

**Corporate Strategies of Russian Industrial Companies: Determinants and
Moderators***

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Using the data from the survey of 780 CEOs of Russian industrial companies we clarified the relationship between expressed corporate goals and corporate strategies. We found that managers' mindsets (cognitive maps) serve as important moderators on transformation of goals into corporate actions.

1. Introduction

Accordingly to J.Collis and C.Montgomery, “corporate strategy is a way in which a multi-business company creates value through configuration and coordination of its activities” (Collis, Montgomery, 1998, p. 5). There have been a lot of studies on particular aspects of corporate strategies. Less work has been done on the choice of strategic options. Meanwhile, corporate strategies are merely methods to achieve the goals of a corporation. The corporate goals and specifically, objectives may be viewed as a compromise between the aspirations of top management and the interests of dominant stakeholders of the corporation. Such a view appeared as early as in the late 1950s (Simon and March, 1958; Levinson, 2003). Therefore, *the goal of our study was to retrace how corporate strategies and corporate objective are interconnected and how such connections are moderated by other factors.*

2. Corporate strategies and corporate goals – basic definitions and possible moderators

2.1 Types of corporate strategies

As the corporate strategy is about configuration and coordination of activities, we may easily see all variants of corporate strategies as combination of two of variables: –

- the scope of activities (existing or new business areas);
- the form of changes (the choice between green-field investment and acquisition of existing businesses).

Combining the possible contents and forms of corporate development, we may derive the following corporate strategies:

- *“organic” diversification* – expansion of corporate activities into new business areas by the development of the existing corporate units;
- *“integrated” diversification* – expansion of corporate activities into new business areas acquisition of other businesses;
- *organic growth* – growth of sales in the in the already established areas by the development of the existing corporate units;
- *horizontal integration* – acquisition of businesses in the already established areas.

Vertical integration, however, presents a very specific type of corporate strategy. If vertical integration is an absolutely new phenomenon for the corporation and it is achieved through acquisition or development of new (for a corporation) businesses, either located in the same or in up-stream or down-stream stages of the value chains, this is a sub-class of diversification. If vertical integration is the already established practice for the corporation and merely the intensity of activities in up-stream or down-stream businesses is increased, this may be viewed either as organic growth or horizontal integration, depending on the form of the project. Therefore, we excluded vertical integration as a separate corporate strategy from our analysis.

We should note that all the mentioned strategies may coexist in one corporation simultaneously. Moreover, the combination of such strategies represents the specifics of multi-business activities of the firm.

2.2 Types of corporate goals

Corporate goals are the desired end states that are set to the firm (Barry, 1987, p. 43). However, it is still under discussion who sets such goals (see Sundaram, A.K., Inkpen A.C. “Corporate Objective Revised”, *Organization Science*, Vol. 15 No. 3, May-June 2004, pp. 350-363; Freeman, E.R., Wicks, A.C., Parmar, B. Stakeholder Theory and “Corporate Objective Revised”, *Organization Science*, Vol. 15 No. 3, May-June 2004, pp. 364-369; Sundaram, A.K., Inkpen A.C. Stakeholder Theory and “Corporate Objective Revised”: A Reply, *Organization Science*, Vol. 15 No. 3, May-June 2004, pp. 370-371).

We described corporate strategies as the product of a compromise between the top management and dominant stakeholders. However, our definition of stakeholders has an important difference of that by Freeman (Freeman, 1984), who considered stakeholders as “any group or individual that may influence or be under influence by activities of the firm” Freeman, Wick, Parman, 2004, p. 365). We define stakeholders as suppliers of resources to the firm. In this respect, shareholders, employees, customers and authorities may be considered as “true stakeholders,” as all of them contribute specific resources to the firm. At the same time, competitors and various public action groups may be labeled as “actors” of the environment, that indeed may

Corporate Strategies of Russian Industrial Companies: Determinants and Moderators influence the company's activities, but are separated from goal-setting. As we described stakeholders as suppliers of resources, the set of really pursued corporate goals should be a hierarchy of specific forms of value. For shareholders value is represented as market capitalization and profits. For customers value is presented as quality of company's goods and services. For employers value is wages and workplaces. Finally, the society is interested in economic and social stability, technological progress and so like. Regarding corporate managers, their personal interests (money, power, glory, curiosity) are better served through growth, process innovations and expansion into new markets (see Gurkov, 2006). Therefore, the list of all possible forms of value for stakeholders and company's management represents the list of the possible corporate goals. In real life corporations differs in relative importance of particular goals in managers' agenda.

2.3 Managers' mental models as moderators between goals and actions

The translation of goals into corporate actions (strategies) is not direct. Before any actions, managers assess the availability of strategic resources (Wernefelt, 1994) and (more important), their "transformability" into particular form of value¹. In both "assessment exercises" managers use their beliefs on how the world works. Therefore, managers' mental models become the moderator between goals and actions.

The term "mental model" was introduced in 1943 by Kenneth Craik (Craik, 1943) and then was re-introduced in 1980s in cognition research. It was stated that "mental models play the central role in representation of objects, explaining causality and the overall view to the world (see Johnson-Layard, 1983). Indeed, for managers mental models represent the initial point of cognition (Adner, and Helfat, 2003). Over the past 20 years intensive research has been done in representing strategy as cognition and many fruitful insights on particular influences of managerial dental models have been made².

¹ In planned actions it is achieved through formal analysis, in *re-actions* it may happen intuitively

² See, for example, Hambrick, D.C. and Mason P.A. (1984) Upper Echelons: The Organization as a Reflection of its Top Managers. *Academy of Management Review*, Vol. 9, pp. 195-206; Lyles, M.A. and Schwenk, C.R. (1992) Top Management Strategy and Organizational Knowledge Structures. *Journal of Management Studies*, Vol. 29 No. 2, pp. 155-174. Graydon Davison, Deborah Blackman The role of mental models in innovative teams. *European Journal of Innovation Management*. Bradford: 2005. Vol. 8, Iss. 4; p. 409-424; Lynn Westbrook Mental

However, generalization of these studies is uneasy task. The biggest challenge here is the absence of the uniform metrics for mental models (see Osborne, David J., Stubbart, C.I. and Ramaprasad, A, 2003). For some period the metrics of national culture introduced by Hofstede (1987) has looked very promising. However, the empirical studies based on Hofstede's approach demonstrated low applicability of the metrics for explanation of acceptance/avoidance of particular strategies (see Adamides, E.D., Stamboulis, Y., Kanellopoulos, V. (2003)

In 1999, Bob de Wit and Ron Meyer proposed an elegant set of constructs that encompassed most of decisions corporations (and their CEOs) face (de Wit, Meyer, 1999). They stressed that most of such decisions, whatever there are routines, as indeed "solutions to wicked problems – complicated issues without a clear problem definition and without a fixed set of remedies." De Wit and Meyer also pointed out that at the heart of each wicked problem are strategy tensions, created by conflicting demands that are pulling the organization in opposite directions (de Wit, Meyer, 2005).

models: a theoretical overview and preliminary study. *Journal of Information Science*. Amsterdam: Dec 2006. Vol. 32, Iss. 6; p. 563-579; Ma Valle Santos, Ma Teresa Garcia Organizational Change: The Role of Managers' Mental Models. *Journal of Change Management*. London: Sep 2006. Vol. 6, Iss. 4; p. 305-326; Joachim Zweynert Shared Mental Models, Catch-up Development and Economic Policy-making: The Case of Germany after World War II and its Significance for Contemporary Russia. *Eastern Economic Journal*. Bloomsburg: Summer 2006. Vol. 32, Iss. 3; p. 457-479; Jeannette Harrison, Emily Boyle Falling into capability learning traps: The role of the firm's predominant managerial mental models. *Management Decision*. London: 2006. Vol. 44, Iss. 1; p. 31-42; Jeffrey Pfeffer Changing mental models: HR's most important task. *Human Resource Management*. Hoboken: Summer 2005. Vol. 44, Iss. 2; p. 123-128. Umit Ozen, Fusun Ulengin Exploring the Differences of Managers' Mental Model. *Journal of Transnational Management Development*. 2004. Vol. 9, Iss. 2,3; p. 5-20; E. D. Adamides, Y. Stamboulis, V. Kanellopoulos Economic integration and strategic change: the role of managers' mental models. *Strategic Change*. Chichester: Mar/Apr 2003. Vol. 12, Iss. 2; p. 69-78; Gerard P Hodgkinson Comparing managers' mental models of competition: Why self-report measures of belief similarity won't do. *Organization Studies*. Berlin: 2002. Vol. 23, Iss. 1; p. 63-72.; Kevin Daniels, Gerry Johnson, Leslie de Chernatony. Task and institutional influences on managers' mental models of competition. *Organization Studies*. Berlin: 2002. Vol. 23, Iss. 1; p. 31-63.

de Wit-Meyer's set of constructs really embraces managers' prepositions (assumptions) that separately or in combination grip every corporate action. They are assumptions about:

- Organizational purpose – do managers tend to benefit only shareholders or they are accountable for interests of all stakeholders.
- International context – do managers believe their markets to be truly global or they see their marketplaces as a bunch of locally specific “bazaars”?
- Industry context – do managers see the industry dynamics as uncontrollable evolutionary process that requires playing by the rules to adapt to, or firms may manipulate industry demands and changes the rules?
- Network level strategy – do managers view their company as a discrete organization to which only tactical carefully calculated alliances are suitable or they wish to make their company an embedded organization, which enter the long-term relations based on trust and reciprocity?
- Corporate level strategy – is the corporation is designed to be a set of independent business units under the loose financial control or there is a place for a corporate center as a holder of core competencies?
- Business level strategy – is competitive strategy is about the market share or about building distinctive strategic resources?
- Organizational change – may the corporation sustain radical, dramatic and comprehensive changes or any change must be gradual, steady and constant?
- Organizational context – do top managers exercise the full command over the corporation and may initiate, direct and lead strategic change of any depth and magnitude or organizational development is uncontrollable evolutionary process where new behavior emerges not from superimposed rules, but from interactions?
- Strategy formation – does the strategy itself is viewed as deliberate formally structured hierarchical process or the strategy is gradually shaped by experimentation and parallel initiatives?
- Strategic thinking – should the strategist prefer deductive and computational thinking while designing a strategy or inductive and imaginative thinking provides better results?

In our view, de Wit and Meyer created (in some ways, non-intentionally), a near-perfect metrics for managers' mental models.

Moreover, some elements of that metrics (namely: international context; industry context; network context and organizational context) have direct connections with corporate strategies,. Thus, operationalization of such constructs and their inclusion into the analysis as moderators between goals and strategies became a part of our study.

3. Research Methods

3.1 The questionnaire

The questionnaire for the present study was developed in 1998 and was used in four consecutive large-scale surveys of Russian CEOs - in 1998, 2000, 2002 and 2004. Over these years, we collected in general around 4450 questionnaires. In the first survey we collected questionnaires from 742 CEOs that enabled us to perform the standard statistical procedures ensuring the reliability and validity of the major scales and constructs. The questionnaire included the following instruments:

- assessment of the current competitive position of the respondent's company (6 items),
- assessment of the magnitude of changes in business and management practices (17 items),
- Perceived difficulties to implement particular steps in innovation projects (16 items);
- assessment of the main goals of the company (12 items),
- assessment of the presence of various types of competitors in the company's markets (6 items),
- assessment of the current ownership structure of the company,
- assessment of the type of strategic decision-making of the company.

In addition, the number of questions was included about the assessment of the current, past and expected future performance of the company, personal questions about the respondent gender, age and level of services in the present positions etc. For the complete English translation of the questionnaire see (Gurkov, 2005).

3.2 Constructs and measures

3.2.1 Goals

We proposed the respondents to indicate the perceived importance of particular goals using a 5-point scale (from “not important” to “extremely important”). The list of goals consisted on 12 goals (similar to the instruments used by Shetty (Shetty, 1979) and Beggs and Lane (see Beggs and Lane, 1989a; 1989).

3.2.2 Corporate trajectories

The presence of particular corporate trajectories was assessed by analyzing the responses about the major changes in the companies.

Companies which experienced significant expansion of product mix beyond the traditional areas were considered as pursuing *diversification strategy*. Thus, diversification coupled with acquisitions was labeled as *integrated diversification*, diversification without acquisitions – *organic diversification*. Acquisition of companies with no expansion into new business areas was labeled as *integrated growth*. Cases with no expansions into new business areas and no acquisitions were labeled as *organic growth*.

3.2.3 Managers' mental models

To depict managers' mental models, we created four constructs to depict de Wit-Mayer's paradoxes in their form of dilemmas, namely:

- International context (globalization/domestication).
- Industry context (adaptation/change of rules).
- Network level strategy (competition/cooperation).
- Organizational context (organizational leadership/organizational dynamics).

International context was assessed using the perception of CEOs about the presence of foreign competitors in their relevant markets. CEOs who emphasized the importance of foreign competition (of any origin) were labeled as globally-oriented. All others we considered to be domesticated.

Industry context was assessed by comparison of perceived price and quality of company's goods and services regarding the major competitors. If the level of relative price corresponded to the level of relative quality, we considered that the company was trying to play by the rules of the market. If the perceived quality and price did not fit, we considered that CEOs were inclined towards violation of the rules of the market³.

Network level strategy was assessed by asking CEOs whatever "reaching the mutual understanding with competitors" is necessary for their businesses and clarifying CEOs' opinion about "how difficult is to achieve the mutual understanding with competitors". CEOs who indicated that "reaching the understanding" was necessary and was not difficult were considered to have cooperative orientation.

Organizational context was assessed by revealing the opinion of CEOs about the perceived difficulty to change job descriptions and organizational design in their companies. If such actions were perceived by CEOs to be "easy," we labeled such CEOs as believing in organizational leadership.

3.4 Information base

The information base of the study was built on the survey in Russian enterprises undertaken at the end of 2004. We received the questionnaires from 792 CEOs of industrial firms and 702 CEOs of services companies (transportation, communication, financial services etc.) from all Russian regions. We decided to concentrate solely on industrial companies. Service companies, due to their specifics, may be the object of a special study.

4. Results

4.1 Corporate goals

³ When the assessment of relative price *exceeds* the assessment of relative quality, there are high chances to see monopolistic (oligopolistic) market. When the assessment of relative price is lower than the assessment of relative quality, the situation is more complicated. On the one hand, a firm may set "inadequate prices" in order to expand its market share. On the other hand, the price may be suppressed by dominant consumers etc. In both cases, we dealt with market failures, either "positive" or "negative".

First we clarified the relative importance of particular goals in view of Russian CEOs (see Table 1).

Table 1. Importance of particular corporate goals (assessment of CEOs)

Corporate objective	Mean
Sales growth	4,61
Profitability increase	4,59
Stable financial situation	4,57
Quality increase	4,38
Strengthening the market position on the domestic markets	4,35
Modernization of production facilities	4,17
Workplaces' protection	3,85
Maximization of company's value	3,70
Wages and salaries	3,67
Oversea expansion	2,99

Russian CEOs put their personal interests first, slightly ahead of short-term interests of shareholders (relative importance 4,61 and 4,59 respectively). Stability (in terms of financial stability and strong market position) came as the 3rd and the 5th goals respectively. Interests of customers (quality increase) are the 4th important goal. Employees' interests are placed at the end of the list.

The set of key strategies differed from company to company (see Table 2). Thus, we compared the relative importance of goals stressed by different key decision-makers.

Table 2. Distribution of answers to the question: "Who makes the crucial strategic decisions?"

Type of answer	Percent
CEO personally	20,5
CEO and the top management team	38,0

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Board of Directors	20,7
General shareholders meeting	6,2
Owners	14,6
Total	100,0

In three items we were able to see statistically differences (at 0.004 significance and less):

- Protecting jobs (sign. 0.000)
- Wages (sign. 0.000)
- Sales' growth (sign. 0.004).

Social goals were much more important for CEOs and especially for top management team than other types of strategists. At the same time, sales' growth was set as a predominant goal by top management teams and the general shareholders' meetings alike.

It is interesting to stress, that citizenship of capital (foreign, Russian, mixed) and the legal form of the company (open joint-stock company, private company, state enterprise) do not make serious differences in the relative importance of goals.

There was not much difference at industry levels. Companies in metallurgy (both ferrous and non-ferrous), oil and gas sectors aspire towards "oversea expansion", but even for those companies internationalization is not among the top priorities.

We demonstrated that Russian companies operated under complex sets of (super) imposed goals and may also speculate that such sets are indeed compromises between the top management and dominant stakeholders. The last proof of high autonomy of top management in corporate decision-making was comparison between absolutely independent companies and companies in various forms of dependence. Independent companies do not differ from wholly owned subsidiaries in the sets of goals.

4.2 Corporate strategies

Accordingly to the created typology of corporate actions (see Paragraph 2.1) we computed the shares of companies that implemented particular strategies (see Table 3).

Table 3. Distribution of corporate actions of Russian industrial firms

Type of strategy	Percentage
Organic growth (no diversification, no acquisitions)	44,0
Organic diversification (no acquisitions)	32,1
Integrated growth (acquisitions no diversification)	8,8
Integrated diversification (diversification by acquisition)	15,2

The most striking result was the very high share of companies involved in diversification (47%). Moreover, the better the performance of the company is, the higher are the chances of active diversification efforts. It means that the past successes in familiar lines of business justify penetration into unfamiliar ones.

4.3 Connections between corporate goals and corporate strategies

To understand the (hidden) reasons of diversification that justify taking higher risks, we tried to find connections between strategies and goals. We used here simple correlation analysis.

The main reasons for diversification were:

- Wages (sign. 0.000)
- Job protection (sign. 0.011)
- Sales growth (sign. 0.027).

The impact of other goals was insignificant. We may see that diversification is strongly inspired either by own interests of the top management, or by their social orientation (we should remind here that such goals as wages and job protection were most visible in situation where the top management determines strategic actions of the company).

4.4 Managers' mental models

The next step in our analysis was to look into moderators between goals and strategies. Particularly, we tried to understand why Russian managers believe that diversification

Corporate Strategies of Russian Industrial Companies: Determinants and Moderators may help to protect wages, jobs, and leads to higher sales. Here we attempted to draw managers' mental models accordingly to four dimensions – organizational, international, industry and network contexts (see Table 4).

Table 4. Beliefs of Russian managers about the context

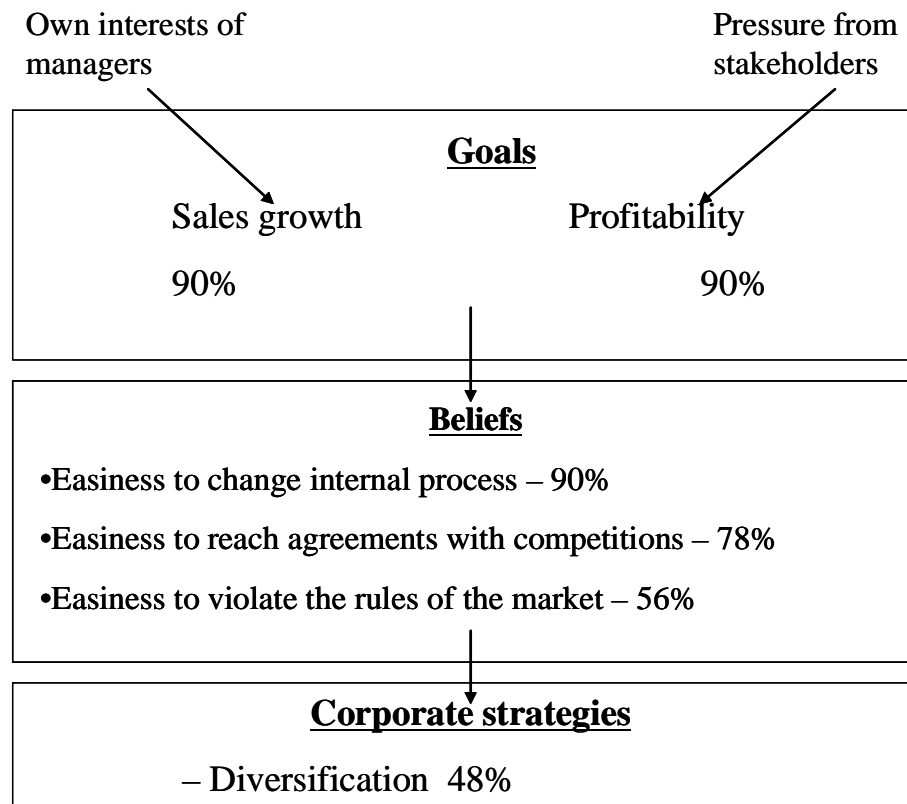
Beliefs	Share of believers (%%)
To changes tasks and job descriptions of employees is a very easy task (<i>Organizational context</i>)	90,3
Our business is strongly affected by the world competition (<i>International context</i>)	54,3
Our actions meet proper understanding from our competitors (<i>Network context</i>)	78,5
We may violate the rules of the markets by monopolistic pricing or dumping (<i>Industry context</i>)	56,6

Beliefs about organizational and network contexts are predominant and do not depend on industry or line of business of believers. Views about internationalization and abilities to violate the rules of the market are more industry specific. The higher obedience to industry rules was observed in energy sector (electrical energy, oil and gas), the lowest obedience – in chemicals and electronics. However, even in the energy sector a third of Russian CEOs believe they may violate the rules of the market.

Deeper analysis revealed the strong concordance between the propensity to diversify company's activities and the inclination towards violation of market rules (Goodman and Kruskal tau approximate significance was 0.017 for diversification as dependent variable and 0.033 for industry context as dependent variable).

Here we found the missing link between corporate goals (sales, wages and jobs) and corporate strategies (diversification). Indeed, Russian CEOs are trying to expand sales, partially for their own interests, partially to maintain jobs and wages. They launch diversification projects in hope to find in new business areas similar segments for violation of markets rules that were discovered and exploited in familiar lines of business. The overall logic of the model is presented in Figure 1.

Figure 1. Major elements of the model



5. Conclusion

We presented in our paper an attempt to find the interconnections between corporate goals and corporate strategies using as moderators some constructs about the dominant logic of corporation. This attempt was done using data of Russian CEOs who operate in many ways in emerging markets. We found that beliefs in market imperfection causes particular goals of the top management to be translated in specific forms of corporate strategies.

Although our paper may be considered in many aspects as an exploratory study, we strongly believe in the high power of the developed theoretical framework and are willing to continue to examine the connections between corporate goals and strategies in other settings.

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