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Strategy process as formulation and realization of corporate goals: The synthesis of surveys in Russian firms

Igor Gurkov**

Based on a series of corporate surveys, the paper reveals the peculiarities of strategy processes in Russian companies. The data suggests that the fragile balance of power between the top management and the dominant owners leads to establishing of sets of hardly combined goals. The necessary partial implementation of such sets leads to low confidence in the actions to be undertaken, low persistence in realization of business projects, permanent readiness to withdraw resources from the existing projects for their redirection into non-core assets.

Key words: corporate strategies, strategic goals, Russian enterprises

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Introduction

Strategy process is generally viewed as the process of transformation of strategic intents into strategic outcomes. In a recent terrific overview of the strategy process literature (Hutzschenreuter/Kleindienst 2006), more than 220 articles were presented and evaluated along three broad categories of factors relevant within strategy-process research:

- antecedents (environmental and organizational contexts as well as past performance),
- process (strategists’ characteristics, issues’ characteristics, forms of strategy formulation and actions of implementation),
- outcomes (changes in the environment, organizational characteristics and company performance).

However, most of the studies avoid the key elements of corporate strategy – setting and implementation of corporate goals. Looking deeper into a backlist of publications, we were able to identify in scholarly journals 30 papers with the titles that explicitly contained the term “corporate objectives. Although there are sporadic discussions on the topic¹ we also should note that most of empirical studies on corporate goals were undertaken in 1970-1980s (Child 1973; Budde et al. 1982; Shetty 1979; Beggs/Lane 1989a/b)².

Thus, we have had to critically re-evaluate the existing theoretical models of goal setting and goal realization, and to undertake the empirical research that should examine our theoretical concepts. Therefore, the aims of our study were:

- To propose the general model of strategy process built around strategic goals.
- To develop research instruments for observation of the main elements of strategy process.
- To select the most suitable methods for analysis of the elements and their interconnections.
- To reveal the most stable characteristics of strategy process in a particular dynamic environment, namely in the Russian economy.

¹ See the recent avid discussion on the topic in «Organization Science»: (Sundaram/Inkpen 2004a, Freeman/Wicks/Parmar 2004, Sundaram/Inkpen 2004b).
² We cannot call publications of the Conference Board on CEOs’ challenges (Barrington 2006) as purely academic work.
2. Theoretical framework and research instruments

2.1. Towards the better understanding of corporate goal-setting–amalgamation of the stakeholder theory and the resource-based view of the firm

In our evaluation of theoretical foundations for goal setting we addressed the larger stream of strategy research. The two most influential approaches – the resource-based view of the firm and the stakeholder theory provide somehow competing views on the topic. However, both approaches have visible weaknesses in the key points. From one side, the resource-based view in its conventional form does not provide the clear answer on how the strategic resources (or their derivatives like core competences and dynamic capabilities) are created and why they are utilized in a particular way in different corporate and competitive strategies.

From the other side, the stakeholder theory affirms that its stakeholders impose corporate objectives on the firm. However, it is still not clear who may legitimately claim himself as a stockholder, as well as how such claims are transformed into corporate objectives in the real life.

It is really surprising why the two approaches have existed for 25 years largely separately, while their amalgamation leads to an immediate advancement in the theoretical perspective of strategy process. The starting point for the synthesis should be the revision of the “classical” definition of a stakeholder. In our view, R. Edward Freeman, the godfather of the stakeholder theory in strategic management, made a clear error while keeping for 20 years the definition of a stakeholder as “any group or individual who may influence or is under influence of firm’s actions” (Freeman/Parman 2004). By any account the influence of such a person on the firm and especially, the influence of the firm on a person do not provide the legal foundations for his/her participation in goal setting, i.e. for his actions before the actions of the firm. The person may defend his/her interests by appealing to the court after the firm’s actions have started or at least when the plans for such actions became known.

The situation changes if we imagine the stakeholder is not merely the “person affected by company’s actions,” but an investor of a particular resource into the firm. Such persons (institutions) may indeed claim to count for their interests before the plans for corporate actions are developed and therefore to pretend to participate in corporate goal-setting.

Presenting stakeholders as investors has two visible advantages. First, we may clear delineate stakeholders from actors of strategy process as well as to identify the four classes of stakeholders – stockholders (shareholders), employees, customers, and governmental authorities. Stockholders bring into the company the “initial” capital. Employees bring the “human capital.” Customers who
routinely exchange money into goods and services of the firm bring in working capital. Finally, in many spheres of Russian business the very existence of the firm is impossible without regular injections of “administrative resource.” We mean under “administrative resource” the specific actions of governmental authorities aiming to create the “enclave of relative stability” for a particular firm (ensuring the possession of licenses for specific resources and types of activities, prevention from “excessive” bribes etc.).

In the proposed model, we should exclude competitors from the list of stakeholders as they do not bring any resources for the corporation – they are actors of strategy process, who are trying to deprive the firm from the particular resource. Thus we may talk about competitors on the markets for goods and services, competitors on the labor market, competitors on financial markets and, finally, competitors for political patronage or public admiration.

Suppliers also should be called not as stakeholders, but as strategic actors. Indeed, from one side, if a firm purchase a particular resource (raw materials, equipment, technology) from the market, it cannot claim taking the possession of the unique resource. From the other side, if a supplier delivers the unique resource to the firm not considering the other options, it is indeed just a part of the firm.

Besides the clear identification of the stakeholders, their appearance as investors transforms all their particular claims into “the rate of return on their specific investments”. Shareholders are pursuing the maximization of the ratio between total return and total risks, employees are inclined towards the maximization of the ratio between their remuneration and their efforts, customers are eager to improve the relationship between the quality (perceived use value) and the price of goods and services of the firm.

The company is inclined towards minimization of stakeholders’ claims, using various manipulative techniques (Frooman 1999; Frooman 2005; Scholes 1998). However, in most of the cases the firm is limited in its possibilities to retain the return to stakeholders. Thus, the simplest form of corporate objective function is the maximization of interests of the most powerful stakeholder bounded by the interests of the second in relative power.

As a result, we limit the set of corporate goals to the mixture of relative priorities of the firm’s stakeholders:

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3 In this respect banks may be considered as a specific class of company’s customers – the company offers to banks the services of loan-taking. Interest rate is the quality of such a service, while the specific risks are the price for service.

4 The power of a particular stakeholder may be viewed as a relationship between the quasi-rent of the firm and the quasi-rent of a stakeholder.
Profitability and financial stability for shareholders;
Wages, benefits and workplace stability for employees;
Quality (perceived use value) achieved at minimal price for customers.
Societal benefits or private benefits for holders of “the administrative resource.”

This set of externally imposed goals should be expanded by the personal goals of internal corporate “strategists”. After many years of teaching, training and coaching in corporate strategy development, we have proposed (Gurkov 2006b) the excessive list of top managers’ desires:

- Monetary rewards, perks and benefits
- Power
- Glory (admiration of colleagues, the general public or some of corporate stakeholders)
- Curiosity (willingness to try new things or to make the same things in a new way)
- Tranquility (calm) (avoidance of any sharp changes in life and business)

We also have some insights into the most natural sources/obstacles for satisfaction of a particular desire. For example, sales’ maximization is a more consistent way for increasing managers’ rewards as a proportion of the total costs than any scheme of profit sharing; managerial power is better associated with the number of direct and indirect subordinates than with subtle parameters like bargaining position, playing as a role model for competitors etc.

As a result, the real goal function of the firm is the trajectory for optimization of the benefits of the key stakeholders and (ideally) the personal desires of key internal decision-makers.

In passing such trajectories, the company must assemble, maintain and develop sets of necessary resources. The presentation of stakeholders as investors gives us a clear definition which resources may be called as “strategic” – they are the capabilities that are necessary to secure the input of shareholders, customers, employees and authorities. As each of the stakeholders is inclined towards maximization of the ratio between its own input and the appropriated output, such capabilities are indeed quite reasonably called as “dynamic capabilities” (Teece/Pisano/Schuen 1997). The structure of such capabilities follows the structures of inputs provided by stakeholders so we may distinguish:

- capabilities to attract and keep the necessary financial resources (securing the input of shareholders);
- capabilities to develop new products and to offer such products at competitive prices (securing the input of customers);
- capabilities to attract the necessary workforce and to use the people in the most productive way (securing the input of employees);
➢ capabilities to achieve the necessary political protection (legal approval) of company actions (securing the input of authorities).

The sets of dynamic capabilities are highly specific, as they are assembled for a particular set of corporate goals, which in turn are the projection of desires of the most powerful stakeholders. Any changes in positioning of dominant stakeholders thereby must result in re-consideration of the necessary strategic capabilities. In addition, the execution of corporate and competitive strategies is evaluated in terms of advancements towards the imposed goals; such assessments may lead to adjustment of the initial weights and ranks of particular goals. Thus, the accumulation of strategic resources is not just the stockpiling of investment, supply and employment contracts, but permanent re-consideration of the importance of particular capacities.

Dynamic capacities are used for three types of actions:

➢ drafting strategic plans and programs;
➢ implementing corporate strategies (reconfiguration of business portfolios);
➢ implementing competitive strategies (maintaining or amendment of the competitive position of a particular business).

The abovementioned considerations enabled us to draw the basic model of strategy process as the process of setting and realization of corporate goals which includes:

➢ interests and pressure of stakeholders;
➢ personal motives of internal strategists;
➢ relative power of company managers in strategic issues;
➢ goals themselves;
➢ strategic actions;
➢ expected stable relationships between the elements (see Figure 1).

We depicted in figure one only a fraction of possible relationships that seem to be more obvious.

2.2. Research instruments

We tried to maintain the consistence in our observations in strategies of Russian companies. So, the main research instruments was the questionnaire, developed in 2000 and subsequently used in a series of large-scale surveys in enterprises (Gurkov 2005). We kept unchanged the questions on major corporate goals, current business performance, main obstacles for innovations, competitiveness, and perceived independence in strategic decision-making. The newly developed part of the questionnaire consisted of questions on the role of particular corporate actions (diversification, vertical and horizontal integration) in
company’s strategy, and on the assessment of the popularity of these actions among firm’s competitors.

The data set for evaluation consisted of 250 questionnaires of Russian top managers, collected in 2007. When appropriate, we compared the results of 2007 with the results obtained in 2002 (1500 responses from corporate managers) and in 2004 (1400 responses).

Figure 1. Elements of strategy process

3. Results

3.1. Setting corporate goals
We started our analysis with the general overviews of the declared corporate goals (see Table 1).

The triad “sales growth – profitability growth – financial stability” has described over the past years the desired future of Russian companies. The size of the
company or the line of business does not affect the ranks of such goals. What does indeed have an impact of these goals is the perceived market pressure. For 40% of the surveyed firms the competition is considered as “visible” and for further 40% - as severe or extremely severe. The higher the level of competition, the stronger is the desire for sales growth. However, the level of competitive pressure is not related with the relative importance of goals like “overseas expansion,” “quality improvement,” “development of production facilities.” Such measures are not considered by Russian managers as the means to escape the sharp competition on domestic markets.

Considering the relationship between the declared goals, we have found two largely separated “islands” – one “island” consists of connected goals of sales growth and profitability. The second “island” is the overlapping goals of “quality improvement,” “facilities renewal,” “high wages for employees,” “workplaces’ protection.” The “bridge” between the islands is the desire of financial stability that exists in any set of corporate goals of Russian companies.

We expected that we dealt here with two kinds of key strategists. Indeed, with all varieties, strategic decision-making in Russian companies nowadays is split almost equally between internal actors (top management) and external actors (shareholders) in their different appearances – persons, boards of directors, general shareholders meetings.

Table 1. Declared corporate goals (surveys in 2007 and 2004)

<table>
<thead>
<tr>
<th>Item</th>
<th>Percentage in 2004</th>
<th>Percentage in 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales growth</td>
<td>91</td>
<td>91</td>
</tr>
<tr>
<td>Profitability increase</td>
<td>93</td>
<td>87</td>
</tr>
<tr>
<td>Financial stability</td>
<td>92</td>
<td>84</td>
</tr>
<tr>
<td>Market share on domestic markets</td>
<td>84</td>
<td>72</td>
</tr>
<tr>
<td>Company’s value</td>
<td>59</td>
<td>69</td>
</tr>
<tr>
<td>Quality improvement</td>
<td>56</td>
<td>60</td>
</tr>
<tr>
<td>Facilities renewal</td>
<td>73</td>
<td>52</td>
</tr>
<tr>
<td>Maintaining workplace</td>
<td>71</td>
<td>45</td>
</tr>
<tr>
<td>Employees’ earnings</td>
<td>66</td>
<td>35</td>
</tr>
<tr>
<td>Overseas expansion</td>
<td>28</td>
<td>29</td>
</tr>
</tbody>
</table>

Our expectations came true: top management is more concerning indeed about wages, workplaces’ protection (significances of differences is 0,000) and quality (significances of differences is 0,05). However, corporate managers cannot resist the pressure of shareholders in imposing the sets of hardly combined goals.

Indeed, the triad of dominant goals (sales-profitability-financial stability) imposes extremely severe limitations of company’s actions, as simultaneous growth in sales and profitability is possible only under the constant growth of marginal revenue. While in monopolistic markets this is feasible, for competitive markets the growing marginal revenue may be achieved only if:
there is a very effective learning curve or the leap from under-utilization to the optimal utilization rate of production capacities, or
there are shifts from the low-marginal to higher-marginal products, presumably in upper segments of the markets.

Both situations are usually associated with massive investments. However, the third major goal of Russian companies (financial stability) demands the short financial leverage and equity financing of projects. Thus, to be considered as “sustainable”, business projects:

should be secured, at least, for a half, by equity financing;
should target “higher” market segments, where higher prices presumably allow higher mark-ups;
should use “quick” production capacities, i.e. facilities that are easy to install, to master and to achieve the optimal level of their utilization.

Unfortunately, Russian managers very seldom take such limitations into consideration. The goal of sales growth is set irrespectively to the level investments. When investments are indeed implemented in any serious volume, the conditions of financial stability are usually violated. Most of rapidly expanded Russian companies are heavily indebted. For example, for leading Russian retailers the ratio “debt/EBITDA” stays over the past years at the level of 500-700% (Kommersant 2008); Russian oil and gas companies have accumulated external debts comparable with the total annual value of energy exports.

Setting strategic goals also should take into account assessment of the resources available. We have identified (see Section 2.2) four types of strategic resources – financial resources, marketing/production resources, human resources, and relational assets. Each type of resource may be viewed in its dynamic form as a capability for particular actions in a specific sphere. The perceived strategic capabilities are presented in Table 2.#

The current situation in Russian companies is the logical consequence of the trends of the past years. Financing for projects became easier and is now considered as difficult as attracting the qualified workforce. At the same time Russian managers have realized that the finance themselves cannot solve automatically many of the problems – to get an access to the necessary technology and to achieve the orchestration of the work of various departments becomes more and more difficult.

Regarding the connections between the corporate goals and assessment of strategic resources, we may see that various dominant strategists (parent company, shareholders, and company managers) impose their own logic on strategic planning.
Table 2. Dynamic capabilities of Russian companies (percentages of managers who assessed such actions as extremely difficult)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>To get financing</td>
<td>53</td>
<td>49</td>
<td>36</td>
</tr>
<tr>
<td>To get necessary licenses</td>
<td>No data</td>
<td>No data</td>
<td>23</td>
</tr>
<tr>
<td>To reach mutual understanding with competitors</td>
<td>37</td>
<td>21</td>
<td>25</td>
</tr>
<tr>
<td>To get an access to technology</td>
<td>16</td>
<td>21</td>
<td>26</td>
</tr>
<tr>
<td>Staffing</td>
<td>25</td>
<td>39</td>
<td>36</td>
</tr>
<tr>
<td>To change the sets of employees’ duties</td>
<td>3</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>To maintain new job requirements</td>
<td>8</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
<td>To orchestrate the work of various departments</td>
<td>3</td>
<td>27</td>
<td>35</td>
</tr>
<tr>
<td>To orchestrate the work of business partners (suppliers and distributors)</td>
<td>29</td>
<td>31</td>
<td>33</td>
</tr>
</tbody>
</table>

When strategic decisions determined by company management, the assessment of available resources play an important role in goal setting, particularly:

- when there is a lack of financial resources, the goal of maintaining workplace is given away (sign 0.049);
- when there are problems with authorities, managers, contrary, aspire to maintain workforce, to keep financial stability and to look into opportunities into foreign markets (all correlations significant at 0.040 or less);
- when there are problems with business partners, managers do not see the possibilities to increase profitability and even to maintain financial stability (sign. 0.040 and less).

When strategic decisions are made by shareholders, there are much less connections between strategic resources and goals. Two deficiencies are clearly taken into account by shareholders – the lack of financial resources and the difficulties in changing the workplace arrangements for managers. The lack of financial resources is seen as the main obstacle for quality improvement. The rigidity of managers’ contracts, however, has much broader implications – it obliges to declare the goals of wages’ increase and workplaces’ protection.

Finally, parent companies are not inclined towards deeper investigation of specific deficiencies while setting goals for their subsidiaries – presumably subsidiaries should overcome difficulties themselves, without bothering the management of the parent.

We have seen that besides low connectivity of goals, the goals themselves are set (and especially imposed) with little references to resources available. As a result, all participants of strategy process deeply feel that the development of their companies go unbeknown to the declared goals. In turn, this leads to low
confidence in the actions undertaken, low persistence in realization of business projects, permanent readiness to withdraw resources from the existing projects for their redirection into non-core assets. This strong statement was proved by the subsequent stages of our analysis when we looked at realization of strategic goals through designing and implementing strategies.

3.2. Realization of strategic goals
We formulated three elements of realization of goals – strategic planning, execution of corporate strategies, execution of competitive strategies.

3.2.1. Strategic planning
We expected to clarify the types of strategic planning in Russian companies and connections of particular types of planning to specific corporate goals.

We distinguished three features of strategic planning in Russian companies. First, Russian companies do not like detailed strategic plans. Although the probability of having a detailed strategic plan depends on the size of the firm (sign. 0.000), a half of the large firms (with sales above Rub. 1 bln.) feel themselves comfortable without detailed corporate-wide strategic plans. When we have seen large investments, the situation did not change much – 60% of the companies that implemented significant investments (more than 10% of the assets) did this within the framework of fragmented projects, without integrated strategic plans.

Second, there is a strong relationship between the competitive pressure and the planning activities, but in the opposite way to the contemporary strategic thinking – the stronger the competitive pressure, the higher is the probability that the Russian firm will develop a detailed strategic plan. Indeed, 80% Russian monopolists feel comfortable without any detailed strategic plans, while under extreme competitive pressure a third of companies see the escape in designing the detailed strategic programs.

Third, there is a strong correlation between the type of strategic planning and the types of strategists (see Table 3). Governing bodies (parent companies, general shareholders’ meetings, managing boards, and especially boards of directors) like detailed strategic plans. When strategic decisions are taken not by bodies but by persons (CEO or the controlling investor), such persons act only within the sets of separate projects or manage without any formal planning documents. We see that strategic plans serve more as a mean for formalization of collective decision-making than a real program of actions.

We also were able to distinguish the goals that provoke the design of detailed strategic plans:

- Value maximization (sign. 0.000)
- Facilities development (sign. 0.003)
Strategy process as formulation and realization of corporate goals

- Overseas expansion (sign. 0.004)
- Reaching financial stability (sign. 0.009).

**Table 3. Types of strategic planning in companies with different dominant strategists (percentage within the groups of dominant strategists)**

<table>
<thead>
<tr>
<th>Dominant strategists</th>
<th>Type of strategic plans</th>
<th>Detailed plans that includes various scenarios</th>
<th>General strategic plan</th>
<th>Some general ideas</th>
<th>Separated projects</th>
<th>No plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management of parent company</td>
<td></td>
<td>6.5</td>
<td>45.2</td>
<td>29.0</td>
<td>16.1</td>
<td>3.2</td>
</tr>
<tr>
<td>Management of the corporate center</td>
<td></td>
<td>11.1</td>
<td>33.3</td>
<td>33.3</td>
<td>22.2</td>
<td>0.0</td>
</tr>
<tr>
<td>CEO personally</td>
<td></td>
<td>4.9</td>
<td>12.2</td>
<td>36.6</td>
<td>39.0</td>
<td>7.3</td>
</tr>
<tr>
<td>CEO together with top executives</td>
<td></td>
<td>3.5</td>
<td>31.6</td>
<td>26.3</td>
<td>35.1</td>
<td>3.5</td>
</tr>
<tr>
<td>Board of directors</td>
<td></td>
<td>14.3</td>
<td>47.6</td>
<td>19.0</td>
<td>19.0</td>
<td>0.0</td>
</tr>
<tr>
<td>General shareholders’ meeting</td>
<td></td>
<td>0.0</td>
<td>36.4</td>
<td>27.3</td>
<td>36.4</td>
<td>0.0</td>
</tr>
<tr>
<td>The dominant shareholder</td>
<td></td>
<td>5.3</td>
<td>17.1</td>
<td>36.8</td>
<td>25.0</td>
<td>15.8</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>5.7</td>
<td>27.2</td>
<td>31.3</td>
<td>28.5</td>
<td>7.3</td>
</tr>
</tbody>
</table>

All other goals may be pursued in various types of strategic planning. Taking into account the high correlation between value maximization and financial stability (corr. 0.44), we may talk about three types of strategic plans in Russian companies:

- The plan of financial restructuring
- The plan of facilities’ modernization.
- The plan of international expansion.

The real plans may combine the abovementioned elements, but only those goals have the chances to be achieved through realization of detailed strategic programs.

### 3.2.2. Corporate strategies

Strategic plans, programs and project should be realized corporative and competitive strategies. However, actions at competitive levels are rare and can be afforded only by large firms. Indeed, diversification was observed in 22% of
the surveyed firms, vertical integration - in 21% of the firms, and horizontal integration – in 16% of the firms.

Despite the rareness of such actions, two thirds of the firms that really dared to do so reported that such actions are standards for their industries. Only a few firms have the courage to undertake diversification and especially vertical integration as “deviant” actions, not common among their competitors.

In addition, while horizontal integration is undertaken within detailed strategic plans, vertical integration and especially diversification are more opportunistic actions, often undertaken even without formal projects. Moreover, diversification is often realized not only beyond the initial strategic plans but also without any investments, just as a mean to increase the utilization of the idle equipment and the excessive workforce. As a result, there is no connection between performance improvement and diversification.

When we looked at connections between corporate strategies and strategic goals, we discovered a variety of associations:

- Diversification serves mostly for maintaining workplaces (corr. 0.230, sign. 0.000) и employees’ earnings (corr. 0.155, sign. 0.016).
- Horizontal integration (purchase of competitors) serves as a mean for value maximization (corr. 0.284, sign. 0.000) and for penetration into overseas markets (corr. 0.194, sign. 0.003).
- Vertical integration is seen as a mean to improve the quality of production (corr. 0.133 sign. 0.040).

3.2.3. Competitive strategies and company performance

Under significant competitive pressure and aiming towards the increase of sales, most of Russian companies embark on “window-dressing” strategies, trying to offer superior products and services at average prices. Almost 60% of the surveyed managers reported that their quality is superior to the quality of similar products offered by competitors. However, the assessment of quality does not correlate neither with the age of equipment, nor with the age of the technologies. Moreover, underpricing strongly suppresses profitability (corr. - 0.357, sign. 0.000). This means that the predominant competitive strategy strongly contradicts with two of the major goals (profitability and financial stability) and mostly serves to the third goals (sales growth). We see that in competitive strategies (presumably the area of ultimate responsibility of company managers) managers pursue de facto only their own interests.

We should also note that the positive performance does not lead to accumulation of strategic resources (except financial resources). The improved performance does not make easy the access to technology, staffing, synchronization of business partners or improvement of internal communications.
4. Discussion

Our definition of corporate goals as a compromise between aspirations of the dominant stakeholders and interests of the company’s management gives us a key to understanding of strategy process in Russian companies. In attempts to keep a fragile balance between external strategists (dominant shareholders) and internal strategists (CEOs and managing boards) companies accept the sets of contradictory goals, sometimes on the account of employees. However, in implementation of such sets we also see clear divergence between interests of external and internal strategists. External strategies were able to pursue their goals only through selected corporate strategies (especially horizontal intergration), that are related restructuring of corporate portfolios and are presumably beyond the ultimate authority of corporate managers. At the same time, diversification is implemented totally for interests of internal strategists that may explain while such actions performed opportunistically and usually lack adequate investments. Regarding competitive strategies, they are executed totally for specific goals of internal strategists, directly contrary to the interests of shareholders (profitability).

We may see that postulated fragile compromise turned to be a fierce battle over de-direction of scarce company’s resources. As far any person (CEO or dominant shareholder) is about to win the battle, he act in a hurry, not wasting time to design detailed strategic plans.

The presented picture explains in a large why there is minimal accumulation of strategic assets in Russian firms. Indeed, we postulated that strategic assets (dynamic capabilities) are highly specific, as they are assembled for a particular set of corporate goals, and any changes in positioning of dominant stakeholders thereby must result in re-consideration of the necessary strategic capabilities. Thus, as the current sets of corporate goals are viewed as provisional, reflecting the short-term victory of one side in the battle for dominance, we cannot expect that company’s managers will put specific efforts to accumulate capabilities that will serve to strategies of their opponents (shareholders). Similarly, shareholders are not inclined to develop specific resources that reinforce the company’s management in pursuing its specific interests. Both situations make the accumulation of strategic assets a very difficult task.

Principal-agent problem exists in any economy. The rules of corporate governance deal with the top of iceberg, as they are applicable mostly for listed companies, while the vast majority of firms are unlisted companies, partnerships or private holdings. For such cases the relations between principals and agents are governed by the established tradition, history of independent courts’ decisions and black lists of “self-willed” executives. All those things are hardly present in today’s Russia. However, only a few companies make hidden conflicts between shareholders and executives over corporate goals and their implementation open. Indeed, being revealed, such conflicts do an ill turn both
to shareholders and executives – shareholders become in a public opinion “capricious fellows” and the next executives demand bonuses for the risks and patience; executives are labeled as “insurgents” and they chances for better jobs should be deteriorating. Thus, conflicts are prolonged without clear resolution. As a consequence, Russian business exhibits the major characteristics of adolescent behavior, including typical neuroses and complexes of a perturbation period:

- coexistence of mutually exclusive motives;
- inability to fix attention and to plan ahead actions, low persistence in goal attainment;
- combination of self-conceit and susceptibility, strong feelings of under-valuation.

We may add to the list widely dispersed desires to copy “the sophomores” and slavish observance of fashionable models of behavior.

Despite the natural maturation of human beings, maturity of a national business model cannot come automatically. We may observe the stability of the major characteristics of strategy process of Russian companies (contradictions within the goal sets, conformism of corporate strategies) since 2002.

5. Conclusions and suggestions for further research

Our initial attempt to amalgamate the resource-based view of strategy and the stakeholder theory made possible to see the strategy process as an arena of conflicts and temporary agreements between dominant stakeholders—investors of a particular resource – and company management. We have seen how in Russian companies shareholders and the management achieve the mutual agreements at expenses of employees, how such agreements are often violated in designing and especially in implementing some corporate and most competitive strategies, how such strategies, in turn, lead to over-accommodation of customers and partial re-establishing of the interests of employees.

We also should stress that we left aside the questions of government influence on strategic decision-making in Russian firms. This is strong evidence that these issues are of ultimate importance for Russian businesses, but the consequences of authorities’ pressure is so specific for particular industries and types of businesses that our sample was insufficient to reveal the problem in the necessary depth.

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5 In fact, nowadays in Russia an executive who leaves the company after a sharp conflict with stakeholders rarely looses it reputation, except in the cases of prolonged losses, revealed fraud, criminal persecution etc. Quite the reverse, he/she is considered by his/her colleagues and potential employers as a strong, self-contained person, adherent to deeply rooted principles and professional standards.
Our results came mostly from quantitative analysis largely as measuring the “average temperature” of patients. There is a strong demand for qualitative studies in strategy process, that take into account the variety of contexts – levels of competitive pressure, variants of stakeholders’ influence, peculiarities of ownership structures. We believe this will be a promising field for further studies that will not only describe but predict the evolution of strategy processes in Russian companies.

References


