. Similarity would be defined according to (Shelton, 1985 – p. 281):

- type of consumer: consumer goods, industry, service sector, public sector,
- type of product: final product, semi-finished goods, materials, i.e. raw materials,
- technology, and
- purpose, i.e. function of products and services.

Operation of the dynamic concept of strategic connection, which is not available on the market, has no substitute, and as such, is difficult to accumulate on different markets. If two business units have the access to the sale channel and the position, in regard to the distributor, as two significant competitive factors on their main markets, it means that those business units have a strategic connection in regard to that factor. Strategic assets of the enterprise can generally be divided into five different types (Verdin, Williamson, 1993 – p. 4-6):

- assets connected with customers (customer's loyalty, recognition of product's brand, position on a particular segment of a market established service network...),
- assets connected with the sale channel (established system of distribution, distributor's loyalty, market share...),
- assets connected with inputs of the business process (familiarizing with incomplete-competitive factors on some certain markets, supplier's loyalty, financial capability firm's image),
- assets connected with process (technological know-how, capability of researches and development, specific experiences of employees in marketing or production, organizational systems....),
- general assets (accumulated information about competitor's aims and behavior, demand's price flexibility or market reaction in business cycles, financial capability, existing relations with supporting industries,

(different industries of the same tree fed by the same roots) (Markides, Williamson, 1994 – p. 149-150). The same definition of strategic assets is used by some other authors who study factors of gaining competitive advantages by diversification of an enterprise's business (Barney, 1986 – p. 1231-1241): (Doerichy, Cool, 1989 – p. 1504-1513).

infrastructure, enforcement of state regulations, human capital (including strategic and managerial abilities), and information technology.

The problem of such classification is, in fact, that some factors (human capital, technology, financial capability...) can occur as factors in various types of strategic connection of enterprises with the following indicators (1994 – p. 158-160):

- ❑ Indicators of assets related to the consumers⁴: concentration and fragmentation of consumers and their demands for special services⁵.
- ❑ Indicators of assets related to the sale channels: degree of dependence of the sale channel on external (contractual) partners⁶.
- ❑ Indicators of assets related to the process: production as ordered in contrast to standardized production and average degree of the qualified work force. Efficient supplying of customers, on the basis of standardized production stocks, demands different groups of tangible and intangible assets from the one used in production as ordered⁷. There is no doubt that human potential is an important factor of competitive advantage in all industries. However, in some industries, i.e. activities, a high degree of education and qualification of the work force is a more critical factor rather than in some others, which can be physically intensive, but does not demand a high degree of worker's qualification⁸.

In research, it would make sense to recognize a strategic connection among business areas of enterprise, at least when considering the following factors: main raw material or semi-finished products, final products or services, basic technology, demanded workmanship skills, research and development, distribution channels, consumers, common markets and consumers' buying habits. As a result of the mentioned restrictions, it would be useful to calculate

⁴ The purpose of this measure is to determine to what extent the company deals with a small number of big clients, instead of dealing with a large number of fragmented small clients. The indicator is the share of productive lines that had less than a thousand different customers on a productive level.

⁵ Properly developed relations with customers and organizational capital, on which the company's capability for conducting quality services is based, are more significant in industries in which customers demand a high degree of additional services. The demanded degree of services was measured with the percent of productive lines, which demand a high degree of post-selling services.

⁶ The indicator was the percentage of the product that the company sells by the mediator, instead of selling it directly to the final users.

⁷ The indicator of the connection was the percentage of productive lines, mentioned for the production as ordered, regarding the specification of the consumer.

⁸ The indicator of the connection was the share of work places, which demand highly qualified personnel in the total number of work places (employed).

the connection among areas regarding other dynamic measures, such as core competencies.

2.2.2. Stabilization and consolidation strategy

The decrease of economic activity, in the initial period of transition, has forced many enterprises to implement stabilization and consolidation strategies. The stabilization strategy is based on the attempt to preserve the existing positions, whereas the consolidation strategy represents an attempt to reduce costs on all levels of business, which is based on the reorganization to fulfill certain business functions. Business consolidation usually runs through the uniting and connecting of enterprises (Peel, 1996 – p. 96). The aim of such a process is to reduce costs per unit of the business effect by connecting their activities.

2.2.3. Accumulation strategy

Accumulation strategies are relatively unpopular because apart from being connected with unpopular measures, they also implicate that the past business was inadequate. In this case, it concerns the process of disinvestment, which is based on the reduction of a company's business activities. As a rule, the enterprise rationalizes its business portfolio with the sale of non-profitable business areas. The radicalism of the mentioned strategy depends on the degree of business difficulties with which the enterprise is faced. The strategy of change includes reducing the number of employed, lowering research and development expenses, marketing, training, etc. The enterprise, as a rule, reduces expenditures in all non-critical activities. Often, the starting point of the strategy of change is the substitution of the top management within the company. By selling non-profitable business areas, the company moves to those areas where it sees its core competencies. Some authors divide this strategy into three phases (Wheelen, Hunger, 1990 – p. 216).

In the first phase, the enterprise conducts a radical accumulation strategy, which includes lowering expenses on all business levels, as well as a reduction of the volume of business activities. This phase is followed by the phase of business consolidation, with the development of a business-operating program that preserves the existing, "more flexible" organization. The efforts of the top management, in this phase, are still directed to lowering indirect expenses and increasing efficiency of individual business functions. This represents the key period of change. The top management must include all employees in the

process of reducing expenses and increasing productivity. On the basis of these two phases, the company mobilizes, once again, its resources for its rebuilding.

A frequent form of the accumulation strategy is the buying-off of companies by means of a financial lever. This concerns the managerial buying-off of companies (MBO) or selling parts of the company with a financial lever. One possibility is also the sale of the company to all employees (ESOP – employee stock ownership plan). Connected to this is a very interesting strategy of the privatization of enterprises in Slovenia and Croatia, which were previously state-owned. The question here is whether this form of privatization was, as well, a starting phase of the accumulation strategy in certain cases, or was the accumulation conducted prior to the privatization of enterprises. The study and attempt to define a group of measures of this strategy makes sense primarily depending on the degree of business difficulties with which the company was faced in a particular moment.

2.2.4. Internationalization strategy as a significant form of corporate strategy

International enterprises make a choice among various possibilities of admission to foreign markets:

- ❑ export forms of admission (direct or indirect export),
- ❑ contractual forms of admission, which include transfer of skills and know-how (long-term productive cooperation, licensing, franchising or various other forms of activities connected to subletting),
- ❑ forms of admission demanding higher investments (joint investments, connecting of existing enterprises, “investment from the beginning”, i.e. green-field investment).

There are six factors that define the way of the business internationalization (Ellis, Williamson, 1995 – p. 240):

- ❑ desired degree of control,
- ❑ availability of resources (financial, personnel...),
- ❑ degree of risk,
- ❑ admission agility, i.e. ability of reacting quickly to the competitor's moves.
- ❑ enterprise's opportunities on a certain market
- ❑ expected yield.

It can be expected that a chosen form of international business is dependent, as well, on the phase of internationalization in which a certain enterprise finds itself. The first phase represents the initial admission on a foreign market. It is followed by strengthening its presence on the market (e.g.

shaping of dislocated local units – industry offices or joint investments with a local enterprise). Local production and marketing are usually organized locally. Successful business of the industry-offices leads to its higher autonomy and self-sufficiency. The third phase is usually reflected in the formation of a dependant regional (local) enterprise. However, the process of business internationalization, as a rule, runs with the gradual strengthening of its presence on foreign markets and evolutionary development of individual forms of international business. For some enterprises, there are characteristic peculiarities that should be investigated and reduced to a common denominator. It would also make sense to try to determine the competitive position of the enterprise, regarding the variety of offered products and services, on one side, and geographic width, i.e. restrictions on particular markets, on the other side.

2.2.5. The basis of efficiency of corporate strategy

Deregulation, global competition⁹, discontinuities in the development of technology and variable expectations of clients¹⁰ are the basic catalysts of fundamental structural transformations into a wide range of industries (Prahalad, Hamel, 1994 – p.7). Structural transformations¹¹, surplus of capacity, uniting and connecting of enterprises, increasing ecological consciousness¹², lessening of protective measures of economical policy and development of unique multinational markets¹³ also influence the transformation of the structure of individual industries. The cumulative effect of all changes in the business environment of the enterprise is so large that it could be described as a “silent

⁹ Globalization removed many restrictions of international competence and enabled simpler usage of unique business ideas, regardless of national restrictions.

¹⁰ Among basic changes, the following can be included: demands for higher quality, with constant improvement of relations between the usefulness and the price, grow of the meaning of the trademarks and new sale channels (increase of the post and internet trade). The consolidation of the retail trade is a reflection of changed customers' buying habits, as well.

¹¹ Accounting industry is transformed from a centralized vertically integrated industry into one with a decentralized fragmentary structure, in which specialized enterprises change the nature of competitive advantages that traditional enterprises had in the industry, e.g. IBM. Today, it is hard to imagine that in 1980, Compaq did not exist at all, and in the '90s, it became the leading company, ahead of IBM, in a competitive battle for leadership on the world market of personal computers and “laptops”.

¹² Orientation towards business processes convenient for the environment influences all the aspects of an enterprise's operations, from product and service designing to their usage and final breakdown.

¹³ Development of commercial blocks, such as the European Union, NAFTA and ASEAN, changes the examples of world trade. The strategic question of investment location, formation of a logistic network on the world market and lowering costs with global configuration and activity coordination are very dependable on the development of the unique multinational markets.

industrial revolution". Therefore, old recipes of the development of strategies are no longer adequate. Managers are, therefore, very often forced, under the pressure of growing competition, to abandon traditional approaches to the development of strategies and to look for new ones, which would enable the achievement of lasting competitive advantages in the turbulent business environment.

Collis and Montgomery emphasize that integration of the three creators of corporate strategy (source, activity and organization), as a harmonious whole, represents the essence of competitive advantages of an enterprise. Thus, the essence lies in the method of configuration and coordination of various activities of the enterprise, which, according to their opinion, distinguishes very successful corporate strategies from those still acceptable (Collis, Montgomery, 1998 – p. 72). When the enterprise sources are at the same time critical factors of efficiency of the industry in which the enterprise deals, with adequate coordination and configuration of activity, various synergies can be achieved. Additionally, strategy controls the measures of efficiency and the awarding system in the company is even more coordinated. While predicting to what extent the strategy of the mentioned diversification will contribute to securing adequate long-term yields of the company, it is necessary to distinguish four types of possible advantages of the mentioned diversification (Markides, Williamson, 1994 – p. 150):

- potential for exploitation of economies of scale¹⁴,
- potential for the usage of core competencies that the enterprise developed,
- building and maintaining strategic assets in one strategic business unit, alone with improving the quality of existing strategic assets in other strategic business units¹⁵,
- potential for exploitation of core competencies that were developed with building,
- strategic assets in existing activity for the formation of new strategic assets in new industries in a quicker way and with lower expenses in comparison with the competition,¹⁶
- possibility of gaining new attainments and skills entering into new connected industries that would help the enterprise to increase and widen

¹⁴ e.g. Common system of distribution

¹⁵ The experiences from management or the network of car sellers were very helpful for Honda at the improvement of the efficiency of managing the motorcycle sellers network.

¹⁶ The example would be the usage of Honda's experience, gained through the building of a distributive network of motorcycles, in the development of a parallel distributive network for lawn mowers.

core competencies so that it could improve the quality of strategic assets in existing activities¹⁷,

- ❑ more common core competencies relevant for building competitive advantages in specific business areas, in the enterprises that are compared, are more strategically connected, and at the same time, with increasing the strategic connection, *ceteris paribus*, the expected benefits from business diversification are also increased.

In fact, in determining the most adequate strategy for entry in a new business area, it is to be expected that, depending on the market-technological relationship between the new area and the already existing one, it is necessary to take into consideration at least two rules (Roberts, Berry, 1985 – p. 107):

- ❑ Entering strategies, which demand a high degree of an enterprise's inclusion, are adequate for new activities on familiar markets and with familiar technological features.
- ❑ Entering strategies, which demand a low degree of an enterprise's inclusion, are adequate for new activities on unfamiliar markets and with unfamiliar technological features.

It is necessary to check whether the mentioned principle can be applied to Slovenian and Croatian enterprises as well.

Porter, in his latest work, emphasizes that strategy is the method of forming strategic adequacy among individual activities of enterprise (1996 – p. 62)¹⁸. The efficiency of strategies depends on the corresponding connection of individual activities. The failure to distinguish operative efficiency from the operative strategy would be a basic problem. If operative strategy means to achieve the proper performance of certain activities, then the essence of strategy is the strategic combination of activities that mutually coincide and result with a more permanent competitive advantage. The essence of competitive strategy is the performance of an activity in a way different from that of the competitor and the achievement of a unique strategic position. A strategic position is based on three different sources of positioning, which are not mutually exclusive, but usually interlaced.

¹⁷ Knowledge and skills, gained with the development of new motors for cars, Honda could use for the development of motorcycles' motors or even for the development of law mowers.

¹⁸ In this case, strategic harmony would primarily be based on: consistency between individual activity (function) and general strategy, mutual support of individual activities, so that they increase the effect to one another, and putting efforts of individual activities on an optimal level. Improvement of the performance of individual activity would be shown in the better efficiency of others.

1. Positioning on the basis of type of products or services. An enterprise decides whether it will produce only a specific group of products or services within some segment of the market.
2. Positioning on the basis of consumers' needs.
3. Segmentation and "servicing" of the customer that are available in various ways.

Managers are usually focused too much on core competencies of enterprises, critical sources and key factors of business efficiency, instead of being focused on the strategic coordination of activities of enterprises, which is a central factor in achieving a competitive advantage (1996 – p. 70)¹⁹. In that way, a new, alternative paradigm of strategy arises from an attempt to achieve more permanent, competitive advantages.

¹⁹ In this context, the example of the TUŠ enterprise, which operates in retail and wholesale food trade, is very interesting. It concerns an industry that faces the process of consolidation, in which we lately witness a larger number of uniting and connecting, and the mentioned company in this period constantly increases its market share with the development of a clear, generic business strategy. It responds successfully to the capital connection of the competition, with a clear configuration of its activities and positioning of its offer alongside the competitor's offer.

3. SOURCES OF COMPETITIVE ADVANTAGE OF A FIRM

The concept of "competitive advantage" has been discussed for some time, either in terms of the ability to add value (above the amount of costs associated with the production process) (Porter, 1985), or the ability to add more value than the other competitors (Tipurić, 1999, p. 3), or even the ability to achieve higher profitability than the other competitors (in a long term) (Grant, 1995, p. 151). A competitive advantage can also be defined as a unique position a firm develops in comparison with its competitors. Outward evidence of a competitive advantage is a position of superiority in an industry or market (Bamberger, 1989, p. 80). Naturally, in order to create a competitive advantage, certain foundations for it must exist (or must be created) in a firm. In this paper, such foundations are labeled as the "sources of competitive advantage" and can be compared with the foundations of a house. Just as we can say that a house is safe only if it has quality foundations, we can also say that a competitive advantage is sustainable only if its sources are appropriate (i.e. stable, unique, hard to imitate, etc.).

We believe there are four "schools" (i.e. scientific approaches) of describing the sources of competitive advantage:

1. The "industrial organization" hypothesis, arising from the traditional (microeconomic) analysis of the relationship between the market structure and profitability;
2. "Resource-based" hypothesis, focusing on the idea that competitive advantage stems from strategic resources;
3. "Capability-based" hypothesis, looking at strategic capabilities (competencies), which coordinate the strategic resources; and
4. "Knowledge-based" hypothesis.

3.1. Industrial Organization hypothesis about the sources of competitive advantage of a firm

3.1.1. The origin of competitive advantage according to the Industrial Organization hypothesis

Within the industrial organization hypothesis, there are at least two different views of the origin of the competitive advantage of a firm. On one side, there are advocates (for example, Bain, 1956) of the so-called classical industrial organization hypothesis who claim that a firm can neither influence industry conditions nor its own performance. In this context, the competitive

advantage is industry driven (i.e. determined by industry characteristics) rather than proactively created by firms through the accumulation of unique resources and capabilities. On the other side, there is a modified framework advanced by a new group of industrial organization scholars which recognizes that firms have a certain influence on the relationship between industry structure and firm performance. According to Porter (1981, p. 616), there are some fundamental parameters of industry dictated by basic product characteristics and technology, but within those parameters, industry evolution can take many paths, depending (among other things) on the strategic choices firms actually make. In other words, a firm can have an important influence on creating its own competitive advantage. The normative implications of this modified industrial organization hypothesis for strategic management are that a firm should first carefully analyze the structural parameters²⁰ of its industry. Then, it should assess its profitability potential and, finally, select a strategy that can effectively align the firm to the industry and simultaneously generate superior performance (Porter, 1980, pp. 4-5).

In Porter's opinion, the competitive advantage of a firm can find its sources in (1) cost efficiency (if a firm is able to attain lower costs than its competitors) or (2) differentiation of its products and/or services (Pučko, 1999, p. 160). Generally, a firm's cost behavior and its differentiation potential depend on the following cost and/or differentiation drivers (Porter, 1985, pp. 70-83; 124-127): (1) economies or diseconomies of scale, (2) learning, (3) synergies [these encompass (a) linkages between activities, (b) interrelationships with other business units, and (c) integration effects], (4) capacity utilization, (5) timing [i.e. when a firm performs critical activities], (6) location [i.e. where a firm performs critical activities], (7) discretionary policies independent of other drivers [for instance, quality policy, sales policy, etc.], and (8) institutional factors [for instance, government regulation, unionization, local content rules, etc.].

Competitive advantage cannot be understood by looking at a firm as a whole. If we want to really understand what the sources of competitive advantage are, it is necessary to correctly understand the notion of strategy. Porter (1996, p. 64) argues that competitive strategy is about being different. He understands it as deliberately choosing a different set of activities (or choosing

²⁰ According to Porter (1979, p. 141), there are five structural parameters of an industry: (1) the bargaining power of suppliers, (2) the bargaining power of customers, (3) the threat of new entrants, (4) the threat of substitute products or services, and (5) current competition within the industry.

to perform the activities differently) than the rivals do in order to deliver a unique mix of value to the customers. The key word in the above-mentioned definition is, of course, "activity". Whether a firm is able to achieve a competitive advantage or not depends, above all, on how it performs certain activities and on the relationships between the activities. In order to determine what kind of competitive advantage a firm has, a systematic way of examining a firm's activity set is necessary. A basic tool for doing this is the so-called "value chain" (see Figure 3.1), which disaggregates a firm into its strategically relevant activities in order to understand the behavior of a firm's costs and its potential for differentiation (Porter, 1985, p. 33).

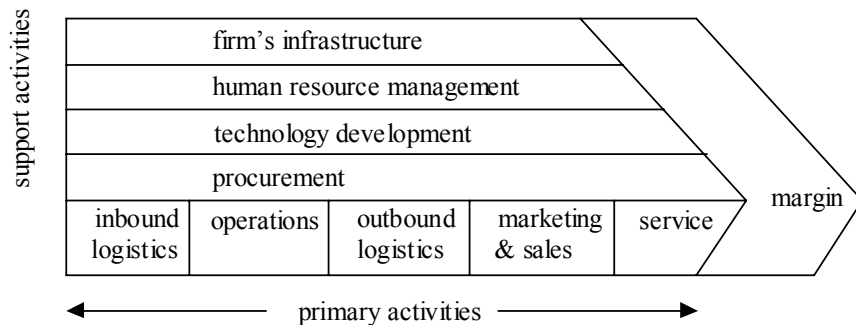


Figure 3.1: The generic value chain (Porter, 1985, p. 37.)

3.1.2. Cost efficiency and product (service) differentiation as the potential sources of competitive advantage

Competitive advantage can be based on cost efficiency if a firm's total costs of performing the activities in the value chain are lower than the costs of its competitors. Naturally, cost advantage will result in above-average performance only if the firm can sustain it. The sustainability of cost advantage depends not only on the cost drivers that create it (some tend to offer a more sustainable advantage than others), but also on the number of activities that can be performed at a lower cost. Cost advantage derived from one or two value activities provides an easy target for imitation by competitors. Cost leaders usually accumulate cost advantages gained from numerous sources in the value chain that interact and reinforce each other. This makes it difficult and expensive for competitors to imitate their cost position (Porter, 1985, pp. 112-113).

Naturally, all firms do not compete on a cost basis. Some prefer to take on their rivals by differentiating products and/or services. Differentiation advantage may be a result of added features, improved styling, better performance, increased reliability, longer life and many other characteristics of products and/or services (Rothschild, 1989, p. 96). The goal of such differentiation is, of course, offering a higher value to the customers, which allows a firm to charge them higher prices. Naturally, the differentiation advantage also needs to be sustainable if it is to result in the above-average performance of a firm. The sustainability of differentiation will be higher (1) if the sources of differentiation involve barriers, (2) if the sources of differentiation are multiple, (3) if a firm creates switching costs at the same time it differentiates, and (4) if a firm has a cost advantage in differentiating (Porter, 1985, p. 159).

3.2. Resource-based hypothesis about the sources of competitive advantage of a firm

3.2.1. The origin of competitive advantage according to the Resource-Based hypothesis

The resource-based hypothesis about the sources of competitive advantage of a firm rests heavily on the so-called "resource-based view of the firm". This view focuses mostly on the understanding of a firm's resources, their implications for the firm's performance, and lately also on the relationship with environmental threats and opportunities (Mahoney, Pandian, 1992, pp. 363-380; Wernerfelt, 1984, pp. 171-180).

According to the resource-based hypothesis, the competitive advantage of a firm can be built on a firm's resources. It is necessary to stress that the understanding of a firm's resources, here, is very broad. They can be defined as all tangible and intangible items connected with a firm. However, the existence of a firm's resources is not enough. If a firm wants to base its competitive advantage on them, eight conditions must be met:

1. *Value of resources*: In order for resources to be strengths, they must enable a firm to exploit environmental opportunities and/or neutralize environmental threats. The question of value, thus, links internal analyses of strengths and weaknesses with external analyses of threats and opportunities (Barney, 1997, p. 145).
2. *Heterogeneity of resources*: A basic assumption of the resource-based hypothesis is that resource bundles are heterogeneous (i.e. they have

intrinsically differential levels of efficiency) across firms. Firms with superior resources can earn rents (Peteraf, 1993, p. 180).

3. *Rareness of resources*: The level of rareness of resources tells us how many competing firms possess particular valuable resources. In general, as long as the number of firms that possess a particular resource is less than the number of firms needed to generate perfect competition dynamics within an industry, then that resource can be considered rare and a potential source of competitive advantage (Barney, 1997, p. 149).
4. *Durability of resources*: Durability of resources can be understood as the rate at which a firm's resources depreciate or become obsolete (Hunger, Wheelen, 1996, p. 117). Naturally, a firm prefers to possess resources that offer a competitive advantage as long as possible.
5. *Imperfect resource mobility*: The more the resources are immobile, the better the source of a competitive advantage they can be. Resources are imperfectly mobile if they are potentially tradable, but are more valuable within the firm that currently employs them than they would be in any other firm. In other words, resources are imperfectly mobile when they are somewhat tailored to firm-specific needs (Peteraf, 1993, p. 183).
6. *Unsubstitutability of resources*: Resources cannot be substituted if there are no adequate resources or if such resources are incomparably more costly. The fundamental danger lies in the fact that successful substitution threatens to render the original resources obsolete (Cool, Dierickx, 1989, p. 1509).
7. *Imperfect imitability of resources*: In order to enable a firm to build a competitive advantage, resources should not be easily and/or cheaply imitated by competitors. If this condition is not met, then any advantage based on such resources can, at best, be merely temporary (Barney, 1997, p. 151).
8. *"Ex ante" limits to competition*: This means that prior to any firm establishing a superior resource position, there must be limited competition for that position (Peteraf, 1993, p. 185).

Only when all of the above-mentioned conditions are met can a firm expect to build its competitive advantage on its resources that are linked with environmental opportunities.

3.2.2. *Classification of a firm's resources as potential sources of competitive advantage*

The literature²¹ that deals with the sources of competitive advantage usually classifies a firm's resources into four groups:

1. Physical resources: In this group of resources, one finds the firm's plant and equipment, its geographical location, and its access to raw materials (Barney, 1997, pp. 143-144).
2. Financial resources: The competitive advantage can be built on financial resources only if such resources can be obtained on extremely advantageous terms and if a firm offers its customers much better terms of sale than its competitors (Bergant, 1992, p. 18).
3. Human resources: The scientific literature in this area has recently placed a lot of stress on human resources. It is said that physical and financial resources no longer offer a firm a sustainable competitive advantage. Drucker (1992, p. 100), for example, wrote that the people employed within a firm are its greatest asset.
4. Organizational resources: Among a firm's organizational resources, one finds a firm's organizational structure, its formal and informal organizational processes (planning, coordinating and controlling), its reputation, organizational culture, as well as all informal relations among groups within the firm and between the firm and others in its environment (Barney, 1997, pp. 143-144).

Some authors (Kline, Michalisin, Smith, 1997, pp. 360-387) prefer to use a different classification to the above-mentioned one. They classify a firm's resources into tangible and intangible resources. While the category of tangible resources encompasses most physical, financial and human resources, intangible resources encompass most of what we have defined as organizational resources. Though it is an undisputed fact that all categories of resources are important for a firm's performance, the vast majority of researchers agree that the competitive advantage of a firm usually finds its source in organizational (intangible) resources.

3.3. Capability-Based hypothesis about the sources of competitive advantage of a firm

²¹ Such classification of a firm's resources, among others, is used by Barney (1997, pp. 143-144), while Grant (1991, p. 119), besides these four groups of resources, also talks about technological resources and a firm's reputation.

3.3.1. The origin of competitive advantage according to the Capability-Based hypothesis

As its name reveals, the advocates of the capability-based hypothesis claim that the competitive advantage of a firm derives from its capabilities. Different authors use different expressions to describe the sources of capability-based competitive advantage. The most common expressions found in the related scientific literature are the following: core skills, distinctive capabilities, organizational capabilities, organizational capital, dynamic capabilities and core competencies.

Many famous and successful firms (such as Benetton, Canon, Honda, IKEA, Wal-Mart, etc.) are said to have built their competitive advantages on the fact that they succeeded in creating some capabilities that their competitors did not have. Their experiences have led researchers to suggest the four basic principles of capability-based competition (Evans, Shulman, Stalk, 1992, p. 62):

1. The building blocks of corporate strategy are not products (services) and markets but are business processes. For this reason, firms should focus, above all, on their business processes when formulating their strategies.
2. Competitive success depends mostly on transforming a firm's key processes into strategic capabilities that consistently provide superior value to the customer.
3. Firms create their capabilities by making strategic investments in a support infrastructure that links together and transcends traditional strategic business units and functions.
4. Since the capabilities on which competitive advantages can be built necessarily extend across the whole firm (they are cross-functional), the champion of any capability-based strategy must be the chief executive officer.

Clearly, capability creates no competitive advantage if it is easily achieved (imitated) by one's competitors. Thus, the potential sources of competitive advantage of a firm are those capabilities that are difficult to develop. In order to have this characteristic, capabilities should satisfy three basic conditions (Bartmess, Cerny, 1993, pp. 81-82):

1. Complexity: Capabilities that are difficult to imitate tend to be developed in business processes that are highly complex.
2. Organizational diffuseness: Critical capabilities involve processes, which nearly always cut horizontally across the functional groups in a firm and frequently involve external groups.

3. Well-developed interfaces: Capabilities on which competitive advantage can be based should depend as much on the way that individuals/organizations have learned to work with each other as they do on the particular expertise of the individuals/organizations themselves.

3.3.2. Classification of a firm's capabilities as potential sources of competitive advantage

In the literature²², capabilities are most frequently classified in the following four categories:

1. Managerial competencies: Broadly conceived, managerial competencies include (a) the unique capabilities of the firm's strategic leaders to articulate a strategic vision, communicate the vision throughout the organization, and empower employees to realize that vision, and (b) the unique ability to enact a beneficial firm-environmental relationship (Lado, Wilson, 1994, p. 703).
2. Input-based competencies: These competencies encompass different resources, knowledge and skills that enable a firm's transformational processes to create and deliver products and services that are valued by customers.
3. Transformational competencies: Lado and Wilson (1994, p. 705) describe a firm's transformational competencies as those capabilities required to advantageously convert inputs into outputs. These capabilities include: (a) innovation and entrepreneurship, (b) organizational culture, and (c) organizational learning.
4. Output-based competencies: These competencies typically include (a) product and/or service quality, (b) the ability to adapt products and/or services to customers' changing expectations, (c) a firm's reputation and image, (d) customer loyalty, and (e) other beneficial influences of a firm's activities for the (local) environment (Camerer, Weigelt, 1988, pp. 443-444; Clark, Wheelwright, 1992, pp. 41-42; Lado, Wilson, 1994, p. 708).

3.3.3. Core competencies as potential sources of competitive advantage

The basic difference between a firm's core competencies and its capabilities is that core competencies are defined much more narrowly. They are the collective learning in a firm, especially as to how to coordinate diverse production skills and integrate multiple streams of technologies. In order for a

²² For an example of the use of such a classification, see Boyd, Lado and Wright (1992, p. 82).

firm's capabilities to be regarded as core competencies, they must meet the three conditions below (Hamel, Prahalad, 1990, pp. 83-84):

1. They must provide potential access to a wide variety of markets (for instance, Casio's entry into the handheld TV market).
2. They should make a significant contribution to the perceived customer benefits of the end product (for instance, Honda's engine expertise).
3. They should be difficult for competitors to imitate. This will be the case only if such capabilities represent a complex harmonization of individual technologies and production skills.

The origin of competitive advantage, according to the sub-hypothesis based on the core competencies, can perhaps best be explained if we compare a firm with a large tree (see Figure 3.2).

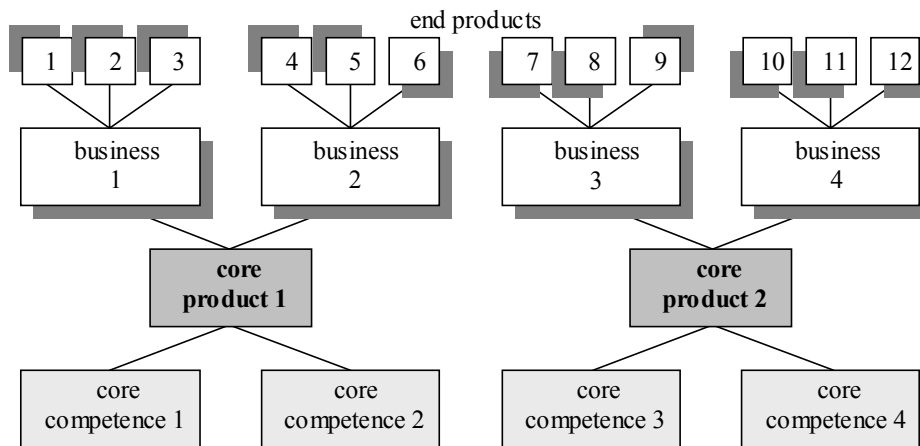


Figure 3.2: Model of a firm's competitive advantage based on core competencies (Hamel, Prahalad, 1990, p. 81.)

In this case, the root system that provides nourishment, sustenance and stability is the core competence, while the trunk and major limbs are core products. These products, which invisibly connect core competencies and end products, are the physical embodiments of one or more core competencies. Out of the limbs (core products) grow smaller branches, which represent end products (Hamel, Prahalad, 1990, p. 82). Firms must understand that in order to shape the evolution of end products, it must maintain dominance in suitable core products. Similarly, if it wants to be dominant in core products, it has to have unique core competencies. The question that remains unanswered in the

above-mentioned explanation is how core competencies actually originate. Petts (1997, pp. 554-557) suggests that a firm's core competencies are created on the basis of six "meta-skills" (i.e. skills in producing particular skills), namely (1) skill identification, (2) learning, (3) knowledge-embedding, (4) rapid deployment, (5) restructuring, and (6) innovation.

3.4. Knowledge-Based hypothesis about the sources of competitive advantage of a firm

3.4.1. The origin of competitive advantage according to the Knowledge-Based hypothesis

Advocates of the knowledge-based hypothesis about the competitive advantage of a firm argue that a firm can win a competitive battle only if it possesses more relevant knowledge than its competitors. Competitive advantage, therefore, finds its source in knowledge. Naturally, from the firm's point of view, not all kinds of knowledge are equally useful. Especially important is that part of knowledge that can be labeled commercial knowledge. Its goal is not to find the truth, but to ensure effective performance. It does not answer the question "what is right" but rather "what works better in competitive and financial contexts" (Demarest, 1997, p. 375).

Surely, one of the most important mysteries of today's scientific literature is the question why the market values of successful firms are so much greater than their book values. The best answer, so far, suggests that the market value of any firm consists of its financial capital and its intellectual capital (see Figure 3), which can be divided further into human capital and structural capital (Edvinsson, Malone, 1997, p. 11). Human capital is based on the employees' knowledge, their innovativeness and ingenuity, their skills, as well as their values and culture. This category of intellectual capital cannot be the property of a firm because employees take their knowledge, skills and experience with them when they leave the firm. Human capital can, therefore, only be rented, which means that it is highly risky. On the other hand, structural capital is the property of a firm and can be traded. For this reason, one of the most important challenges of management is to transform the firm's human capital into its structural capital (Lank, 1997, p. 408).

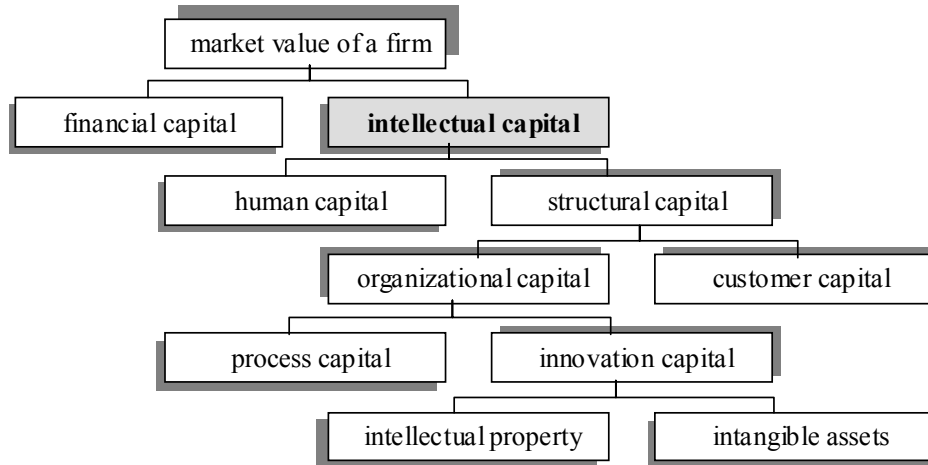


Figure 3.3: Division of a firm's capital (Edvinsson, 1997, p. 369.)

Naturally, if a firm seeks to create a competitive advantage based on knowledge, management must not only assure the accumulation of knowledge from outside but also the permanent process of knowledge creation within the firm. According to Nonaka and Takeuchi (1995, pp. 56-94), knowledge creation is a two-dimensional process. The first dimension is the epistemological dimension, where knowledge conversion takes place between tacit knowledge (which is personal, context-specific, and therefore hard to formalize and communicate) and explicit knowledge (which can be codified and is transmittable in formal and systematic language). The result of such conversion is the creation of new knowledge. The second dimension of the knowledge creation process is the ontological dimension, where the knowledge created by individuals is transformed into knowledge at the group and organizational levels. The result of both dimensions is the five-phase process of knowledge creation (Nonaka, Takeuchi, 1995, pp. 85-89): (1) sharing tacit knowledge, (2) creating concepts, (3) justifying concepts, (4) building an archetype [i.e. converting "intangible" concepts into "tangible" items (for instance, prototypes)], and (5) cross-leveling knowledge [i.e. using created knowledge elsewhere (for instance, at a different ontological level)].

3.4.2. The need for knowledge management

The growing importance of intellectual capital naturally calls for its systematic management. In other words, there is a growing need for knowledge

management, especially the management of processes in which knowledge is created and used (Jones, Lefrere, Quintas, 1997, p. 386). Knowledge management can be defined as that part of the total management process which focuses on the systematic accumulation, creation, developing and exploitation of knowledge in a firm and tries to transform as much of the firm's human capital as possible into its structural capital. Although we have defined knowledge management as "part" of the total management process, this does not mean that it is a functional activity as is, for instance, production management, marketing management, financial management, and so on. On the contrary, knowledge management is and must be a cross-functional activity (it rises above the level of business functions) and as such, remains within the competence of top management.

Since intellectual capital comprises the vast majority of the total market value of successful firms (for this reason, we can say that we have entered the era of "intellectual capitalism"), many traditional business practices (those that only take financial capital into consideration) are no longer appropriate and need to be changed. What we have in mind is, above all, the need for a modified understanding of strategic success factors, the need for new accounting practices, the need for a modern approach to business analysis and the need for adapted organizational structures (Pučko, 1998, p. 563). To what extent this new managerial paradigm will be successfully introduced into a firm depends mostly on the firm's cultural, project, and technical infrastructure (Harris, 1998, pp. 2-5).

4. BUSINESS STRATEGIES

Business strategy, or a strategy of a business area is a strategy of an individual business with a specific strategic business unit, or a group of products.

The term strategic business area includes implicitly a wide group of closely connected and interdependent products. It forms a part of an even wider group of products or assortments, highly independent from other groups of products. This implies differences in terms of research and development, supply, production, and demand. In other words, the term relates to a relatively independent business area in a company, with development issues that require independent strategic decisions that have no considerable consequences on the business efficiency of other strategic groups of products or assortments in the company.

When compared to the strategic business area, a strategic business unit is an independent organizational unit inside a company that covers one or sometimes even more strategic business areas. Therefore, it possesses all of the characteristics required by the accounting theory for the survival of investment centres of responsibility.

All of the above-mentioned show that the business strategy is a characteristic of diversified multidivisional companies with several business programs. It is less focused on the scope and allocation of resources, and more focused on competitive advantages and synergy. The strategy has to give an answer of how to compete on each market which the company has chosen to be present. Thereby, it can be said that its essence is determining the way for producing competitive advantages for company products, which will determine the success of the strategy itself. Business strategy includes goals related to products and markets for a specific strategic business unit and suggests future activities of the company in particular industries. It has to provide solutions on how the company will improve its market positions on different markets, which attractive market segments will be served, what will be the scope of its strategic business group of products, how many closer groups of products it will contain, and how to conduct various activities (on the business unit level) to achieve potential synergies. For this purpose, a company can use different types of business strategies; of which the best-known ones are:

1. Portfolio based strategies

2. Product life cycle based strategies
3. Generic based strategies.

Due to the complexity and importance of each of the mentioned strategies, a condensed explanation of their essence will be presented.

4.1. Portfolio-based strategies

Business Portfolio is a characteristic of companies that have many different businesses (business areas), especially when the businesses are not related to each other.

In these cases, a company can be seen as a group of businesses, in which each business can form its separate competitive business strategy. Four different types of business strategies are usually distinguished for different strategic business areas:

1. “milking” strategy,
2. “harvesting” and/or liquidation strategy,
3. investment strategy, and
4. strategy of aggressive growth (selective investment) or selective liquidation.

Each one of these strategies is specific, mostly combined of several strategic components. Before choosing any of them, it is necessary to follow certain criteria, specified by each of the portfolio models.

4.1.1. “Milking” strategy

The “milking” strategy is a type of business strategy adequate for leader companies positioned on mature and stagnant markets (“milking cows”). It relates to strategic business units with large market shares in industries with small (or no) growth. The dominant share on these markets enables them to produce large amounts of cash that cannot be profitably reinvested. Therefore, strategic business units like these are not so attractive for development projects, but they serve as a source of cash for supporting the other company business units, for financing new acquisitions, or any other purpose with the goal of improving the company portfolio. Therefore, this strategy aims to keep these units healthy in order to preserve the long-term cash flow of the company. The unit makes efforts to keep a large market share as long as it is able to make the extra cash needed for business investments in other parts of the company. However, if the market share of these units is reduced, they become prime

candidates for the strategy of harvesting and eventual abandoning when the industry becomes unattractive. As a conclusion, it can be said that the main strategic option for these kinds of business units is keeping a good market position, which can be obtained by high quality and low costs.

4.1.2. "Harvesting" and/or liquidation strategy

The "harvesting" strategy is a type of business strategy adequate for followers on mature and stagnant markets ("dogs"). It relates to strategic business units with small market shares on slow growing markets. This strategy aims to maximize short-term business results and it consists of controlled disinvestments in order to improve short-term cash flow.

"Harvest" is applied in situations when a company will probably exit from a certain industry. Therefore, managers are searching for a way to make the best of the situation. By lowering all costs, it is expected that sales and market share will decrease. Nevertheless, the income will be higher than the costs. In spite of losing the market share, short-term cash flow is growing rapidly. Sales are continued by inertia because of the fact that the "harvest" is based on effects from the existing goodwill. This allows the company to generate additional cash flow that can be invested in entering a new industry, or allocated inside the company (although the "harvest" strategy is applied to a specific business unit). This strategy always ends by selling or liquidating the company or the business unit.

Lower industrial growth and industry perspectives and lower market shares put higher pressure on conducting some kind of strategic action. Alternative actions are: (1) adjusting the strategy to minimize weaknesses - by applying the strategy of focusing (decreasing the areas of doing business and focusing on specific market segments that can be efficiently protected and where smaller production series are less burdening; for example, regional markets with important local services), (2) strategy of "harvest" that can be aggressive or gradual, depending on the situation, and (3) withdrawal, complete or partial (by selling to a newcomer, or a competitor because of capacity, or merging several "dogs" into a new corporate entity).

4.1.3. Investment strategy

An investment strategy is a type of strategy adequate for leaders on growing markets ("stars"). It relates to strategic business units with large market shares on markets with high growth rates. This kind of market position enables them to achieve high profits. At the same time, it requires constant investment in order to keep the leader position. Those investments are oriented to the growth of production, but also to the growth of market share, which require large amounts of cash. These business units are usually able to create their own cash-flow based on low cost advantages, resulting from their economy of scale and experience curve.

In spite of that, there is always a doubt whether their cash-flow is sufficient to finance such a fast growth - sometimes they can cover their total costs by themselves and sometimes they need additional resources from investment funds of their company (especially young "stars" from young industries, or those lately added to the corporation that usually need a strong corporate support at the beginning).

This kind of strategic unit can be managed by one of the following strategic options (Day 1986., 175):

- Reinvestment focused on keeping (and even increasing) a large market share by using a specific action, such as:
 - taking over and keeping most of the new users or segments of new applications;
 - protection of existing market segments from competitors by reinvesting profits in aggressive price cuts, improving product characteristics, market coverage, and the production process;
 - strong investment (going ahead of market growth) to keep the necessary production capacity.
- "Revisionist" option: instead of maximizing current cash-flows and investing it (into innovations), concentrate strategic actions into the "price umbrella" (until the loss of the market share becomes unbearable), including carefully adding capacities in order to adapt the unit for production of a new generation of products. Therefore, cash-flow management is a crucial issue for these business units.

4.1.4. Strategy of aggressive growth (selective investment) or selective liquidation

Aggressive growth strategy is a type of business strategy adequate for followers on growing markets ("problem child/question marks"). It relates to strategic business units with small shares on fast-growing markets. This kind of market position means smaller profits (compared to average industry profits) and a small cash-flow. Being positioned on fast-growing markets means that a unit needs large amounts of cash to keep up with its competitors, and even larger investments to increase its market share. The large cash requirements, combined with poor cash inflow, makes its existence questionable. Therefore, there are two strategic options characteristic for these type of business units:

- ❑ Aggressive strategy of increasing market share in order to decrease average costs and increase profitability,
- ❑ Abandoning business in case that the costs of aggressive strategies for strengthening the market position are higher than the potential gains.

An aggressive strategy of increasing the market share can be realized by implementing the strategy of internal growth (investment), or a strategy of external growth (integration). If realized, this kind of strategy transforms these business units into market leaders on a fast-growing market. However, until that happens, the company has to allocate large amounts of money in order to ensure the survival of these business units. In that context, there is also the possibility of choosing a focusing strategy in order to find a market niche that can be defended. Otherwise, if it is estimated that these business units are unable to improve their market position, they can be sold.

4.2. Product life cycle-based strategies

The product life cycle model is developed on the foundations of the behaviourism theory and is based on the fact that there is an analogy between natural and artificial systems - they both submit to the laws of emerging and vanishing. Between (and including) these two points, the life cycle consists of six stages - appearance, development, maturity, saturation, degeneration and death. Based on the above-mentioned, Kreitner (1989,192) developed a product life cycle consisting of five stages (pre-commercialization, introduction, growth, maturing, degeneration), followed by five basic types of strategies (innovation, infiltration, progression, defense, withdrawal). A product life cycle model is shown in Figure 4.1.

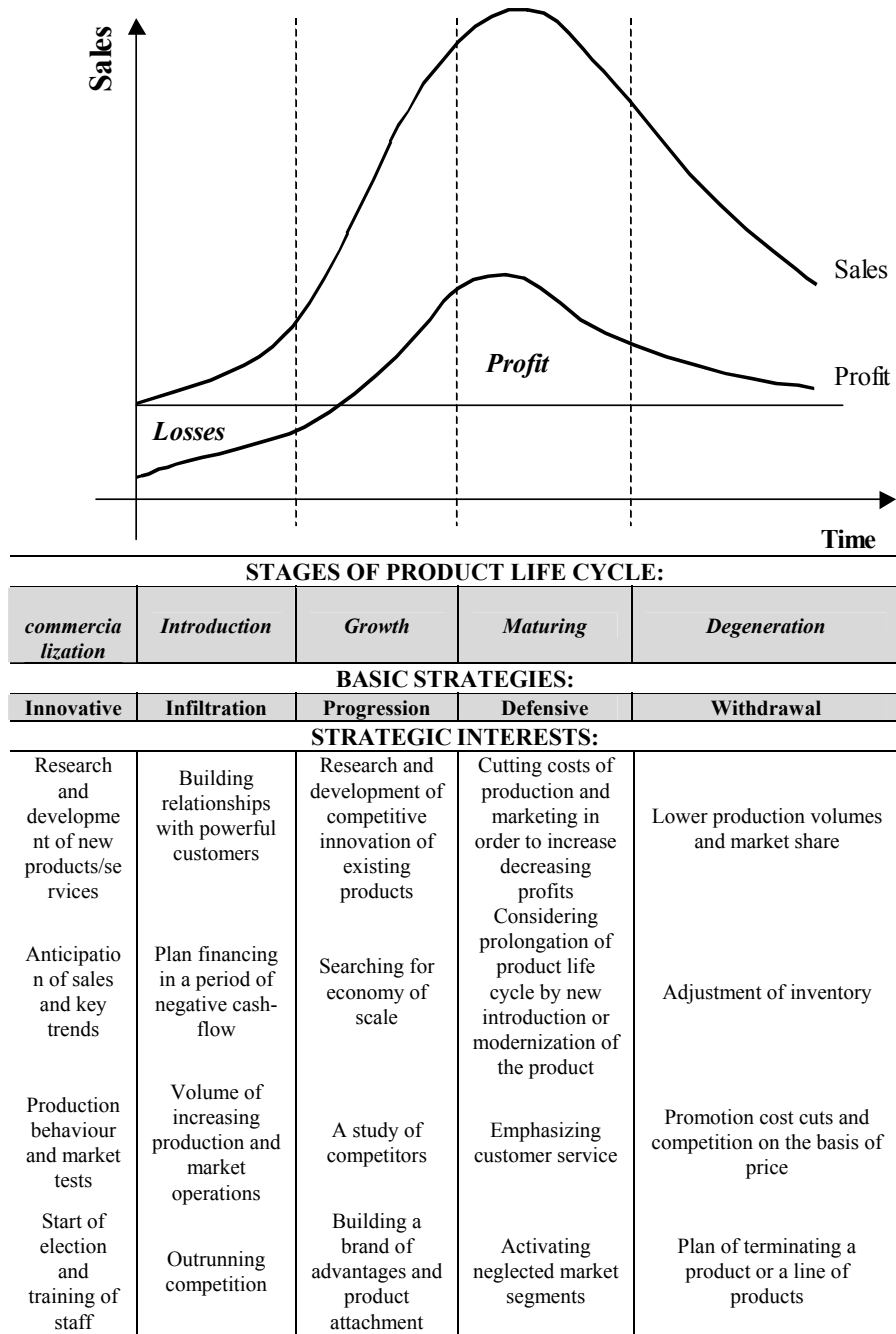


Figure 4.1 - Linked strategies for product life cycle (Kreitner, 1989, 1992)

4.2.1. Pre-commercialization stage

This stage begins with an idea of a new product and ends with the beginning of its production for the market. This is a period in which the company is exclusively investing, expecting that the investments will be returned later on in the commercialization stages of the product. It is, therefore, understandable that the company chooses a strategy that will ensure the fastest and largest return to investment by introducing a new product. Several categories of new products can be distinguished, as shown in Figure 4.2.

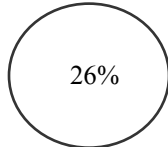
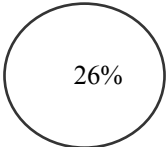
How new is the product to the enterprise ?	How new is the product to the market?		
	Very well known	Very well known	Completely new
	Completely new	Completely new	Completely new
Completely new	 20% New product lines		 10% Completely new products
	 26% Improved existing product	 26% Improved existing product	»Filling the gaps« in the existing product line
Very well known	 11% Products with lower costs	 7% Re-positioned products	

Figure 4.2. Types of new products (Adapted from: *New Product Management for the 1980s*, Booz, Allen & Hamilton, New York, 1982)

In Figure 4.2., the following categories of new products can be observed:

- ❑ Completely new products: new products that are creating an entirely new market;
- ❑ New product lines: new products that enable a company to enter (for the first time) an established market;
- ❑ Additions to existing product lines: new products that supplement the existing assortment of company products;
- ❑ Improved/revised existing products: new products with improved performances or a noticeably bigger value, which are replacing the existing products;
- ❑ Repositioned products: existing products aimed at new markets or market segments;
- ❑ Products with lower costs: new products with similar performances and lower costs.

Companies usually use a mix of new products in order to minimize the risks and costs, and to ensure satisfactory profits.

4.2.2. Introduction stage

The introduction stage begins when the product is distributed and put on sale for the first time, which requires great efforts in "conquering" traders and buyers. It is, therefore, understandable that the growth of sales is very slow at this stage and that the profits are very small or negative, not only because of the small amount of sales but also because of the high expenses of product distribution and promotion. Considering that the product is new, the competition is small and, thus, the management is able to implement various strategies in terms of price, promotion, distribution and quality. Figure 4.3. shows four different strategies of considering the price and promotion of the product.

Fast “milking” strategy consists of launching a new product at a high price and with a high level of promotion. The company sets a high price to cover the high promotion expenses and to make adequate profits. High promotion expenses are to ensure fast market penetration of the new product.

Slow “milking” strategy consists of launching a new product at a high price and with a low level of promotion. In this case, the company is trying to maximize profits and minimize marketing expenses, which is possible if there are no direct competitors around.

Fast penetration strategy consists of launching a new product at a low price and with a high level of promotion. Companies undertake this kind of strategy in cases when they want to achieve a fast market penetration in order to "conquer" a major market share. It is usually undertaken in cases where strong competitors pose a threat.

Slow penetration strategy consists of launching a new product at a low price and with a low level of promotion. The company considers that a low price will stimulate a fast acceptance of the product. Due to increased sales volumes, the average cost per unit will be decreased, which will lead to higher profits.

		Promotion	
		High	Low
Price	High	Fast »milking« strategy	Slow »milking« strategy
	Low	Fast penetration strategy	Slow penetration strategy

Figure 4.3. Marketing strategies for the introduction stage (Kotler, 1988, 371)

4.2.3. Growth stage

The growth stage is determined by rapidly rising sales as a result of an increased number of buyers. At this stage, new producers enter the market offering improved products and new terms of sales, new distribution channels emerge, and trading networks are growing, which stipulate a further market growth.

To support the growth of product sales, a company has to undertake a market expansion strategy that can be done in the following ways:

1. improving the quality of the product
2. discovering new market segments
3. discovering new distribution channels
4. lowering prices
5. aggressive economic propaganda
6. entering new markets

7. increasing production capacities
8. choosing and realizing one of several generic strategies
9. using gained profits and positive cash flows for self-financing growth
10. using initial advantage to try to discourage imitators from entering the industry.

All of these ways can contribute to improve the company's market position, but also the growth of its costs that will be reflected on the level of profits. Nevertheless, in this stage, companies invest significantly in product improvements, distribution and promotion, expecting higher profits in the following stages.

4.2.4. Maturity stage

The maturity stage is a part of a product's life cycle when its sales reach its maximum and stay at that level. This stage lasts longer than the growth stage and consists of three steps - growth of maturity, stabile maturity and decreasing maturity.

To sustain its position, a company can choose from one of the following strategies (Kotler, 1988, 376-378):

1. market modification strategy,
2. product modification strategy,
3. marketing-mix modification strategy.

The **market modification strategy** implies that the company tries to extend the existing market by increasing the number of buyers, or by trying to create a larger consumption of the product. In order to increase the number of customers, the company can choose from one of three strategies - transform non-users into users, discover new market segments, or attract competitors' customers. Three strategies can also be undertaken in order to create a larger product consumption - more frequent usage, more casual usage, and different new modes of usage.

The **product modification strategy** implies changes of some product aspects in order to attract new customers, or increase product consumption within the existing customer group(s). In order to achieve such a goal, the company can improve the quality of its products (durability, reliability, etc.), add some new characteristics to the existing product (such as size, weight, equipment, additions and so on), or improve the design of the product.

The **marketing-mix modification strategy** implies that the company uses different elements of the marketing-mix in order to stimulate the sales of its mature products. In that case, price, distribution, economic propaganda (PR), sales improvement, personal sales and service are treated as elements of the marketing-mix. The main problem is that the competitors can easily imitate the marketing-mix.

The business strategy in the maturity stage has to take into consideration that the competitors' strategic groups have already been formed and that the company is directly competing with competitors in each strategic group. Defensive strategy will aim to preserve gained market positions. Therefore, the company will be ready to build obstacles to prevent the entrance of new competitors into the industry. It will support each activity that tends to reduce the rivalry between existing competitors in the industry (by using market *signalization*, coordinating and accepting the market leader's strategy, competing on the basis of product differentiation instead of on the basis of lowering prices, controlling investment measures of its competitors, etc.). Orientation toward vertical integration (backward towards suppliers or forward towards distributors) can also be an important characteristic of the business strategy, which could improve the economic power of the company.

4.2.5. *Degeneration stage*

The degeneration stage appears due to several different factors, such as changes in customers' preferences, increased competition, obsolescence of the product, appearance of substitutes and so on. This causes lower profits and by time even losses, which will lead to the withdrawal of the company from that specific market.

In this stage, the company has to identify its "weak" products in order to be able to decide whether they should still be produced in the future, whether to modify their marketing strategy, or whether they should be abandoned. If the company chooses strategy modification, it can try to implement one of the following strategies (Kotler, 1988, 380):

1. Increasing investments (for the company to dominate or obtain a good competitive position).
2. Keeping the same level of investments until industry uncertainties are solved.

3. Selective reduction of investments by pushing away groups of non-promising customers, and at the same time, increasing investments in promising areas of constant customer demand.
4. "Milking" the investments in order to restore cash fast, without consideration of the investment consequences.
5. Fast abandonment of a specific business and reallocation of its resources as conveniently as possible.

The choice of strategy depends on the competitive power and relative attractiveness of the company. If a company decides to abandon a specific product, it has to establish if the product has to be sold, or given to someone else, or completely abandoned. Then, it has to establish the pace of the abandonment and finally, how many services (including spare parts) to keep for servicing previous customers. Figure 4.1. also shows strategic interests at each stage of the product life cycle. This enables companies to (by analyzing the life cycle of its products) consider measures which need to be undertaken and to choose the strategy that will enable them to prolong the profitable parts of product life cycles. That is to maximize the profitability of the specific product in the fastest possible time.

4.3. Generic model-based strategies

Porter presumes that the essence of a strategy is the choice of way for gaining competitive advantages. This is how he forms the model of generic strategies, built on the basis of two basic dimensions. The first is the strategic goal that shows if the company wants to rule only one segment of the market (a geographic area, a special group of customers, etc.), or the whole market. The other dimension is strategic advantage that shows the way to master the market - unique products or low costs.

By linking these two dimensions, where the first presents the ordinate, and the second the abscissa of the co-ordinate system, Porter suggests three generic strategies: (1) the differentiation strategy, (2) the low-cost leadership strategy and (3) the focusing strategy. Figure 4.4. shows an image of these dimensions.

The **low-cost strategy** emphasizes competition with low costs on the entire market. It is suitable if a large number of price-sensitive customers are present on the market. If a company chooses such a strategy, it should have lower production costs than its competitors. In that case, it can use three basic methods of cost management, such as:

1. traditional product costing (TPC),
2. process based costing (PBC) and

3. activity based costing (ABC).

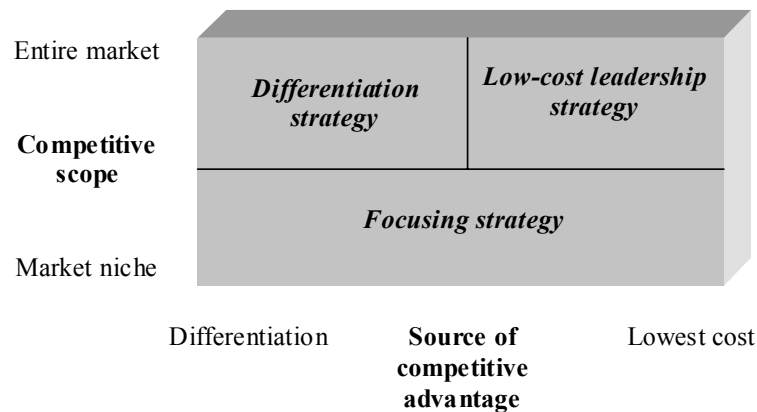


Figure 4.4. Porter's generic strategy model (Porter, 1980, 12)

While traditional product costing observes direct costs by their carriers and indirect costs by the places of cost, process based costing observes costs by the course of the production process, following its stages. Activity based costing observes the costs of each particular activity, which enables a base for acting towards those activities that spend too many resources. In combination with the **value added/non-value added method** that divides all activities to those that add new values and to those that do not add new values, costs of each activity can be stated with the intention of reorganizing, minimizing or eliminating activities that do not create new values. Another concept often used nowadays is **target costing**, which establishes costs on competitive levels first, and then attempts to reduce all activity costs of the company to the targeted costs. Besides these methods, many other methods exist that enable the company to directly or indirectly reduce business costs.

The low-cost leadership strategy is especially successful in the following situations (Buble, 1997,172):

- ❑ prices are the dominant mean of competition,
- ❑ products are highly standardized,
- ❑ customers are not especially bounded to a specific product brand,
- ❑ products have ordinary usage characteristics,
- ❑ customers change product preferences easily due to lower prices, or
- ❑ customers possess extensive bargaining power.

There are two basic risks following the low cost strategy - the threat that the competitors find out how to lower their costs and the inflexibility of the company caused by the fact that it cannot meet requirements regarding further price cuts. Otherwise, low costs can induce under-investments with all its implications for the company.

The **differentiation strategy** emphasizes competition with a unique product on the entire market. In this case, the company has been developing an entirely new product in order to differentiate itself from its competitors, or improving an existing product by differentiating it from similar competitor products by design, usage characteristics, taste, etc. The final goal of the differentiation process is creating a product brand by which the company will be recognized in its industry. This is a very ambitious goal, which presumes that the company possesses large advantages in the fields of research and development, design, marketing and quality control. This enables a company to guarantee continued and long-term development of differentiated products. Besides, a company that implements a differentiation strategy must have an innovative orientation, a technological level that is above average, a developed service post, a high level marketing efficiency and other characteristics. A company unable to ensure that should not choose this type of generic strategy. However, if this strategy has been chosen, and if a company is successfully implementing it, then it has a possibility of keeping high prices for its differentiated products and making good business results.

If a company aims to choose this kind of strategy, it has to follow customers' preferences and observe their consumers' behaviour constantly in order to establish their specific wants and needs. Gained information will enable the company to develop unique products in order to satisfy customers' wants and needs. The differentiation strategy is usually implemented if several different market segments exist; each with specific customers' needs and wants, which are not satisfied by existing products. In such a case, the company tries to meet those specific wants and needs by developing unique products. However, it also has to take into consideration the costs of differentiation, so that the costs do not exceed the gains. It has to be noted that differentiation causes the growth of costs, especially those referring to the development of a new product, and marketing costs needed to inform existing and potential customers about all relevant characteristics of the differentiated products. Costs of various types of promotion needed to acquire new customers for a specific product are especially high in cases like these.

The **focusing strategy** emphasizes competition focused on a specific market segment being implemented either by a unique product, or by low product costs. This means selective offering on selective markets. It can be realized by the low cost strategy, by the differentiation strategy, or by their combination. To be successful, it is necessary that the chosen market segment is large enough and has a rising growth rate. For a company, it has to dispose adequate creative capabilities in order to meet customers' expectations. The focusing strategy requires that the entire company is orientated in two basic directions - (1) meeting the needs of a specific market segment (a group of consumers, a territory, etc.) and (2) with lower costs than the competitors'.

Meeting the needs of a specific segment of the market is directed towards the special needs of a relative small group of consumers, which larger competitors were not ready to satisfy. This often means production caused by specific orders, production which itself has certain specific qualities, such as flexible technologies, expert employees, unique products, etc. Prices are higher because the customers value quality, reliability, uniqueness and other characteristics. This is the reason why companies must keep up with technological developments and create new products in order to maintain their customers and gain new ones. Low cost orientation is usually a result of some specific characteristic of these companies and it is usually connected to small companies with lower general unit costs than the large companies. If it concerns the satisfaction of the local market, the costs of transportation of such companies are lower. There are also other cost advantages that companies, focused on a market segment, tend to make use of to keep those markets.

A focusing strategy is usually successfully implemented in two cases:

- ❑ total market segmentation, with considerable differences between the segments,
- ❑ limited possibilities for the company to spread on the entire market.

As other strategies, the focusing strategy carries certain risks too. The largest risk is the possible change of customers' preferences, which would turn them towards another product. This can lead to dramatic consequences for the company - the loss of a market niche, lower profits, losses, or bankruptcy. Another significant risk is the possibility of a new competitor entrance, which leads to the saturation of the market with all its consequences.

4.4. Other business strategies

Besides the hereby-named business strategies, there are several other strategies. Ansoff's growth matrix enables the differentiation of business

strategies such as the strategy of market development, the strategy of market expansion and the strategy of product development. The strategy of diversification in its real sense cannot be discussed here because that would mean expanding to other strategic business areas.

The main characteristic of the strategy of market development is the orientation of doing business with the existing group of products on the existing markets, trying to improve sales by better serving those markets. The strategy of market expansion means orientation toward new markets for existing products. Product development is a kind of business strategy that introduces and substitutes existing products inside the own strategic group of products.

The division of business strategies into independency strategies and cooperation strategies is also significant. An independency strategy implies a company decision to preserve the total business autonomy of a specific strategic business area or unit. Cooperation strategies, otherwise, imply developing some kind of strategic partnership with other companies. It can result in strategies of joint investments or import of licenses, strategies of developing a long-term production cooperation, strategies of developing franchising relationships, strategies of developing long-term business cooperation in several fields from marketing to research and development, strategies of developing strategic networks and many other strategic options. Each one of these strategic alternatives has its strengths and weaknesses, which will not be discussed here.

Two possible strategic alternatives can be distinguished; related to the question whether a company (with its strategic group of products) tends to be the market leader, or just an imitator. Each of these two options has its strengths and weaknesses, which need to be additionally analyzed.

5. STRATEGIC PERFORMANCE MEASUREMENT

The concept of business performance has always had a crucial position and role in strategic management. Theoretically, empirically, as well as in terms of managerial importance, performance has been viewed as a major preoccupation of managing directors (Antončič, Ramanujam, 1999). However, even though the concept of business performance is one of the central concepts in the field of strategic management, there is still lack of a unified theory of performance.

5.1. The concept of business performance

The **concept of business performance** and the related question of **how to measure performance** of a company both appear to offer simple explanations and answers, however, neither are true. Performance measurement needs to be valid and reliable, yet, validity and reliability can be observed either from the perspective of owners or managing directors. The owner of a company uses performance information to decide upon the future strategic direction of the company, upon his investments and also upon top management compensation. Top management, on the other hand, relies on performance information in daily decision-making and when considering strategic, long-term business decisions. Owners and managing directors as stakeholders play different roles and, as a consequence, they are interested in different measures of performance. To answer the question of how to measure the performance of a company, one first needs to define the concept of performance from the aspect that is beneficiary to the company as a whole.

Throughout the history of doing business, the concept of performance has remained practically unchanged. The subject doing the business sets himself a goal that is to be achieved through the business process. As the goal can be achieved by different means, the subject needs to choose a criterion to be used as a denominator of the achieved result. Thus, he expresses business performance by considering both the result (goal) and investment (means). Actual criteria, i.e. fundamental performance measures, on the other hand, were evolving along with the evolution of economic systems (Lipovec, 1970). Firstly, labour productivity was used as the fundamental measure of performance, as defined above, during the era of market capitalism, however, the return on capital prevailed. The evolution of performance measurement is, however, still under way and is gaining in importance as more and more companies all over the world are realizing how important it is to rely on the right information. The last two decades have been characterized by the transition from an industrial to an information society and by increased

competition in world markets. The literature of management accounting and performance measurement has been overflowed with normative discussions and research-based arguments that allow us to differentiate between traditional and contemporary performance measurements. **Traditionally**, the performance of an organization is considered from its owners' point of view. Owners' interests determine the basic purpose of managing a company and their investments define what is the primary business objective – return. They also set the fundamental criteria for measuring performance – return on equity (ROE). Return on assets (ROA)²³ appeared later on as an alternative to ROE, as it encompasses both the owners' and other financial investors' interests. The overall focus is financial and, as a consequence, the scorecard is dominated by financial measures. Non-financial performance measures are less important and largely partial in nature, such as the utilization of capacities, or physical labour productivity. Contemporary performance measurement, on the other hand, places equal importance on both the purposes and objectives of an organization, as well as the processes and other drivers of success (Lynch, Cross, 1995, Kaplan, Norton, 1996, Atkinson, Waterhouse, Wells, 1997).

Here, the basic premise lies in the fact that the results we seek are often not immediately or clearly apparent, or they are difficult to measure. Even if results are measurable and apparent, it is usually more important to know what caused the results than the results themselves. Another important characteristic of contemporary performance measurement is the shift in the purpose of doing business – here, it is broadly accepted that the interests of all parties involved - customers, owners, employees, managers, business partners, local communities and other potentially important stakeholders – need to be taken into account. Following the multiple nature of purpose, companies' objectives are also multiple. Although each of the various participants connected with the organization has their own disparate objectives and possess comparable amounts of power with which to achieve their aims, there is usually an agreement on an overall objective, such as the maximization of shareholder wealth. As a consequence, financial performance measures are balanced with non-financial performance measures. Lynch and Cross consider some other characteristics of contemporary performance measurement, such as customer driven (future focus), flexible, dedicated system for operational feedback, tracks concurrent strategies, catalyst for process improvements (radical and incremental), systemically optimized, and integrated (Lynch, Cross, 1995). In the following paragraph, we reveal how the project research team considers

²³ When calculating ROA, the denominator consists of all assets and thus, interests of both the owners and creditors are taken into account.

business performance and on what basis we declare a strategy to be successful or not. As well as we act with a purpose (explicit or implicit), so do the owners of a company when establishing a business and the managing directors when running the business. The purpose of doing business, however, is not related to owners or managing directors only, it is mainly determined externally (Ulrich, 1970). The existence of a company is namely conditioned by serving in favour of a list of interested stakeholders, such as customers, employees, or society as a whole. As soon as the role that the company and its businesses are playing within the business environment ceases to be relevant to the involved parties, the existence of the firm is endangered. This can easily be confirmed by looking at the contents of the company mission, which encompasses relatively enduring and long-lasting purposes in terms of what we want and whom we want to serve (Pučko, 1999). The company mission discloses the basic purpose of doing business. As soon as the company fails to fulfil its mission, it can be declared to perform badly. The purpose of doing business will, therefore, be considered as an important determinant of performance.

On the other hand, each company follows a set of (strategic) objectives that – when simultaneously achieved – enable the company to fulfil its mission. When from a set of objectives only some of them have been achieved, one cannot speak of a complete success. The company performance needs to be assessed in the light of all objectives that were set. Financial (accounting) results of a company, for example, reveal only partially what the company has actually achieved in the past period. Sometimes, external factors such as economic recession, macroeconomic policy or unprecedented social and political changes that close access to markets make the accounting (financial) results look bad. Yet, if one of the strategic objectives is to get entrance to new foreign markets and the contracts with new customers have actually been signed, the company has performed well. Similarly, if one of the strategic objectives is to develop new products, R&D investments will inflate the expense side of the income statement in the current period; however, the company will still perform well. Both cases are used to illustrate that performance needs to be judged in the light of achieving all strategic objectives (that help the company fulfil its mission) and not from the perspective of financial statements only. A successful strategy is consequently a strategy that leads to the achievement of strategic objectives that, in turn, lead to purposeful and mission-oriented business behaviour.

5.2. Performance measurement – measuring business performance and performance of a strategy

As the concept of performance has been clarified, the question of how to measure performance can be approached. According to the characteristics of contemporary performance measurement, the performance of large Croatian and Slovenian companies needs to be measured and evaluated from the perspective of both the results (output and outcome) and key success factors (drivers of success). Among results-oriented performance measures, financial measures play a dominant role and they will, therefore, be presented and analyzed in the following subchapter. Critical examination of financial performance measures' insufficiency, to adequately illustrate the performance of a company (and of its strategy), will serve as a starting point for a thorough evaluation of non-financial performance measures. The importance of non-financial performance measures within the contemporary performance measurement is related to the fact that they increase the validity of performance measurement.

5.2.1. Financial performance measures

Financial performance measures are defined as measures, calculated on the basis of monetary economic categories and are expressed in monetary terms. Most often, they stem from financial statements.²⁴ Contemporary financial performance measures differ from the traditional ones: they are designed for developed capital markets and are not accounting measures. Basically, they reflect owners' interests. Traditionally, owners were interested in high ROE, today, however, information related to the cash flow growth is more important. Financial performance measures can, therefore, be grouped as follows.

5.2.1.1. Traditional accounting performance measures

Return on equity (ROE) and *return on assets* (ROA) are examples of typical traditional financial performance measures. The basic problem of the first measure (ROE) is, firstly, that the net profit (numerator) reflects only the accounting and not the economic performance of a company.²⁵ Secondly, the

²⁴ The discussion about financial vs. non-financial performance measures is not related to the differentiation between accounting and non-accounting performance measures. The accounting information system (AIS) namely gathers both financial and non-financial information (such as inventory levels, number of direct labour hours, etc.). It is true, however, that non-financial accounting information is rather rare and usually traditional. This fact is one of the main reasons for numerous criticisms targeted at accounting performance measures.

²⁵ Economic performance (earnings) is defined as the growth in the market value of the capital in a specified period of time. It can be calculated as the difference between capital market value at the beginning and at the end of the period. Such a financial performance measure reflects the actual increase in capital value, which is in the best interest of owners. Accounting earnings are,

average value of capital (denominator) is determined in accordance with the accounting principles and can, thus, deviate from the market value of the capital (Pučko, 1996). Return on equity, therefore, reflects accounting and not actual economic returns. The same is true with ROA.

5.2.1.2. Financial performance measures of capital markets

Capital market financial performance measures have been developed for companies operating in stock exchange. In such circumstances, one of the most important criteria of performance is the *real growth in capital market value* or *real growth in share market value*. For Croatia and particularly Slovenia, however, where capital markets are both small and are still developing, the real growth in share market value does not necessarily reflect the actual business performance. *Market-to-book value* reflects shareholder expectation upon the future cash flow of the company. In developed foreign capital markets, successful companies are priced above their book values, in Slovenia, however, calculated market-to-book values were often lower than 1 (Slapničar, 1998), implying the overestimation of assets. *Earnings per share* and the *Price/Earnings ratio* are interrelated financial performance measures since the earnings per share functions as the denominator in the P/E ratio. If the price/earnings ratio is high, investors are supposed to believe that the company has good growth possibilities and that earnings are secured (Brealey, Myers, 1996). Successful companies usually have high P/E ratios. On the other hand, high P/E ratios can be related to low earnings per share. Finally, both financial measures can also be criticized for the shortcomings related to the accounting earnings. *Dividends* do not always reflect the successful performance of a company and should, as such, be avoided as fundamental measures of performance. When all cash available is paid out as dividends to shareholders, this can be interpreted as a situation where there are no opportunities for investments that would render returns higher than the cost of capital. *Economic value added* (EVA) is a contemporary financial performance measure that captures the costs of both the capital and debt and is an alternative to ROA. Its only drawback, actually, is methodological and relates to the difficulty in calculating the WACC (weighted average cost of capital).

5.2.1.3. Cash flow financial performance measures

on the other hand, determined as the difference between revenues and expenses in the specified period of time and, as such, can easily be manipulated (the so-called creative accounting).

Recently, cash flow-related financial performance measures, such as *cash flow stability*, *cash flow growth*, and *available cash* are gaining in importance. It is believed that amounts, timing, stability and growth of cash flows are the fundamental business goal and criteria for outcome performance. The idea is that earnings tend to focus mainly on managing the income statement and place a low weight on the actual amount and timing of cash flows. Put another way, while cash can be characterized as a 'fact', earnings are merely an 'opinion'. This is often true, as accountants can manipulate earnings in different ways.²⁶ Today, investors are interested in businesses that create positive net cash flows; healthy companies generate them within their basic businesses.

Other important financial performance measures are *sales growth*, *profit margin*, *value added (per employee)*, etc.

5.2.2. Shortcomings of financial performance measures

Several authors have pointed out the drawbacks and shortcomings of financial performance measures; here, we consider only some of them, but these are most important.²⁷ Firstly, financial performance measures are **insufficient**. They reflect financial (accounting, monetary) results of decisions made some time in the past, but they do not help us understand what factors influenced the performance. Fisher (1992) is even more illustrative when saying that traditional financial statements are like scoreboards in a football game. While the scoreboard tells you whether you are winning or losing, it does not provide much guidance about the plays that should be called. What is needed is information about the intermediate decisions that ultimately affect the score, such as which running plays are most successful, how well the defense is stopping the opponent's attack, and so on. In business terms, measures are needed of the underlying processes and prior outcomes that lead to superior financial results. Secondly, financial performance measures are **lagging and late**. In times when information often decides upon the survival of the business,

²⁶ Cash flow (inflow and outflow) is the result of transactions with third parties that were realized in a specified period of time, e.g. year. The same cannot be stated for revenues and expenses. Accounting principles namely allow redistributing amounts of costs between different business periods so as to maximize earnings.

²⁷ An interesting drawback of financial performance measures is related to their inappropriate calculation. Two examples are usually given; firstly, financial performance measures are often calculated for a period of time that is too short to appropriately reflect performance (e.g. project profitability calculated within a year or even within a quarter). Secondly, calculations of financial performance measures often leave out important economic categories that should be incorporated for the sake of the measure validity (e.g. when calculating the profitability of a product, all revenues and expenses in the product lifetime should be taken into account).

financial statements and financial performance measures calculated on their basis are not on time to make right decisions. Many executives saw their companies' strong financial records deteriorate because of unnoticed declines in quality or customer satisfaction. Thirdly, accounting principles and procedures allow for the creating of financial statements. The so-called **creative accounting** is the main cause of the financial performance measures' false or weak reliability. The majority of financial measures are calculated on the basis of income statements. We need to be aware, however, that the accounting earnings differ from the economic earnings and that accounting measures disguise actual performance.²⁸ Nonetheless, cash flow financial performance measures, as presented in the previous subsection, do not share the same critique, because they cannot be that easily manipulated.

5.2.3. *Non-financial performance measures*

Non-financial performance measures are defined as measures that relate to non-monetary categories and are not expressed in monetary terms. Non-financial performance measures are not a current issue; they had played a significant role in the simplest types of production in the past, usually as measures of physical labour productivity or physical output. Later on, their role was subordinate to financial measures. Non-financial performance measures were merely used to measure efficiency of production processes. Contemporary non-financial performance measures, on the other hand, reflect both results (output and/or outcome) and key success factors.

5.2.3.1. Results-related non-financial performance measures

Business results are not financial, only. They have to be understood in the context of both the output and outcome, the latter relating to all impacts that arise from selling a product or service. In this sense, **satisfied customers** can be treated as results preceding financial data in the income statement. A satisfied customer is not a person who has bought a product or a service but the one that wants to repeat the buying experience and will share it with others. Measures of customer satisfaction are the *% of loyal customers*, *% of lost customers (compared to the previous year)*, *number of partnerships with customers*, *related purchases*²⁹ and others. These measures can be supplemented with

²⁸ Pučko (1996) presents approaches that allow the creating of hidden surpluses or losses within a specified accounting period influence the income statement. Some of these are working capital valuations, long-term assets valuations, and investment policy.

²⁹ The measure of related purchases reflects whether a buyer of a specified product or service is buying other products or services of the same company because of his firm belief that the

measures related to acquiring new customers, such as the *number or % of new customers*, *actual new customers to potential customers ratio*. **Satisfied, dedicated employees** can also be treated as an outcome (Reichheld, 1996) which can be measured by the *stability index*, *turnover*, *physical labour productivity*, and *number of suggestions relating to improving processes or products*. Similarly, **satisfied business partners** can be looked at from the perspective of an outcome and measured by *the supplier stability*, *number of supplier partnerships*, etc. Even the **company image** can be interpreted as an outcome of business processes and efforts and can be measured by the *number of favourable media appearances*.

5.2.3.2. Financial performance measures of key success factors

Information upon key success factors is of utmost importance. Hronec (1997) calls them 'vital signs' of an organization because they tell people what and how they are doing, whether they are functioning as a whole, and also what the future financial results will be. Non-financial performance measures of key success factors are optimistic as they reflect elements of organizational growth and development and are future oriented. Key success factors are **employee competencies** (knowledge, capabilities, etc.) that can be measured by *changes in qualification structure*, *changes in education structure*, *number of improvement suggestions per employee*, *number of rewards for successful implementation of improvement suggestions*, and *average number of formal training & education*. Another key success factor is **research and development** (*number of launched new products vs. planned*, *time to develop a new generation of products*, *standard parts (in a product) to unique parts ratio*). **Efficiency of production processes** has traditionally been measured by non-financial performance measures and remains to be an important aspect of performance. It can be measured by the following non-financial measures: *throughput time*, *number of unplanned production stand stills*, *average duration of a production break*, *average time to change equipment settings*, etc. **Quality** can be measured by *the % of quality products*, *% of products that needed rework*, *number of paid guarantees*, etc.

5.3. Strategic performance measurement model

company has overall high quality. Information can be obtained either from the selling department (when organized appropriately) or from questionnaires.

In the subsequent paragraphs, a model of financial and non-financial performance measures will be developed that will be used to evaluate strategies of large Croatian and Slovenian companies.

5.3.1. Development of a business performance model

In order to develop a comprehensive performance measurement model, top management needs to agree on the business performance model of the company – their understanding of the relationships between management action and strategic results, which often are implicit (Eccles, Pyburn, 1992). A simple business model encompasses relationships between quality, customer satisfaction, and profitability. As quality increases, so does customer satisfaction. Existing customers buy more, and new customers are added so that profitability increases. Thus, more money is available to invest in quality, and this virtuous cycle continually reinforces itself. It is important to measure intermediate results to determine if management is performing well within the model. It is also important, however, to measure the financial outcomes to determine if the model is valid. The performance measurement model, thus, suggests balancing (1) leading and lagging performance measures; (2) measures related to interests of external stakeholders with measures related to interests of internal stakeholders; and (3) financial measures with non-financial measures. The strategic performance measurement model additionally needs to incorporate the corporate (business) strategy of the firm so that the measures in the model are linked to the strategy. Since a successful strategy has been defined as one that leads to the achievement of strategic objectives and to the realization of a mission, performance measures have to be related to the company objectives and mission. Our basic hypothesis is in accordance with the behavioural theory of the firm (Cyert, March, 1963) and the stakeholder theory (Freeman, 1984, Clarkson, 1995, Donaldson, Preston, 1995) and says that the large Croatian and Slovenian companies' mission is to satisfy the interests of different stakeholders. Strategic objectives are, therefore, multiple. Figure 5.1. depicts the relationship between the company mission, strategic objectives, strategy, and key success factors. Its implication is that the mission impacts on strategic objectives. These then influence the development of the strategy, which in turn is based on the critical success factors.

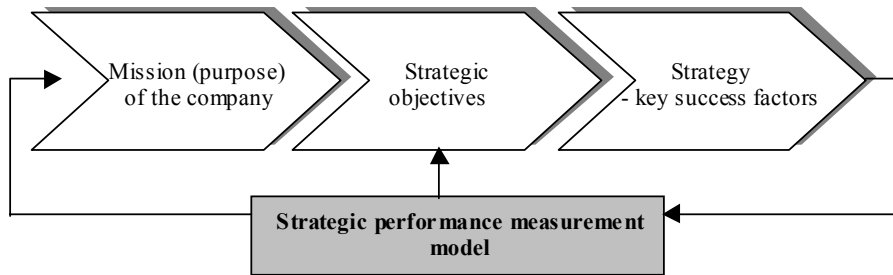


Figure 5.1. Relationship between mission, strategic objectives, strategy and key success factors

The success (performance) of a strategy, thus, primarily needs to be measured from the perspective of strategic objectives. Strategic objectives are conceived as results and can be measured either financially or non-financially, depending on the objectives (see Table 5.1). Due to the time lag in measuring results of the strategy, the model needs to incorporate measures of key success factors (see Table 5.2). Additionally, another dimension of performance measurement has been added to the model - assessment of the achieved results in the light of exogenous determinants, such as macroeconomic policy (see Table 5.3). Company performance data need to be gathered for a series of years in order to develop trending performance measures (Harbour, 1997). Also, comparisons with other companies within the same year are important.

5.3.2. Performance measures in the strategic performance measurement model

The following three tables (Table 5.1, Table 5.2, and Table 5.3) include performance measures of results, performance measures of key success factors, and information that help externally assess the achieved strategic performance. Each table consists of three columns. In the first column, performance measures are listed; the second column explains more explicitly how the measure is calculated; in the third column, arguments for including a particular measure in the strategic performance measurement model are added.

Table 5.1: Performance measures of results

PERFORMANCE MEASURE	MEASUREMENT APPROACH	ROLE OF THE MEASURE IN THE PERFORMANCE MODEL
Value added per employee	Total value added in a given year divided by the average number of employees	Value added related measures are not subject to criticisms that are common with ROE or ROA
Sales growth per employee	Total sales in a given year divided by the average number of employees; measures should be calculated separately for domestic and foreign markets	Reflects productivity growth
Growth in cash flow from the basic business	Comparison of cash flows in two consecutive years	Cash flow measures cannot be easily manipulated
	Net earnings to average value of capital ratio	ROE is widely used and is also useful for comparisons with other financial measures
% of loyal customers	Number of customers from the previous year divided by the total number of customers from the current year	Reflects customer satisfaction
Number of partnerships with customers	Number of contracts with customers that extend over one year	Reflects potential for long term co-operation
Share of sales to new customers	Share of sales in the current year related to customers that have not been buying in the previous years	Measures results of efforts to acquire new customers
Average sales per customer	The measure should be calculated for different types of customers	Allows for comparison between years and an evaluation of related purchases
Stability index	Number of employees employed for over a year divided by the total number of employees	In contrast to turnover, stability index reflects where within the company job related problems arise
Number of employee complaints	Measured in a given year in absolute terms	Reflects employee satisfaction
Number of promotions in a year		Reflects internal employee learning and growth
Supplier stability I	Number of suppliers from the previous year divided by the total number of current suppliers	Reflects supplier satisfaction
Supplier stability II	Value of loyal supplier purchases (see stability index I) compared to the total value of purchases	Allows for financial evaluation of supplier satisfaction
Number of favourable media appearances	Number of articles in the media that favourably report on the company	Reflects the company image and helps promote the company

Table 5.2: Performance measures of key success factors

PERFORMANCE MEASURE	MEASUREMENT APPROACH	ROLE OF THE MEASURE IN THE PERFORMANCE MODEL
% of employees with higher education	Higher education relates to a faculty diploma	Reflects the basic knowledge level in the company
		Reflects the basic capabilities of employees
formal employee education	Hours of formal education (seminars, workshops, etc.)	Reflects learning in an organization
% of implemented improvement suggestions (per employee)	Number of implemented suggestions divided by the total number of improvement suggestions (per employee)	Reflects learning and growth (creativity) of employees
development projects	Comparisons between years are important	Reflects knowledge and results of learning
Actual new product launches vs. planned		Reflects results of applied research activities
Share of R&D expenses in total sales	All expenses related to any R&D activities are taken into account	Reflects R&D investment policy and investment opportunities
Throughput time	Ratio between actual production working time and total production time	Measures unproductive time in the production cycle
production stand stills (plus average waiting time)		Measures unproductive time in the production cycle and cost that can be avoided
% of on-time deliveries	Number of on-time deliveries vs. all deliveries	Measures the quality of planning and flexibility of production processes
% of low quality products	Number of low quality products vs. all products	Measures the quality of inputs and processes
% of reclaimed purchases within the warranty time	Number of received reclamation vs. all purchases	Measures the quality of production inputs and processes
Inventory turnover	Calculated for specific categories of inventories	Particularly important for stores
% of employees working with customers, having on-line access to customer databases		Reflects the quality of information systems
% of processes that can be supervised daily, from the perspective of time, quality and accrued cost		Reflects the quality of information systems
Number of hierarchical levels within the company		Reflects the complexity of the organizational structure

Table 5.3: Information to assess business performance from the perspective of exogenous determinants

PERFORMANCE MEASURE	MEASUREMENT APPROACH	ROLE OF THE MEASURE IN THE PERFORMANCE MODEL
Nominal exchange rate growth vs. consumer price index	Exchange rate of the most relevant foreign currency is considered	Exchange rate policy is particularly important when considering the performance of export-oriented companies
Unemployment rate	Unemployment rate within the region is considered	Unemployment rate affects the company HR policy
Purchasing power	GDP per capita	Helps assess the wider context in which the company operates
all sources of financing		Measures the extent of governmental support
Number of competitors on the main market		Reflects the competitive power of the company
Bargaining power of suppliers	Expressed subjectively on a rating scale	Helps assess the wider context in which the company operates
Bargaining power of customers	Expressed subjectively on a rating scale	Helps assess the wider context in which the company operates
Share of exports in total sales	All exports (alternatively, only exports to developed markets) are taken into account	Reflects internationalization of the company
to improve environmental efficiency of the company	Investments to improve production and other business processes in terms of environmental accountability are divided by all investments (costs to obtain ISO 14001 certificate may be included, too)	Reflects environmental responsibility of the company that in the short term may deteriorate financial results

6. EMPIRICAL RESEARCH FINDINGS

6.1. Methodology

The questionnaire for the field research of large Croatian and Slovenian enterprises' corporate and business strategies, as well as business performance was developed based on relevant theoretical findings explained in chapters 1 - 5. The research sample should include between 20 - 25 large Croatian enterprises on one side and as many Slovenian enterprises on the other side - from industries such as food processing, chemical, textile, electro, trade and tourism. At least two enterprises should be included from each of the stated industries, in each country according to the research design. The intention was to carry out an empirical survey, using a questionnaire, in the three most important strategic business units (the most frequent appearing as subsidiaries) of the enterprises included in the sample. The Slovenian research team decided to collect empirical data by interviewing enterprises' managing directors in the field on the base of an in advance prepared questionnaire. The Croatian team collected data by mail questionnaire.

The field research was prolonged from the originally planned period of six months (May 2001 - November 2001) to 12 months instead. In spite of this prolongation, the Croatian team did not succeed to collect relevant empirical data from more than seven enterprises. On the Slovenian side, 24 large enterprises were included in the research, as well as their 55 strategic business units. Due to the big difference between the planned and actual sample size on the Croatian side and because of the far from acceptable number of Croatian enterprises included in the sample, it is difficult to argue that the research purpose and objectives have been achieved fully. The basic designed research methodology, i.e. a comparative study of the corporate and business strategies implemented in the entrepreneurial practice of the two countries, as well as the interrelationships between the implemented strategies and enterprises' business performance, has been hardly possible to implement, at least partly.

The collected empirical material on strategic behavior of the large Croatian and Slovenian enterprises has been processed using methods of statistical descriptive analysis and regression analysis, as well as hypothesis testing regarding relationships between specific kinds of implemented enterprises' strategies or strategic business units' strategies and their business performance. The regression analysis and hypothesis testing produced very modest research findings because of the too small sample of the Croatian enterprises in the sample. Using still other research methods, which enabled us to take into

account a number of qualitative factors in the strategic behavior of the researched enterprises, enlarged our empirical analysis.

Our main empirical findings will be presented in this chapter in the subchapters 6.2 and 6.4.

A total of 31 enterprises included in the sample consist mainly out of “old” enterprises, i. e. those that were founded before the year 1990 (93.5% of enterprises in the sample). The relevant data of the stated enterprises were provided mainly by managing directors (61.3% of cases). Members of the managing boards were respondents in six enterprises (19.4% of cases), and other top managers in four enterprises (12.9% of cases). Some other respondents appeared in not more than two enterprises.

The enterprises included in the sample are relatively well distributed according to industries (See Table 6.1.1). The sample consists of 32.3% of the enterprises with less than 500 employees, 22.6% of the enterprises with the number of employees bigger than 500 but smaller than 1001, and 38.7% of the enterprises with more than 1000 employees.

Table 6.1.1: Distribution of the enterprises in the sample according to industries

INDUSTRY	Number	Share (%)
Electro industry	5	16.7
Chemical industry	5	16.7
Trade	7	23.3
Textile industry	4	13.3
Tourism	5	16.7
Food processing industry	4	13.3
Total	31	100.0

A vast majority of the enterprises in our sample (96.8%) were public limited companies. Only four enterprises were dominantly owned by the state (12.9%). According to the level of diversification, there were 19.4% of single business enterprises, 58.1% of the enterprises had a dominant business orientation, 16.1% of the enterprises developed related businesses and 6.5% developed unrelated.

The presented research findings in the continuation relate to the above-stated sample of enterprises. We are not able to argue that this sample is representative for both countries. The Slovenian sample might be considered as

representative for the Slovenian environment, while the Croatian one is too small to have such a characteristic.

6.2. Factors determining corporate strategies in Slovenia and Croatia

Most companies involved in our research have been developing a form of growth strategy: market development strategy, product-market diversification strategy or the strategy of conglomerate diversification (see Table 6.2.1). Only one company has been developing the retrenchment strategy by divesting its strategic business units. This finding is consistent with the research results in other developed economies. We compared the performance of the various corporate strategies by using four different criteria: ROA (return on assets), ROE (return on equity), ROS (return on sales) and value added per employee. We formulated two basic research hypotheses:

1. H0: There are no performance differences between specific types of corporate strategies.
2. H0: There are no performance differences between internal and external growth strategies.

We defined three basic criteria to determine whether two businesses are related or not. In order for one business to be related to another and to consider diversification as related, at least two of the following three criteria had to be fulfilled: (1) similar type of markets served, (2) similar type of products sold and, (3) similar technology used in production. By comparing the performance of various types of corporate strategies, we came to the following conclusions:

- There are no statistically significant performance differences (regarding ROA, ROE and value added per employee) between the related diversification strategy on one hand and the unrelated diversification strategy on the other. We can reject H0 at too high a “p” level.
- We can reject H0 by comparing the performance of the unrelated diversification strategy with the related diversification strategy ($p=0.063$). We might argue that the unrelated diversification strategy outperforms the related diversification strategy regarding return on sales.
- The retrenchment strategy is outperformed by the other two types regarding all four criteria (ROA, ROE, ROS and value added). The performance differences are statistically significant at low levels ($p<0.05$) when comparing the performance by the first three criteria. The differences are statistically significant at a higher level ($p>0.05$) when comparing the value added per employee and the H0 hypothesis cannot be rejected.

Table 6.2.1: Structure of companies regarding the type of corporate strategy

TYPE OF CORPORATE STRATEGY	Share of companies (in %)
Market development	23.3
Product-market diversification	23.3
Conglomerate diversification	23.3
Product development	13.3
Operative development	6.7
Market-technology diversification	6.7
Divestment	3.3

Our study reveals that 43.3% of the companies diversified through external means, 26.7% diversified through internal means, while 30% diversified through both internal and external methods. Acquisitions are obviously the most popular growth strategy (see Table 6.2.2). On the other hand, the track record of mergers and acquisitions in the developed economies is not very encouraging (Dess, Picken, Janney, 1998). However, the companies involved in our research are trying to strategically restructure their activities through acquisitions. There appears to be no statistically significant performance differences between companies regarding the external or internal growth strategies. We could not reject the H0 hypothesis at a statistically significant low “p” level. Some other scholars have come to the same conclusions in their studies (Lamont, Anderson, 1985). Companies also tend to develop various forms of long-term strategic co-operation. This process can be crucial for developing competitive advantages.

Table 6.2.2: Share of companies that develop a specific type of growth strategy

TYPE OF GROWTH STRATEGY	Share of companies (in %)
Acquisition	93.6
Internal growth	58.1
Joint ventures	35.5
Long-term production co-operation	25.8
Franchising	22.6
Other forms of strategic alliances	16.1

The most important motives for the corporate strategy that has been developing are: to increase or maintain the market share and to improve cost efficiency through rationalizing operating costs. Companies are trying to maintain their competitive advantage that is obviously partly based on economies of scale (see Table 6.2.3). We were surprised to find that motives involving the transfer of strategic assets between business units are less important. The development of some skills and competencies and their transfer

to acquired companies are not the dominant factor of the corporate strategies. This could be a serious weakness of corporate strategies that are not based on the achievement of sustainable competitive advantages.

Table 6.2.3: Motives of a corporate strategy

MOTIVE	Importance of a specific motive
To maintain a competitive advantage	4.32 (0.94)*
To increase market share	4.29 (0.90)*
To maintain the current market position	4.29 (1.13)*
Cost reduction	4.26 (0.82)*
To increase market power	4.10 (1.08)*
Synergies	3.81 (1.28)*
To gain new knowledge	3.58 (0.99)*
Development and transfer of competencies	3.58 (1.39)*
Risk diversification	3.10 (1.30)*
Transfer of strategic assets to the distribution channels	2.94 (1.24)*
Transfer of strategic assets to customers	2.58 (1.43)*
Transfer of strategic assets to business processes	2.42 (1.18)*
Transfer of strategic assets to inputs	2.42 (1.26)*
Industry attractiveness	2.23 (1.28)*

*Standard deviation; Scale: 1 – unimportant motive, 5 – very important motive

6.2.1. Internationalization strategy

The ongoing internationalization of business activities is a very important characteristic of the companies involved in our research. A total of 90.3% of the companies are internationalized, whereas only 9.7% of the companies are oriented to the domestic market. These international business dynamics reflect the changing international business environment and the organizational response of companies whose competitive strategies increasingly involve crossing national borders. As soon as at least one competitor gains from taking an international strategic position, then competitive forces begin to change, with the leading firms in the market needing to respond. The dynamic nature of such responses inevitably results in increased international exposure, requiring co-ordination and relationships with suppliers, distributors and customers across functions and geographical boundaries. More detailed analyses of the internationalization process showed that the companies are trying to develop a more complex form of international business activities (see Table 6.2.4).

The prevailing strategic orientation is to build up international strategic alliances. This should lead to global competitive advantages through long-term business co-operation. Companies are keen on greenfield investment as well as on acquisitions. The most important motives that determine the internationalization business strategy are: to increase growth and performance of the company (64.4%); to realize various operative synergies (41.9%); and last but not least, a defensive strategy against competitors. Internationalization of a company leads to cost reduction through the global configuration and co-ordination of its business activities.

Table 6.2.4: Strategies of internationalization developed by the companies involved in our research

STRATEGY OF INTERNATIONALIZATION	Share of companies (in %)
Greenfield investment	48.4
Acquisition of foreign companies	35.5
Direct export	35.5
Long-term production co-operation	32.3
Joint ventures	29.0
Indirect and direct export	22.6
Franchising	19.4
Other forms of strategic alliances	16.1
Licensing	9.7
Indirect export	9.7

We can identify the following pattern of internationalization. Direct and indirect exports prevail in the first phase of internationalization. This is the initial entry of the market. Success in the first stage leads the parent corporation to believe that a stronger presence is needed in the target market. Subsidiaries of the parent corporation were formed in the second phase. In some cases, we also identified joint ventures between the parent and local companies. Most companies have autonomous subsidiaries owned by the parent company that is developing a specific market strategy in the local market. The characteristic of the third phase was usually the formation of an independent local company that gradually also takes over some other functions. In this phase, companies often develop some forms of a strategic partnership with local companies that can lead to acquisition in the near future. This pattern of the internationalization of business activities is characteristic of those Slovenian companies seeking to gain as large a share as possible in Southeast European markets.

6.2.2. Some competitive factors of corporate strategies

The factors that determine why and how one business outperforms another have been the subject of considerable research. In general, the debate has centred on competitive positioning, resource- or competence-based theories and knowledge-based approaches. The first of these approaches, the subject of Porter's work, concentrates on developing a strategic framework by viewing a firm in the context of its environment (Porter, 1985). The second sees superior performance as a consequence of the special resources of an individual organization (Grant, 1991). This approach is called the resource-based theory. The third approach is based on core competencies that can be defined as a combination of resources and capabilities that are unique to a specific organization and which are responsible for generating its competitive advantage (Prahalad, Hamel, 1990). The knowledge-based theory is the fourth approach, focused on the importance of knowledge management and organizational learning in building and maintaining a competitive edge (Whitehill, 1997). Although each of these approaches provides a method by which superior performance can be investigated, it is the knowledge-based approach that, in more recent times, has been offering the best perspective from which the determinants of a company's competitive advantage can be analyzed. Successful corporate strategies are based on certain competitive advantages of companies that can be explained by these theories.

We found that managerial competencies (4.32), as well as competencies based on a specific business process (4.26) are the most important. Competencies based on inputs are less important (3.23). The same is true for competencies based on outputs (3.26) that are embodied in products or somehow represented in services. A total of 80.6% of companies are developing a corporate strategy based on core competencies. We can identify four large groups of core competencies that are the cornerstones of the corporate strategies developed. The first group of competencies is based on the position of a firm within the local industry. They are the following: financial power, the company's image, location, bargaining power (with regard to the suppliers), and familiarity with the local environment. The second group of core competencies is based on technology management (know-how, product development, and technology development), whereas the third group of core competencies is based on the quality of business processes and products. The fourth group of core competencies is based on the employees (management, experts, training process), as well as on the organizational culture in the firm.

Human capital and organizational culture prevail among the different types of knowledge that are important for achieving a competitive advantage (see Table 6.2.5). Organizational culture is defined as the pattern of beliefs, expectations and values shared by the organization's members. Within each firm, norms typically emerge that define what is the acceptable behaviour of people from top management down to the operative employees. Rumelt argued (1984) that a firm's competitive position is defined by a bundle of unique resources and relationships with the competitive advantage arising from the sources of potential rents ranging from changes in technology and consumer tastes to innovation and legislation. The ability of a firm to develop and sustain a competitive advantage from these sources depends on its ability to develop isolating mechanisms. These can take the form of specialized assets and resources, especially those that provide specialized information, enhance the brand name, image and reputation, and restrict entry. It is evident that core competencies and the isolating mechanism are heavily dependent on knowledge. Therefore, the modern business literature emphasizes knowledge as the most critical success factor of companies. Sustaining a competitive edge in a dynamic and volatile environment relies on an organization generating new knowledge more rapidly than its competitors.

Familiarity with the concept of knowledge management is important. Top management is, in most cases (38.7%), responsible for managing knowledge. The department for human resource management is responsible for knowledge management in 29% of the firms, whereas in 19.4% of the firms, this responsibility is distributed between top management and the department for HRM. In 12.9% of the firms, no one takes care of knowledge management. Considering the importance of knowledge for achieving a sustained competitive advantage, we argue that top management should, in fact, be involved in the knowledge management process in all companies. We also argue that it should increase its current involvement. Companies involved in our research sample need to develop a detailed and transparent strategy for knowledge management. By analyzing the results, we were surprised to find that ISO standards are relatively unimportant for a competitive advantage. On the other hand, ISO standards are a codified and easily accessible type of knowledge. They have become a necessary standard for business practices. However, a company needs to develop more innovative types of knowledge for a sustainable competitive advantage.

Table 6.2.5: The importance of knowledge for a company's competitive advantage

TYPE OF KNOWLEDGE	Importance of a specific type
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	of knowledge
Human capital	3.97 (1.40)*
Organizational culture	3.55 (1.03)*
Familiarity with the concept of knowledge management	3.52 (1.23)*
Structural capital	3.45 (1.21)*
Knowledge developed through strategic alliances	3.23 (0.96)*
ISO standards	2.77 (1.43)*
Patents, licenses, models	2.71 (1.47)*

*Standard deviation; Scale: 1 – unimportant motive, 5 – very important motive

6.3. Empirical findings on the sources of competitive advantage in large Croatian and Slovenian enterprises

Our objective is to demonstrate the sources of competitive advantage in the practice of large Slovenian and Croatian enterprises, i.e. at the level of their strategic business units (SBUs). In order to reach those conclusions, we have carried out two kinds of statistical analyses.

On one hand, we have analyzed the qualitative variables included into the questionnaire, i.e. respondents' features that are verbally expressed by aggregating answers and calculating the frequency distributions of enterprises (SBUs) included into each group. On the other hand, the empirical analysis of the relationships between the distinct potential sources of the competitive advantage and the competitive advantage itself, measured by the relative performance of the enterprise (SBU), has also been performed. The performance of enterprises and their SBUs, i.e. dependent variables, have been measured by the indicators of the return on assets (ROA), return on equity (ROE), and return on sales (ROS). For corporate groups (i.e. enterprises consisting of more SBUs), we have also used the amount of value added per employee. For all the indicators utilized, the average values in the period 1998-2000 have been calculated in order to diminish the influence of unsystematic events on corporate performance.

The independent variables have been constructed on the basis of questionnaire items, detecting the distinct potential sources of the competitive advantage. It is important to note that all the variables, except for the variable describing the competitive position of a SBU toward its competitors, have been measured on a five-level Likert scale, with the least value of 1 denoting that the measured potential source of competitive advantage has not been detected in the

enterprise (SBU). The highest degree of the scale (5) indicates that the potential source of competitive advantage could be identified as very significant for the competitive success of the respondent. For each independent variable, the average value (M) and the standard deviation (σ) have been calculated.

Therefore, both the independent (most of which were ordinal) and the dependent variables (mostly measured on a scale level) have been constructed in order to facilitate the use of regression as a manner of analysis. It is important to note that we have not been limited to the analysis of the linear regression models – for each relationship, we have also utilized numerous non-linear models, including quadratic, cubic, inverse, power and exponential equations. Thus, the null hypotheses, which we tried to reject by means of regression analysis, could be formulated as follows: “There is no relationship between the dependent and independent variables”, i.e. “The correlation coefficient between the dependent and independent variables equals 0” ($H_0: R_{xy} = 0$). The appropriate alternative hypotheses should be formulated as follows: “There is a positive relationship between the dependent and independent variables”, i.e. “The correlation coefficient between the dependent and independent variables is significantly higher than 0” ($H_1: R_{xy} > 0$). For each of the tested relationships, we selected the regression model with the highest significance, i.e. the model with the significance closest to the significance level of 5%.

6.3.1. Competitive advantage of enterprises (SBUs) and their sources

During the course of this analysis, we shall accept the argument that it makes more sense to determine the competitive position of large multi-business enterprises at the level of individual strategic units (SBUs) than at the level of the enterprise as a whole (Porter, 1987, p. 46). In order to determine the competitive position of a SBU, we asked the managers to determine their competitiveness on a scale of -5 (denoting the extreme competitive disadvantage) to +5 (denoting the extreme competitive advantage). As demonstrated by Table 6.3.1, the average value of such a variable equals 1.71, being significantly higher than expected. Namely, taking into account that the sample has been randomly selected, the expected value of this variable should be 0 (or around 0). This finding could lead to the conclusion that the respondents have been quite optimistic regarding the competitive position of their enterprises. The respondents also disagree, to a high degree, regarding the competitiveness of their enterprises, as demonstrated by the high value of the standard deviation (1.75).

Table 6.3.1: Relationship between SBU performance and its competitive position

Independent variables (x)	M	σ	Dependent variable (y)	R ²	Model	α (Sign.)
Assessment of the competit. position	1.71	1.75	ROA	0.037	Lin: $y = 0.026 + 0.023x$	0.116
			ROE	0.066	Lin: $y = 0.058 + 0.051x$	0.052
			ROS	0.058	Lin: $y = 0.008 + 0.005x$	0.066

Of all the tested regression models, the best models (but still not exceeding the significance threshold of 5%) are the linear ones, describing relationships between the ROE (ROS) and the competitive position. They are also relatively close to the significance threshold – for the former, α equals 0.052 and for the latter, 0.066. However, for both models, the determination coefficients are relatively low: while the ROE model explains only 6.6% of the performance variability, the ROS model is even worse, explaining 5.8% of the ROS variability. Although the empirical results do not provide a high level of support to the conclusion, we believe that the positive relationship between the SBU performance and its competitive level can be still accepted on the basis of the available data. Such a result is in accordance to the findings of other authors (Spanos, Lioukas, 2001, p. 919).

The research into the fundamental features bringing competitive success to the analyzed SBUs has been based on the qualitative analysis of the responses to the questionnaire. Among the 57 SBUs included into our sample, most of them (17, i.e. 29.8%) have assessed that the quality (defined in broad terms – including quality of inputs, outputs and processes) can be identified as the primary source of the competitive advantage (which is comparable to the findings of Garvin, 1987, pp. 104-108). A high amount of SBUs (28.1%) have included flexibility as a significant source of competitive advantage (as already identified by Ahmed, Hardaker and Carpenter, 1996, pp. 569-570). The other potential sources of competitive advantage (market power, organizational learning, internal organization, etc.) have been confirmed as such by only a negligible amount of respondents (see Table 6.3.2).

Table 6.3.2: Fundamental sources of SBU competitive advantage

FUNDAMENTAL SOURCES OF SBU COMPETITIVE ADVANTAGE	Number of SBUs	% of SBUs
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1. Quality of inputs, outputs and processes	17	29.8
2. Flexibility	16	28.1
3. Market power (measured by the enterprise size, reputation, bargaining power of customers or suppliers...)	8	14.0
4. Organization learning (experience, knowledge, continuous education...)	7	12.3
5. Cost efficiency	6	10.5
6. Internal organization	6	10.5

6.3.2. Sources of competitive advantage according to the Industrial Organization hypothesis

As the industrial organization (IO) hypothesis maintains, individual SBUs within a multi-business enterprise differ according to the source of competitive advantage, being either a low cost producer, or a differentiator. It should be also noted that we have selected the individual SBU, rather than the enterprise as a whole, as the logical object of analysis.

Table 6.3.3 illustrates the structure of SBUs according to their perception of the source of competitive advantage, according to the industrial organization hypothesis. It can be easily concluded that the majority of SBUs (53.8% of those responding) sees differentiation as a source of its competitive advantage, while only 10.3% believe the same for the lowest costs. A significant amount of respondents (35.9%) believes that it is possible to simultaneously use both low costs and differentiation as the source of competitive advantage, which is, according to Porter (1980, p. 35), a significant strategic mistake (referred to as "being stuck in the middle").

However, some authors (Hill, 1988, p. 411; Flynn, Flynn, 1996, pp. 370-374) believe that such a strategic orientation is completely viable and even necessary in the contemporary environment.

Table 6.3.3: Potential sources of competitive advantage of SBUs according to the IO hypothesis

POTENTIAL SOURCES OF SBU COMPETITIVE ADVANTAGE	Number of SBUs	% of SBUs
1. Both low costs and differentiation	14	35.9
2. Low costs	4	10.3
3. Differentiation	21	53.8

Total number of respondents	39	100.0
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Moreover, regarding low costs and differentiation as the fundamental (potential) sources of competitive advantage, according to Porter, we also analyzed the background factors, which enable a SBU to pursue such an advantage. We found that the cost-based advantage, in most cases (i.e. in 33.3% of SBUs pursuing the low cost strategy), is based on the efficient internal organization, which especially applies to efficient control and appropriate human relations (as confirmed by Bowman and Carter, 1995, p. 429). A total of 16.7% of the low-cost oriented SBUs has also singled out the volume economy and appropriate technology as the important drivers of low costs (in accordance to findings of Faulkner and Bowman, 1992, p. 497). However, the other drivers have not been confirmed as significant.

Table 6.3.4: The most important drivers of the cost-based advantage

THE MOST IMPORTANT DRIVERS OF THE COST-BASED ADVANTAGE	Number of SBUs	% of SBUs
1. Internal organization	6	33.3
2. Volume economy	3	16.7
3. Technology	3	16.7

Among the differentiation drivers (see Table 6.3.5), the quality of products (services) has been singled out as the most significant one, with 42.9% of the responses from enterprises (SBUs) pursuing the differentiation-based advantage (as already concluded by Caves and Ghemawat, 1992, p. 11). A significant amount of responses is also related to the drivers, such as: quality of partnerships (34.3%), which can be compared to findings of other authors (Barney, Hansen, 1994, pp. 184-188; Kandampully, Duddy, 1999, p. 51); organizational learning (explained in terms of development, innovation, professionalism, education, etc.), which accounted for 31.4% of the responses (being similar to findings of Baker and Sinkula, 1999, pp. 419-420); location (8.6%); and organizational climate (5.7%). Other differentiation drivers have been regarded as less significant, as most of them have been selected by a single SBU.

Table 6.3.5: The most important drivers of the differentiation-based advantage

THE MOST IMPORTANT DRIVERS OF THE DIFFERENTIATION-BASED ADVANTAGE	Number of SBUs	% of SBUs
1. Quality of products (services)	15	42.9

2. Quality of partnerships	12	34.3
3. Organizational learning	11	31.4
4. Location	3	8.6
5. Organizational climate	2	5.7

6.3.3. Sources of competitive advantage according to the Resource-Based hypothesis

As stated by the resource-based view (RBV) of the competitive advantage, resources within multi-business enterprises are heterogeneous, which implies the same for their influence to the performance and competitive advantage. Therefore, the SBU has been chosen as the level of analysis in determining the relationship between the resources and unit performance within a multi-business enterprise. Managers have been asked about the contribution of individual resource groups (i.e. physical, financial, human and organizational resources) to the competitive advantage of a SBU.

The responses demonstrate that the strategic significance of human and organizational resources is perceived as significantly higher than the one of physical and financial resources (confirmed by findings of Hines, 1994, p. 5). On the basis of this finding, we decided to pay special attention to the analysis of these resources. As demonstrated by Table 6.3.6, the average value of the human resource assessment (on the five-level Likert scale) is 4.35 (with the standard deviation of 0.89), while the average of the organizational resource assessment equals 4.02 (with the standard deviation of 0.88).

Regarding the RBV-based explanation of the sources of competitive advantage, it can be concluded that all the analyzed models demonstrate a positive relationship between the resource value and SBU performance. We have not been able to empirically verify a common theme in the literature related to the significant contribution of human and organizational resources to the SBU competitive advantage (Barney, 1997, p. 143-144). Taking into account that none of the models meet the significance threshold of 5% (see Table 6.3.6), as well as that none of the models explain more than 10% of the SBU performance variation (see R^2 values in Table 6.3.6), such an assertion is not deemed acceptable.

Table 6.3.6: Relationship between resource value and SBU performance

Independent variables (x)	M	σ	Dependent variable (y)	R^2	Model	α (Sign.)
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Average of the resource value assessment	3.64	0.66	ROA	0.005	Inv: $y = 0.135 - 0.229/x$	0.338
			ROE	0.041	Inv: $y = 0.479 - 1.082/x$	0.112
			ROS	0.091	Cub: $y = -0.510 + 0.497x - 0.151x^2 + 0.015x^3$	0.175
Human resources	4.35	0.89	ROA	0.021	Lin: $y = -0.083 + 0.035x$	0.191
			ROE	0.064	Lin: $y = -0.265 + 0.099/x$	0.064
			ROS	0.048	Quad: $y = -0.054 + 0.045x - 0.006x^2$	0.210
Organizational resources	4.02	0.88	ROA	0.008	Inv: $y = 0.108 - 0.144/x$	0.298
			ROE	0.086	Cub: $y = 0.766 - 1.169x + 0.476x^2 - 0.054x^3$	0.188
			ROS	0.047	Inv: $y = 0.033 - 0.058/x$	0.097

We have also looked into the relationship between the conditions related to the strategic significance of resources (especially their imperfect imitability) and competitive advantage. It has been concluded that our dataset cannot verify the (more or less) generally accepted theoretical notion of the heterogeneity, rareness, durability, imperfect mobility, unsubstitutability and imperfect imitability as the conditions that determine whether a resource contributes to the competitive advantage (Dierickx, Cool, 1989, p. 1509; Peteraf, 1993, pp. 180-183; Hunger, Wheelen, 1996, p. 117; Barney, 1997, p. 149).

As demonstrated by Table 6.3.7, none of the regression models related to the relationship between the resource characteristics and performance can be regarded as statistically significant. Slightly better results have been obtained when focusing on imperfect imitability as one of the most important resource characteristics. Namely, we have found that the relationship between the return on equity (ROE) and imperfect imitability can be appropriately expressed by a linear regression model, with the significance close to the 5% threshold ($\alpha = 0,056$). In spite of that, the variance of imperfect imitability explains less than 10% of the variance in performance (see Table 6.3.7).

Table 6.3.7: Relationship between resource characteristics and SBU performance

Independent variables (x)	M	σ	Dependent variable (y)	R ²	Model	α (Sign.)
Average of the resource characteristics assessment	2.70	1.03	ROA	0.038	Inv: $Y = -0.028 + 0.196/x$	0.124
			ROE	0.132	Cub: $Y = 1.598 - 1.907x + 0.703x^2 - 0.075x^3$	0.096
			ROS	0.007	Lin: $Y = 0.009 + 0.003x$	0.317
Inability to imitate the resources	2.41	1.58	ROA	0.047	Inv: $Y = -0.032 + 0.166/x$	0.112
			ROE	0.080	Lin: $Y = -0.030 + 0.093x$	0.056
			ROS	0.084	Cub: $Y = -0.045 + 0.094x - 0.042x^2 + 0.006x^3$	0.231

6.3.4. Sources of competitive advantage according to the Capability-Based hypothesis

The relationship between the competitive advantage and individual groups of competencies has been tested on the basis of theoretical classification (see Chapter 4.2). Taking into account that the theory describes competencies as an entity formed on the enterprise (rather than SBU) level, which is especially relevant for the core competence concept, this section of our analysis focuses on the corporate (i.e. multi-business enterprise, if applicable) level. Respondents have been asked to which extent each of the competence groups (managerial, input-based, transformational and output-based competencies) contributes to the competitive advantage. The survey results (see Table 6.3.8) demonstrate that the surveyed managers perceive the managerial (M = 4.32) and transformational competencies (M = 4.26) as contributing more significantly to the competitive advantage than the input-based (M = 3.23) and output-based competencies (M = 3.26). It is also worthy of noting that the discrepancies among the managers' assessments have been much more significant for the input-based ($\sigma = 1.23$) and output-based competencies ($\sigma = 1.24$) than for the managerial ($\sigma = 0.60$) and transformational competencies ($\sigma = 0.68$).

Table 6.3.8: Relationship between competence groups and enterprise performance

Independent variables (x)	M	σ	Dependent variable (y)	R ²	Model	α (Sign.)
Managerial competencies	4.32	0.60	ROA	0.025	Lin: $y = -0.032 + 0.015x$	0.196
			ROE	0.041	Lin: $y = -0.210 + 0.066x$	0.139
			ROS	0.040	Lin: $y = -0.231 + 0.061x$	0.141
			Value added per employee	0.004	Lin: $y = 2520.51 + 323.77x$	0.371
Input-based competencies	3.23	1.23	ROA	0.108	Quad: $y = 0.116 - 0.069x + 0.012x^2$	0.102
			ROE	0.137	Inv: $y = -0.039 + 0.285/x$	0.021
			ROS	0.083	Quad: $y = 0.206 - 0.170x + 0.032x^2$	0.148
			Value added per employee	0.033	Quad: $y = 6165.73 - 2011.90x + 357.51x^2$	0.314
Transfor-mational competencies	4.26	0.68	ROA	0.049	Quad: $y = 0.404 - 0.192x + 0.024x^2$	0.246
			ROE	0.025	Lin: $y = -0.119 + 0.045x$	0.198
			ROS	0.072	Quad: $y = 1.317 - 0.682x + 0.087x^2$	0.175
			Value added per employee	0.053	Quad: $y = 27995.20 - 12189.00x + 497.58x^2$	0.235
Output-based competencies	3.26	1.24	ROA	0.065	Inv: $y = 0.011 + 0.051/x$	0.083
			ROE	0.163	Inv: $y = -0.041 + 0.285/x$	0.012
			ROS	0.026	Inv: $y = -0.010 + 0.106/x$	0.196
			Value added per employee	0.052	Lin: $y = 5805.91 - 587.88x$	0.109

Although the input- and output-based competencies have been assessed as less significant than the other forms of competencies, the empirical evidence shows that the existing relationship between the competencies and corporate performance is somewhat different. Namely, regression models describing the relationship between the less valued competencies and performance are statistically significant and explain a relatively larger amount of ROE variance (13.7% for the input-based and 16.3% for the output-based competencies). However, in both cases, the best (and the only significant) regression models are non-linear and inverse, which induces another difficulty. Namely, the regression function coefficients show that the relationship is of a negative nature, i.e. that the return on equity is negatively related to the level of the analyzed competencies. This is, obviously, incompatible both with the theoretical presumptions and our expectations, based on the assumption that the development of individual competencies will lead to improved financial performance, i.e. a significant competitive advantage (Lado, Boyd, Wright, 1992, pp. 81-88; Lado, Wilson, 1994, pp. 703-708).

As already presented in the theoretical part of our analysis, a competence-based hypothesis on the nature of competitive advantage has a special sub-hypothesis, based on the theory of core competencies. During the course of the empirical research, we attempted to identify the groups of core competencies that represent the source of the competitive advantage for the large Croatian and Slovenian enterprises. As we collected the data by the open-form survey questions, the responses were then grouped into the logical clusters. We found that the analyzed enterprises possess four groups of core competencies, which can be expressed in terms of market power, human resources (organizational culture), technology, and product (service) quality (see Table 6.3.9).

Table 6.3.9: Core competency clusters in large Croatian and Slovenian enterprises

CORE COMPETENCY CLUSTERS	Number of enterprises	% of enterprises
1. Market power	16	51.6
2. Human resources (organizational culture)	10	32.2
3. Technology	10	32.2
4. Product (service) quality	9	29.0

Most of the respondents (51.6%) single out some form of the market power (abundant financial resources, bargaining power toward its customers and/or suppliers, ability to set low/competitive prices, reputation, location, etc.) as its core competence. Identical and rather significant amounts (32.3%) of respondents perceive either their employees (which especially applies to the organizational culture/climate and the professionalism of employees and managers), or technology as the core competence³⁰. Product (service) quality has been identified as a core competence by 29% of the respondents.

6.3.5. Sources of competitive advantage according to the Knowledge-Based hypothesis

Regarding the knowledge-based hypothesis of competitive advantage, we identified the perceived strategic significance of different forms of knowledge (i.e. individual components of the intellectual capital). On average, respondents valued human capital ($M = 3.97$), followed by organizational culture ($M =$

³⁰ Authors of the core competence theory, Hamel and Prahalad (1990), have especially emphasized the technological and production expertise. Many authors (Hamilton, Eskin, Michaels, 1998, p. 407; Stalk, Evans, Shulman, 1992, p. 66) believe that the emphasizing of technological capabilities neglects the other segments of the value chain, served by the other numerous capabilities, which might be also classified as “core competencies”.

3.55), knowledge management competence ($M = 3.52$) and other forms of structural capital ($M = 3.45$). Such results were expected, although they might be, to a certain extent, different from the theoretical suggestions (Pučko, 1998, p. 559) regarding the fact that the surveyed managers perceive human capital as more significant for the competitive advantage than structural capital. Assessments of all the intellectual capital components are also characterized by the large disagreement of the respondents, as demonstrated by the correspondingly high values of standard deviations (exceeding 1.0) in Table 6.3.10.

Of all the relationships between the different forms of knowledge and the enterprise performance, the most evident one is related to the human capital. As demonstrated by Table 6.3.10, for each of the performance indicators (ROA, ROE, ROS and VA/employee, serving as the dependent variables of the model), a statistically significant model may be formulated. The explanation of positive linear relationships between the value added per employee (return on sales) and the human capital is straightforward. However, less logical and explicable are the relationships between ROA (ROS) and human capital, expressed by the cubic regression models. They attain the minimal values at approximately one-third of the independent variable scale, which means that the performance decreases with the development of human capital up to the described point, which is followed by the improvement of performance with further human capital development. Such circumstances are neither logical, nor expected.

Table 6.3.10: Relationship between different forms of knowledge and enterprise performance

Independent variables (x)	M	σ	Dependent variable (y)	R ²	Model	α (Sign.)
Human capital	3.97	1.40	ROA	0.315	Cub: $y = 0.402 - 0.523x + 0.178x^2 - 0.018x^3$	0.008
			ROE	0.207	Cub: $y = 1.267 - 1.443x + 0.463x^2 - 0.044x^3$	0.047
			ROS	0.128	Lin: $y = -0.153 + 0.047x$	0.024
			Value added per employee	0.348	Lin: $y = -1316.30 + 1319.69x$	0.000
Structural capital	3.45	1.21	ROA	0.021	Lin: $y = 0.009 + 0.007x$	0.218
			ROE	0.017	Lin: $y = 0.146 - 0.021x$	0.244
			ROS	0.068	Lin: $y = -0.104 + 0.040x$	0.078
			Value added per employee	0.276	Lin: $y = -791.72 + 1365.04x$	0.001
Knowledge	3.23	0.96	ROA	0.040	Lin: $y = -0.005 + 0.012x$	0.141

arising from strategic partnerships			ROE	0.001	Log: $y = 0.088 - 0.013 \text{ Log}(x)$	0.450
			ROS	0.056	Lin: $y = -0.114 + 0.045x$	0.100
			Value added per employee	0.084	Inv: $y = 5968.64 - 5871.70/x$	0.058
Patents, licenses, models, etc.	2.71	1.47	ROA	0.070	Cub: $y = -0.008 + 0.086x - 0.039x^2 + 0.005x^3$	0.286
			ROE	0.044	Lin: $y = 0.149 - 0.030x$	0.129
			ROS	0.021	Lin: $y = 0.082 - 0.018x$	0.216
			Value added per employee	0.054	Lin: $y = 2565.83 + 499.70x$	0.103
ISO standards	2.77	1.43	ROA	0.033	Lin: $y = 0.012 + 0.007x$	0.165
			ROE	0.016	Inv: $y = 0.035 + 0.076/x$	0.247
			ROS	0.160	Quad: $y = 0.119 - 0.141x + 0.031x^2$	0.044
			Value added per employee	0.080	Log: $y = 2680.02 + 1444.69 \text{ Log}(x)$	0.061
Culture	3.55	1.03	ROA	0.153	Cub: $y = 0.332 - 0.327x + 0.100x^2 - 0.009x^3$	0.104
			ROE	0.301	Inv: $y = -0.143 + 0.672/x$	0.001
			ROS	0.082	Lin: $y = -0.147 + 0.051x$	0.060
			Value added per employee	0.253	Lin: $y = -1527.60 + 1535.20x$	0.002
Knowledge management competence	3.52	1.23	ROA	0.119	Cub: $y = 0.311 - 0.295x + 0.090x^2 - 0.008x^3$	0.162
			ROE	0.235	Inv: $y = -0.115 + 0.562/x$	0.003
			ROS	0.078	Lin: $y = -0.113 + 0.041x$	0.065
			Value added per employee	0.111	Lin: $y = 945.32 + 845.97x$	0.034

Among other findings, a noteworthy one is the large determination coefficient in the relationship between the human capital assessment and the value added per employee (explaining as much as 34.8% of variance in value added). Likewise, the obtained model explaining the relationship between the structural capital assessment and the value added per employee is also relatively powerful ($R^2 = 0.276$), being also statistically significant ($\alpha = 0.001$) and similar to the linear regression (see Table 6.3.10).

The relationship between the company performance and knowledge depends primarily on two forms of knowledge, i.e. organizational culture and knowledge management competence. Both of them are positively correlated with the value added per employee, with the linear regression model describing such a relationship with a high statistical significance (α equals 0.002 and 0.034, respectively, for the described knowledge forms). Furthermore, one of these relationships is characterized by a relatively high determination coefficient ($R^2 = 0.253$), which demonstrates that as much as 25.3% of the

variance in the value added per employee can be explained by the variance of the organizational culture assessment. It is somewhat more difficult to explain the relationship between the return on equity and culture (i.e. the knowledge management competence). Namely, coefficients of the statistically significant regression models for both independent variables (being the inverse models, with the α of 0.002 and 0.03, respectively) demonstrate that the empirical relationship is of a negative nature, which defies both the expectations and theoretical presumptions. During the course of the empirical research, special attention has been paid to the knowledge management practice, with the emphasis on determining the most important tasks of the knowledge management and the managerial position to which responsibility for the management of knowledge has been assigned. Taking into account that both questions are set in an "open-form", the answers to the survey have been transformed by grouping them into similar clusters.

Regarding the knowledge management tasks (see Table 6.3.11), as much as 12.9% of the surveyed enterprises do not have a formally designated knowledge management system and, therefore, have not stated any activities directed toward the management of knowledge. Another worrisome finding is related to development and education, being perceived as one of the most significant knowledge management tasks (as stated by 74.2% of the respondents). A little less than a half (45.2%) of the surveyed managers also include into their knowledge management practice the motivation of employees, while the important knowledge management activities, as identified by the literature, are practically not implemented at all.

Namely, the literature recommends the following activities to be performed within the knowledge management context: maintaining the existing knowledge capital (Marshall, Prusak, Shpilberg, 1996, pp. 95-97; Lank, 1997, p. 407), analyzing and planning the required knowledge (Pučko, 1998, p. 564), and encouraging the creation and recording of the new knowledge (Nonaka, Takeuchi, 1995, pp. 56-73; Rastogi, 2000, pp. 40-41). However, none of them are being performed, while the minority of the surveyed enterprises carries out some other "typical" knowledge management activities, such as the management of human resources, learning from the competition, encouragement of the group-based use of knowledge (Harrigan, Dalmia, 1991, p. 5; Fahey, Prusak, 1998, p. 268; Argote, Ingram, 2000, p. 150), transformation of human into structural capital (Lank, 1997, p. 408), etc.

Table 6.3.11: Knowledge management tasks

KNOWLEDGE MANAGEMENT TASKS	Number of enterprises	% of enterprises
1. Employee education and development	23	74.2
2. Motivation (managing careers, etc.)	14	45.2
3. Human resource tasks	3	9.7
4. Acquiring knowledge from competitors	2	6.5
5. Knowledge transfer and group-based use	2	6.5
6. Transformation of human into structural capital	2	6.5
7. Nothing (there is no knowledge management system)	4	12.9

In more than a third (32.3%) of the surveyed enterprises (see Table 6.3.12), either the top management, or the CEO himself, is responsible for the management of knowledge. The additional 29% of the enterprises state that the responsibility for knowledge management is assigned both to the top management and the human resource function. Taking both into account, it can be concluded that, in as much as 61.3% of the surveyed enterprises, knowledge management is directly linked to the top of the management hierarchy, as recommended by the literature (Pučko, 1998, p. 561; Earl, Scott, 1999, p. 30; Herschel, Nematti, 2000, p. 37; Čater, 2001, p. 150). In 16.1% of the enterprises, the human resource function is responsible for the management of knowledge, while the same responsibility is assigned to the other functions in 9.7% of the cases. None of the respondents have a professional (i.e. knowledge manager, or a CKO) whose primary responsibility is the management of knowledge, as suggested by some authors (Powell, 1997, pp. 45-46). The already mentioned 12.9% of the respondents do not manage knowledge at all and, therefore, have not assigned responsibility for such tasks.

Table 6.3.12: Responsibility for knowledge management

RESPONSIBILITY FOR THE MANAGEMENT OF KNOWLEDGE	Number of enterprises	% of enterprises
1. Top management or the CEO	10	32.3
2. Top management and the human resource manager	9	29.0
3. Human resource function (manager)	5	16.1
4. Some other function	3	9.7
5. No one (there is no knowledge management system)	4	12.9

6.3.6. Some concluding remarks about the sources of the competitive advantage

Based on both the theoretical findings and the results of the empirical research, the most important sources of the competitive advantage of large Croatian and Slovenian enterprises have been identified and assessed in the paper. In this section, we offer a brief overview of our main findings:

1. The respondents were quite optimistic regarding the competitive position of their enterprises, although the reported financial performance does not support such a conclusion. The qualities of inputs, outputs and processes, as well as flexibility were perceived as the most important sources of enterprises' competitiveness.
2. With regard to the IO hypothesis of competitive advantage, we found out that the differentiation is perceived as the most important source of competitive advantage. The quality of products (services) and partnerships, as well as organizational learning are believed to be the most important drivers of the differentiation advantage.
3. The analysis of the resource-based hypothesis demonstrated the positive relationship between the resource value and SBU performance. However, we were not able to empirically confirm the contribution of human and organizational resources to the SBUs' competitive advantage. Also, no significant correlation between the generally desired characteristics of SBUs' resources and the financial performance of these SBUs was found.
4. As far as the competence-based hypothesis is concerned, the only statistical models, which could be identified as significant enough, do not confirm the accepted theoretical principle that the development of individual competencies will lead to improved financial performance. However, in the context of large enterprises in transition, we identified four groups of core competencies, namely: market power, human resources, technology, and product/service quality.
5. Finally, regarding the knowledge-based hypothesis, again some unexpected results were obtained. Of all the components of intellectual capital, human capital has been perceived as more significant for the competitive advantage than structural capital. Also, not many relationships among the different types of knowledge and enterprises' performance were identified as significant. Regretfully, a majority of the surveyed enterprises does not have a satisfactory knowledge management system.

Based on all of the above conclusions, one can say that some of our empirical results confirm the theoretical findings while even more do not. One possible explanation can be that the unexpected results can be ascribed to the

specificities of the transitional economies. Nevertheless, we have to be objective and acknowledge that many unexpected results probably also arise from possible weaknesses of the research methodology. One such weakness might be a relatively small sample of firms, whereas the second one might lie in the managers' relatively subjective assessments (answers); above all, as to the importance of different sources of competitive advantage. Despite all that, we still believe the paper has some potential to offer new insights to managers in transitional economies, as well as to scholars and researchers in the field of strategic management.

6.4. Business strategies

The 31 enterprises included in the sample are mostly moderately diversified. According to the level of diversification, there is less than one-fifth of the enterprises that might be described as single business firms (See Table 6.4.1). The sample includes not more than 6.5% of the conglomerates and 16.1% of the enterprises that develop related businesses. The biggest share of enterprises in our sample represents business firms with a dominant business orientation (58.1%). In spite of the small sample of enterprises, there is a bigger number of strategic business units represented that offers a solid ground for deriving a number of findings on the characteristics of business strategies being implemented by Croatian and Slovenian enterprises.

Table 6.4.1: Distribution of the enterprises included in the sample according to the degree of diversification

DEGREE OF DIVERSIFICATION	Number of enterprises	Share (%)	Cumulative Share (%)
Single business	6	19.4	19.4
Dominant business	18	58.1	77.4
Related business	5	16.1	93.5
Unrelated business	2	6.5	100.0
Total	31	100.0	

As a result of their diversification, large Croatian and Slovenian enterprises most frequently have a holding organizational structure. Only about one-fifth of the enterprises have neither internal business units nor subsidiaries. Of the rest, 16.1% of the enterprises have internal units, and 64.5% have one or more subsidiaries. Among these, there are 13 enterprises that also have subsidiaries abroad. This means that 61.9% of the large Croatian and Slovenian enterprises implement some higher form of internationalization.

6.4.1. What types of portfolio business strategies are implemented in large Croatian and Slovenian enterprises?

The majority of strategic business units of large Croatian and Slovenian enterprises implement investing as a portfolio business strategy (McKiernan, 12). There are 83.9% of such strategic business units. A total of 9.7% of the units implement harvesting and not more than 6.5% implement the strategy of liquidation. Such a structure of portfolio strategies implies that the majority of enterprises do not have their portfolio of units in strategic (developmental) equilibrium. Therefore, their economic and financial positions cannot be very stable. However, before we finalize this conclusion, we should consider that the top managers might have been exaggerating in their assessments regarding what an investing strategy actually is. According to the portfolio model (Buble et al., 197), a strategic business unit (area) implements the investing strategy when it has a high market share and when the market has a high growth rate. Considering the sales growth rates of the enterprises included in the sample, it is difficult to accept the assessment that the majority of the strategic business areas (units) belong to the industries achieving high growth rates. Therefore, it seems more realistic to conclude that the shares of harvesting and of strategies that mean fighting for survival (i.e. strategies in the "dog" cell in a portfolio matrix) are higher than they were empirically identified.

Top managers were also asked to assess how balanced the portfolios of their enterprises are. According to their assessments, there are 54.8% of the enterprises that have their product portfolio mostly in equilibrium (See Table 6.4.2). Slightly more than one-fifth (22.6%) of the enterprises have their portfolio in equilibrium to a minor degree, while 9.7% of the enterprises believe that their product portfolio is completely balanced. Only two enterprises in the sample were found to have completely unbalanced portfolios, implying that they are confronted with severe survival issues.

Table 6.4.2: Structure of the enterprises according to the balance of their product portfolio

DEGREE OF THE PORTFOLIO'S EQUILIBRIUM	Number of enterprises	Share (%)	Cumulative (%)
Unbalanced	2	6.9	6.9
Minimally balanced	7	24.1	31.0
Mainly balanced	17	58.6	89.7
Completely balanced	3	10.3	100.0
Total	29	100.0	

6.4.2. What types of the product life cycle business strategies are implemented in large Croatian and Slovenian enterprises?

The overall strategic position of the enterprises included in our research sample, assessed from the standpoint of how well their strategic groups of products or services are dispersed along different phases on the product life cycle curve (McKiernan, 122), seems to be very good. A total of 51.6% of the enterprises have their strategic business areas (units) in the growth phase (See Figure 6.4.1). More than two-thirds of the enterprises have their strategic business areas (units) in the phases of innovation, introduction or growth, implying that they have rather good developmental opportunities. Less than one-third of the enterprises (29%) have their business units in the maturity phase on the product life cycle curve. Also, there is no more than one business firm that has its strategic product groups in the decline phase on the product life cycle curve.

Let us analyze first the characteristics of implemented business strategies of units (areas) with strategic product (services) groups in the growth phase on the product life cycle. These strategic business units most frequently try to achieve growth by entering new markets (62.1% of the cases) and by using new distribution channels (51.7% of the cases). A total of 41.4% of these units tries to achieve growth by investing aggressively in promotion. More than one-third of these units (34.5%) also increases its production capacities, and similarly, 37.9% of them applies self-financing as a financial source.

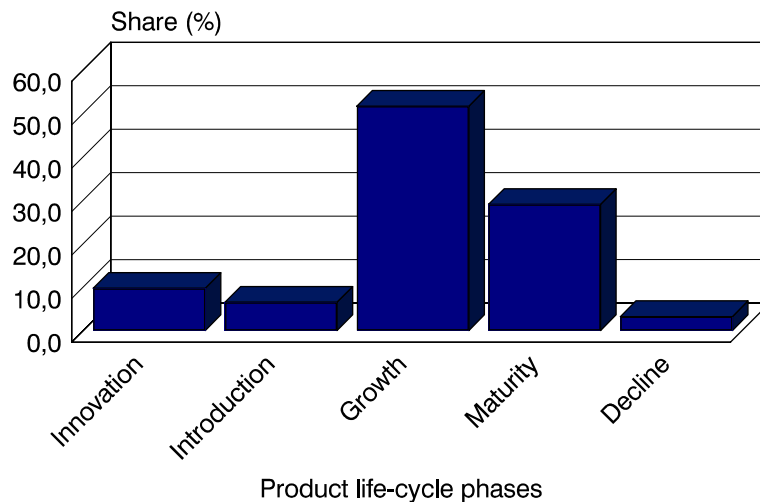


Figure 6.4.1: Structure of the implemented product life-cycle business strategies

On the other hand, we found that the majority of these strategic business units do not implement any explicit generic Porter's type of business strategy (Brown and Mc Donald, 55) in order to achieve a competitive advantage. There are only 17.2% of the strategic business units in the growth phase on the product life cycle curve, which seem to support their growth by implementing some explicit type of Porter's generic business strategy simultaneously. Such strategic behaviour might not be very productive in the long run in terms of a good financial performance. Therefore, the enterprises should make corrections in their strategic behaviour.

There is a rather small share of strategic business units that supports the growth strategy with the policy of lowering sales prices (only 13.8% of the units). This finding implies that most of the enterprises try to compete (more implicitly than explicitly) on the non-price basis.

Strategic behaviour of the strategic business units, which have their strategic product (services) groups in the maturity phase of the product life cycle, is based mostly on modifying their products or services. A total of 54.8% of the firms apply this kind of strategy. More than 40% of the firms (41.9%) try to achieve a competitive advantage by adapting their marketing mix instruments. More than one-third of the strategic business units (35.5%) co-ordinate their strategic behaviour with main competitors, implying that they are in the oligopoly market and that somebody else is a market leader. We have not identified many more elements of firms' strategic behaviour in mature industries, which would be followed by several market players. Market modification, vertical integration, and building obstacles for new entrants in the industry are kinds of strategic behaviour in mature industries (5) that have not been identified frequently in our research sample.

6.4.3. Which of Porter's generic business strategies are implemented in large Croatian and Slovenian enterprises?

In this subchapter, we will apply Porter's definition of the generic business strategies (Porter, 34-46). Research findings confirm some of our previous research insights (Pučko & Rejc, 1999, 106-107); namely that enterprises (Slovenian) mostly try to implement a product (service) differentiation type of generic business strategies. There are 40.4% of such strategic business units in our sample (See Table 6.4.3). The focus type of generic business strategy is

applied by one-quarter of the firms, while the cost leadership strategy is implemented in not more than 7.7% of the firms.

More than one quarter of the strategic business units has no well-defined (explicit) generic business strategy. This finding implies that their strategic success might be seriously threatened because new competitors which might enter their markets and which might compete by implementing an explicit kind of generic business strategy might rather quickly destroy their competitive position.

Table 6.4.3: Structure of the strategic business units according to the implemented generic business strategy

STRATEGY TYPE	Number of strategic business units	Share (%)	Cumulative (%)
Cost leadership	4	7.7	7.7
Product differentiation	21	40.4	48.1
Focus	13	25.0	73.1
Stuck in the middle	14	26.9	100.0
Total	52	100.0	

The essence of every business strategy should be to define a way of how a strategic business unit will achieve a competitive advantage (Lynch, 564). Let us get insights into the main sources of competitive advantage, which our strategic business units try to exploit by implementing their business strategies. Croatian and Slovenian top managers assessed that their enterprises' main sources of competitive advantage might be product (service) quality and business flexibility. Other potential sources are present much less often. They appear in specific supply features, specific characteristics of a firm's distribution and logistics, effective cost control, brands, firm's reputation, well-established relationships with business partners, economy of scale, quality of in-firm educational and training systems, etc.

When we grouped potential sources of competitive advantage in seven distinctive groups, i.e. quality, flexibility, organization, cost, economic power, learning, and others, we found that the most frequently perceived sources of strategic business units' competitive advantage were quality and flexibility. Economic power, organizational learning, and organization and cost effectiveness followed (ranked in the mentioned order).

It was already stated that most of the firms implement product (service) differentiation as a generic business strategy. Let us look into the issue now to determine which are the main sources of this differentiation. Most firms build their competitive advantage on product (service) quality (14 altogether). In 11 firms, R&D and organizational learning are the most important sources of competitive advantage. The same number of managing directors considers established relationships with their business partners as an important source of their firms' competitive advantage. It was mentioned only in a few firms that location and organizational culture were important features of a firm's differentiation strategy.

Focus strategies (Porter, 1980), implemented by the sampled strategic business units, are based on a firm's flexibility (eight firms declared this factor as the most important), quality factors (six firms considered them as the most important) and factors of cost control (four firms declared these factors as the most important). These findings reveal that most firms actually implement a focus strategy on the basis of product (service) differentiation and not on the basis of cost effectiveness.

It was already stated (See Table 4.6.3) that only 7.7% of the strategic business units implement a cost leadership type of generic business strategy. Therefore, it is not important to analyze extensively factors determining the strategic success of this kind of generic strategy. Let us just state that the economy of scale, a good cost control system, efficient technology and work organization are mentioned by some of the firms as the most important sources for achieving success with a cost leadership strategy.

6.4.4. How many firms implement collaborative strategy ?

Three-quarters of the sampled strategic business units implement some type of collaborative strategy (Pučko & Rejc, 1999, 106?). This finding confirms that the majority of enterprises have developed long-term business relationships. There are many sub-kinds of collaborative strategies.

The most often sub-kind is the joint venture type of strategy (43.3% of firms). Ranked second is the long-term production co-operation strategy (36.6% of the units implement it). More than one-fifth of the firms (23.3%) implement long-term production co-operation by having sub-suppliers, and 13.3% of the firms by being sub-suppliers. A total of 23.3% of the firms implement franchising relationships, and the same share of firms carry out a strategy of developing strategic networks. The "lohnarbeit" strategy is also an important

type of collaborative strategy as 13.3% of the firms still practice it. Licensing has not been found in any enterprise.

Enterprises chose the collaborative strategy for different reasons. We grouped these motives into six groups: opening access to the market, opening access to inputs, lowering costs, exploiting synergies, increasing the financial performance directly, and others. The first and the third group of motives, i.e. access to the market (access to the market, entering market segments, lowering entering barriers, enlargement of markets, wider market coverage) and cost reduction (lowering costs, economy of scale, specialization) are most frequent. Less frequent are firms that try to exploit synergies (withdrawing capacity bottlenecks, unification of processes, joint marketing, exploiting complement factors, knowledge exchange, synergies in purchasing, expanding sales program), or possibilities to enhance their long-term performance directly (achieving a higher growth rate, upgrading performance efficiency and effectiveness, increasing value added). Other potential motives appear to be unimportant.

The Croatian enterprises were distinctive by stipulating risk reduction and enterprise growth provision as the main motives for choosing a collaborative strategy, but it should be kept in mind that the sample consists of only seven Croatian firms and that this distinction may not be representative.

6.4.5. What competitive position do firms achieve by implementing the chosen business strategies?

What competitive position is achieved of the sampled firms by implementing the stated business strategies? We plunged into this issue from two perspectives. Firstly, we tried to define the firms' competitive positions by asking their top managers to assess it. Secondly, we tried to derive an additional and more objective picture of the firms' competitive positions by checking their financial performance.

6.4.5.1. Top managers' assessments of the firms' competitive position

Top managers were asked to subjectively assess the competitive position of their strategic business units. The following scale was used in this assessment: with advantage (insignificant, minor, considerable, and major advantage) and without advantage (major, considerable, minor, and insignificant disadvantage). The results of the managerial judgments show that the sampled strategic

business units have in 85.5% of the cases some competitive advantage and in 12.7% of the cases a certain disadvantage (See Table 6.4.4).

Table 6.4.4: Structure of the strategic business units according to their competitive advantage

Group	Competitive level	Number of units	Share (%)	Cumulative (%)
Without advantage	Major	3	5.5	5.5
	Considerable	2	3.6	9.1
	Minor	2	3.6	12.7
	Insignificant	1	1.8	14.5
With advantage	Insignificant	10	18.2	32.7
	Minor	17	30.9	63.6
	Considerable	15	27.3	90.9
	Major	5	9.1	100.0
Total		55	100.0	

According to the top managers' assessment, most strategic business units included in the research have a minor competitive advantage (30.9%). A total of 27.3% of the firms possess a considerable competitive advantage, and less than one-tenth of the firms (9.1%) have a major competitive advantage. Also, two-thirds of the firms or strategic business units (67.3%) have at least a minor competitive advantage. These findings support the conclusion that the implementation of business strategies, as they have been mentioned above, produces positive results, which in turn determines the long-term acceptable firm performance.

On the other hand, there is less than one-third of the firms without competitive advantage. In our opinion, this might be related to the relatively similar share of firms (26.9%) that do not implement any explicit generic type of business strategy. Insights derived from some other research (Pučko & Rejc, 1999) throw additional light to the issue and allow us to draw the following hypothetical conclusions.

We believe that a considerable number of the sampled firms do not implement consistently the defined focus strategy (neither product differentiation nor cost effectiveness), which additionally diminishes their chances to achieve competitive advantage. The reader should be reminded that 3.2% of the firms implement the decline strategy because their strategic product (service) group is in the decline phase of the product life cycle curve. These

firms probably form a constituent part of the group of firms without any competitive advantage.

6.4.5.2. Assessment of the competitive position of the sampled firms based on the indicators of financial performance

Slightly more than one-fifth of the strategic business units (21.8%) included in the sample did not create any profit in the year 2000. This finding suggests that nearly four-fifths of the firms implement business strategies that create at least some profit. The achieved level of their financial performance differs, however. The majority of strategic business units have a rather low level of financial performance. Nearly 40% of them have a rate of return on capital (ROE) lower than 5%. Also, 16.7% of the firms achieved ROE between 5 and 10% (See Table 6.4.5). There is less than one-fifth of the strategic business units that created a ROE of more than 10% in the year 2000.

Considering the profit margin and return on assets (ROA), there is three quarters of the firms in the sample that did not achieve a performance level higher than 10% (See Table 6.4.5). Only two firms achieved a ROA and profit margin rate higher than 15%. These findings prove that the Croatian and Slovenian subsidiaries (strategic units) do not have any considerable competitive advantages that would lead to an extraordinary financial performance. One might conclude that either the firms do not have well-formulated business strategies, or (and) that the managing directors do not implement the established business strategies very successfully.

Table 6.4.5: Structure of the strategic business units according to the achieved level of financial performance in the year 2000

Perfor- -mance level	ROE		ROA		Profit margin	
	<i>Number of firms</i>	<i>%</i>	<i>Number of firms</i>	<i>%</i>	<i>Number of firms</i>	<i>%</i>
Negative	11	20.3	12	21.8	13	23.2
0 to 5%	21	38.9	33	60.0	34	60.7
5 to 10%	9	16.7	8	14.6	7	12.5
10 to 15%	7	13.0	-	-	-	-
15 to 20%	-	-	1	1.8	-	-

20% and more	6	11.1	1	1.8	2	3.6
Total	54	100.0	55	100.0	56	100.0

6.4.6. Relationships between the types of implemented business strategies and the level of financial performance

A great majority of the sampled strategic business units (subsidiaries) achieved relatively similar levels of financial performance. Therefore, we did not expect firm relationships between the financial performance level, expressed as ROE, ROA, and profit margin rate (value added per employee was added, too)³¹, and a particular type of business strategy that the firm implements. The statistical testing of the stated relationships supports that there is little evidence of any significant relationships. Still, we were able to establish the following three relationships:

1. The investing strategy is related to a significantly higher level of financial performance, expressed by ROA, than the harvesting strategy (significant at $p = 0.024$);
2. The investing strategy is related to a significantly higher level of financial performance, expressed by the profit margin rate, than the harvesting strategy (significant at $p = 0.008$);
3. Finally, the collaboration strategy is related to a significantly lower level of financial performance, expressed by ROE, than the strategy of being independent (significant at $p = 0.087$).

Our finding that the investing strategy leads to a better financial performance expressed either by the ROA or profit margin rate seems to be in contradiction with PIMS' finding (Buzzel & Gale, 140). The explanation for the contradictory finding might be linked to our warnings, given in subchapter 6.4.2, that our respondents did not classify their portfolio business strategies very precisely, which resulted in classifying the actual harvesting strategies as investing strategies. Regardless of this possible inconsistency in our empirical data, our findings might be important because they suggest that business firms that invest more achieve better levels of financial performance. Firms that concentrate heavily on harvesting profits (which should be appropriate in mature industries only) do not achieve comparable levels of financial performance. Here, we feel obliged to add that we have not been able to find

³¹ These indicators were computed as three-year-averages.

any positive relationship between the investing strategy and the level of a firm's financial performance, expressed by ROE.

Our finding relating to the negative relationship between the collaborative strategy and the level of a firm's financial performance suggests that the established long-term business relationships do not contribute to the above - average level of a firm's financial performance. This can be explained by looking back to subchapter 6.4.4. There, we revealed that the implemented collaborative strategies in most of the cases actually mean joint ventures or long-term production co-operation strategies. These strategies are (still?) not among the best. The underlying causes have not been studied. One certainly should consider both the impact of the environmental instability on the effectiveness of a collaborative strategy, as well as the overall situation of the firm that pursues a collaborative strategy. We believe that many firms facing a crisis are trying to survive by establishing and implementing some type of long-term co-operation, regardless of the quality of the relationships into which they enter.

6.4.7. Differences between Business Strategies of Croatian and Slovenian enterprises

Our research sample consists of seven Croatian and 24 Slovenian enterprises. Such a biased sample structure certainly does not enable us to find the differences between the business strategies of Croatian and Slovenian enterprises to be representative and valid. Therefore, one should take the following findings only as a slight indication of the possible differences that might actually exist.

The Slovenian sample of subsidiaries or strategic business units (areas) is quite different from the Croatian one regarding the degree of firms' diversification. The Slovenian population of enterprises has no more than 12.5% of enterprises that are not diversified (single business enterprises), while the Croatian population of enterprises consists up to 42.9% of such enterprises. In the Slovenian sample, enterprises with a dominant business prevail (70.8% of cases), while in the Croatian sample, there is only one business firm with such a characteristic (14.3% of cases). Might this finding suggest that Slovenian large enterprises are much more diversified than the Croatian ones?

We did not perceive any important difference between both groups of enterprises regarding the quality of their product (service) portfolios. However, one should notice that the Croatian enterprises are much less frequently oriented

toward implementing investing strategies, but (in the relative sense) prefer harvesting and liquidating strategies (they strive for their survival) (See Table 6.4.6).

Table 6.4.6: Structure of Croatian and Slovenian firms according to the implemented type of business strategies linked to the product portfolio model

Type of business strategy	Share of Croatian firms (%)	Share of Slovenian firms (%)
Investing	57.2	91.7
Harvesting	28.5	4.2
Liquidating	14.3	4.2
Total	100.0	100.0

We were also not able to discover important differences in types of product life cycle business strategies between the Croatian and Slovenian business firms. The shares of enterprises that implement innovating strategy, strategy of introducing new products or services, growth strategies, defensive strategies in the mature phase on the life cycle curve, and decline strategies are relatively similar in both countries.

Both populations of enterprises also do not differ importantly regarding Porter's generic strategies. The only difference in this regard is linked to the fact that the Croatian sample does not include any business firm that implements the cost leadership strategy and that even 40% of the firms do not implement any of the explicit types of generic business strategies. In the Slovenian sample, there are only 23.5% of such firms. The significantly larger share of Croatian firms without any explicit generic business strategies led us to predict an accordingly lower level of financial performance; however, we were not able to get any empirical support for this hypothesis.

The Croatian enterprises implement significantly less frequently collaborative strategies. There are only 57.1% of the Croatian firms that apply collaborative strategies, while in Slovenia, there are four-fifths of such firms. Still, we cannot firmly state that the reason for such strategic behaviour of the Croatian firms is related to our research finding from Chapter 2.4, saying that a negative relationship exists between implementing collaborative strategy and the firm's financial performance.

7. CONCLUSION

The research project on successful competitive strategies of large Croatian and Slovenian enterprises resulted in a number of important insights into the strategic behaviour of large enterprises from both countries. The research findings confirm many of the theoretical premises regarding the strategic behaviour of enterprises in a transition environment (Peng, 2000), but not all of them. It was confirmed that collaborative strategies, especially joint venture and strategic network development strategies, present an important strategic orientation. On the other hand, we did not find that the ("old") large enterprises would mostly implement some type of "minimalist" strategy (aiming on mere survival), but that the majority of enterprises implement the turnaround strategy in its last phase (i.e. phase of renewed growth).

Empirical findings also suggest that a major part of large enterprises already implement the strategy of developing higher forms of internationalization. Literature that deals with transition issues usually implies that only foreign firms would implement such a strategy.

7.1. Summary of the main research findings linked to corporate strategy

Research findings linked to the corporate strategies of the surveyed large Croatian and Slovenian enterprises are the following:

- The majority of enterprises implement one of the following growth strategies: market development, product-market diversification and conglomerate diversification (70% of enterprises), which means that these strategic orientations for achieving growth dominate. The biggest share of enterprises (43.3%) is trying to achieve growth by implementing just external growth strategies, 30% of the enterprises is implementing both groups of growth strategies, i.e. internal as well as external growth strategies. As a result of these findings, it comes as no surprise that the strategy of take-over is the most frequently implemented strategy for achieving enterprise growth in the transition into a new millennium. Such a dominant strategic orientation of enterprises indicates that the processes of capital concentration are intensively going on in the economy.
- Enterprises are also very active implementing strategic alliances, with the dominant orientation on joint ventures.
- Main motives for choosing and implementing the dominant strategic orientations are in the increase or at least maintenance of an enterprise's market shares and in the reduction of relative costs. Enterprises

mainly do not follow the motives of developing their capabilities while formulating their corporate strategies. Such behaviour of enterprises might be perceived as a bigger weakness.

- Enterprises' internationalization is an important strategy implemented by nine-tenths of business firms. Enterprises also gradually implement more and more higher forms of internationalization. Greenfield investments, developing international strategic alliances and long-term production co-operation are the dominant kinds of these higher forms of business firms' internationalization. This finding supports the conclusion that enterprises have already achieved competitive positions that do not require anymore implementation of reactive strategies. Survival issues are no longer the main issues of enterprises. Many large Slovenian and Croatian enterprises are already entering into the third internationalization phase, which means more demanding investment development regarding internationalization forms.

7.2. Summary of the research findings linked to the sources of competitive advantage

Main empirical findings linked to the large Croatian and Slovenian enterprises' sources of competitive advantage are the following:

- The top managers' assessments of their strategic business units' level of competitive advantage indicate a rather "optimistic" picture. According to the stated assessments in the majority of the cases, their units should have a rather solid competitive advantage. There are differences between them of course. The statistical relationship between the units' levels of competitive advantage and their long-term financial performance was tested, but it did not get needed statistical support. Taking into account somehow the bigger risk (as we are normally used to taking), this positive relationship might be present.
- Top managers consider that their strategic business units have the sources of competitive advantage mostly on a quality level (in the broad sense of the term)(29.8% of the respondents) and in flexibility (28.1% of the respondents). Other sources of competitive advantage are important for far less enterprises.
- As sources of competitive advantage, enterprises try to exploit much more frequently the product or service differentiation rather than cost effectiveness. They attempt to create their product differentiation by developing higher product or service quality, by developing relationships with partners, by learning, by using an advantageous location, and by developing a proper climate in their organizations.

- ❑ Human and organizational resources are much more important for establishing enterprises' competitive advantage than physical and financial ones, according to the top managers' assessments. The statistical test did not give support to the hypothesis that a relationship exists between the firms' human and organizational resources and the enterprise's financial performance.
- ❑ Top managers assessed that the most important capabilities of enterprises for creating a competitive advantage are managerial capabilities and those linked to an enterprise's processes. Much less weight was assigned to an enterprise's inputs and outputs as sources of competitive advantage. A statistical test did not support the hypothesis that a positive relationship exists between managerial capabilities and firms' financial performance. The same result is valid for the testing of the relationship between the enterprises' capabilities, linked to business processes, and firms' financial performance.
- ❑ Four groups of core competencies have been perceived in large Croatian and Slovenian enterprises. They consist of an enterprise's economic power, employees or developed organizational culture, technology and quality of processes and products. It is clear that one cannot find factors like employees or an economic power in theoretical explanations of the core competence phenomenon. Therefore, we are inclined to reduce our findings on saying that the surveyed enterprises have core competencies in their technology and (core) products and processes.
- ❑ Top managers did not assign a very high importance to individual kinds of knowledge for creating the competitive advantage of their enterprises. They considered these factors as a slightly higher significance than average. On the other hand, the regression analysis of the relationship between enterprises' indicators of financial performance and the assessments of the importance of human capital in enterprises discovered that a statistical significant relationship exists. The following statistical significant relationships were identified: first, the relationship between the enterprises' financial performance and the assessments of the importance of organizational culture; and second, the relationship between enterprises' financial performance and the total understanding of the knowledge management concept.
- ❑ The knowledge management paradigm is not very well known in the enterprises included in our research sample. Senior managers essentially perceive it too narrowly. On the other hand, a good fact is that there are nearly two-thirds of the enterprises that already put the responsibility for knowledge management in the hands of the managing board and human resource department.

7.3. Summary of the main research findings linked to business strategies

The most important findings upon the business strategies of large Croatian and Slovenian enterprises are the following:

- ❑ The most frequently implemented types of business strategies are:
 - Investing strategy (83.9% of firms);
 - Growth strategy (51.6% of firms);
 - Product (service) differentiation strategy (40.4% of firms);
 - Focus strategy (25% of firms), and
 - Collaborative strategy (74.2% of firms) with joint venture strategy as the dominant type.
- ❑ The majority of enterprises do not have their product portfolios in a strategic equilibrium. This is mainly related to the predominant implementation of growth and investing strategies. As a consequence, enterprises experience a certain degree of developmental and financial instability. In spite of the stated fact, there are not many enterprises with completely unbalanced portfolios. The share of enterprises whose very existence would be endangered is, therefore, small.
- ❑ Enterprises mainly disregard the formulation and implementation of Porter's generic types of business strategies. This might also imply that they disregard the issue of building their competitive advantage. No more than one-fifth of all sampled business firms, which have their strategic groups of products (services) in the growth phase of the product life cycle, implement an explicit generic business strategy. The majority of firms might, therefore, become very vulnerable if new competitors implementing explicit generic business strategies appear.
- ❑ Top managers assess that a very high share of their strategic business units (85.5%) has some type of competitive advantage. On the other side, they believe that only slightly more than one-third (36.4%) of their units have a considerable or major competitive advantage.
- ❑ According to the financial performance measures, slightly more than one-fifth of the studied subsidiaries and strategic business units achieved no profit in the year 2000. On the other hand, there was less than one-fifth of the firms that achieved a higher ROE than 10% in the year 2000. These insights do not suggest, however, that the latter firms' implemented business strategies were outstandingly successful.
- ❑ There is evidence that the investing strategies contribute to a firm's better financial performance, while the harvesting strategies diminish it. This is one of our empirical findings that might be treated as illogical and

unexpected. The similar characteristics could be assigned to our finding that collaborative strategies are negatively related to the firms' financial performance.

- Finally, the most important differences in strategic behaviour between the Croatian and Slovenian strategic business units are as follows:
 - Croatian business units do not implement investing strategies as frequently as do the Slovenian ones;
 - A significantly larger share of the Croatian business units has no explicitly defined and implemented generic business strategy;
 - A significantly smaller share of Croatian units applies collaborative strategies.

These last couple of findings are "very risky", however, because they are based on a very small sample of Croatian strategic business units (seven altogether). Therefore, they should be considered as nothing more than slightly indicative.

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USPJEŠNE KONKURENTSKE STRATEGIJE VELIKIH HRVATSKIH I SLOVENSКИH PODUZEĆA

Sažetak

U ovom izvješću o izvršenom istraživanju, autori identificiraju i analiziraju uspješne uzorke strateškog ponašanja velikih hrvatskih i slovenskih poduzeća, kao i njihove sličnosti, te razlike. Istraživanje je obuhvatilo razine korporacijske i poslovne strategije (tj. strategije diverzificiranog poduzeća i njegovih poslovnih jedinica/područja), kao i analizu strateških performansi i izvora konkurentske prednosti. Istraživanje se sastoji od dva dijela: teorijskog razmatranja, te empirijske analize primarnih podataka prikupljenih tijekom istraživanja.

Rezultati istraživanja potvrđuju mnoge, ali ne i sve teorijske pretpostavke vezane uz strateško ponašanje poduzeća u tranzicijskom okruženju. Tako je potvrđeno da kolaborativne strategije, posebice zajednička ulaganja i strateško unapređivanje predstavljaju značajnu stratešku orijentaciju. Glavni motivi za izbor i implementaciju dominantnih strategija su povećanje (ili barem održanje) tržišnog udjela, te smanjenje relativnih troškova. S druge strane, autori nisu potvrdili tezu da ("stara") velika poduzeća uglavnom implementiraju neku vrstu "minimalističke" strategije (orijentiranu na preživljavanje). Nasuprot ovoj tezi, većina predmetnih poduzeća implementira posljednju fazu strategije preokreta, tj. nalaze se u fazi obnovljenog rasta. Empirijski rezultati također sugeriraju da prevladavajući udio velikih poduzeća koristi napredne oblike strategije internacionalizacije, dok literatura s područja tranzicije obično zaključuje da bi takvu strategiju trebala primijenjivati samo strana poduzeća.

S obzirom na snagu i izvore konkurentske prednosti, anketirani top manageri vrlo optimistično ocjenjuju konkurentsku prednost svojih strateških poslovnih jedinica (odnosno poduzeća). Naime, iako je testirana statistička povezanost između percipirane razine konkurentske prednosti i dugoročnih financijskih performansi strateških poslovnih jedinica, nije ustanovljena signifikantna statistička veza. Kao izvor konkurentske prednosti, anketirana poduzeća mnogo češće koriste diferencijaciju negoli troškovnu učinkovitost. Za postizanje diferencijacije pritom koriste visoku razinu kvalitete proizvoda (usluge), razvoj odnosa s partnerima, učenje, korištenje povoljne lokacije, te razvoj organizacijske klime. Ljudski i organizacijski resursi se drže mnogo važnijima za postizanje konkurentske prednosti od fizičkih i financijskih resursa. Međutim, statističkim testiranjem nije potvrđena hipoteza o povezanosti ljudskih i organizacijskih resursa s financijskim performansama. Od strateških sposobnosti, manageri su izdvojili managerske sposobnosti i one vezane uz poslovne procese kao značajne za postizanje konkurentske prednosti. Statistički testovi nisu podržali hipotezu o pozitivnoj vezi između sposobnosti i financijskih performansi poduzeća.

Od poslovnih strategija, anketirana poduzeća najčešće implementiraju strategije investiranja, rasta, diferencijacije proizvoda (usluga) i kolaboracijske strategije, od kojih je dominantna strategija zajedničkog investiranja. S obzirom na dominaciju strategija rasta i investiranja, većina poduzeća nema uravnotežen portfolio proizvoda, što uzrokuje određenu razinu razvojne i financijske nestabilnosti. Također je utvrđeno da anketirana poduzeća uglavnom zanemaruju formulaciju i implementaciju Porterovih tipova generičkih strategija, što bi također moglo značiti da se zanemaruje i problem izgradnje konkurentske prednosti. Na takav zaključak ukazuje i to što top manageri predmetnih poduzeća procjenjuju da posjeduju konkurentsku prednost, za što ne postoje uvjerljivi empirijski dokazi.