Changes in the Competitive Strategy of Estonian Public Companies in the next Five Years: Challenges for Top Managers, Academics and Consultants

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Abstract

To create a sustainable competitive advantage, the firm must adapt its strategy in accordance with changes in industry. The purpose of this survey is to reveal how top managers see major changes in strategic management over the next five years. Companies from the Tallinn OMX Market were chosen as a sample of leading companies. Structured interviews were conducted with thirteen top managers. This revealed highly plausible changes in strategic management over the next five years as predicted by top managers of Estonian public companies – these were in the areas of the value chain, corporate structure, planning and control systems, motivation schemes and external opportunities. The major challenges for top managers in the near future are to successfully align the organizational structure with the value chain in accordance with emerging opportunities in foreign markets and define and invest enough in distinctive competencies to achieve sustainable profitable growth. This result is in accordance with the reflections of top mangers that their main priorities in strategic research and development are to facilitate the strategy development process, implement management tools, and research into and share knowledge and experience of doing business in foreign markets. These results suggest specific challenges for academics and consultants for achieving better collaboration in strategic management and development.

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1. Introduction

Competition is at the core of success or failure of the firms (Porter 1980). To create and maintain a sustainable competitive advantage, the firm must adapt its strategy in accordance with changes in industry (Barney 2002; Collins & Porras 1996; Porter 1980, 1985). In many circumstances, the environment today is highly uncertain, but there are opportunities to profit from balancing robust and flexible strategies (Schoemaker 2002). Therefore, managers should be highly competent in developing and adjusting the company's competitive strategy (Üksvärav 2004), especially in companies in an emerging market with limited transferable assets that have to compete with global companies (Dawar & Forst 1999).

A sound competitive strategy consists of interrelated elements, starting from mission and ending with implementation. The basic elements of strategic planning are mission, vision, external and internal environment analyses, strategies and implementation (Hill & Jones 2007). It is hardly so that the entire strategy needs to change, but in specific circumstances there are certain elements that need to develop and change precisely and quickly.

The purpose of this survey is to show how top managers from leading Estonian companies see changes in strategic management over the next five years. A better understanding of the opinions of top managers about changes in the near future in strategic management will help better collaboration between academics and practitioners (Bartunek 2007). The smooth co-operation between research and development and consulting has a great potential to facilitate strategic leadership in Estonian companies, especially at the time when the competitive advantage of Estonian companies is declining. The Estonian foreign trade balance/exports has declined from 32.7% to 38.3% and the export price index for 2006 and 2007 has risen from 3.9 to 7.5 (Annual Indicators for the Estonian Economy 2008). Public company share prices fell 13.29% in 2007, and an additional drop of 14.76% occurred in January 2008 (OMX Tallinn Baltic Market Indices 2008). So, there is a real need to increase the competitive advantage of Estonian public companies and also for changes in strategic management.

2. Theoretical Framework

The basic elements of strategic management are mission, vision, external and internal environmental analyses, strategies and implementation (Hill & Jones 2007).

2.1. Ambitious Goals

Companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world (Collins & Porras 1996). A vision of the future is what companies aspire to, to create something that will require significant change and progress to attain. Vision provides guidance about what core elements to preserve and what future elements to stimulate progress toward. The core of the vision is an ambitious goal (Collins & Porras 1996) or strategic intent (Hamel & Prahalad 1989). So the first research question in the survey was about the top manager's view of the plausibility of changing the company's ambitious goal (vision or major goals) for the next five years.

2.2. Attractive Industries, Regions and Market Segments

The first central questions that underlie the choice of a competitive strategy are the attractiveness of an industry for long-term profitability and the factors that determine this (Porter 1980). Not all industries offer equal opportunities for sustainable profitability because of the structure of competition within the industry and the industry's life cycle, including changes in demand structure in different market segments. So the second, third and fourth questions in the survey were about the top manager's view of the potential to make changes in the company's industries, regions and market segments over the next five years.

2.3. Major Threats and Opportunities

To understand more precisely what initiates major changes in industries, regions and market segments – threats or opportunities in the organization's operating environment (as an element of a SWOT analysis: Hill & Westbrook 1997) – the fifth and sixth questions to top manager's were about their expectations in regard to changes in response to the main external threats and opportunities in the next five years.

2.4. Value Proposition

Competitive strategy is the search for a favourable competitive position in an industry (Porter 1980). Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition. While industry attractiveness is partly a reflection of factors over which a firm has little influence, the firm can clearly improve or erode its position within the industry through its strategy. Positioning determines whether a firm's profitability is above or below the industry average. The three main generic strategies are differentiation, cost leadership and focus (Porter 1980, 1985). The choice of positioning determines the type of value proposition for the customers – superior quality, lower priced or customer-focused solutions. So, the seventh question to the top managers was about their opinion of the plausibility of making changes in the company's value proposition over the next five years.

2.5. Value Chain

Competitive advantage cannot be achieved and sustained without a unique approach to doing the business – the value chain. The value chain disaggregates a firm into its strategically relevant activities in order to understand the behaviour of costs and existing and potential sources of differentiation. A firm gains a competitive advantage by performing these strategically important activities more cheaply or better than its competitors (Porter 1985). The eighth question to the top managers concerned their opinion about the potential to make changes in the company's value chain in the next five years.

2.6. Organizational Structure, Planning and Control System, Culture and Motivation

Having chosen a set of congruent strategies to achieve a competitive advantage, managers must put those strategies into action – strategy has to be implemented. Strategy implementation involves taking steps, designing the best organizational

structure and culture and planning and control systems, and a scheme for motivating people (Hill & Jones 2007). So, questions nine to twelve asked the top managers for their opinions about the need to make changes in the company's structure, planning and control system and culture over the next five years.

2.7. Needs/Expectations for Research and Development in Strategic Management

The last question for open discussion asked what the company's main needs/expectations for research and development in strategic management could be in the next five years.

3. Research Method

The purpose of the survey was to reveal what top managers predicted about changes in strategic management in the next five years. For this reason, Estonian public companies on the Tallinn OMX Market were chosen as a sample of leading Estonian companies for the structured interviews.

3.1. Measures

The questionnaire consists of 12 items, which measure the top managers' opinions about plausible changes in specific strategic areas within the next five years. The areas include the company's ambitious goal; attractive industries, regions, and market segments; the top 3 major threats and top 3 major opportunities in the external environment; the company's value proposition for customers; the value chain (critical business processes); organizational structure (and design); the planning and control system; the organizational culture and the scheme for motivating people. The response scale was the Likert five-point scale where 1=Strongly disagree, 2=Disagree, 3=Neither agree nor disagree, 4=Agree and 5=Strongly agree. There was also one additional open-ended question – What could be the company's main needs/expectations for research and development in strategic management in the next five years?

3.2. Subjects

To get enough representative data from current opinions about the future changes of Estonian leading companies, the OMX Tallinn Market companies were chosen as a sample. The invitation to participate was sent to all eighteen public companies, thirteen of them agreed to participate (72%). These companies were Arco Vara, Baltika, Eesti Ehitus, Eesti Telekom, Ekspress Grupp, Harju Elekter, Norma, Olympic Entertainment Group, Saku Õlletehas, Silvano Fashion Group, Tallinna Kaubamaja, Tallinna Vesi, and Viisnurk. All respondents were chairmen of the management board, but one was a member of the board.

3.3. Procedure

A written overview of the purpose of the survey and the questionnaire, which consisted of 12 numerically answered questions and one open question, was sent to all public companies. During the interviews, the managers expressed their opinions about changes in the next five years by indicating which number denoted their level of agreement with the suggested changes. The interviewer took notes and wrote down the response

numbers that were given by the top managers. In some occasions the interviewer explained the content of the question. The final question was about the company's needs/expectations for research and development in strategic management over the next five years. These answers were written down in an open format. The interviews lasted between 30 and 75 minutes and were carried out between 24 January and 20 February 2008.

4. Results of Analysis

4.1. Quantitative Analysis

The five major areas where change was predicted were organizational structure (M=3.69; SD=1.03), planning and control system (M=3.54; SD=1.20), motivation scheme (M=3.38; SD=1.04), value chain (M=3.31; SD=1.03) and major opportunities (M=3.23; SD=0.93; Table 1 and Figure 1).

The changes in major threats correlated with changes in ambitious goals ($r = 0.68$; $p = 0.01$) and in value propositions ($r = 0.58$; $p = 0.04$). There was a correlation between changes in the ambitious goal and the value proposition ($r = 0.62$; $p = 0.02$). But the changes in attractive industries were negatively correlated with changes in the value proposition ($r = -0.64$; $p = 0.02$). The managers' expectations about changes in attractive regions correlated with changes in organizational culture ($r = 0.64$; $p = 0.03$). Changes in organizational structure were correlated with changes in both – major opportunities ($r=0.6$; $p=0.03$) and the value chain ($r = 0.57$; $p = 0.04$).

Because the greatest possible changes will be in organization structure, according to the top managers, and these changes correlate with changes in the value chain and major external opportunities, which were also among major changes, we conclude that there will be a need to successfully align the value chain and the structure in accordance with emerging external opportunities for most of the public companies.

4.2. Qualitative Analysis

The four most important areas for development in strategic management in the next five years, as revealed by the open-ended discussion with the managers, were profitable growth in foreign markets (mentioned 7 times; 54%), identifying demand in foreign markets, developing/expanding the value chain abroad and management motivation (all mentioned 5 times; 38%; Table 2).

The similarities between the quantitative and qualitative answers were how often changes in the value chain, new opportunities (incl. demand in foreign markets), management motivation, corporate structure and the planning and control system were predicted. Qualitative answers also revealed the importance of profitable growth in foreign markets, which was stressed most frequently.

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Table 1. Descriptive Statistics of Top Managers' Predictions about Changes in Strategic Management in the Next Five Years

Strategic topics	Minimum	Maximum	Mean	SD*
Ambitious goal	1	5	2,69	1,32
Attractive industries	1	4	2,46	1,13
Attractive regions	1	5	2,77	1,42
Attractive segments	1	5	2,92	1,26
1-3 major threats	1	5	2,62	1,26
1-3 major opportunities	2	4	3,23	0,93
Value proposition	1	4	2,77	1,24
Value chain	2	5	3,31	1,03
Organizational structure	2	5	3,69	1,03
Planning and control system	1	5	3,54	1,20
Organizational culture	1	4	2,85	1,14
Scheme for motivating	2	5	3,38	1,04

* SD=standard deviation; N=13.

Figure 1. Average Top Managers' Predictions about Changes in Strategic Management in the Next Five Years, N=13

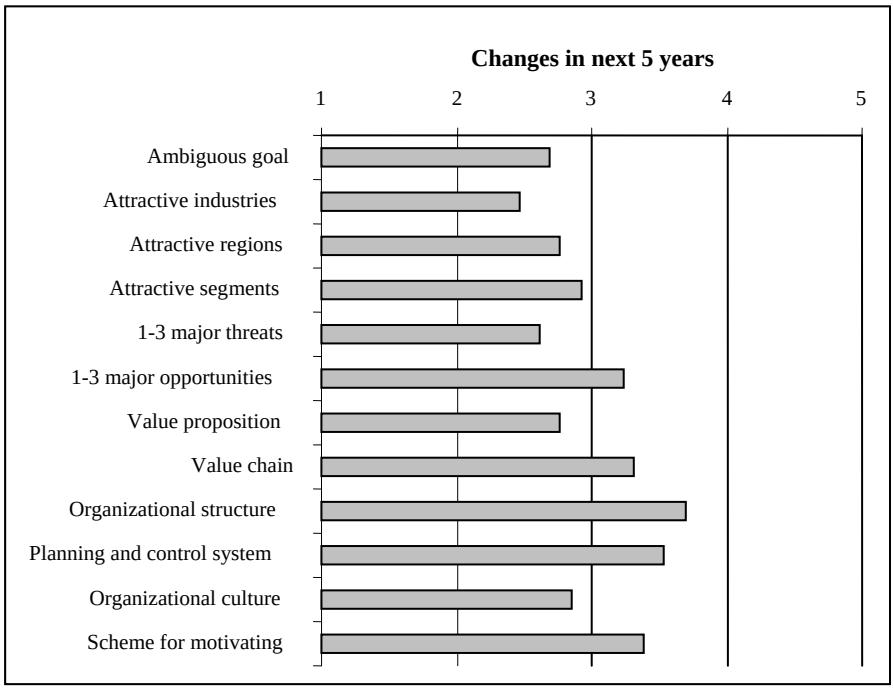

Table 2. Strategic Development Priorities in the Next Five Years

Strategic topics	R*
Profitable growth in foreign markets, the right speed for growing	7
Identifying and predicting changes in demand in foreign markets	5
Developing and expanding the value chain abroad	5
Motivating the management board	5
Designing an efficient corporate structure	3
Developing a planning and control system	3
Increasing quality and efficiency in local markets	3
Decide on growth by diversifying or focusing product range	2
Building strong international management team	2
Sharing and accumulating knowledge	2
Managing in different cultures where working behaviours are different	1

* R=rate of recurrence by top managers; N=13.

During the open-ended discussion, the issue of the current strategic planning and measurement system was also raised. It turned out that a Balanced Scorecard, which is the most popular strategic management and measurement system (Kaplan & Norton 1996, 2004), is used in five public companies (38%); one decided some years ago to drop it, because of large changes in the company. Two do not use the BSC for the same reason, but they both think they might take it up. Two companies use an industry specific planning and measurement system set by their international headquarters.

The second additional specific subject was about the need for strategy development assistance. Almost all top mangers said that they do not expect support in specific (in content) strategic choices, but there is the need for some support to facilitate the strategic process (7 companies; 54%). In their words, the moderation of the strategy process is helpful because it frees the CEO from leadership during the discussions and lets them focus on the content. The fresh views of outsiders and opinions of consultants was also added as being helpful, as well as introducing new management tools such as the Balanced Scorecard, business model framework and corporate governance. Seven companies (54%) said that an external consultant is not able to understand company-specific issues or assist in specific choices. Four (31%) top mangers added the need for outside help in researching foreign markets and sharing experience with those who had already successfully entered a particular market.

5. Discussion

As the survey revealed, there is wide range of strategic changes predicted among Estonian public companies in the next five years. But the opinions of the managers also indicated some common highly plausible changes, such as in the value chain, the corporate structure, the planning and control system, the motivation scheme, and also in external opportunities. Among those that were rated highest by the managers, changes in the value chain were correlated with changes in structure – this implies the need to align the value chain and structure. The main strategic area for development is profitable growth in foreign markets and identifying demand in foreign markets. The top managers expect most research and development to be aimed at facilitating the strategy development process, the implementation of strategic management tools, and

research into and sharing of knowledge and experience of doing business on foreign markets.

5.1. Top Managers See Major Changes in Firm-specific Factors, and Also in External Opportunities

The quantitative and qualitative data showed that top managers in Estonian public companies expect major changes in organization-specific factors – advancing the company value chain, structure, the planning and control system and the motivation scheme, while they expect only minor changes to be initiated by the external environment (i.e. attractive industries, regions, segments and threats). This means that public companies have already found attractive businesses for the next five years, and so they now focus on company specific developments. So, the major resources for sustainable development come from the management capabilities in the company to manage the value chain, structure, systems and motivation. Management capabilities (Barney 1991) are essential sources for competitive advantage, especially today, when successful companies compete with managerial innovation (Hamel 2006). Because of the scarcity of raw materials, it is a positive sign that top managers in Estonian public companies focus on advancing the company's way of doing business by changing the value chain, structure, planning and control system and motivation scheme.

The focus on changing internal firm-specific factors was balanced by relatively high ratings for changes in external opportunities. As the research revealed, 45% of profitability comes from the external environment (Roquebert et al. 1996). So, identifying and predicting changes in external opportunities in foreign markets is critical for expanding the company's business model abroad (Dawar & Frost 1999) and finding customer needs that are not sufficiently satisfied yet (Kim & Mauborgne 1997, 1999). As much as there was correlation between top manager responses to changes in the organizational structure and the value chain, these changes both need to be effectively managed and at the same time successfully aligned. Moving from competitive strategy to corporate strategy is the business equivalent of passing through the Bermuda Triangle (Porter 1987), and it requires special efforts from managers to effectively align the corporate value chain and the corporate structure (Porter 1987, 1985; Kaplan & Norton 2006). From this point it is expected that aligning the structure and the value chain effectively to achieve corporate synergy is a major challenge for many public Estonian companies in the next five years.

5.2. Strategic Management Development

Most of the top managers position the need to increase the company's growth while not losing profitability as the highest development priority. This means that the key question is what the right speed for growth is. The company's ultimate goal is to increase sustainable profitability (Porter 1985), and it needs to balance growth and efficiency targets. To achieve sustainable profitability in the future, the company needs to invest in development today, and this decreases current profitability, but makes it more possible to continue to be profitable in the future (Kaplan & Norton 1996). So the company's main task in solving the contradiction of growth and profitability is to make the right investments in resources and distinctive competencies that allow the company to earn a higher profit than its competitors (Barney 1991). So, Estonian public companies can increase growth while not losing profitability by defining their distinctive resources and competencies and investing in the development of these

competencies. The better these distinctive competencies are, the more quickly the company will grow without loosing profitability (Kaplan & Norton 2004).

5.3. Expectations for Strategic Management Research and Development

Top managers expect academics and practitioners to be involved in research and development to facilitate the strategy process, implement management tools, conduct research in foreign markets and share knowledge about foreign markets. The result is that managers expect assistance in strategy development and implementation, but not in specific strategic choices – to match international practice (Bartunek 2007) – where similarly management consultants most often make recommendations for management practice (76%) and increased awareness of phenomena (38%), but provide less training on some topics (21%). As the top managers remarked, the main value for managers comes from facilitating the discussion of strategic issues and freeing CEOs from the process of leading allowing him or her to focus on the content of the strategy. Additional value also comes from the fresh views and opinions that arise through the consultancy process (Senge 1999).

Managers also expressed an interest in assistance in implementing management tools, which is also quite understandable because today the management systems that create competitive advantage are pretty complete (Becker, Huselid & Ulrich 2001) and need specific experience to be successfully implemented. With the use of competent outside help, the adjustment and implementation of management tools will be less costly and more time efficient, not to mention the quality of the implementation (Kaplan & Norton 2001). This is also shown by Estonian public companies – in the words of their top managers, most of them have used external help in implementing their management planning and measurement system.

The third main interest in foreign market research and knowledge sharing as being highly valuable is because there is insufficient market information in emerging countries (Khanna, Palepu & Sinha 2005), and there is a high risk of finding analogies that do not fit the specific business characteristics of the companies (Gavetti, Levinthal & Rivkin 2005), but most Estonian public companies compete and global competitive pressure becomes tougher and tougher (Dawar & Frost 1999). Because the formation of the strategy depends on the assumption of future predictability, there are several different theories that suggest different strategic practices dependant on how accurately the company can predict the future (Wiltbank et al. 2006). In this case, external strategic help is invaluable, as a strategic expert can pick up and adjust their approach to strategic planning in accordance with certain aspects of the external environment and the company's current situation. Outside help in research and facilitating knowledge sharing and networking can also add substantial value to the development of the company strategy (von Krogh, Ichijo & Nonaka 2000).

6. Conclusions

To create a sustainable competitive advantage, the firm must adjust their strategy in accordance with changes in the industry. Interviews with top managers from thirteen public companies from the Tallinn OMX Market revealed that highly plausible changes in strategic management over the next five years will occur in the areas of the value chain, corporate structure, planning and control systems, motivation schemes and external opportunities. Correlation analyses reveal that the two major challenges for top

managers over the next five years are the successful **alignment of the structure with the value chain** in accordance with emerging opportunities in foreign markets and defining and investing enough in **distinctive competencies**. Top managers expressed the main areas for strategic development as being **profitable growth** in foreign markets and **identifying demand** changes in foreign markets. Top managers see priorities in research and development in facilitating the strategy development **process**, implementing strategic management **tools** and **sharing knowledge** and experience of doing business in foreign markets. These results suggest specific subjects that academics and consultants should address for better collaboration in strategic management and development.

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