Chapter 8

Competitive Strategies of Successful Local Firms in Central and Eastern Europe

Arnold Schuh
Vienna University of Economics and Business, Austria

ABSTRACT

Local companies in Central and Eastern Europe (CEE) have to find the right competitive positioning to survive against Western competitors with superior resources and capabilities. In this explorative study, the authors study competitive strategies of successful firms from CEE. Sixteen firms from Czech Republic, Poland, Romania, and Russia are analyzed. The findings show that there exists a variety in strategic positionings among those firms. However, strategies based on a good quality at a lower price ("good-value-for-money") are most common and effective. While internationalization is important, a high share of foreign sales is not automatically a profit driver. Industry has a major influence on financial performance: Firms active in the commodities, pharmaceutical, and software sector are outperforming the ones in consumer and industrial markets. Still existing negative country-of-origin effects, low government support of R&D and internationalization efforts, and weak enforcement of laws and international standards are restraining a faster development of these firms.

DOI: 10.4018/978-1-4666-6054-0.ch008

INTRODUCTION

The radical transformation process in the 1990s from a command to a market economy in the countries of Central and Eastern Europe (CEE) changed far more than the institutional framework governing the national economies. It had a fundamental effect on the structures of industries and markets and on the way how firms are managed. Especially, (formerly) state-owned enterprises faced major management challenges. Corporate restructuring and quick adaptation of the entire corporate system to the new rules of the market became a matter of survival, often happening in the course of a privatization process (Warner et al., 2005). Government subsidies were eliminated, legal barriers to private entrepreneurship were lifted and the national markets were exposed to foreign competition. In many industries the outcome of this transition process was a totally new competitive constellation and a revolution in the nature of consumer demand (Schuh, 2007). Still state-owned firms competed with privatized and reformed ones, with newly emerging entrepreneurial start-ups as well as with foreign competitors that had entered the CEE markets. Particularly in terms of foreign competition, they were faced with competitors that had superior resources, management skills, and a history of operating in a market economy (Fahy et al., 2000). What makes this process in CEE so unique is the speed and intensity of its unfolding. The notion of competitive strategy was alien to many managers of state-owned firms; within the central planning system they had no reason to think about competitive strategies (Peng, 2000). Under pressure to survive against the new competition, the managers of local firms must address the question of competitiveness. What are the sources of competitive advantage on which local companies can build their business strategy?

We assume that local firms in CEE have to find pronounced competitive strategies due to massive internal resource constraints, fierce competition and increasingly demanding consumers. By pronounced we mean that they have to be more radical in conceptual terms: owners and managers of local firms need a clear understanding of their sources of competitive advantage and a vision of how to make up for the lack of resources and capabilities which are necessary to stay in business. This does not rule out that the business may be sold later or that they have to team up with a (foreign) partner to survive. Even in these cases the management needs a plausible strategy to make the company attractive for potential partners.

The objective of this contribution is to examine the competitive strategies of local companies in CEE. The study aims at identifying types of competitive behavior among state-controlled, formerly state-owned and then privatized as well as dafter the system change newly founded firms in CEE. We used an explorative research design based on secondary data and analyzed the competitive strategies of sixteen publicly listed and private firms in Czech Republic, Poland, Romania and Rus-