# Strategic turnaround in a fragmented industry

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**Keywords**

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**Abstract**

This study examines the range of business strategies chosen among small and medium-sized enterprises (SMEs) in their adaptation to increased market integration and higher competitive intensity. Longitudinal studies of SMEs in the Norwegian agro-food industry show the effect of market fragmentation at strategic change capability. Analyses of strategy gives indication of high historic reliance on political sub-strategies, and a lot of smaller firms being satisfied with the present more incremental adaptation pattern and a non-profiled strategic posture. Some firms are, however, gaining advantage through efforts towards more distinct strategic positioning, combining market positioning tools and supporting resources such as competence, network resource accumulation. Implications for the future competitiveness in view of the market integration processes are reviewed. Suggested policy measures for the government to improve global competitiveness in transitional industries are outlined.

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## Introduction

Several industries experience significant changes in market structure and competition. This paper focuses on the ability of small- and medium-sized firms to develop new resources and implement new strategic tools in more turbulent and integrated markets. The agro-business sector has traditionally been regarded a fragmented industry characterized by regional dispersion and limited, cross-national activity (Porter, 1986). This sector has a large number of small and medium-sized enterprises (SMEs), each possessing a small share of the regional market. Government subsidies and import barriers protect the food industry in several countries from the distorting competition of global markets. There are also geographical and cultural barriers that cause imperfect competition.

A fragmented environment creates a specific, competitive setting because of the absence of market leaders to shape the working conditions within an industry (Porter, 1980; Carpano *et al.*, 1994). This may result in firms not being strategically alert and stringent in the choice of competitive tools. When trade barriers continue to be reduced, successful firms in this environment must be prepared to manage the challenges of the increased competition intensity. They also have to be ready to reap the benefits of availability to more widespread markets. If not, firms in a regional, fragmented industry risk being "stuck in the middle" in the transition process and losing ground to more competitive enterprises in the international market (Harrison, 1997; Porter, 1980).

Only a few studies have so far centered on the business-strategy patterns of fragmented and regionally dispersed industries. The main focus of strategy research during the 1980s and 1990s has been the strategic action of firms that have expanded into international markets (McDougall *et al.*, 1994) or firms that have been "global born" (Knight and Cavusgil, 1996). In particular, the global strategies of multinational corporations (MNCs) have been reviewed in detail (Dess and Davis, 1984; Hambrick, 1983a; Kim and Lim, 1988; Morrison and Roth, 1992).

This study advances the knowledge of business strategies on several grounds. First, a business strategy taxonomy is developed providing more stringent guidelines for

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studying a fragmented environment containing mostly small- and medium-sized enterprises. Second, the changes in implementation of strategic tools within the industry over time are revealed. Finally, implications for SMEs and government policy are presented.

## Theoretical background

### The fragmented industry context

A fragmented industry is defined as a business environment with a majority of small, geographically dispersed firms. There are no market leaders, nor is there a firm that has the power to shape industry events (Porter, 1980, p. 191). Government regulations are among the most important barriers to today's markets. These regulations, such as industry subsidies, import quotas, and market monopolies, limit the flow of goods across borders, as well as the exploitation of scale and scope advantages. In a fragmented industry, imperfect competition is a result of such barriers. Other factors causing fragmentation are: low, overall entry barriers; a lack of economies of scale or scope within logistics, production or distribution; diverse market needs; and high exit barriers.

Several countries, however, are striving to reduce trade barriers and to increase competition. They are also entering or applying for membership in trade blocks, such as the European Union and NAFTA, which share the objectives of removing all trade barriers. The World Trade Organization (WTO) as well has increased power to improve cross-border trade in industries earlier protected by parochial regulations. Thus the competitive forces of the global markets are now so strong, that unless strategic adjustments are made, firms in a traditionally fragmented setting could face devastating competition (Dunning, 1992).

### Business strategy approaches

To understand how a small- and medium-sized firm should adapt to new market challenges we need a broad understanding of strategic tools and how they are generated within the organization. Strategy researchers have made significant efforts in categorizing strategic adaptation in different industrial settings. In particular, the development of the strategy-structure-performance perspective has provided an understanding of how firms adjust to environmental challenges (Ansoff, 1971; Hofer and Schendel, 1978; Porter, 1980; Ginsberg and Venkatraman, 1985). This study adds to this tradition by analyzing the strategic features of firms competing within a fragmented industry and presenting industry-specific strategic instruments. The general complexity and turbulence of the market stated within economics and strategy research adds to the importance of building more adequate models of market behavior. It is also necessary to connect the context of the market to the choice of strategy at the company level (Rumelt *et al.*, 1991; Porter, 1991). The strategic adaptability of small firms in particular will depend on the resources developed in their present industrial setting (Brush and Chaganti, 1998).

In spite of significant contributions, generic strategy research is still criticized for presenting typologies that are too broad (Hill, 1988; Miller, 1992) which lack contingency emphasis on different market environments (Boyacigiller and Adler, 1991; Dess *et al.*, 1990; Hambrick and Lei, 1985; Murray, 1988); and which are too simply constructed or one-dimensional (Day and Wensley, 1988; Morrison and Roth, 1992; Spender, 1993). Another criticism has been its bias towards the life-cycle phases of industries with large-scale characteristics, such as, emerging industries (Aaker and Day, 1986; Kim and Lim, 1988; Yip, 1982), mature industries (Hambrick, 1983b; Harrigan, 1982), and declining industries (Harrigan, 1980). In particular, there are an increasing number of studies oriented toward multinationals (Ghosal, 1987; Kogut, 1989; Mitchell, 1992; Morrison, 1990; Roth, 1992).

However, research on the strategic behavior of companies in fragmented environments has been largely ignored. According to the contingency theory, these markets make their own demands on how a firm adapts its business strategy to changing conditions (Carpano *et al.*, 1994). Also, as market integration continues, further information is needed about the strategic capability of these firms to predict the consequences of increased competition intensity. Knowledge of their strategy response to new market conditions is particularly important when analyzing their capability to meet international competition and to enter international markets (Bijmolt

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and Zwart, 1994). With less access to risk capital than their larger counterparts, smaller firms may more easily get stuck in a static or given strategic pattern (Harrison, 1997; OECD, 1997).

To improve both the rigor and relevance of the strategy construct, several authors contend that business strategy should be conceptualized according to substrategies at the level of the business unit. This approach would facilitate the study of strategy from a managerial perspective, and would reduce the risk of creating models that are too simplistic (Chrisman *et al.*, 1988; Hofer and Schendel, 1978; Morrison, 1990). The substrategy approach may also provide a general manager with a more useful set of tools with which to make the strategic decisions.

Earlier studies of integrated and global industries have been focused on competitive positioning tools in particular. A competitive positioning substrategy is the implementation of tools that relate the firm to customers in the market and restrict competition through the creation of entry barriers (Porter, 1980; 1985). It includes finding the geographic setting of the firm's products, deciding whether to compete on price or customer differentiation, the degree of active marketing efforts. Not the least, we have to include degree of focus on niche orientation, where specialized markets or geographic areas are served (Carter *et al.*, 1994).

Limiting the study to positioning could prove insufficient in fragmented markets. Smaller firms may have less freedom to develop substrategies that match their ideal competitive position. Consequently, SMEs will need a greater diversity of strategic tools, or different managerial combinations, to survive (Chandler and Hanks, 1994; Brush and Chaganti, 1998). Also, as opportunities in the global market open, new modes of adaptation may develop that are beneficial for small business firms.

Hofer and Schendel (1978) stated that a business strategy should include at least three interrelated substrategies; competitive positioning, organizational and political. Reve (1990) emphasized the need for an integrated model, which included both competitive positioning and strategies for the organization of the unique resources within a firm. A resource-focused organizational sub-strategy include the structural configuration of the value-chain, functional parts within the firm, as well as parts of the value chain controlled through cooperative relations with other organizations that facilitate the development of mutual resources across organizational borders to create scale and scope advantages.

Day and Wensley (1988) and Spender (1993) criticized strategy research for not sufficiently addressing the conversion of organizational skills and resources into positional advantages in the market. Including the resource-based dimensions of competence, routines and working culture may accentuate the intra-organizational premises for achievement and the maintenance of competitive advantage (Barney, 1991; Black and Boal, 1994; Leonard-Barton, 1992). An integrated organization and resource base sub-strategy is defined as the immaterial quality of an organization in terms of competence, routines, personal commitments and working culture (Cooper, 1993; Brush and Chaganti, 1998)

A further complicating factor within fragmented industries is that they often owe their unique characteristics to government regulations, such as, taxes and import and trade barriers. Even though the political economy may play a less influential role in more integrated markets (Oviatt and McDougall, 1998), we still find that governments will actively interact with firms to improve their capabilities and global competitiveness (Porter, 1990). We therefore may consider a political sub-strategy dimension within the range of possible strategic instruments (Dunning, 1992; Mintzberg, 1988). The political dimension includes the efforts of shaping the working environment of a firm through the active influence of political decisions and policy. A firm may direct its efforts toward improved working conditions through legislation, subsidies, and other intervention schemes. In some economies, a firm may have a delegated government authority to ensure their implementation. Such a sub strategy may represent a strong instrument eliminating or neutralizing the effects of competitive forces in a specific market.

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## Methodology

### Design

This study focused on the strategic business unit (SBU), or a firm's activities within a single, industrial environment (Morrison, 1990). This focus is appropriate when studying a fragmented environment with several small- and medium-sized firms. In such environments diagonal integration is rare and the lack of strategic diversification reduces the need for studies at the corporate level. It is also important to understand strategic behavior at the business level when studying corporate strategies (Porter, 1991).

The study was longitudinal. An exploratory approach was implemented to identify strategic factors appearing over time within an agro-food industry with fragmented characteristics. Firm-level case studies were conducted to examine changes in strategic posture. A survey was then organized in 1993 to determine the strategic patterns of the whole industry. The survey, although slightly moderated, was repeated both in 1997 and 2001. As a result, strategic changes within the industry can be examined. The results of the surveys are presented with supplementary information from the case studies.

### Research setting

The investigation of business strategy was based on a sample of independent businesses in the meat-processing industry in Norway. This industry was selected because of its fragmented and geographically dispersed characteristics. It was also on the threshold of global competition. The food industry has a legislated protected status in several countries, as well as enjoying the protection of distance and local taste and consumption patterns. For these reasons, this seemingly isolated industry is well suited for a study of emerging corporate entrepreneurship.

### Sample and data collection

To ensure focus on the market level most likely to influence the firms' business-level strategy, we identified companies at the four-digit, industry code level (Carpano *et al.*, 1994; Dess, 1987; Porter, 1980). The industries were similar to the US SIC codes: 2011, meat-packaging plants; 2013, companies manufacturing sausages and other prepared meat; and 2015, poultry processing. The collection of data started with in-depth pilot studies of: the biggest wholesaler/retailer group as customers for the meat industry, a private manufacturing enterprise and a large farmers' cooperative. The main goal of this phase was to develop instruments for the study of a broad range of substrategies.

In the second phase, surveys were conducted among the firms within the industry. The surveys were carried out in 1993, 1997 and 2001. The population for the 1993 survey consisted only of firms with more than ten employees (87 firms), while the smallest firms were included in 1997 and 2001 (170 firms). A structured questionnaire was aimed at the managing director (CEO) and distributed by post to all firms within the study area. Two separate mailings resulted in 44 useful cases in 1993, i.e. a 51 per cent response rate. The number of cases from 1997 and 2001 were 75 and 52, corresponding to a response rate of 44 and 31 per cent. All the SIC codes presented above were included in the three samples. However, compared with the populations, the samples contained an over-representation of medium-sized and larger firms.

### Measures

There are few empirical studies available to suggest the position of sub-strategy levels (Chrisman *et al.*, 1988) or to define their various components. The questionnaire was developed through the selection of items and factors used in earlier strategy studies, if they matched the theoretical definition of each sub-strategy. In addition, new items were added as a result of the case studies. Finally, we tested the measures chosen through discussions with some of the managing directors.

Seeking an exhaustive list of attributes for the foundation of business typologies (Rich, 1992), a total of 70 items were finally included in the 1993 questionnaire. We asked the respondents to indicate whether they agreed to the statements in the questionnaire using a five-point Likert-type, response scale ranging from "totally disagree" to "totally agree". Based on experience from the 1993 survey, the number of items was reduced to about 40 in the 1997 and 2001 questionnaire.

## Analysis

*A. Descriptive statistics and factor analysis*
The analysis of data was conducted in several steps using the SPSS version 10.0. First, descriptive analysis mapped the overall features of the firms' adaptation. To achieve a more aggregated and theory-related set of sub-strategy factors, we refined the constructs through principal component analysis (PCA). The factors were independently derived from the items chosen for each of the three sub-strategy dimensions (Kim and Muller, 1978) through PCA with VARIMAX rotation. From the common items for all the questionnaires, ten strategy factors, building on 24 items, were developed. The eigenvalues for all the factors were all above one. Within each substrategy, the factors' accumulated explained variance were about 50 per cent or higher. The following factors were developed through the principal component analysis. The items included for each factor are shown in parenthesis:

- *Competitive positioning substrategy.* Several empirical studies have developed tools for the study of business substrategies. In particular there is a broad selection of competitive positioning scales. Dess and Davis (1984) used 16 variables in identifying four distinct strategic factors; efficiency, service, product innovation and brand/channel influence. On the basis of 27 variables, Davis (1986) revealed six strategic factors: production efficiency, differentiation, degree of specialty production, research intensity, geographic concentration and cost consciousness. In one of the few studies of a fragmented industry, Johnson and Thomas (1987), gathered data from the UK brewing industry. They emphasized geographical scope among the competitive positioning factors.

  The PCA showed that the competitive positioning factors accounted for 67.8 per cent of the variance within this group. The analysis expanded the previous set of factors within this field. Porter's differentiation strategy split into three factors: promotion differentiation (money on advertising, money on consumer relations, frequent market surveys; alpha = 0.75); branding differentiation (brand names adapted to different customers/products, production distributed in brand name of customer alpha = 0.65) and niche focus (produces speciality products). These findings confirmed the earlier criticism of the Porter dimensions because they lacked empirical accuracy (Kim and Lim, 1988; Miller and Dess, 1993). Only one factor reflected Porter's (1980) overall cost leadership (as low prices as possible, expanding geographical market; alpha=0.30)
- *Organizational and resource-based tools.* Because of the lack of previous empirical research focusing on immaterial, internal resources, the resource-base scales were developed mainly from the in-depth case studies and the documentary studies. The principal component analysis for the organizational and resource-based items gave a seven-factor solution. The first factor was dynamic development capabiliy (the competence level is among the highest within the business, continuously try to improve routines within business, uses long term planning to a large degree; alpha = 0.67). The others were cooperation capability (cooperate with other processors regarding sales and marketing, cooperate with other processors regarding product storage and/or transportation, cooperate with other processors regarding processing, close cooperative relation with wholesalers/retailers; alpha = 0.70); international network capability (want to develop competence in buying from abroad, want to develop competence for selling abroad; alpha = 0.79), political influence (give advice to the government regarding regulation and support for the industry); production efficiency (emphasizes modern plant and equipment, plant specialized to achieve economics of scale, high capacity utilization in production, high investment level, alpha = 0.76) and production flexibility (uses "just in time" principle, emphasizes flexibility within production; alpha = 0.54).

*B. Hierarchical cluster analysis*
Building on the ten strategy factors developed above, the firms were classified according to similarity along strategic dimensions by hierarchical cluster analysis. A separate cluster analysis was conducted for each of the years 1993, 1997 and 2001. To determine the

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final cluster solution, experiments with two-, three-, four- and five-cluster solutions were conducted. A five-cluster solution was chosen for all the three years. Such a solution gave a classification showing differences in implemented strategy of interest from both a theoretical and practical standing point (Hambrick, 1984).

Analysis of variance (ANOVA) was conducted for all the samples. The analyses were showing high variance in the factor dimensions among the five clusters. This variance implied that the factors presented in the cluster analysis were important in revealing differences in strategic approach among the firms.

### Validity

We tested the face validity of the instruments through five scholars of strategy research and three experienced executives from the industry. These were critically evaluating the questionnaire, reviewing both the content and the layout. Then test interviews with eight meat-processing firms with different characteristics were conducted. Multiple measures were employed in the questionnaires to reflect the nature of the construct and to increase validity.

The final version of the questionnaires was posted to the managing directors of the firms in the study. Subsequent cross checking of the answers showed they represented a broad cross-section of the industry's geographical and physical profile. Internal reliability tests performed on the developed factors showed fairly strong Chronbach alphas, confirming the internal consistency of the factors. One factor showing low alpha value was included because of its worth in describing the theory behind the measures developed.

## Results

In Tables I, II and III we review the five business-strategy patterns from the cluster analyses. Finally, the three years are compared, i.e. the strategic changes over time are being looked in to.

### Strategic patterns in 1993

*Market context*

In the beginning of the nineties the situation within the industry could be characterized by a state of harmony. The farmers' subsidies were still high and the import protection close to 100 per cent. The internal rivalry was also low, as the medium-sized regional farmers' cooperatives very much wanted highest price possible, opening the opportunities for a large amount of smaller producers of number two and three brands in local markets. The wholesalers and retailers were still characterized by fragmentation, with low integration between wholesalers and retailers, and relatively low market shares for each wholesaler.

*Business strategy patterns*

The low competitive intensity was also mirrored in the choice of competitive tools. There were low values for most firms as to differentiation and cost leadership. Highest scores were found on production flexibility. A significant feature was the presence of a political influence sub-strategy, which focused on increased government subsidies to the farmers (reducing suppliers' negotiation strength), avoiding membership within the EU, and a continuous import protection.

Most firms belonged to cluster 1, with a typical in the middle strategy. This cluster consisted of 60 per cent of the firms with low or average values on most dimensions.

Cluster 2 included six firms, with a niche focus oriented strategy. These firms concentrated the production of specialty products. They were otherwise less distinct on most of the other tools.

Cluster 3 consisted of two firms following a focused promotion differentiation strategy. The firms scored low on cost leadership and instead emphasized niche adaptation and promotion efforts. An interesting feature was that they felt the need for backing their niche differentiation with dynamic development capabilities, emphasizing improvement of internal routines and long term planning efforts. At the same time, they were active together with the cluster four and five firms in giving advice to government regarding protection and support for the industry.

Cluster 4 firms followed a clear differentiation strategy, with high values both on branding and promotion efforts. In this group we find the firms from the farmers' cooperatives. Considering the chosen strategy, the firms were spending considerable resources on marketing and were using different brands for specific customers or products. Much weight was put on

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**Table I** Strategic clusters in 1993

| Factors | Cluster 1 ($n = 25$) | Cluster 2 ($n = 6$) | Cluster 3 ($n = 2$) | Cluster 4 ($n = 6$) | Cluster 5 ($n = 1$) | *F*-value |
|---|---|---|---|---|---|---|
| Dynamic development capability | 0.41 | −0.93 | 1.64 | 0.35 | 1.00 | 6.77*** |
| Cooperation capability | −0.10 | −0.37 | −1.28 | 1.08 | 1.00 | 4.36*** |
| International network capability | 0.18 | −0.70 | −0.31 | −0.10 | 1.52 | 3.25** |
| Political influence | 2.76 | 2.00 | 5.00 | 4.17 | 5.00 | 6.90*** |
| Production efficiency | 0.29 | −1.17 | −0.04 | 0.00 | 0.12 | 4.36*** |
| Production flexibility | 0.68 | −0.05 | 0.48 | 0.64 | −3.23 | 9.59*** |
| Promotion differentiation | 0.40 | −0.52 | 0.49 | 0.64 | 0.10 | 2.13* |
| Branding differentiation | −0.70 | −0.58 | −0.28 | 1.15 | 2.10 | 14.61*** |
| Cost leadership | 0.63 | −0.35 | −1.59 | −0.78 | 1.98 | 11.37*** |
| Niche focus | −0.014 | 0.75 | 0.57 | −0.073 | −1.67 | 2.76** |

**Notes**: Statistical significance level: * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

cooperation with other firms and organizations. As responsible for the market regulation of input in the market and regulation export they emphasized giving advice to the government.

The fifth and last cluster consisted of only one firm distinct on cost leadership strategy. The firm was producing a large degree of its production in the brand name of the customer. It emphasized production efficiency and not production flexibility, and was also high on dynamic development capability. This firm was regional based, but was, however, trying to expand its geographical market with a broad range of volume products. Therefore it scored low on niche market orientation.

*Performance*

Analysis of performance measures (perceived results compared with industry average and ROI) in 1993 showed that the farmers' cooperatives in cluster four following a broad differentiation strategy had the best average performance. There were, however, not a clear distinction between the clusters as to results, and even the "in the middle strategy" firms of cluster one had relatively high results.

We may expect that there should be a time lag between strategy and performance. We therefore related the 1997 figures to the strategic patterns of 1993. It showed that the farmers' cooperatives in cluster one still had rather good results. The in the middle strategy firms had severely reduced their performance. It was also a significant distinction between their own ranking of their perceived performance compared with industry average and the more objective return on investment (ROI) ranking. The firms in this group seemed to systematically overestimate their performance compared with other firms in the industry.

A runner up was the firm with a clear niche orientation. The results from 1997 showed that the firm with a clear niche focus with high emphasis on dynamic development capability both in 1993 and 1997 scored high on performance.

**Table II** Strategic clusters in 1997

| Factors | Cluster 1 ($n = 8$) | Cluster 2 ($n = 61$) | Cluster 3 ($n = 1$) | Cluster 4 ($n = 2$) | Cluster 5 ($n = 1$) | *F*-value |
|---|---|---|---|---|---|---|
| Dynamic development capability | 1.09 | −0.42 | 5.83 | −1.11 | −0.69 | 22.57*** |
| Cooperation capability | 0.90 | −0.16 | −0.26 | −0.50 | −1.23 | 2.46* |
| International network capability | −0.086 | 0.00 | 2.88 | 3.19 | 4.15 | 20.07*** |
| Political influence | 4.00 | 2.16 | 1.00 | 1.00 | 2.00 | 13.26*** |
| Production efficiency | 0.65 | −0.024 | 4.08 | 0.00 | 1.81 | 7.39*** |
| Production flexibility | −0.02 | −0.22 | 3.77 | 1.68 | −1.54 | 5.54*** |
| Promotion differentiation | 1.59 | −0.037 | 3.95 | −1.76 | 0.57 | 21.36*** |
| Branding differentiation | 0.39 | −0.09 | 4.57 | 0.81 | −0.43 | 7.55*** |
| Cost leadership | −1.18 | 0.06 | 4.13 | 0.83 | 0.00 | 11.35*** |
| Niche focus | −0.80 | 0.20 | 1.13 | −0.18 | 0.71 | 2.28* |

**Notes**: Statistical significance level: * $p < 0.10$; ** $p < 0.05$; *** $p < 0.01$

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**Table III** Strategic clusters in 2001

| Factors | Cluster 1 ($n=5$) | Cluster 2 ($n=32$) | Cluster 3 ($n=6$) | Cluster 4 ($n=1$) | Cluster 5 ($n=1$) | F-value |
|---|---|---|---|---|---|---|
| Dynamic development capability | 0.71 | −0.08 | 0.22 | −0.16 | 0.27 | 1.34 |
| Cooperation capability | 0.31 | 0.00 | 0.52 | 1.86 | 1.03 | 1.82 |
| International network capability | −0.09 | −0.24 | −0.12 | 3.83 | −0.35 | 6.34*** |
| Political influence | 4.20 | 2.19 | 2.50 | 5.00 | 4.00 | 6.30*** |
| Production efficiency | 0.90 | −0.26 | 0.94 | 0.86 | 1.25 | 5.11*** |
| Production flexibility | −0.06 | 0.04 | −0.78 | 1.10 | −1.75 | 4.46*** |
| Promotion differentiation | 1.26 | −0.42 | 0.72 | −0.20 | −0.55 | 9.07*** |
| Branding differentiation | −0.11 | 0.38 | −0.92 | 1.64 | 1.64 | 6.37*** |
| Cost leadership | −1.29 | −0.05 | 0.85 | 0.86 | −0.79 | 5.55*** |
| Niche focus | −0.47 | −0.02 | 0.44 | 0.22 | 1.52 | 1.25 |

**Notes:** Statistical significance level: * $p<0.10$; ** $p<0.05$; *** $p<0.01$

## Strategic patterns in 1997

*Market context*

During a few years in the mid-1990s there were dramatic changes in Norwegian value system for food products. A total of four wholesaler groups managed to integrate into the retailer chain gaining control over 95 per cent of the market. They also soon integrated into international wholesaler network systems introducing several imported substitutes in the market. The most successful groups were the two wholesaler-retailer chains that emphasized low cost retailing. This segment in a short time took a 40 percent market share. This was the highest share in Europe. During the same period, the government opened for new producers in the dairy market, and there were stagnation in government support to the farmers to compensate for increased costs. This forced the farmers to "squeeze" their own customers and value added companies, i.e. the farmers' cooperatives. The industry therefore faced an increase in almost every competitive force; buyers' negotiation power on price, suppliers' negotiation power on price, availability of substitutes, and internal rivalry on price.

*Business strategy patterns*

In general, a larger number of clusters had higher emphasis on cost leadership tools, with higher scores on production efficiency. They also reduced their political influence activity, and instead concentrated on international network capability. We also found higher values on branding differentiation.

Cluster 1 consisted of eight of the largest firms. All the firms from the farmers' cooperative were in this group. They were emphasizing a broad differentiation strategy through promotion and branding. Amongst others, they were spending considerable amounts on advertising and conducted frequent market surveys. They were distinct on not utilizing a low cost strategy and niche orientation. The last few years they had built up large marketing budgets to launch a new corporate brand common for all the farmers' cooperatives. The firms had increased their dynamic development capability, i.e. they had a high level of competence, continuously focused upon improving their routines and long term planning. Much weight was put on cooperation with other firms and organizations. Among others, they were emphasizing more rational use and national coordination of all the production plants. This cluster still focused upon giving advice to the government regarding regulation and support for the industry.

Cluster 2 was the largest group with 83 per cent of the firms. As in 1993 the firms were characterized by a rather gray or non-distinct profile. The cluster analysis showed middle values on most competitive dimensions. The firms scored relatively highest with respect to possessing a niche focus. They scored the lowest on dynamic development capabilities.

There was only one firm with two employees in cluster 3. This firm was very aggressive and growth oriented trying out what should be characterized as a combined differentiation focus cost leadership strategy. It focused strongly on keeping as low prices as possible and having an efficient production. It also focused on promotion differentiation and emphasized use of different brands.

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In cluster 4, there were two firms with an average of 13 employees, following a low cost internationalization strategy. This cluster emphasized that it wanted to increase its competence in buying from abroad and selling abroad. The firms in the group were quite focused upon low cost strategy.

There was only one firm with ten employees in cluster 5 with a strategy similar to cluster 4. This firm wanted to increase its competence in buying from abroad and selling abroad. However, this firm was more niche-oriented and emphasized production efficiency to a larger extent than cluster four firms.

*Performance*

Analysis of performance (perceived results compared with industry average and ROI) showed that the industry results in 1997 was characterized by good results for the farmers' cooperatives. There was a wider variation in results for the in the middle cluster.

We linked the performance results in 2001 to the 1997 clusters and found that the performance of the whole industry had been dramatically worsened. The in the middle strategy firms had suffered the most; 16 per cent had negative results and 50 per cent had from zero to 5 per cent ROI. This group also continued to perceive their own results relative to others as better than the objective measures indicated.

## Strategic patterns in 2001

*Market context*

In 2001 the wholesaler-retailer groups had strengthened their grip on the agro-food distribution system. The low price retailer chains had, however, not increased their market share. At the supply side, the farmers' economy had worsened. The industry and especially the farmers' cooperatives had reduced their number of production plants significantly. There also had been several bankruptcies among the private producers.

The demand for meat products had increased during the last years. There had also been an increased emphasis on quality products among others due to "scandals" related to animal diseases. Also, the government had supported a value added product development and promotion program to increased the range of high quality agro-products. Therefore the high internal rivalry from 1997 seemed to have been reduced, and the threats from import goods had been avoided. At the same time, the market demand was more in favor of meat products and responding positively on reductions in prices and the volume products.

## Business strategy patterns

In general, the firms had a higher emphasis on cooperative relations and production efficiency than in earlier years. This may be seen as efforts to meet higher competition on price, and meet higher demands from the suppliers at to input price on raw materials. More firms scored high on low cost strategic tools (cluster 3 and 4), reflecting the change towards meeting the demands of the low price retailer chains.

All the firms from the farmers' cooperatives were in cluster 1. The firms still emphasized differentiation through promotion tools. In addition, they focused upon production efficiency and dynamic development capabilities. The farmers' cooperatives had during a few years improved their competitive ability as to competence and efficiency, being able to meet challenges on price competition without leaving their quality differentiation strategy.

Cluster 2 consisted of 32 firms with an average of 40 employees. Still the largest group of firms belonged to this cluster characterized by a rather non-distinct profile. However, they focused relatively stronger on some strategic aspects than earlier. Most notably, they utilized branding differentiation, and were increasing their production flexibility.

Cluster 3 had six firms with an average of 75 employees. These were utilizing a cost leader strategy and consequently were also emphasizing production efficiency. In addition, the firms focused quite strongly on promotion differentiation, but they scored low with respect to branding differentiation and production flexibility. These firms preferred producing in the retailers' private brand. In particular, the low price retailer chains developed their own private brands for volume products.

In cluster 4 there was only one firm with 45 employees. This firm was also high on implementing low cost strategy tools, but used different brands for specific customers and products. It also wanted to increase its competence in buying from abroad and selling abroad. Furthermore, it emphasized cooperation with others and production

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flexibility. This firm followed an interesting path as to competitive power, as it was trying to expand its range of products in different brand names through both import, cooperation with others and production flexibility.

Cluster 5 consisted of one firm with 65 employees. The firm had a distinct niche focus. It used different brands for specific customers and products. This firm scored high with respect to production efficiency.

## Discussion and conclusions

### Market context and competitive forces

This study presented an industry going from fragmentation to more nationally integrated features with higher internal rivalry and not the least increased negotiation power of buyers and suppliers. Even in an industry heavily protected by government subsidies and import barriers, changes dramatic changes competitive structures may occur. We found this changes through the implementation of customers' negotiation-power techniques and logistics, adopted by entering into international wholesaler alliances. The wholesale/retail chains used this knowledge to restructure their delivery system and to demand a national delivery capacity for their suppliers. We found import of low-priced substitutes to increase their negotiation power with the processors, and exploitation of loopholes in the import regulations, export quotas and licenses to gain competitive experience in international markets.

The result of this indirect influence was a swift change of structure toward a national and an international integration of the whole value chain of this industry. For each firm, not the least the smaller ones, a repositioning of strategy seemed imperative.

### Strategic positioning and organizational resources

In spite of market integration tendencies, the results of this study revealed that a large amount of firms did not change their strategic posture. These firms faced dramatic reduction in performance over the years analyzed. A characteristic feature was that they also overestimated their own position compared with other firms. There seemed to be a lack of understanding of the new forces in the market.

There were also major differences in the strategy-mix chosen to meet the new market challenges. The competitive positioning tools along with supporting organizational and resource-base sub-strategies created a multitude of strategic patterns. Firms with a quality-oriented differentiation sub-strategy that emphasized internal resource-base development seemed to have the potential for success in a fragmented industry facing integration challenges. They were prepared for more severe competition with their emphasis on improved, learning capacity among employees, and employee adaptability for frequent changes in technology and working routines. Hambrick and Lei (1985), among others, predicted this pattern, stating that in a fragmented market structure with emerging growth, firms should turn toward a more customer-oriented differentiation substrategy. Within the manufacturing of consumer goods, differentiation based on intensive advertising has been found to affect product prices positively (Wills, 1983).

The results, however, also indicated that differentiation with strong marketing tools was not enough to prosper in a situation with increase in competitive forces. One had to take production efficiency into consideration. A more successful combination was to develop a resource base with internal efficiency routines that prepared for a combination of differentiation and price leadership. Differentiation and price leadership strategy is the most successful combination across industries (Miller and Dess, 1993).

In this industry, however, we found that the limited, internal rivalry, caused by trade protectionism government market-intervention and political influence efforts reduced the perceived needs for the firms to increase their efficiency through a low-price leadership positioning. This caused a severe reduction in economic performance for the whole industry. The farmers' cooperatives made great efforts in improving their internal dynamic development capabilities as to routines and strategic planning, but to late managed to increased production efficiency through reducing over capacity. One of the reason for this may be found in their heavy reliance on political strategies.

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The lack of ability to develop combined differentiation and cost leadership strategy contradicts previous studies, for example, that of service industries where there is a majority of small and medium-sized firms (Cappel *et al.*, 1992), and more general investigations of small manufacturing firms and new ventures (Olsen and Kolvereid, 1994). Murray (1988) argues that the structural characteristics of the industry form the necessary preconditions for a price-leadership strategy.

The protected features of the meat processing industry, and the large number of firms with geographic focus, may reduce the perceived internal rivalry within the industry. It confirms earlier postulates about the importance of control of industry effects in strategic management research (Dess *et al.*, 1990). The lack of strategic change may be explained by the domination role of the farmers' cooperatives in the different regions. The literature discussed how strategic challenges emerge when there exists strong bonds to government institutions (Mintzberg, 1988). Political bonds reduced the ability to choose supplier relations, market range and investment patterns. This may cause severe problems in a transitional industry where dramatic changes in market structures may occur over a very short time period.

**Large- versus small-firm strategies**

The larger firms in this study emphasized a broad, differentiated product range and strong brand names. They emphasized improved internal routines and learning abilities that supported their competitive tools. Some of these larger firms concentrated on geographical expansion and the achievement of scale advantages. Others were bounded in their geographical scope, strong organizational ties to suppliers and political ties such as the farmers cooperative.

Earlier studies indicate that the cross-national integration of markets forces successful businesses to adapt both differentiation and cost efficiency strategies (Hill, 1988; Jones and Butler, 1988). Alternatively, they should at least be able to make timely shifts between differentiation and cost leadership (Gilbert and Strebel, 1987).

It can be inferred from this study that finding the right level of activity is important in transitional industries. Larger firms, with their ambitions of becoming full assortment processors, have to accumulate investment capital, find the right technology, and scale up their production plants to meet higher volume demands. For smaller firms, a matching geographical scope is important (Johnson and Thomas, 1987). They either have to upscale their activity to able to fight their larger counterparts, or to implement more segmented tools that may protect them from damaging price competition. The results of this study indicate a strong position for quality and marketing efforts, a difficult strategic tool but a tool that creates success in most markets (Douglas and Ree, 1989). However, these companies are also vulnerable to price competition and to the more aggressive marketing efforts of larger competitors, which are able to seek cost advantages through the use of flexible production technology and to secure a technical quality. Continuous innovation, a superior, internal resource-base of product and production technique development, as well as close customer relations are all critical tools for success within this group.

Most of the smaller firms in this industry were only to a limited extent prepared for the changes in competitive forces. Among these, a non-profiled and in-the-middle strategy dominated. The lack of strategic profile could be explained both by stable, local relationships embedded in social relations and traditions, and by the limited strategic apex of smaller firms. In these firms, the managers are busy on several levels and within several functional areas. They lack the time and competence necessary for analyzing and deciding on the strategic situation of the firm. In addition, as these companies are often family-owned, there usually is not an active board of directors to contribute to strategic decisions (Borch and Huse, 1993).

Consequently, there can be a critical time lag and mismatch between the strategic decision-making of the small firm and the changes in the market. It has been found in numerous studies that this category of firms has the worst performance across industries (Douglas and Rhee, 1989; Lefebvre and Lefebvre, 1992; Kim and Lim, 1988; White, 1986).

However, several entrepreneurial measures are at hand. The mediocre firm may implement horizontal integration sub-strategies to exploit larger geographical markets through strategic alliances with other

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firms in this group, or by ownership integration. Thus they can more rapidly improve their capacity, and achieve scale advantages without having the resources necessary for a full scale, investment strategy. These efforts also imply difficult and conflicting decisions as to ownership, in particular for family-owned firms. During the nineties one could see movements towards national cooperation networks and joint ventures among the private, regional-based processing firms. However, it was not easy to give away autonomy and market control to the joint venture.

Some of the firms continued to follow a local niche approach. However, these firms had even more limited resources, and are less attractive to potential alliance partners. One solution was to develop speciality products that were of interest to narrow segments in the national and international markets. For example, the international trend toward such items as original food, special tastes, food culture, ecological products, small scale, home made production, created a potential for the smallest category of firms. However, the distribution challenges are quite large for this type of company. An increased focus on cooperative relations and especially marketing joint ventures with other firms and organization could prove crucial to their eventual well being, but barriers for organizing such partnerships may rather large due to limited strategic apex within this category of firms.

## Governmental implications

The firms of an industry in transition from a fragmented structure to national and global integration have to make significant adjustments in their business strategy to survive such a transition. Therefore there are significant challenges for the governments involved in the restructuring process. In particular, governments of nations with strong protective schemes should be aware of the dramatic changes taking place in the competitive forces, and their attendant negative effects on small and regional-based firms. Nations with a small-scale structure may even face a loss of a significant part of "the underbrush" of small and medium-sized firms.

Programs are necessary to improve the resource base of this category of firms and to support the restructuring of the industry through investment funding and support for organizational cooperation and integration. During a transitional phase, industry-government alliances can evolve to improve industrial capability (Porter, 1990). Such alliances could help to keep the home industry intact, and to increase the opportunity for exploitation of new potentials in the international market place. The Norwegian government program for value creation within food production managed by the The Norwegian Industry and Regional Funding Bank (SND) is an effort in this direction. In this program, new cooperative efforts, development of regional innovation systems and regional generic marketing schemes are supported.

## Implications for future research

With more industries being exposed to international competition, the focus must continue to highlight the strategic adjustments to market integration at the firm level. The results of this study confirmed the importance of control for industry structure in such studies (Dess *et al.*, 1990). An increased emphasis on industry characteristics may, for example, explain the different patterns of internationalization found within small business research (Oviatt and McDougall, 1997).

This study has limitations in a one single industry and nation, and relatively small sample sizes. Its advantage was longitudinal data and high industry structure focus, together with knowledge on internal processes through case observation studies. When it comes to future research in this area, studies comparing different countries and production types are needed. Time series analyses to show the effects of changes in market structure are recommended. Such an approach could reveal the critical strategic decisions effective over time in meeting changes in environmental conditions (Douglas and Rhee, 1989). It could also provide a more in-depth picture of the complicated, dynamic relationships between strategy, resources and performance (Mosakowski, 1993; McDougall *et al.*, 1994; Brush and Chaganti, 1998). In this type of research, a broad conceptual set of business strategy tools should be instrumental in finding patterns unique to industries in transition toward global integration.

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More explorative research is also needed on the managerial processes involved in adopting a new business strategy. In particular, one should elaborate on quality-price aspects related to product differentiation in small volume segments, the development of tailored internal competence resources and dynamic capabilities for market adaptation when serving high-end consumers. In this respect, the human aspects and contractual foundations when building high-risk cooperative relations to achieve competitive strength. In this study, the firms seemed to have problems with utilizing their networks and cooperative efforts to create competitive advantage. To achieve these ends, in-depth and even observation-oriented research tools should be linked to the more quantitative methodological approaches.

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