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Local Heroes in Central & Eastern Europe – In Search of Successful Domestic Firms in the Region

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Introduction

- There exists a growing interest in **emerging market multinationals** from BRIC and other emerging economies.
- So far, CEE firms are **underrepresented** in studies - except of Russian MNCs.
- This study wants to turn the spotlight on **successful firms** originating from CEE.

WALLTOPIA
climbing walls

KRKA



VALMIERA GLASS®

inter cars

eset

W!ZZ

DOK-ING

bitdefender

Research questions

- How do successful firms in CEE – “local heroes” – **compete** in their relevant markets?
- What **sources of competitive advantage** do they use?
- What **types of competitive strategies** do they pursue?
How do they set apart from their competitors?
- How do **home-country** conditions and **industry** background affect the business development and performance of these local heroes?

Defining „Local Heroes“

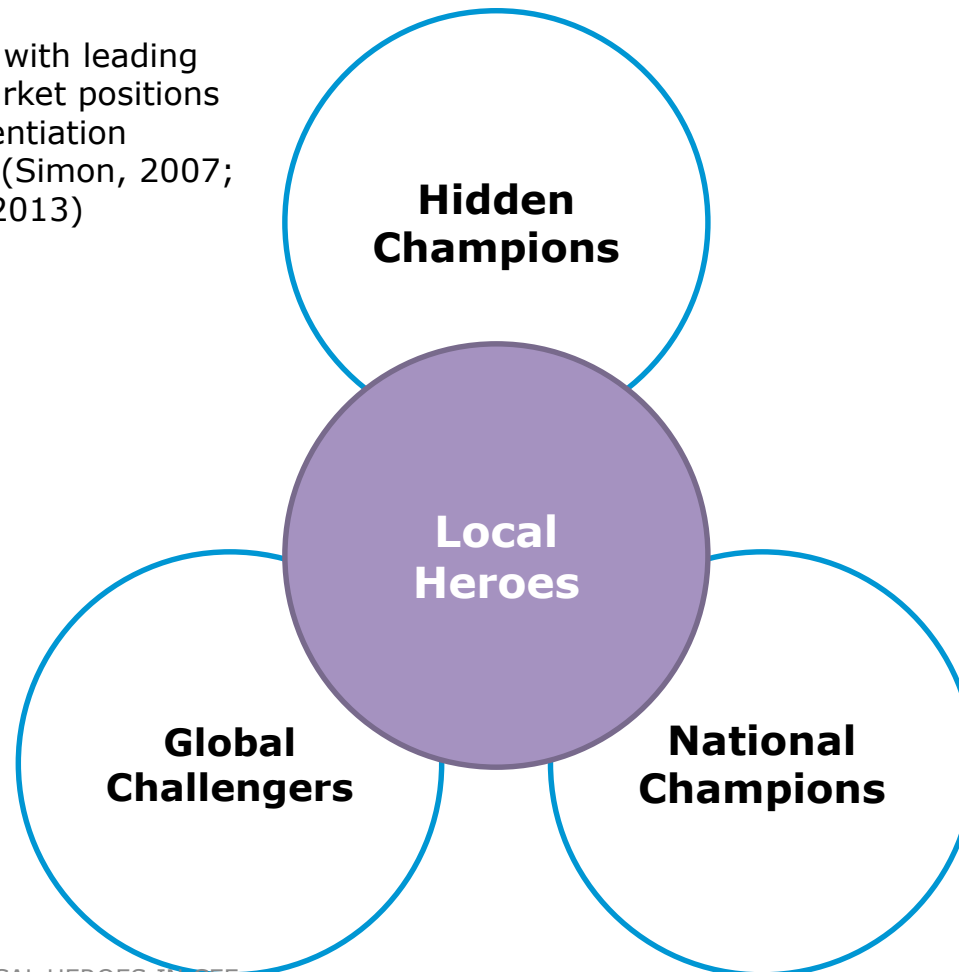
Local heroes are **well-run companies** that have a **strong position** in their relevant market segments at home and a considerable **foreign business**, **grow fast** and often are among the **technology/innovation leaders** in their segments.

- Foundation & management base in CEE
- Local ownership > 50%
- State-ownership < 25%
- No financial services, energy & commodity businesses
- More than 100 employees
- Minimum of 25% of sales abroad
- Profitable in last 3 years

Similar concepts

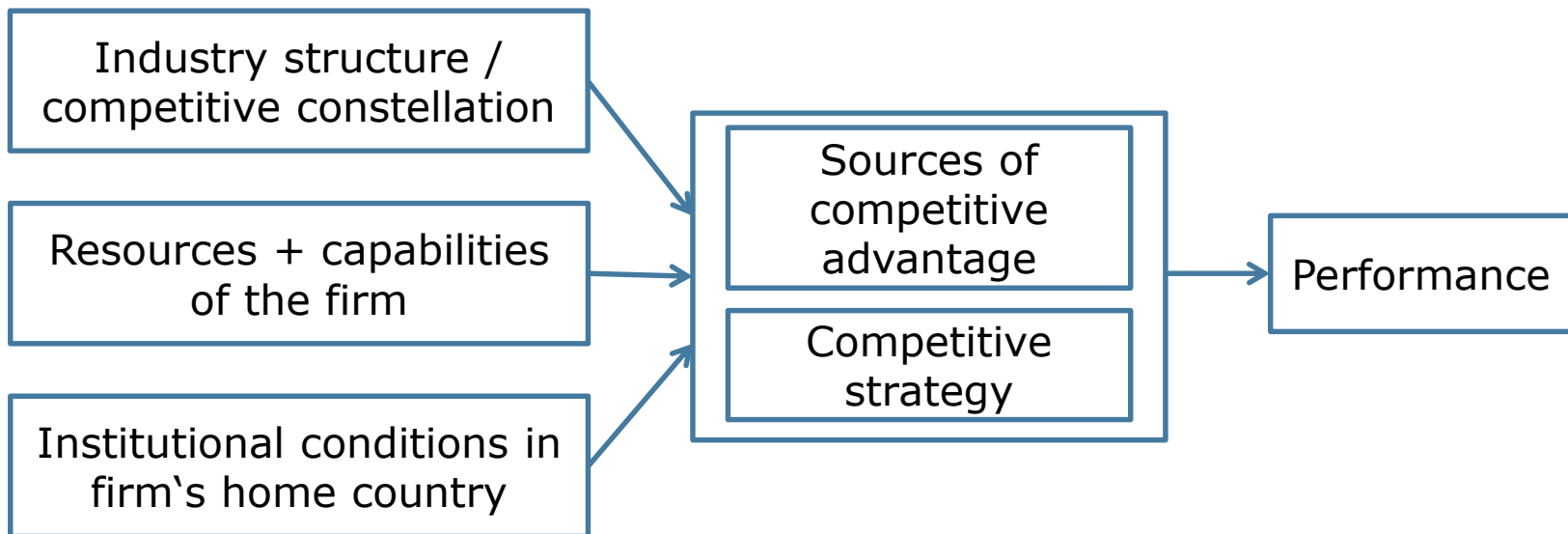
Medium-sized firms with leading European/global market positions which pursue differentiation strategies in niches (Simon, 2007; McKiernan & Purg, 2013)

Companies from rapidly developing economies with aspirations to build truly global footprints (Bhattacharya et al., 2013)



Often government controlled and subject to special treatment since they represent the state's interest in international commerce (Neven, 2007; Motta & Ruta, 2007)

Guiding theoretical perspectives on strategy research of LH



Cp: "Strategy Tripod" of Peng, M., Wang, D., & Jiang, Y., 2008

Explorative research design

Objectives

- Identification of LHs
- Analysis & interpretation of competitive strategy pattern

Method

- Explorative qualitative research based on secondary data
- 2-steps: Search (250 firms) and selection & analysis (60)
- Case study of each firm

Data sources

- Company websites/reports
- Databases (Orbis, Marketline)
- Articles in press
- Analysts' reports
- Published cases

Limitations

- „Selection bias“
- Exclusive use of secondary data
- Limited access to data
- Small sample size
- Comparability/reliability of data sources

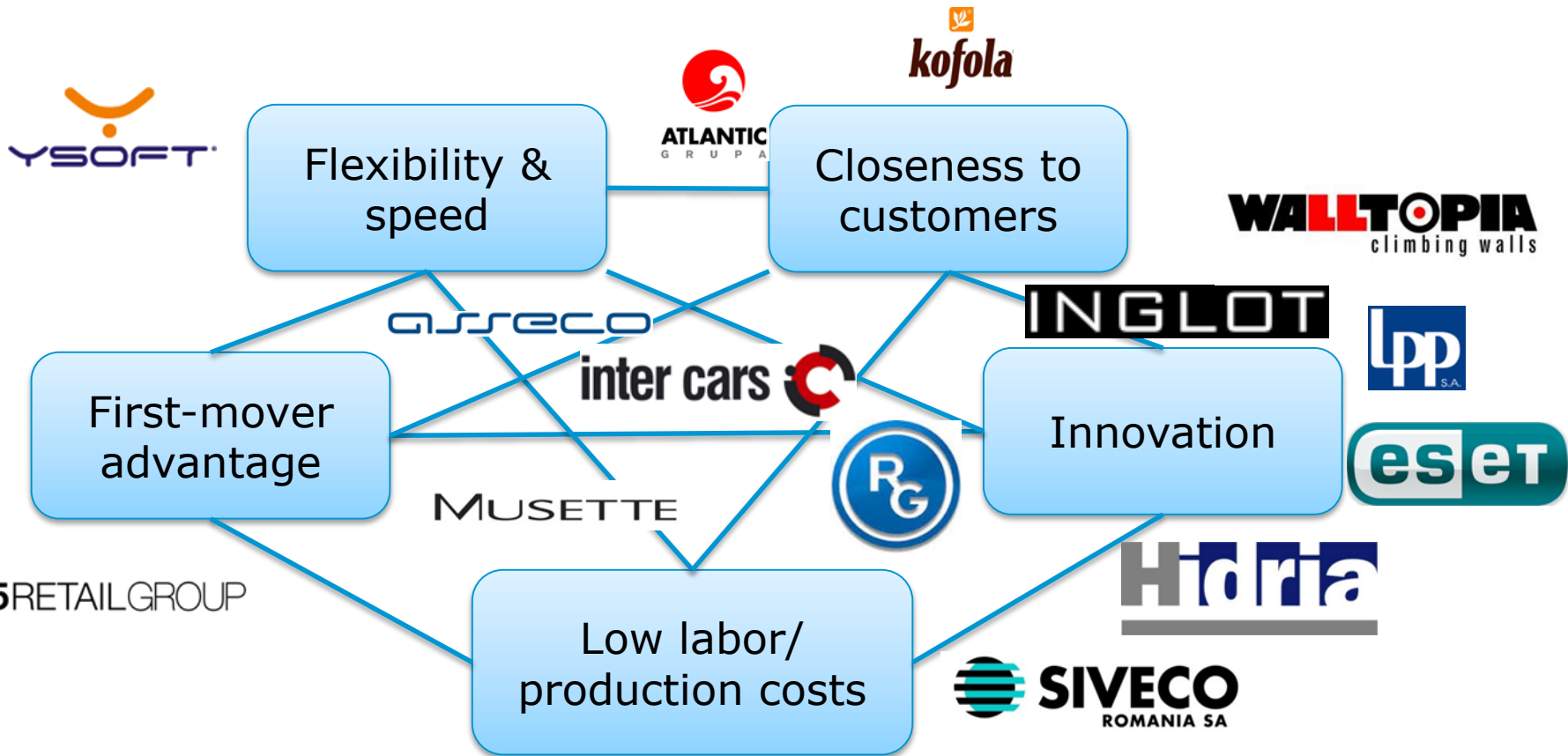
Framework for analysis

1. Company Profile	2. Performance	3. Dimensions of Business Strategy	4. Interpretation
<ul style="list-style-type: none">• Name• Country• Headquarters• Type of company• Foundation year• Ownership• Number of employees• Industry• Products• International presence• History/Milestones in company development	<ul style="list-style-type: none">• Sales (2010-13)• Sales growth (2010-13)• Share of foreign sales• EBIT (2010-13)• EBIT margin (2010-13)	<ul style="list-style-type: none">• Mission, vision & major goals• Business model• Market focus• Market position• Sources of competitive advantage• Strengths and weaknesses• Competitive strategy• Positioning of emerging market firms• Value chain positioning	<ul style="list-style-type: none">• Critical interpretation of the strategy

Identified Local Heroes

	LT, LV, PL	CZ, SK, HU	HR, SRB, SV	BG, RO	RU, UA	
Consumer Goods/Retail Services	Snaige, Inter Cars, LPP, Inglot, Maspex, CCC, Irena Eris	Wizz Air, Kofola, cba, Decodom	Gorenje, Nordeus, Kras, Agrokor, Podravka, Atlantic	Musette, Visual Fan, Aglika	Russian Standard, JSC Synergy, MTS, Obolon, Roshen, X5 Retail Group	26
Pharma	Polpharma	Walmart, Richter Gedeon	Krka	Sopharma	Pharmastandard	6
IT	Asseco, Comarch	Avast, Y-Soft, Nexon, Eset, Soitron, Sygic		Teamnet, Sirma Solutions, Bitdefender, Siveco, Telerik	Kaspersky, Yandex	15
Industrial Goods	Can Pack, Solaris, Valmiera	Comap, ZOS Trnava, HTC, Microstep, Grafobal, Zetor	Dok-Ing, Hidria	Walltopia, Monbat		13
	13	18	9	11	9	60

Combination of comparative/ competitive advantages leads to success



Consumer goods and retailing are core industries for LH

- LH benefit from **closeness** to customers and established **business relationships**.
- Food & beverages, cosmetics, clothing, telecom & retailing.
- Most firms are medium to big players and we find many **business groups**.
- **Low-cost differentiation („Good-value-for-money“)** as hybrid strategy.
- **Imitation** of Western players' strategy.
- Challenging industry environment reflected in lower return on sales.

AGROKOR

inter cars 

Lpp
S.A.

X5RETAILGROUP

INGLOT


kofola


ATLANTIC
GRUPA


KRAS

FINE CHOCOLATE
ROSHEN
SINCE 1996

MUSETTE


MTS


gorenje


RUSSIAN
STANDARD
VODKA AS IT SHOULD BE


PODRAVKA


ОБОРОНЫ

CCC

IT is the „star industry“ in CEE

- High share of mid-sized firms.
- Pursue a highly **specialized** & **focused strategy** based on innovative ideas.
- **Lower costs** for IT services than in Western Europe.
- They were often **first-movers** in their region.
- Most **profitable** industry in our study.



Pharma – An industry with tradition in CEE

- Most of the companies are rather big players.
- They operate on a **regional** or **global scale**.
- **Generics** business is important for most of them.
- Many firms follow a hybrid strategy, **low-cost & differentiation** („Good-value-for-money“).
- **Innovation**, unique know-how due to long tradition and international partnerships as key success factors.
- „**Regulated home markets**“ may also explain higher profitability.











Industrial sector – Many specialists with international orientation

- Medium-sized to large firms
- Find them in diverse segments: automotive, packaging, electronics, machinery.
- Serve a **niche market** + many „**Hidden Champions**“ are among them.
- High share of **foreign sales** (60-90%).
- Differentiated **focus strategy** based on innovative products and novel business models.
- Benefit from **lower costs**.



Industry and strategy type influence profitability

	Consumer Goods/ Retail/Services	IT	Pharma	Industrial Goods/B2B	Ø ROS
Hybrid (Differen- tiation & low-cost)					10%
Focus/ Niche					16%
Ø ROS	11%	19%	14%	10%	

ROS = Return on sales (Ø EBIT/Sales 2010-13)

▪ **Choice of sample**

- Selection & definition of „domestic firm“
- LH as a „transitional phenomenon“
- Role of business groups in CEE and how to treat them methodologically

▪ **Competitiveness as core concept**

- Comparative/differential vs. competitive advantage
- From country- to firm-specific advantages
- Government-granted/induced monopoly or support
- „Soft factors“ (organizational culture, leadership etc.) are not covered

▪ Integration of **institutional view**

▪ Influence of **external factors** on performance:

- „Great Recession“, Russia-Ukraine conflict

Future research

- Broaden the database by adding **primary research**.
- Develop and validate a **research design** that can be used in parallel in different CEE/emerging market countries.
- Create a **cross-national group of researchers** in CEE that may serve as a core group for further development of this research project.

- LHs in CEE don't markedly differ in their **strategic orientation** from well-run entrepreneurial (mid-sized) firms in Western Europe.
- But **country-of-origin** and **industry** seem to have an impact on the existence and proliferation of LHs.
- **Niche/focus** and „**good-value-for-money**“ strategies dominate.
- **Strategy choice** is only one part of the explanation – the **entrepreneurial mindset**, drive and courageous go-to-market approach seem to be strong influences too.
- **Future of LHs:** Self-determined, teaming-up with foreign partner(s)/venture capitalists or take-over target.

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