Building competitive advantage in Croatian enterprises: An empirical study

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1. Introduction

In+ conditions of today's dynamic, heterogeneous and uncertain environment, competitive strategy is the key+ for the survival and prosperity of the enterprise. The choice of the strategy in such conditions should be preceded by a thorough analysis of the external environment of the enterprise, in order to establish possible dangers for the business in the future, as well as to discover potential opportunities which will enable the enterprise to be more competitive in the market. Therefore, companies should be particularly careful in the analysis of their competitors, suppliers and buyers, as they have the biggest influence on the business efficiency and the strategic position of an enterprise?

The overall environment in transition countries is more complex than in developed countries because the economic system is changeable and incomplete, hindering strategic action and the formulation of a firm's business policy. As all economies in transition, the Croatian economy has changed significantly in the last 15 years. These changes are the results of the process of privatization, introduction of market forces and of the democratization of the political system. The number of economically active companies rose 5.5 times during that period. The rise is due to a rapid increase of small companies, while the number of medium and large companies has decreased. On the other hand, the size of an average Croatian enterprise has dramatically decreased, 8.2 times measured in the number of employees. The distribution of companies between industries has also changed significantly. The number of manufacturing companies has decreased, and there has been an increase in the number of commercial companies and companies providing financial services.

For Croatia as a country undergoing all these numerous changes, building competitive advantage of companies is of major importance. How do Croatian companies formulate and implement their business strategies under+ those conditions? How do they set their objectives? Do they analyze the external environment? Do they thoroughly study their competitors' behavior? Are they aware of their strengths and weaknesses? What kind of strategies do they most often use? Do they try to form the organizational structure which supports the implementation of the chosen strategy? Empirical research on the sample of 63 Croatian companies was conducted in order to obtain answers to these and many other questions. Through the elaboration and the analysis of the results of this study we will try to prove the basic hypotheses of the paper, according to which "the competitive advantage of Croatian companies differ according to the size of the enterprise".

2. Methodology of the research

The study was conducted in the Republic of Croatia during the last three months of 2004. The survey was mailed to 350 Croatian companies including all the economy, i.e. manufacturing, non-manufacturing companies. The aim was to cover small, medium and large companies proportionally. The study questionnaire consisted of questions related to the basic information about the firm and 66 more questions in the areas of competitive structure, strategy, organizational structure, technology, compensation management and environmental management. Some questions were of a closed nature with opportunities to choose one or more responses while others were formulated as open questions with complete freedom of response.

The questionnaire was distributed to top managers of the companies present in the sample, which is logical in view of the nature of the study. Within 70 days, 63 questionnaires were received (questionnaire return rate: 18%), which is satisfactory for the purposes of our study. We stress that all the major Croatian companies returned their questionnaires.

It is interesting to note that the companies which returned questionnaires employed 52m667 people in 2004, had a total revenue of 2.984.036.147US$ and total profits of 215.894.912 US$. The questionnaires were received from 49 manufacturing and 14 non-manufacturing companies.

We consider the study sample representative considering that the companies questioned employ more than 4.1% of all the employees in Croatia and that the ratio between the revenues of manufacturing and non-manufacturing companies in the sample is nearly equal to that in the Croatian economy (42.5% non-manufacturing: 57.5% manufacturing).

For the purposes of this study we identified three groups of companies according to number of employees. The first group, which was labeled "small companies", consists of companies with between 15 and 100 employees; the second group, companies with between 100 and 500 employees, was labeled "medium companies"; and the third group, companies with more than 500 employees, was labeled "large companies". The division is of a conditional character and although there was no weighting by total revenue or type of activity, it seems to clearly show the present situation in the Croatian economy. Of the questionnaires returned, 15 were from companies with fewer than 100 employees (24.6%), 23 from companies with between 100 and 500 employees (37.7%) and 23 from companies employing more than 500 people (37.7%).

3. The results of the study

The strategic management process consists of five interrelated managerial tasks[1]: Defining a strategic vision, setting objectives, crafting a strategy, implementing and executing it and finally evaluating its performance. All the steps are iterative and should be revised if necessary. The first step is defining a vision and a mission. The main difference between a vision and a mission statement is the time frame. A vision is a direction to which the company is heading while the mission answers the question "Who we are and what we do". The mission statement almost always stresses what the company's present products and services are, what type of customers they serve and what technological and business capabilities the company has. Therefore, the mission statement not only sets forth a clear definition of "who we are" but also where the company is headed and what its business will come in years ahead combining the mission and vision into a single statement describing both where it is now and where it is going. In other words, a strategic mission and a vision cover essentially the same ground[2]. Sutherland defines the mission which is in accordance with the previously stated: A mission statement essentially describes, as succinctly as possible, the organization's business vision. This would include the fundamental values and the essential purpose of the organization[3].

Analysis of mission statements in Croatian companies resulted in the following: 77.78% of them have a mission statement. Since there are companies that did not state their mission statement we can hypothesize that this mission statement is not known to the rest of the company. Therefore, we did a regression analysis to see how the issue of having a mission statement influences competitive advantage. The results are as follows:

Table 1: Influence of the existence of the mission statement on competitive advantage

Regression Statistics	
Multiple R	0,25701
R Square	0,066054
Adjusted R Square	0,050744
Standard Error	0,842974
Observations	63

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	3,06576	3,06576	4,314292	0,042012
Residual	61	43,34694	0,710606		
Total	62	46,4127			

We can conclude the following: there is a positive correlation between having a clear mission statement and competitive advantage. Competitive advantage was measured on a five point Likert scale ranging from 1 (significantly behind competitors) to 5 (unreachable by

[1] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHill,*p. 6
[2] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHil,* p. 7
[3] Sutherland J., Canwell D., (2004), Key Concepts in Strategic Management, *Plgrave Mecmillian*, p.168

competitors)[4]. However, the correlation index is not high (0.25), from which we can conclude that having a clear mission statement is not enough to achieve significant competitive advantage.

The next step was to analyze if the mentioned mission statements can be considered mission statements as defined in Thompson and Strickland (2001)[5]:

Table 2: Analysis of mission statements

Mission	Total (%)	Small (%)	Medium (%)	Large (%)
Adequately defined mission statement	34.9	37.5	28	40.9
No mission statement	22.2	43.8	16	13.6
Inadequately defined mission	42.9	18.7	56	45.5
Total	**100**	**100**	**100**	**100**

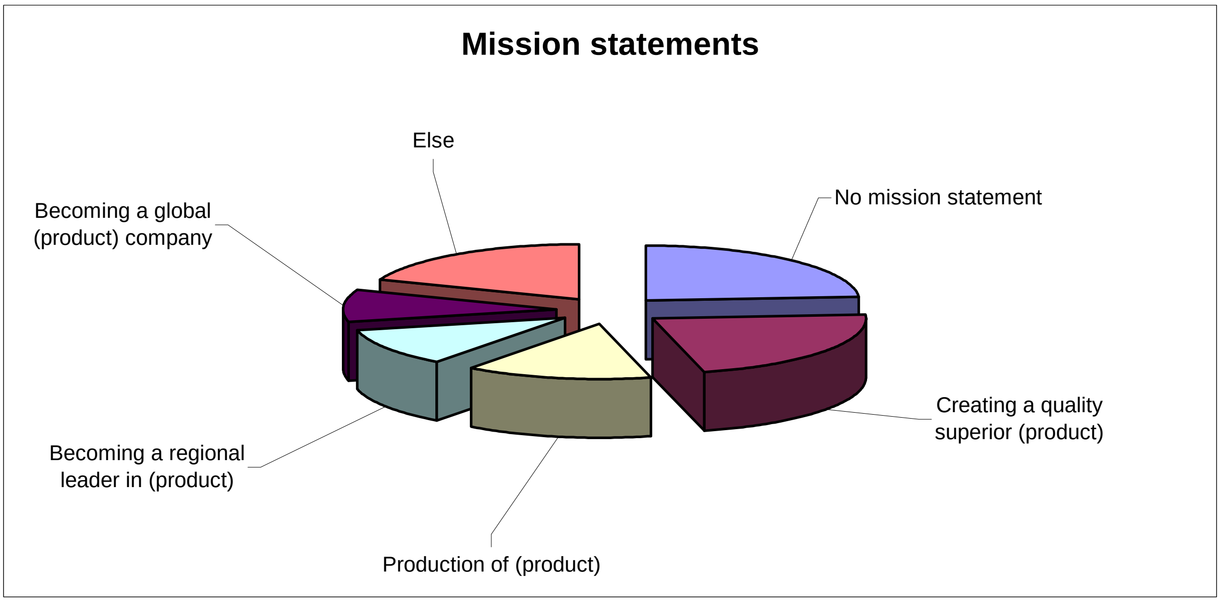

Figure 1. Mission statements

According to the previously defined mission statement, only 34.9% of the respondents have clear mission statements. 22.2% did not answer the question and 42.9% gave statements that cannot qualify as valid mission statements according to our definition above.

[4] In the sample only one company stated that its operations are unreachable by competitors
[5] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHill*,p. 34

Unfortunately, we observe that only 21 mission statements actually do fall into the category of mission statements (for example: satisfy customer needs for (product/service), forming partner relationships with customers, employing local citizens). The rest are merely goals.

The next step in the strategy process is setting objectives. Strategy is about success and a successful strategy is one that deploys the company's resources and capabilities within its industry environment in order to achieve its goals[6]. It means translating strategic mission and vision into specific performance targets. Best companies usually set bold targets so that stretch and disciplined effort is needed. If the targets are specific, company managers can track the organization's progress. Long-term objectives typically involve some or all of the following areas: profitability, return on investment, competitive position, technological leadership, productivity, employee relationship, public responsibility and employee development[7]. Two very distinct performance yardsticks are required: quantitative (financial) and qualitative (strategic) objectives. Both are essential[8]. As a rule of thumb, when there are trade offs between achieving long-term and short-term objectives, long-run objectives should take precedence. That is why in our questionnaire we asked for the companies' five year objectives. The results are as follows:

Table 3: Five year objectives

Five year objectives	*Total*
Qualitative objectives	61.90%
Qualitative and Quantitative	19.05%
No objectives	12.70%
Quantitative	3.17%
Unclear	3.17%
Total	100.00%

The majority of five-year objectives (62%) give qualitative targets like entering the south eastern European (regional) market. Almost 20% gave both quantitative and qualitative five year objectives while 3.17% gave only quantitative objectives. Around 13% did not state any objective which is quite a high percentage.

Competitive advantage is the ability of a company to outperform rivals on the primary performance goal - profitability[9]. According to Thompson and Strickland[10], business strategy initiate whatever actions and responses managers deem prudent in the light of corporate forces, economic trends, technological developments, buyers' needs and demographics, new legislation and other broad external factors of the kind. What distinguishes a good strategy from a weak one is its capability of creating sustainable competitive advantage. Sustainable competitive advantage can be achieved under+ two conditions: control over scarce resources and relevancy[11]. But that is not enough. The resources should be durable and replicability should be hard. With competitive advantage a company has good prospects for being above the average in terms of profitability and above average success in the industry. According to Grant, companies need to exploit their differences in order to gain competitive advantage. If

[6] Grant R.M., (2002), Contemporary Strategy Analysis, *Bleckwell Publishers*, p.62
[7] Pearce J.A., Robinson R.B, (2000), Strategic Management: Formulation, Implementation, and Control, 7e, *McGraw Hill*, p. 13
[8] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHill,*p. 10
[9] Grant R.M., (2002), Contemporary Strategy Analysis, *Bleckwell Publishers*, p 227
[10] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHill,*p. 55
[11] Grant R.M., (2002), Contemporary Strategy Analysis, *Bleckwell Publishers*, p. 153

all companies sought to be market leaders the result would be a bloodbath[12]. According to Pearce and Robinson strategy formulation and implementation is all about coping with competition[13].

In the study we attempted to confirm the hypothesis on differences in achieving competitive advantage between small, medium and large companies in transition countries. Our hypothesis was that there was significant difference in competitive advantage between small, medium and large companies. The responders were asked to evaluate their competitive advantage in comparison to their competitors. As a first step, we obtained the following distribution of answers.

Table 4. Distribution of the answers on competitive advantage according to the firm size

Competitive advantage	*small*	*Medium*	*large*	*Total*
No competitive advantage	13.33%	0.00%	0.00%	3.33%
Small	40.00%	34.78%	18.18%	30.00%
Significant	40.00%	43.48%	63.64%	50.00%
Great	6.67%	17.39%	18.18%	15.00%
Unreachable	0.00%	4.35%	0.00%	1.67%
Total	100.00%	100.00%	100.00%	100.00%

In order to test the hypothesis we used the Median and Kruskal-Wallis tests. These tests were used because we had to test the difference between three samples (small, medium and large companies). The Median test is somewhat weaker, so we also used Kruskal-Wallis tests for safety. The results are the following:

Table 5: SPSS output

Median Test

Frequencies

		Size 1,00	2,00	3,00
Competitive adventage	> Median	4	5	1
	<= Median	18	23	12

Test Statistics

	Competitive adventage
N	63
Median	3,0000
Chi-Square	,822
df	2
Asymp. Sig.	,663

Kruskal-Wallis Test

Ranks

	Size	N	Mean Rank
Competitive adventage	1,00 (Large)	22	37,68
	2,00 (Medium)	28	30,64
	3,00 (Small)	13	25,31
	Total	63	

Test Statistics

	Competitive adventage
Chi-Square	4,622
df	2
Asymp. Sig.	,099

b Grouping Variable: Size

[12] Grant R.M., (2002), Contemporary Strategy Analysis, *Blackwell Publishers*, p 21
[13] Pearce J.A., Robinson R.B, (2000), Strategic Management: Formulation, Implementation, and Control, 7e, *McGraw Hill*, p. 85

The χ^2 (df=2)=0.01 with p≤0.005. That means that with the significance of 0.5% we can be certain that there is a strong statistical difference between competitive advantage of small, medium and large companies. This is understandable since large companies usually have a better bargaining power and usually have more resources for investment.

A company's strategy for competing is typically both offensive and defensive – some actions are aggressive and amount to direct challenges to competitors' market positions, others aim at countering competitive pressures and actions of rivals[14]. Stability strategy does not necessarily mean stagnation but rather pausing or cautious moves for a period of time while it grows. Three stability strategies are most often used: "pause and then proceed", "no change" or "take profits when you can" (usually for products in the decline life cycle phase and it can last only for a short time)[15].
The distribution of strategies according to the firm size is as follows:

Table 6: The distribution of strategies according to the firm size

Strategy	*Large*	*Medium*	*Small*	*Total*
Growth strategy	39.13%	48.00%	31.25%	40.63%
Stability strategy	21.74%	36.00%	25.00%	28.13%
Defensive strategy	0.00%	0.00%	0.00%	0.00%
Combined strategy	30.43%	16.00%	31.25%	25.00%
Something else	8.70%	0.00%	12.50%	6.25%
Total	100.00%	100.00%	100.00%	100.00%

As we can see from Table 6, growth strategy dominates in large and medium companies, but in small companies a combined strategy is mostly used. Without any statistical test we can conclude that the strategies differ depending on the size of the company. This is even more obvious in the following graph:

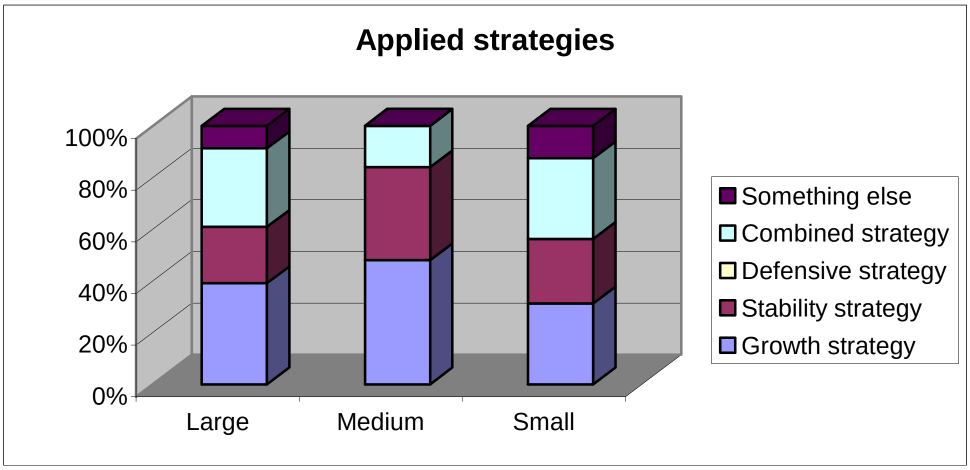

Figure 2. Applied strategies according to the firm size

In medium companies the growth strategy dominates, whereas in large companies growth and combined strategy dominate. One explanation could be that medium companies pursue

[14] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHill*,p. 55
[15] Sutherland J., Canwell D., (2004), Key Concepts in Strategic Management, *Plgrave Mecmillian*, p.247

growth strategy trying to get a bigger market share and to become a significant player in their industry. Growth and combined strategy in large companies can be explained by diversification of large companies.

Next, we analyze strategies of industry and non-industry companies. We obtained the following distribution:

Table 7: Applied strategy according to industry or non-industry

Strategy	Industry	Non-industry	Total
Growth strategy	36.73%	50.00%	39.68%
Stability strategy	26.53%	28.57%	26.98%
Defensive	0.00%	0.00%	0.00%
Combination	32.65%	14.29%	28.57%
Something else	4.08%	7.14%	4.76%
Total	100.00%	100.00%	100.00%

As we can see from the table above, all the three strategies (growth, stability and combination) are almost equally present in industry companies while in non-industry companies growth strategy dominate.

Growth strategy emerged as the dominant strategy so we should explore it further. Growth strategy can be achieved either by expanding within the existing industries in which a company operates or by undertaking some form of diversification. The former course is often the most natural way forward, assuming, of course, that the industry offers growth potential. Companies can achieve growth strategy by internally generated funds, investment and development, mergers, acquisitions, joint venture or strategic alliances[16].

In our sample the majority (58.54%) of companies pursue growth through investment into research and development – or through internal capabilities. The rest use pure strategies of growth, more precisely acquisition in 12.20%, joint-ventures 6.10%, mergers 4.88% or strategic alliances 8.54%. 9.76% use mixed strategy – labeled as something else. Interestingly, franchising as a form of growth is not used at all.

[16] Sutherland J., Canwell D., (2004), Key Concepts in Strategic Management, *Plgrave Mecmillian*, p.110

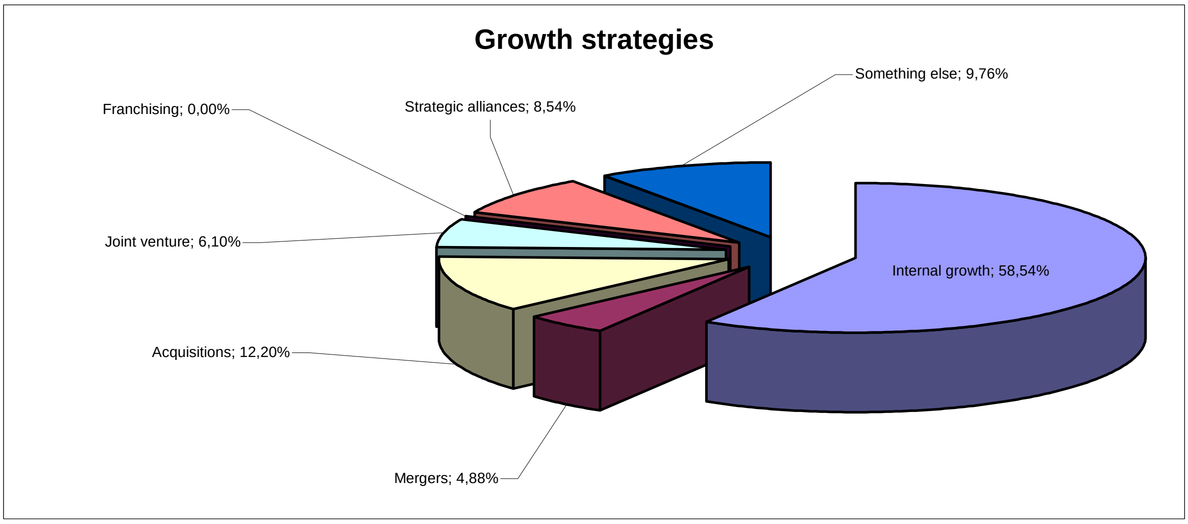

Figure 3: The distribution of growth strategies

According to Porter's opinion, companies can achieve competitive strategy using one of the three generic strategies. These generic strategies are (1) striving to be the industry's low cost provider, (2) pursuing differentiating features such as higher quality, added performance, better service, more attractive styling, technological superiority or unusually good value, and (3) focusing on a narrow market niche and doing better job than rivals in serving special needs and tastes of its buyers[17]. Cost leadership is usually attained by lowering the costs of the company's operations[18]. Porter identified nine major cost drivers in determining a company's cost in each activity segment[19]. Those are economies of scale, learning curve effects, and the cost of key resources, to name just a few which are most important for our analysis.
Differentiation can be obtained through multiple features; a wide selection of products, superior service, product reliability and so on. By achieving differentiation, a company is able to charge a premium for its products and services[20]. The most appealing approaches to differentiation are those that are hard or expensive for rivals to duplicate. A focused or market niche strategy may build its competitive advantage either by lower costs than its competitors in serving this particular market niche or an ability to offer niche members something they perceive better suited to their own unique tastes and preferences[21]. This strategy is most attractive when a target niche is big enough to be profitable, this market niche is not attractive to industry leaders, or it is costly to competitors to meet the specialized needs of the target market niche. But this strategy has some risks too: One risk is that competitors will find effective ways to match the focused firm in serving the target niche or those preferences of the market niche members shifts over time toward some other product attributes[22]. Another issue that should be explored is competing on speed as a competitive advantage. Speed, or rapid response to customer requests or to market and technological changes, has become a major source of competitive advantage for numerous firms in today's intensely competitive global economy. Speed is certainly a form of differentiation, but it is more than that. Speed involves the *availability of a rapid response* to a customer by providing current products

[17] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHill*,p. 55
[18] Sutherland J., Canwell D., (2004), Key Concepts in Strategic Management, *Plgrave Mecmillian*, p.50
[19] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHill*,p. 153
[20] Sutherland J., Canwell D., (2004), Key Concepts in Strategic Management, *Plgrave Mecmillian*, p.63
[21] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHill*,p. 168
[22] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHill*,p. 171

quickly, accelerating new product development, quickly adjusting production processes and making decisions quickly[23].
The unique competences crucial for strategic success in Croatia are presented in the following paragraph:

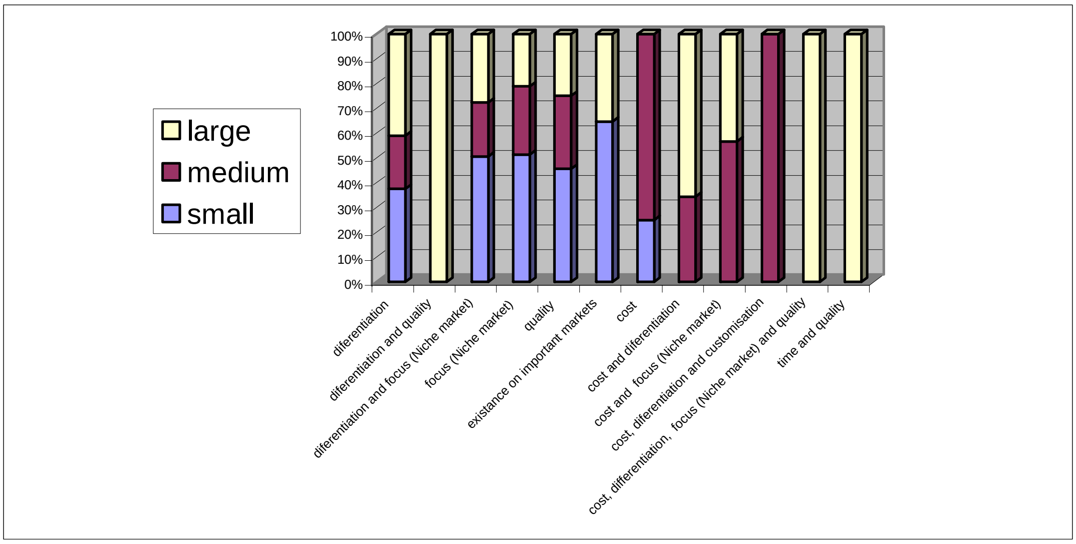

Figure 4. The list of core competences on which companies compete

Even though time and quality are part of the differentiation strategy, the respondents found them worth mentioning explicitly. As we can see in the picture, large companies especially compete on differentiation in quality and time. What we want to emphasize here is the fact that most companies compete simultaneously in two areas.

To be more specific in our analysis, we separated answers that qualified as Porter's competitive advantages. This is illustrated in the following graph.

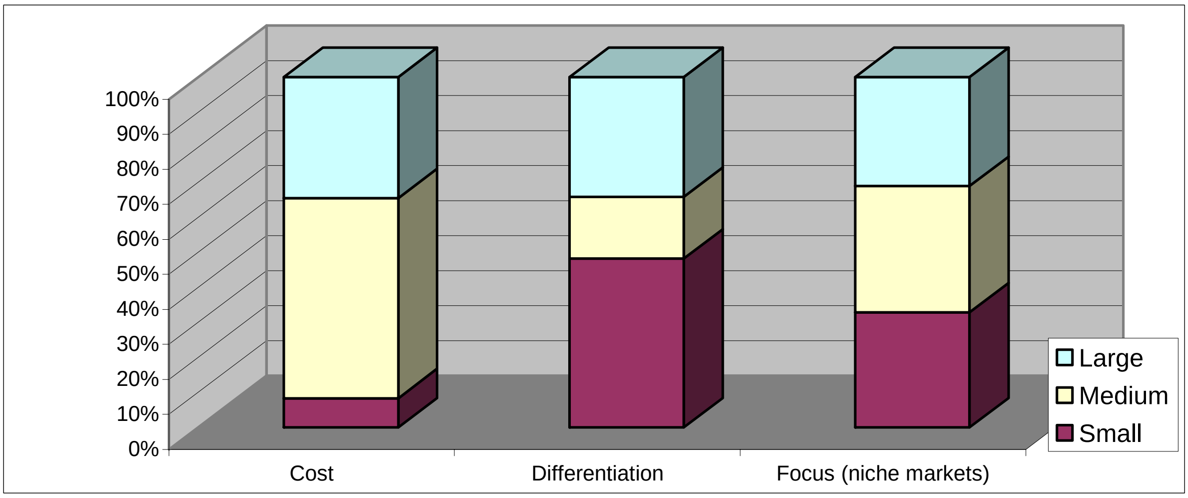

Figure 5. Distinctive competences according to the size

[23] Pearce J.A., Robinson R.B, (2000), Strategic Management: Formulation, Implementation, and Control, 7e, *McGraw Hill*, p. 302

We can see that differentiation and focused (niche markets) are dominant ways to achieve competitive advantage. These are characteristic of small, medium and large companies. Another way to achieve competitive advantage according to the frequency distribution is on costs. Interestingly, this is the dominant competitive advantage of medium companies. One explanation may be that through low prices medium companies try to capture a bigger market share. Cost strategy is important to large companies, but as a way to achieve competitive advantage they use differentiation. It might be that large companies prefer to add more services than to lower the price. This can be better understood when we analyze foreign competition. Those companies (foreign) are much bigger than the Croatian companies so they benefit from the economies of scale.

Futhermore, we compared companies with one distinctive competitive priority with those having several competitive priorities, and we tested them for their competitive advantage.
In order to do that, we had to code our data as 1 for one distinctive competitive priority and 0 for having more than one competitive priority. The next step was to calculate the Point-Biserial correlation index. A high value here would be a proof that focusing on one competence primarily gives greater competitive advantage.

Table 8. SUMMARY OUTPUT: distinctive competences on competitive priority

Regression Statistics	
Multiple R	0.104613156
R Square	0.010943912
Adjusted R Square	-0.005270122
Standard Error	0.867488951
Observations	63

ANOVA

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0.507937	0.507937	0.674965	0.414525
Residual	61	45.90476	0.752537		
Total	62	46.4127			

Unfortunately, the correlation coefficient was low, so we rejected our hypothesis that a distinctive competitive priority leads to a higher competitive advantage.

It is foolish to craft a strategy that cannot be executed with the resources and capabilities a firm is able to put together. The best path to competitive advantage is found where firms have competitively valuable resources and competences, where rivals do not have matching or offsetting resources or rivals cannot develop comparable capabilities except at a high cost or extended period of time[24]. In general, the greater the rate of change in a company's environment, the more likely it is that the internal resources and capabilities will provide a secure foundation for competitive advantage[25]. The second major view of strategic management is the resource-based view. It states that firms are not merely passive processors of favorable or unfavorable environments, but powerful sources of their own competitive

[24] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHill*,p. 62
[25] Grant R.M., (2002), Contemporary Strategy Analysis, *Blackwell Publishers*, p 135

advantage. To make a link with the Porter's (1980) view of strategy, in the resource-based view, superior profit performance is derived from the entry barriers to its key resources[26]. The most frequent internal capabilities of the Croatian companies are:

Table 9. Internal capabilities

Description	*Percentage*
Quality of products	23.19%
Quality of human resources	18.84%
Team work	12.08%
Managerial skills	10.63%
Image	9.66%
Competitve prices	7.25%
Quality of tecnological process	7.25%
Organizational culture	5.80%
Organization	5.31%

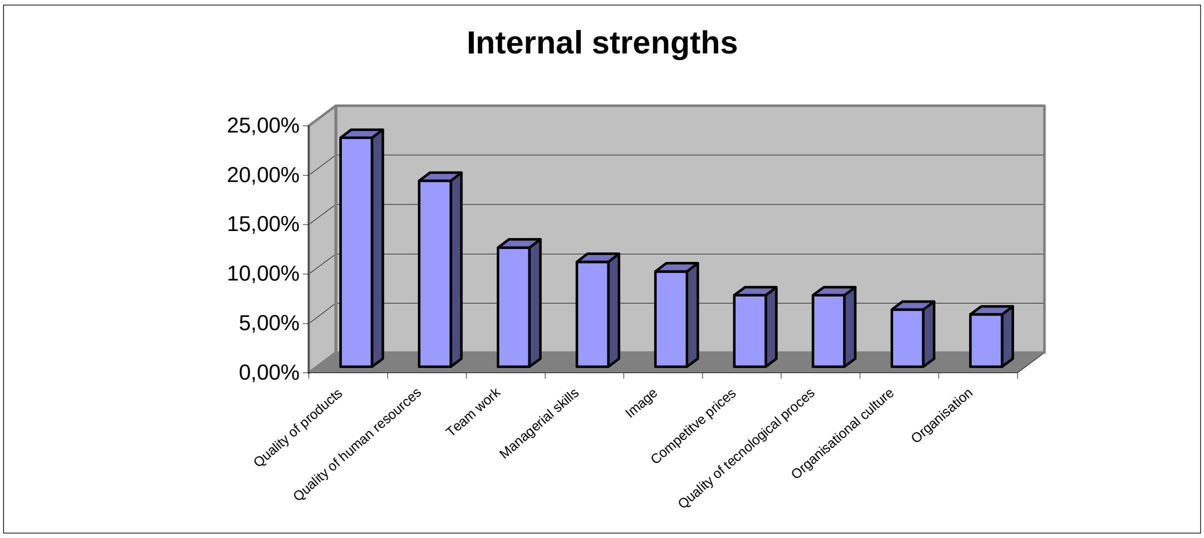

Figure 6: Internal strengths

As we can see in the picture, the main internal advantage of the Croatian companies lies in the quality of the human capital and the quality of the product. Therefore, our companies do not compete with prices but through differentiation. Since quality is so important, differentiation probably occurs through quality.

The next issue we addressed was what competition was like and how strong were each of the competitive forces. One of the most important components of competitive analysis involves investigating the main sources of competitive pressure and how strong each competitive force is. For that purpose Porter's five forces model is usually applied. Porter's model is a powerful tool for systematically diagnosing the principal competitive pressures in a market and assessing how strong and important each one is. Not only is it the most widely used technique of competition analysis, but it is also relatively easy to understand and apply. The five forces are: (1) The rivalry among competing sellers in the industry, (2) potential entry of new competitors, (3) the threat of substitute products, (4) competitive pressure stemming from

[26] Jenkins M., Ambrosini V. (ed.), (2002), Strategic Management: a multi-perspective approach, *Palgrave*, p.125

supplier-seller collaboration and bargaining (supplier power) and (5) competitive pressure stemming from seller-buyer collaboration and bargaining (buyer power)[27]:

Typically any form of competitive analysis will begin with an investigation of the rivalry amongst existing businesses. In this respect, the rivalry concerns direct competition and perhaps this is the most important of all the five forces[28]. Pearce and Robinson state that identifying competitors is the milestone in the development of strategy[29].

In our analysis we concentrate only on one force; the pressure of new competitors which we divided into two classes. One is from newly established companies and the other from global competitors. How serious the competitive threat to entering a particular market is depends on two classes of factors: *barriers to entry* and *expected reaction of incumbent companies to new entry*. Usual barriers to entry are the company's control over some specific resource, economies of scale, high capital requirements, limited access to distribution channels, regulatory restrictions or when the exit costs are high[30]. We shall address these issues after presenting the results. The potential threat of newly established companies on existing companies gave the following distribution:

Table 10. Threats from newly established companies

Threats	*Small*	*Medium*	*Large*	*Total*
High	18.75%	16.00%	14.29%	16.13%
Medium	18.75%	28.00%	28.57%	25.81%
Small	18.75%	40.00%	38.10%	33.87%
No threat	37.50%	12.00%	19.05%	20.97%
Do not know	6.25%	4.00%	0.00%	3.23%
Total	100.00%	100.00%	100.00%	100.00%

Apparently, the highest threat is felt in small companies (18.75%). Medium companies in 68% cases feel medium or small threat, and no threat is felt in 12% of them. Similar situation is found in large companies. Large companies in 66.67% of the cases feel medium or small threat and in 19.05% of the cases no threat at all. Interestingly, 37.50% of small companies state that they newly-established companies present no threat for them. An explanation here might be that the small companies are newly-established companies with an original idea which takes time to get copied. When they grow to a medium-sized company, threats from newly established companies will probably rise.

Foreign competitors might present a significant threat in Croatia as a transition country. This might be because of the increasing globalization of business. According to Thompson and Stricktland[31], these global companies have significant cost economies which they accrue through world-scale volumes.

[27] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHill*,p. 80
[28] Sutherland J., Canwell D., (2004), Key Concepts in Strategic Management, *Plgrave Mecmillian*, p.32
[29] Pearce J.A., Robinson R.B, (2000), Strategic Management: Formulation, Implementation, and Control, 7e, *McGraw Hill*, p. 97
[30] Sutherland J., Canwell D., (2004), Key Concepts in Strategic Management, *Plgrave Mecmillian*, p.12
[31] Thompson A.A.Jr., Strickland A.J, (2001), Strategic Management: Concepts and Cases, *McGrawHill*,p. 94

Table 11. Threats from foreign competitors

Threats from foreign competitors	*Small*	*Medium*	*Large*	*Total*
High	43.75%	56.00%	38.10%	46.77%
Medium	18.75%	20.00%	52.38%	30.65%
Small	18.75%	12.00%	9.52%	12.90%
No threat	18.75%	4.00%	0.00%	6.45%
Do not know	0.00%	8.00%	0.00%	3.23%
Total	100.00%	100.00%	100.00%	100.00%

Now the picture is completely different. Midsized companies feel high threat (56%) and (20%) medium threat from foreign competitors (76% high and medium threat). Large companies feel high and medium threat in (90.48%) of cases. We can conclude that large companies are most vulnerable to foreign competition. Small companies feel high and medium threat in 62.50% of cases. This enables us to conclude that the highest threats from foreign competitors are for medium and large companies. This is natural as most foreign companies are large and they primarily threaten large Croatian companies.

Table 12: Competitive priorities of foreign competitors

	Small	*Medium*	*Large*	*Total*
Lower prices	20.69%	31.11%	34.29%	29.91%
Better quality	6.90%	6.67%	2.86%	5.61%
Bigger product portfolio	13.79%	6.67%	5.71%	8.41%
Better design	10.34%	15.56%	11.43%	11.21%
Brand name	17.24%	11.11%	11.43%	13.08%
Better marketing	20.69%	22.22%	31.43%	25.23%
No advantage	10.34%	6.67%	2.86%	6.54%
Empty	20.69%	31.11%	34.29%	29.91%
Total	100.00%	100.00%	100.00%	100.00%

As we can see from Table 12, the biggest problem Croatian companies are faced with is lower costs of foreign products. This makes cost cutting a necessity for our companies. This can be done by reorganization, modernization and so on. Moreover, economies of scale represent another significant problem for our companies. The Croatian market is relatively small, which puts our companies in an inferior position against foreign competitors unless they capture the market of ex-Yugoslavia and benefit from the economies of scale. A word of caution is necessary here: Levitt, for example, argues that locally-oriented companies are highly vulnerable to globalised companies because of globalization of customer preferences and the scale of the economies. He stresses that evidence from the past decade[32] shows that when customers are presented with a choice between a lower-priced, globally standardized product and a higher-priced, nationally differentiated alternative, most customers favor the former[33].

Within the overall framework of their strategy, companies need to choose the geographical region in which they will set up operational assets. This kind of decision is known as the "entry" decision and demands that companies take two factors into account: (1) country attractiveness and (2) entry strategy[34]. Theoretically, a country will be attractive, if, while

[32] Abdelal R., and Tedlow R.S. (2003) in their HBS Working paper: Theodore Lewitt's "The Globalization of Markets" after Two Decades (HBS Working paper No. 03-082, p. 29) argue that Lewitt didn't take into account nationalism which gives preference to national products.
[33] Levitt T., (1983), The Globalization of Markets, *Harvard Business Review*, May-June 1983, p.92-102
[34] Lassere P., (2003), Global Strategic Management, *Plgrave Mecmillan*, p.156

investing in that country, the company gets returns that are equal or higher than its *risk adjusted weighted cost of capital*. In fact, it is fundamentally the same as any investment decision. Lasserre proposes to look specifically into two broad categories: market and industry opportunities and country risks. Having performed the analysis of country attractiveness and decided positively to enter, a company has to work out an entry strategy. The entry strategy consists of setting up three types of decisions: entry objectives, timing of entry and mode of entry[35]. In the past few years, Croatian companies have largely entered the ex-Yugoslav market. The modes of entry are various, but it is only now that risks in those countries have sufficiently declined, so that the entry has a positive outlook. Although technology-based industries can generate a significant income measured as a share of GDP, mature industries like food processing, steel, financial services, hotels and restaurants continue to be the primary sources of income and employment in industrialized nations. Maturity does not imply lack of opportunity, but it shifts opportunities from differentiation based factors to cost based factors[36].

Table 13: Ttotal sales on local and foreign markets

	Small	*Medium*	*Large*
Local market	65.87%	51.30%	62.00%
Foreign market	34.13%	48.70%	38.00%

As we can see in Table 13, the local market accounts for around 60% of the total sales and the sales on the foreign market represent around 40% of the total. We can also see that large and medium companies export more than small companies. South-Eastern Europe is the major foreign market for the surveyed Croatian companies and minor part of their exports goes to the EU. Therefore, if Croatian companies, those present in a mature industry, want to pursue their strategic objectives of conquering ex-Yugoslavia and stay competitive in their own market (attacked by low-cost foreign competitors) they will have to do more on their operational excellence and lower production costs.

One of the most pernicious misconceptions in the history of strategic management is the idea that the formulation of a strategy can be separated from its implementation. Once formulated, the strategy has to be implemented by selecting the appropriate organizational structure[37]. It is essential for companies which are pursuing a variety of different strategies as part of their international business activities to choose and then adopt appropriate organizational architecture which is responsive enough to implement the identified strategies[38]. Grant gives the following description of the role of the organization structure in today's environment: "As business environments become more complex and more competitive, a business enterprise's survival requires performing at a higher level with a broader repertoire of capabilities. Achieving this kind of performance requires management dilemmas that cannot be resolved as simple tradeoffs: a company must be efficient today, while also adapting for tomorrow; it must produce at low cost while also innovating; it must deploy the massed resources of a large enterprise, while showing the entrepreneurial flair of a small start-up; it must achieve a high level of reliability and consistency, while also being flexible in adapting to change. To reconcile these opposing requirements, management becomes less concerned with the creation of formal systems and control processes, and more with developing and maintaining a social

[35] Lassere P., (2003), Global Strategic Management, *Plgrave Mecmillan*, p. 187
[36] Grant R.M., (2002), Contemporary Strategy Analysis, *Blackwell Publishers*, p. 368
[37] Grant R.M., (2002), Contemporary Strategy Analysis, *Blackwell Publishers*, p. 188
[38] Sutherland J., Canwell D., (2004), Key Concepts in Strategic Management, *Plgrave Mecmillan*, p.195

system defined by behavioral norms and attitudes"[39]. Having said all that, it is only natural to analyze the suitability of organizational structure to strategy in Croatian companies.

Table 14: Suitability of organizational structure to strategy (% of companies)

Fit of organisation to strategy	*Small*	*Medium*	*Large*	*Total*
Absolute fit	43.75%	37.04%	43.48%	40.91%
Not entirely fitted	37.50%	40.74%	34.78%	37.88%
Unsuitable	6.25%	3.70%	0.00%	3.03%
In process of restructuring	12.50%	18.52%	21.74%	18.18%
Total	100.00%	100.00%	100.00%	100.00%

Table 14 shows that over 40% of companies have their organization in alliance with their business strategy. Around 38% think that some adjustment to organization should be done, while around 18% of the responding companies are in process of reorganization.

4. Conclusion

In this analysis, we showed that there is significant difference in competitive priorities according to the size of the firm. It emerged that large companies had greater competitive advantage than small and medium companies. One explanation that we offer is that large companies have a better bargaining power position.

We also checked how many companies had a clear mission and vision statements. (The question was to write down their mission). In this way, we were able to check if they had a clear mission statement, and if those statements existed the written form and were known to the employees. It emerged that that was the case in 57.14% companies. The regression analysis gave r=0.3 which shows that there was a positive effect of having a clear mission on competitive advantage but that cannot by itself be the sole source of competitive advantage.

The next question we analyzed in our paper was what type of strategy companies had chosen to achieve competitive advantage. Was it the strategy of differentiation or a low-cost strategy? Were there any differences between small, medium and large companies regarding these two strategies? It emerged that Croatian companies (small, medium and large) mostly used the strategy of differentiation and focused (market niche) strategy, not so much the low-cost strategy. All the same, cost strategy was used mostly by medium size companies. We believe that they use this strategy to capture a bigger market share. On the other hand, the analysis of foreign competitors showed that they compete by prices, and, to our understanding, it is mostly because these foreign competitors have benefits from the economy of scales.

There were five questions in our survey analyzing the sources of competitive priorities like highly-skilled people, quality, physical resources etc.. The research showed that Croatian companies mentioned highly skilled people and quality of the product as their internal strengths. This was in accordance with the strategy of differentiation which they chose to apply in the battle with foreign competitors. We therefore believe that if Croatian companies fully explore their strategic advantages, this should also reflect in their increased revenues.

The next very important question was: are Croatian companies present at international markets? The problem is that Croatia has opened its market and many foreign companies have

[39] Grant R.M., (2002), Contemporary Strategy Analysis, *Blackwell Publishers*, p. 519, 524

entered. That puts a huge pressure on Croatian companies to stay competitive on the local market. However, staying competitive in the Croatian market is not enough. Our analysis showed that around 60% of the revenues are obtained from the local market and the remaining amount from international markets. Unfortunately, there are not so many Croatian companies like Pliva (pharmaceutical company) which are competitive enough to compete on world markets on their own. Most Croatian companies try to penetrate the market of ex-Yugoslavia and try to become regional leaders. They have a good chance of achieving their strategic goal because Croatian products are known for good quality in those markets.

Talking about strategy is not possible without analyzing threats coming from competition. We aimed to explore how our companies (successful ones) dealt with threats imposed by the market. There were two groups of questions. One was investigating into threats created by newly-established companies, and the other from foreign competitors. Our analysis showed that threats from new companies were not significant. This might be explained by high entry barriers. Such threats proved particularly insignificant in small companies which themselves might be newly established. As it takes time to copy one's idea, small companies did not feel the threat at the moment, but the threat became more significant for medium companies. On the contrary, our companies (large, small and medium) did feel the threat from foreign competitors who mostly compete on price.

A whole section of the questionnaire was devoted to the organizational structure as a source of competitive advantage. If the organizational structure is unique and not easily imitated then it can form a significant competitive advantage. Our analysis showed that around 40% of the companies had their organizational structure aligned with strategy. The rest had slight problems or were in the process of restructuring. This showed that there was still a gap which should be minimized.

The whole analysis was done in two directions. All the previously mentioned questions were considered with respect to the size of the firm. We showed that small and large companies do have different competitive advantages and threats coming from their environment.

The other direction of our analysis was based on differences between the strategy of manufacturing and non-manufacturing companies. We showed that the strategic competences of manufacturing companies differed greatly from non-manufacturing companies. We believe that non-manufacturing companies will put greater emphasis on their organizational form as a source of advantage unlike the manufacturing companies. Interestingly, both the manufacturing and non-manufacturing companies mostly pursued the growth strategy.

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