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## **Strategy and performance of Russian firms: an organisational capabilities perspective**

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**Abstract:** This paper investigates how organisational capabilities shape business strategy and influence the performance of Russian enterprises. Although the emphases on both cost leadership and differentiation were positively associated with firm performance, the differentiation-performance link became insignificant when marketing and technology capabilities were included in a composite model. Marketing and technology capabilities – not the strategy per se – appear to be the primary and dynamic drivers of firm performance. The implications of this perspective on the capabilities-strategies-performance nexus are discussed within the Russian context.

**Keywords:** strategy; organisational capabilities; Russia; marketing; technology; performance.

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## 1 Introduction

Strategic capabilities have been widely studied in the literature, with some scholars positing them as moderators of a broad link between competitive strategy and firm performance (Bowman and Ambrosini, 2003; Hoque, 2004; Hussey, 2002; Lopez, 2005; Pandza and Thorpe, 2009). Capabilities can influence firm performance directly or indirectly, although specific relationships are heavily contextual. Most published work investigating relationships among capabilities, strategy, and performance has considered firms in developed nations. Gaps in the literature remain, particularly in emerging markets as many countries seek to catch up with their more developed counterparts,

thereby requiring faster development and more efficient exploitation of competitive advantages and capabilities in the strategy of emerging market firms (Falshaw et al., 2006; McAdam et al., 2017; Parnell et al., 2012; Spillan et al., 2018).

Russia is a prime setting and context for studying the role of organisational capabilities in strategy formulation and firm performance for several reasons. First, in the strategy arena, Russia has received less scholarly attention than other BRIC (Brazil, Russia, India, and China) nations and many small, emerging economies such as Indonesia and Turkey (Panibratov, 2017). Various studies have addressed different aspects of corporate governance, business development and entrepreneurship among Russian firms (e.g., Panibratov, 2016; Yukhanaev et al., 2015; Yakovlev, 2014). Indeed, there is considerable evidence that management constructs commonly understood in the West are reinterpreted in Russia and other emerging economies (Parnell et al., 2016).

Second, Russia has been emerging from a centrally-planned to a market-based economy during the last 30 years, experiencing a number of improvements and problems during the transition. In contrast to many other emerging markets, Russia is rich and technologically developed, but is also politically stagnated and oriented toward oil and other natural resources. These and many other contradictory features make the firm-level analysis in the Russian context particularly interesting and challenging, especially in the business and strategy area.

Empirical links among organisational capabilities, business strategies, and firm performance have not been investigated sufficiently in Russia and other emerging economies (Puffer and McCarthy, 2011). This is a substantial concern in Russia, where heightened volatility and uncertainty have placed a premium on the development and deployment of strategic capabilities. The present study considers whether, which, and to what extent various capabilities drive performance among Russian firms. It invokes strategic group, resource-based, and contingency perspectives as a basis for understanding how organisational capabilities influence firm outcomes. Environment-capability-strategy fit is important, so any misalignments among specific organisational capabilities and strategies can negatively impact firm performance (Saidov, 2014). As such, the present study addresses the following research question: How do marketing and technology capabilities interact with business strategy to drive performance in Russian firms?

## **2 Review of the literature**

### *2.1 Strategic management and organisational capabilities*

Strategic management encompasses a systematic series of management decisions that influence firm performance, as well as building capabilities that enable the firm to generate value for customers, stakeholders, and society within competitive markets (Augier and Teece, 2009; Nag et al., 2006). The field of strategic management is based in part on industrial organisation (IO) economics, which frames profitability as a determinant of industry structure. Because IO has struggled to explain substantial intra-industry performance differences, the scholarly emphasis has shifted in recent decades towards strategic groups, and ultimately to the firm (Barney, 1991; Collis and Montgomery, 2008). This emphasis is embodied in the resource-based view (RBV) (Kim and Mahoney, 2005; Pitelis, 2004; Wernerfelt, 1984). Building on IO and the RBV, a more energised focus on organisational economics (OE) has begun to focus on transaction costs, incentives, and strategic capabilities (Gibbons, 2003; Kim and

Mahoney, 2005; Sheehan and Foss, 2007). From the OE perspective, organisational resources underpin sustainable competitive advantage (Bowman and Ambrosini, 2003). As such, firm strategists must shape, leverage, and combine their resources into strategic capabilities, thereby creating and deploying intangible assets that drive and support firm performance (Hussey, 2002; Lopez, 2005; Pandza and Thorpe, 2009).

Strategic capabilities and the RBV concept underscore the development of unique characteristics that resist competitive imitation. Moreover, the dynamic resource-based view (DRBV) or dynamic capabilities approach (DCA) discards the notion that resources have long-term durability. Its advocates suggest that resources move by way of life cycle stages from growth, to renewal, and then to eventual dissolution (Helfat and Peteraf, 2003). The DCA broadens the strategic capabilities viewpoint by highlighting the transient nature of a firm's resources and its external influences (Ambrosini and Bowman, 2009; Augier and Teece, 2009; McGuinness and Morgan, 2000).

Interconnected capabilities are at the core of an organisation's ability to generate value. Competitors in an industry typically possess different combinations of capabilities, some of which are unique and durable (Di Benedetto and Song, 2003). Capabilities typically correspond to complex arrangements of skills and accrued knowledge that enable an organisation to manage activities and use its assets efficiently and effectively (Assudani, 2008; Teece et al., 1990). Indeed, the link between capabilities and strategy has been investigated within strategic positioning (e.g., Porter, 1980) and resource-based (Barney, 1991; Day, 1994; Wernerfelt, 1984) schools of thought. Contextual factors such as environmental uncertainty have also been examined (DeSarbo et al., 2005; Hrebiniak and Snow, 1980; Lee et al., 2001).

Marketing and technological capabilities are critical factors in the operation and long-term sustainability of the firm. Marketing capabilities leverage the development and dissemination of market intelligence and facilitate its connections to other organisational functions and processes (Kaleka and Morgan, 2017). They are critical to firm success because they engender competence to develop products, services and supply chain systems that can provide the firm with a competitive edge. Without effective marketing capabilities, global competitiveness is weak and limited at best (Kaleka and Morgan, 2017).

Marketing capabilities tend to have a direct and complementary impact on a firm's performance (Alharbi Adel Saleh, 2015). As such, a well-designed marketing strategy that leverages dynamic marketing capabilities can increase firm performance. Moreover, marketing capabilities have a substantial impact on the strategic management of a business, promoting more effective decision-making (Barrales-Molina et al., 2013).

In a similar vein, the dynamic global business environment demands that firms amass key technological capabilities (Guerra and Camargo, 2016). With technological transformations constantly creating challenges and opportunities, global business firms must keep pace with such changes in order to transform knowledge into innovation. It is innovation that allows a firm to remain competitive. Hence, technological capability is a key to securing competitive advantage (Guerra and Camargo, 2016). Moreover, a strong linkage between marketing capabilities and technology promotes seamless product innovation and development across the organisation (Kuznetsova and Roud, 2014).

## 2.2 *Business strategy and typologies*

Numerous typologies (e.g., Hitt et al., 1982; Huber, 1984; Miller, 1986; Courtney et al., 1997) have been developed to explain business-level strategies from a strategic group

perspective. Porter's (1980) cost leadership-differentiation-focus framework has received considerable attention in the literature (Govindarajan, 1986; O'Regan and Ghobadian, 2006; Acquaah and Yasai-Ardekani, 2008). A substantial body of research has examined links between business strategy – particularly generic strategies (Miles and Snow, 1978; Porter, 1985; Segev, 1989) – and performance, with a more recent emphasis on the role of capabilities. The assessment of performance in most studies testing these typologies has varied, but with an emphasis on financial outcomes (Zajac and Shortell, 1989; Conant et al., 1990).

Porter's (1980) positioning framework emphasises a broad strategic choice between cost leadership and differentiation, either of which can be applied to entire markets or a distinct segment (i.e., a focus strategy). Cost leadership is often associated with environmental stability, while differentiation and focus strategies are often associated with more vibrant markets. These tendencies are contextual, however (Lee and Miller, 1996; Marlin et al., 1994). Porter has argued that a business must choose cost leadership *or* differentiation, while combining the two inevitably leaves the firm "stuck in the middle" (Porter, 1980, p.41). However, numerous scholars have demonstrated that businesses combining the two may create synergies that overcome any short-term tradeoffs associated with the combination (Hill, 1988; Murray, 1988; Parnell, 1997; Wright, 1987).

Porter's typology is based on the notion of strategic groups, a middle ground between the firm and industry levels of analysis. Strategic groups have anchored numerous empirical studies during the past four decades to explain performance differences within industries based on broad strategies common to business clusters. While the organisational level of analysis is ideal for most strategy scholars, it creates empirical challenges because each business strategy must be assessed as a unique entity. Current research on the RBV and strategic capabilities often integrate Porterian strategic group assumptions (Parnell, 2018). Hence, scholarly interest on strategic groups remains vibrant in global strategy research, both directly (e.g., Agyapong et al., 2016; Coffie and Owusu-Frimpong, 2014) and indirectly (e.g., Shinkle et al., 2013) in studies that seek to identify drivers of firm performance. The analysis presented herein follows this approach by assessing the emphases of both organisational capabilities and generic strategies on firm performance.

With uncertainty as a major concern, managing dynamic environments is a key issue for executives (Milliken, 1987; Thompson, 1967). It is difficult to overstate the influence of uncertainty on the development and deployment of strategies and capabilities (Parnell et al., 2012; Pelham, 1999; Swamidass and Newell, 1987). An organisation's successful accomplishments are typically exposed to the changes that occur in an organisation's environment, but this is not always the case.

A link between strategic capabilities and performance is reinforced in the literature (Ruiz-Ortega and García-Villaverde, 2007; Boulding and Christen, 2001). Bowman and Gatignon (1995) emphasised the positive influence of marketing and technical capabilities on the performance of early followers. The extant strategic management literature regarding Russian businesses competitive advantages does not address in detail the major components of Porter's conceptual framework. We address this deficiency and seek to close the gap in understanding by showing how dynamic marketing and technology capabilities affect cost leadership and differentiation strategies which ultimately affect Russian business performance. The analysis of these three Russian

business operating components provides a more contemporary understanding of how organisations craft and implement their competitive strategies in the Russian business environment.

### *2.3 The Russian context*

Historically, strategic planning and marketing were not required in the Soviet Russian economy because the central planning authorities in Moscow performed these functions. Enterprises cooperated with the central planners but not with each other. The 1980s launched the withdrawal from many decades of communism and the centrally-planned economy in favour of a new market-oriented economic system that continues to evolve (Puffer and McCarthy, 2011).

After the collapse of the Soviet Union in 1991, central planners no longer determined the relations among enterprises and executives became responsible for developing and handling them (Mattsson and Salmi, 2013). The impact of the volatile environment on strategic decisions such as investment was significant. Russian managers were found to be more focused on the short term, placing little emphasis on competitive strategy, formal strategic planning or financial planning. In the early 2000s, they began to focus more on growth in a highly uncertain environment (Puffer and McCarthy, 2011).

The transfer of management theories and approaches from one culture to another is a tenuous process at best (Simachev et al., 2014); cross-cultural testing is necessary to confirm their applicability. Russia's uniqueness emanating from its transitional position has been addressed in the literature (Puffer and McCarthy, 2011). Since shifting from a centrally planned to a market-driven economy, Russian firms have experienced a high risk-high return dilemma, which has influenced strategic thinking.

The link between strategic capabilities and performance in Russia is intriguing. On the one hand, the capabilities of Russian firms are moderate and Russia is far behind many of its developed North American and West European competitors. On the other hand, the performance of Russian firms is surprisingly high, both domestically and on the international stage (Panibratov and Kalotay, 2009), which raises interest from scholars and policymakers.

During the last two decades, a number of Russian firms have entered international markets (Kalman and Sulstarova, 2010; Panibratov, 2012; Panibratov and Kalotay, 2009). Russian executives seek to mitigate the economic and political risks in the domestic market by holding assets offshore. Indeed, success for Russian firms is often linked to global markets, a reality shared by firms in many post-communist countries (Skuzza et al., 2013). Firm management efficiency within the Russian context is largely dedicated to the analysis of the competencies that contribute to organisational success (Fey and Mills, 2007). The corresponding skills and abilities that allow managers to react to the external environment can be classified as personal (i.e., the individual level of development of basic abilities), commercial (i.e., reflected in sales volumes or market share dynamics), innovative (e.g., speed and quality of innovations, R&D intensity), social, and communicative (Fey and Mills, 2007).

The backgrounds of Russian executives have had a significant influence on management practice (Rozanova and Orechov, 2014). Experienced managers of the 1990s were classically trained in a command economy approach to management and were hesitant to deviate from methods employed in the Soviet Union. It follows that risk-taking and initiative were not typically pursued by directors, who grew up in an

environment of weak performance pressure, ambiguous job responsibilities, and promotion through connections and privileges (Longenecker and Popovski, 1994). Today, Russian managers must address the reality of the nation's ongoing transformation toward a full-fledged market economy. Managers are challenged to incorporate organisational and inter-organisational behaviour, strategies, resources and investments to the basic nature of exchange in market economies. The development and handling of dynamic exchange relationships in a dynamic business environment are important strategic activities (Mattsson and Salmi, 2013).

Traditional management approaches in Russia were underpinned by negative features such as dependency of employees on top managers, hierarchic centralised structure of management, non-transparency of managerial decision-making process, inflexibility of top management; protective behaviour of an organisation to external environment, promotion based on loyalty to the management, barriers between business branches, and a general lack of motivation. However, these characteristics represent only part of the picture. The broad management style that emerged in the 1990s and 2000s slowly evolved into a modern individualistic approach with a focus on a learning organisation. The social profile's combination of traditional Russian culture, Soviet heritage, and a spirit of radical change set the stage for a proper extrapolation of western managerial theories (Grachev et al., 2007). Russian managers developed an ability to launch large-scale projects, make decisions under time and resource constraints, and skills that promote organisational learning while functioning in an unstable environment.

One of the important attributes of Russian business is the fragile legitimacy of formal institutions and their total dependence on culture, ethics, and other informal institutions. Other key considerations include non-transparency in corporate governance and limited competitiveness in business strategies. The informal networks on which Russian managers rely on corporate governance creates a different style of business operation and strategy development. Privatisation was an attempt to introduce new formal institutions by legitimating private property which was presumed to be supported by other market-oriented institutions such as capital markets, a regulatory regime, and effective law enforcement (Fiedorczuk and Grabowiecki, 2014).

As the development of private ownership increased, there were and continue to be more struggles among owners and the need for assistance by the state. This model seems to be occurring more frequently in recent decades. Companies afflicted with financial problems are asking the state to provide assistance (Fiedorczuk and Grabowiecki 2014).

During the same period, a new generation of young risk-takers entered the management arena. This cohort of managers has created a class of management styles that can be seen in modern Russian strategic management. Over the years, this class of managers has exerted more influence among peers and regular workers. Their ability to manage risk in a volatile environment has been critical to their success (Longenecker, 2001). However, high risk-taking and lack of professional expertise have often led to failure.

Many Russian managers responded to the austerity of the 1990s by relying on intuition and attempting to control their surroundings. As the Russian economy has matured, many firms have been challenged to stay abreast of technology and other innovations and maintain profitability. While organisations typically evolve through various developmental stages – from idea generation and resource marshalling through formal structures and an emphasis on human resources (Fey and Mills, 2007) – many Russian firms focus on maintaining competitiveness and surviving environmental

challenges. Resource scarcity is an ongoing concern (Prohorov, 2002), prompting many executives to emphasise a simple, cost leadership strategy (Balashova and Gromova, 2016). The continuous improvement of dynamic capabilities can be viewed as a key focus for Russian organisations functioning in a volatile, unpredictable market, as it increases an ability of an organisation to adapt to uncertainty (Winter, 2003).

More recently, Russian businesses have experienced a significant transformation following a trend of optimisation, advanced analytics, and increased emphasis on the role of human resources (Latukha, 2016). The rise of demand for new consulting services in spheres of technology and marketing has outlined a new stage of managerial development. The popularity of SaaS (software as a service) solutions such as Yandex Data Factory machine learning solutions (Haitin, 2016; Zavalishina, 2016) and industry-wide implementation of SAP (Akimenkov et al., 2016) signifies a focus on initiating change rather than reacting to it. The ability of Russian companies to implement organisational change is becoming a key survival and success factor in a dynamic unpredictable business environment.

It is commonly accepted that old approaches to doing business are no longer effective in the volatile and turbulent Russian business environment. The distinctive feature of entrepreneurial firms is their ability to recognise new opportunities and pursue them more rapidly in spite of competitors and limited resources.

This new stage of Russian organisational development can be viewed in terms of a DCA framework, which considers competitive advantage as a distinctive feature of a firm (Teece and Shuen, 1997). It is normal for a company to focus on profits but promoting wealth creation more broadly is more challenging. Many Russian businesses focus on ad hoc research and an agile approach to project management instead of traditional R&D programs (Belov, 2013). Federal support programs are the primary funders of R&D centres (Spiesberger et al., 2016). Such activities can be explained by the effect of risk-taking on long-term projects, whereby Russian firms tend to maintain strategic flexibility in order to address unanticipated, short-term strategic challenges (Filippov, 2011). Moreover, many Russian firms prefer to purchase technology instead of developing it (Dikova et al., 2016). However, a top-down approach in technological innovation often proves ineffective, as high technology areas require a high degree of entrepreneurial innovation (National Research Council, 2009). Finally, many Russian managers still seek to employ outdated strategic management tools in modern Russia. This inclination disregards new possibilities for improvement and thus leads to low competitiveness and economic improvement (Tkacheva et al., 2017).

Although many scholars consider the economic transformation in Russia to be complete, the development of marketing capabilities proves to be a significant stimulus for developing and implementing more effective strategic management in private companies. In a similar vein, the development of technology capabilities in Latin America – specifically Argentina, Brazil and Chile (Molina-Domene and Pietrobelli, 2012) – informs the situation in Russia, as both cases are characterised by high uncertainty and instability. Following this logic, company size can be relevant for building capabilities. The development of foreign equity and an export orientation are often precursors to developing technology capabilities (Lall, 1992). Large Russian firms – supported by foreign partners – are best positioned to lead this change. More broadly, dynamic capabilities in marketing and technology can drive strategic change in Russia, because these elements support data analytics, an essential tool for managing uncertainty.

### 3 Hypotheses

The present study considers the cost leadership and differentiation generic strategies. Cost leadership is very common in emerging economies because minimal costs typically translate into the low prices preferred by low-income consumers (Acquaah and Yasai-Ardekani, 2008; Sully de Luque and Arbazia, 2005). Economic liberalisation policies in Russia have placed a premium on production efficiency as well, and the most efficient firms are likely to harness the greatest market.

The differentiation strategy is based on factors such as quality, technology, customer service, and innovation. Although disposable income for Russian consumers is modest, their preference for higher quality products has peaked in recent years as they have become more exposed to a greater variety of foreign products (Acquaah and Yasai-Ardekani, 2008; Agyapong and Boamah, 2013). While differentiation might be less popular than cost leadership in Russia, firms that leverage technology and quality enhancements to execute the approach effectively can perform well (Dikova et al., 2016). Studies in other emerging economies have found a positive link between differentiation and performance as well (Jusoh and Parnell, 2008; Kim and Lim, 1988; Spanos et al., 2004).

In a similar vein, previous work has identified significant links between each of Porter's generic strategy approaches – differentiation, cost leadership, and focus – and business performance (Parnell et al., 2016). Given the broad array of extant research in both developed and emerging economies, a positive association between each of these strategies and organisational performance is anticipated in Russia (Jusoh and Parnell, 2008; Kim and Lim, 1988; Parnell, 1997; Wright, 1987).

*H1a: Emphasis on a cost leadership strategy will be positively associated with organisational performance among Russian businesses.*

*H1b: Emphasis on a differentiation strategy will be positively associated with organisational performance among Russian businesses.*

Marketing capabilities are a critical part of a firm's path to performance in Russian firms. In practice, such capabilities are related to the market mix and processes such as product development, brand, pricing, selling and promotion, channel selection and management (Morgan et al., 2009; Rostami, 2015). They are defined as integrative processes designed to apply the collective knowledge, skills, and resources for the firm to the market-related needs of the business enabling the business to add value to its goods and services to meet competitive demands. Such capabilities once built are difficult to imitate for competing firms, underscoring their crucial role in strategy development, and are considered to be an important source to enhance a firm's competitive advantage (Rostami, 2015). However, the firm needs to constantly reinvest in order to maintain and expand existing capabilities so that it can prevent imitation by other companies, which changes the nature of such capabilities, making them more dynamic, especially in emerging and transition economies.

A firm's marketing capability is reflected in its ability to differentiate products and services from competitors. Deployment of these marketing capabilities involves the application of resources such as financial or managerial to create its competitive advantage in the marketplace (Potočan, 2013; Rostami, 2015). Development of marketing capabilities rather than just ownership of marketing resources can result in

superior performance and stronger brand equity. A firm's marketing orientation and its marketing mix elements combine to reach target markets more effectively. Creation and management of market strategies can help create more enduring competitive advantages (Evers et al., 2012). Market orientation also has been widely prescribed as a core marketing capability for competitive advantage (Eisenhardt and Martin, 2000; Evers et al., 2012). International market-driven, customer-focused firms possess more superior market capabilities than non-market-driven firms (Rialp et al., 2005).

From a global perspective, managers must address the additional challenges arising from operating outside of their domestic markets, a key concerning emerging economies like Russia. Marketing capabilities assist firms in responding to market changes, competitors' repositioning, and value creation. Marketing capabilities like market sensing, partner links, and networking capabilities have been shown to be effective in affecting a firm's performance. These capabilities can be used to develop marketing strategies that result in overall organisational outcomes (Alharbi Adel Saleh, 2015). As such we can state that:

*H2a: There will be a positive and significant association between marketing capabilities and performance among Russian businesses.*

Some countries do not possess the factors of endowment to address rapid technological change, thereby creating a competitive shortcoming that can constrain the growth and development of firms. Moreover, a host company requires assimilation to absorb the technology changes that emerge, and the technology must meet local environmental requirements. A technology strategy can guide a firm in acquiring, developing, and applying technology for competitive advantage and is presumed to serve the firm's overall strategy. Hence, technology capabilities are defined as a firm's specific collection of equipment, skills, knowledge, and aptitude concerning the ability to operate, understand, change and create processes and products to meet the demands and challenges of emerging markets (Ju et al., 2013).

Technology capabilities lead to product innovation and superior performance. Developing such capabilities has become an important component of a firm's global marketing strategy, is a critical strategy for firms facing uncertainties and turbulent environments, and can help address performance with different levels of uncertainty across industries. Technology capabilities in international markets – especially in emerging markets – have become more important because of the presence of globalisation and increased technological sophistication. Developing technology capabilities locally to manage product innovation represents a critical strategy to adapt and compete in emerging markets and boost product innovations and improve manufacturing efficiencies (Shan and Jolly, 2012). As such, a technology strategy determines the steps a company must take to acquire, develop and apply technology to gain a competitive edge. Hence, we posit that:

*H2b: There will be a positive and significant association between technology capabilities and performance among Russian businesses.*

Given these hypotheses, it is plausible that capability development can moderate the links between strategy and performance. Firms become dependent on their own strategic choices, which eventually affect future decisions. Since the business environment is constantly changing, maintaining a competitive edge requires adaption and strategic flexibility. Past decisions that no longer fit new environments may become an obstacle to sustaining a competitive edge.

Adaptive capability is a critical factor in meeting changing environments. Adaptive capability is linked to strategic action that ultimately reconfigures organisational resources, capabilities, and practices in order to meet the demands, opportunities, and threats of the changing environment. As dynamic capabilities are identified and linked to the strategic orientation, they promulgate the energy necessary for adaptive capabilities to engage. Customer orientation and technology can have a positive effect on an organisation's adaptive capabilities. The links among these elements become the drivers of organisational performance (Kaehler et al., 2014). Put another way, a given strategy might have little performance value to a firm unless the organisation also has the capabilities required to execute it effectively.

Recent work by Acquaah and Agyapong (2015) supports the notion that differentiation is a more important driver than cost leadership of firm performance in emerging economies. Marketing capabilities were found to moderate the relationship between competitive strategy (i.e., cost leadership and differentiation) and performance among Ghanaian firms. Furthermore, marketing capabilities can strengthen the performance effects of differentiation but can weaken the influence of cost leadership. Moreover, firms following differentiation strategies are likely to support the effort by leveraging marketing capabilities (Farid El Sahn et al., 2013). In some economies where purchasing power enables imported products to compete heavily with local products, differentiation with branding techniques is required. With this in mind, we posit that:

*H3a: Marketing capabilities moderate the link between cost leadership and performance among Russian businesses.*

*H3b: Marketing capabilities moderate the link between differentiation and performance among Russian businesses.*

Technological advancements have reduced cultural differences across nations for decades, in turn facilitating the execution of marketing strategies (Levitt, 1983). Sinan and Weill (2007) contend that an emphasis on cost leadership or differentiation precedes investment in certain information technology (IT) assets. IT capabilities and competencies of Russian firms are connected to other valuable resources such as the backgrounds of technicians, innovativeness of managers, and the ability to network with governmental organisations and obtain state contracts. Ultimately, these capabilities can drive firm performance (Panibratov and Latukha, 2014).

Technology capabilities are firm assets that can promote differentiation. They are integral strategic resources that organisations use to attain a competitive advantage in their industries. Enhancing them is generally associated with superior performance, increased innovation and creativity, and enhanced process innovations (Oghojafor et al., 2014). Firms with mature technology capabilities tend to outperform their counterparts under competitive pressure (Coombs and Bierly, 2006). As such, we posit that:

*H3c: Technology capabilities moderate the link between cost leadership and performance among Russian businesses.*

*H3d: Technology capabilities moderate the link between differentiation and performance among Russian businesses.*

## 4 Methods

### 4.1 Data collection

This study utilised existing scales to measure capability development, with an emphasis on generic strategies and organisational performance. Scales developed by DeSarbo et al. (2005) were used to evaluate marketing and technology capabilities, implemented with a five-point Likert orientation (1=strongly disagree to 5=strongly agree). Strategy was conceptualised along Porter's typology and was assessed using Zahra and Covin's scale (1993), also with a five-point Likert scale (1 = very low focus to 5=very high focus).

A robust ongoing debate concerns the appropriate measurement of organisational performance. Some scholars assert that only financial measures should be considered, while others argue that accounting measures are not always reliable performance indicators, and much can be gleaned by invoking a subjective lens. Moreover, the appropriate performance measure might depend on the business strategy and/or other contextual factors (Cavalieri et al., 2007; Jusoh and Parnell, 2008; Pongatichat and Johnston, 2008; Hillman and Keim, 2001; Van der Stede et al., 2006). The present study emphasised a broad, subjective assessment of relative performance.

A quantitative methodology was employed (Neuman, 2011). In October-December 2015, an online survey was utilised among Russian firms registered as members of the Chamber of Commerce and Industry (CCI) of the Russian Federation aiming predominantly at owners, managers and other senior employees. A dataset of 3,000 enterprises from 62 Russian regions was obtained consisting of small, medium and large firms from various industries such as construction, IT technologies, mechanical engineering, manufacturing, agriculture, finance, and legal services. The total annual turnover of the surveyed companies is approximately 1.2 trillion rubles and 500,000 employees. However, only 52% of the selected target companies clearly reported full contact information such as phone numbers, corporate emails and websites, management details and descriptions of business activities in the Chamber's register.

Survey questions were translated into Russian and subsequently amended based on feedback from five native speakers and industry experts employed within the Digital Development Department of the CCI. Subsequently, a pilot test was carried out with ten employees holding managerial positions from companies based in Moscow randomly selected to further assess the wording and presentation of the questions. The final version was distributed to 1000 Russian firms via email. The reliability of the answers was increased by the anonymity of the respondents (Wildemuth, 2009). In total, 350 responses were collected from a diverse cohort of regional firms from Russian cities with a population in excess of 100,000. Random sampling from panel representatives was implemented for screening criteria and the data was controlled for outliers, normality, skewness, and kurtosis, showing no departure from the requirements of multivariate statistical analysis (Hair et al., 2007; Creswell, 2014).

An overall response rate of 35% was achieved, which is substantial within the Russian context due to operational obstacles of conducting primary research and a general unwillingness to participate in surveys (Puffer and McCarthy, 2011). Although there is no reason to assume a lower response rate for online surveys (*vis-à-vis* paper surveys), the response rate gap can be quite substantial (Porter, 2004).

Data were collected in two distribution waves. The first wave was conducted directly by researchers targeting corporate managers and business owners whose contacts were

acquired through the Russian CCI web-based directory. The second wave was executed by an independent Russian research and consultancy firm (Radar) based in Moscow targeting the senior level employees from the distribution list of the selected business entities. Duplicates that emerged from the overlap between the two waves were eliminated. During the process of recording the responses and screening the data, it was confirmed that one response per organisation was recorded. This was reinforced by cross-checking respondent demographic details between responses, indicating that no two respondents presented the same profile.

**Table 1** Demographics

<i>Variable</i>	<i>Number</i>	<i>Percentage</i>
<i>Years of Experience with Present Organisation</i>		
1–8	228	71.6%
9–16	75	23.5%
17–30	15	4.7%
Missing	1	0.2%
Total	319	100.0%
<i>Years of Management Experience</i>		
0–8	228	71.4%
9–16	71	22.2%
17–25	15	4.7%
26–38	5	1.6%
Total	319	100.0%
<i>Level of Management</i>		
Non-management	72	22.6%
Lower management	31	9.7%
Middle management	184	57.7%
Upper management	32	10.0%
Total	319	100.0%
<i>Functional Background</i>		
Accounting or Finance	41	12.9%
General Management or Human Resources	33	10.3%
Law	11	3.4%
Marketing or Sales	42	13.2%
Production or Engineering	160	50.2%
Other	32	10.0%
Total	319	100.0%
<i>Gender</i>		
Male	162	50.8%
Female	157	49.2%
Total	319	100.0%

## 5 Results

Hypotheses were tested via SmartPLS (version 3) software. Advances in partial least squares modelling are well documented in the marketing literature (Hair et al., 2012). Factor loadings exceeded .700 and coefficient alpha scores exceeded .800 for all constructs (see Table 2). Fornell-Larcker matrices supported discriminant validity in all instances, although the intra- and inter-factor correlations for cost leadership and differentiation were very close, suggesting that Russian managers do not distinguish substantially between the two approaches (see Table 3).

**Table 2** Scale reliabilities

	<i>Alpha</i>	<i>Composite reliability</i>	<i>Average variance explained</i>
Cost Leadership	0.826	0.877	0.588
Differentiation	0.885	0.910	0.592
Marketing Cap.	0.866	0.900	0.600
Technology Cap.	0.881	0.909	0.626
Performance	0.940	0.950	0.703

**Table 3** Fornell-Larcker matrix

	<i>Cost Lead</i>	<i>Differ</i>	<i>Mkt Cap</i>	<i>Tech Cap</i>	<i>Perform</i>
Cost Leadership	0.787				
Differentiation	0.767	0.769			
Marketing Cap.	0.552	0.674	0.825		
Technology Cap.	0.542	0.662	0.774	0.791	
Performance	0.351	0.357	0.488	0.485	0.839

H1a and H1b were initially supported at the .05 level in a model that included only cost leadership, differentiation, and firm performance (see Table 4). Factor loadings for items in the cost, differentiation, focus, and performance scales were strong, resulting in alpha coefficients of .826, .885, .795 and .940 respectively. F-square coefficients between the cost and differentiation and performance were .023 and .031, respectively. F-square coefficients of .020 or greater denote a significant effect size, underscoring the importance of cost leadership and differentiation as potential drivers of firm performance. The R-square value for the equation was modest (.152), however.

**Table 4** Tests of hypothesis 1

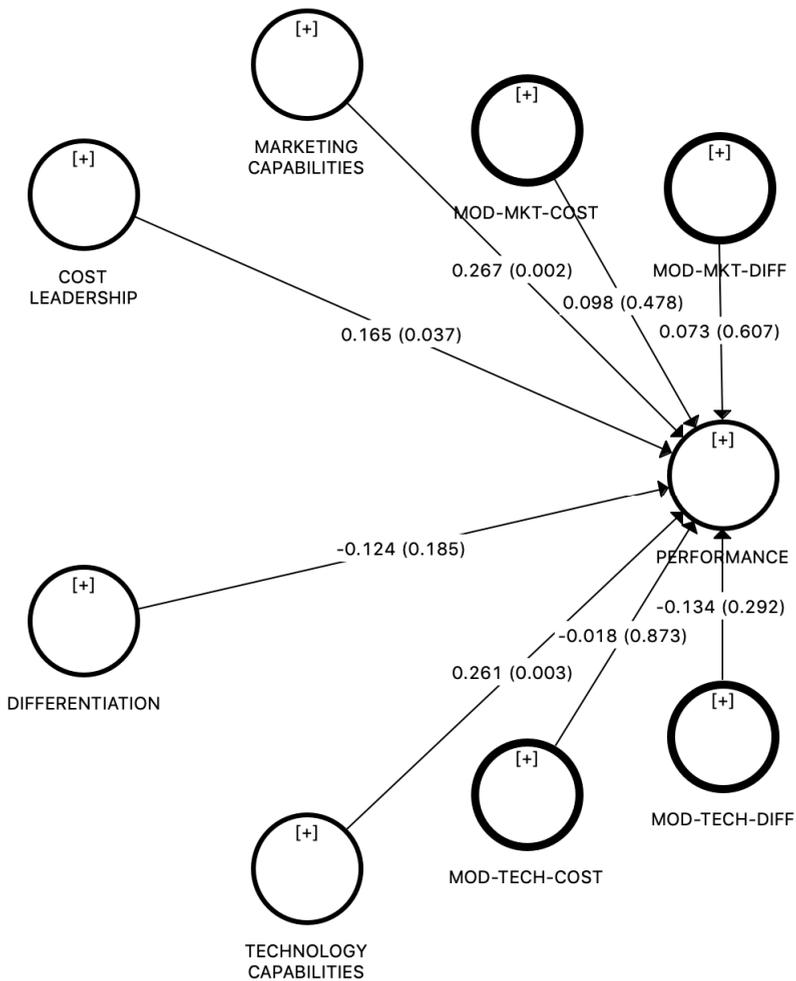
<i>Hypothesis</i>	<i>Link</i>	<i>Original sample</i>	<i>Sample mean</i>	<i>Std. Dev.</i>	<i>T-value</i>	<i>P-value</i>	<i>Support</i>
H1a	Cost Lead → Perf	0.187	0.192	0.082	2.286	0.022*	Yes
H1b	Differ → Perf	0.218	0.221	0.080	2.735	0.006	Yes

Note: \*Significant at .05 level.

This analysis addresses the impact of both strategy (H1) and capabilities (H2) on performance, so H1a and H1b were revisited in a composite model (see Figure 1 and Table 5). VIF values were below 4.00 for all survey items, suggesting that

multicollinearity is not a concern. In the composite model, H1a was supported, but H1b was not. H2a and H2b were supported. Factor loadings for items in the marketing capabilities and technology capabilities scales were attractive, resulting in alpha coefficients of .866 and .881 respectively. F-square coefficients between the cost, differentiation, marketing, and technology measures, and performance were .011, .004, .029, and .026 respectively. Hence, when the capabilities measures were added to the model, the differentiation-performance link was no longer significant. The R-square value increased substantially to .268.

**Figure 1** Marketing capabilities and technology capabilities as moderators of the differentiation-performance and cost leadership-performance relationship



H3a, H3b, H3c, and H3d were not supported in the composite model at the .05 level. F-square coefficients testing the moderation effects of capabilities in the strategy-performance links were below .020. F-square coefficients testing the direct effects of marketing capabilities and technology capabilities on performance were both .028,

while coefficients testing the direct effects of cost leadership and differentiation and performance were both under .020. While strategic emphasis on cost leadership or differentiation was positively associated with performance among Russian businesses, only the cost leadership-performance link was significant when marketing and technology capabilities were included in the model. Put another way, the development of these capabilities – not the strategy per se – appears to be a more substantial driver of performance.

**Table 5** Tests of hypotheses (composite model)

<i>Hypothesis</i>	<i>Link</i>	<i>Original sample</i>	<i>Sample mean</i>	<i>Std. Dev.</i>	<i>T-value</i>	<i>P-value</i>	<i>Support</i>
H1a	Cost Lead → Perf	0.165	0.162	0.079	2.094	0.037*	Yes
H1b	Differ → Perf	-0.124	-0.115	0.093	1.327	0.185	No
H2a	Mkt Cap → Perf	0.267	0.265	0.087	3.057	0.002*	Yes
H2b	Tech Cap → Perf	0.261	0.26	0.086	3.025	0.003*	Yes
H3a	Moderator: Mkt Cap & Cost	0.098	0.08	0.139	0.71	0.478	No
H3b	Moderator: Mkt Cap & Differ	0.073	0.088	0.141	0.514	0.607	No
H3c	Moderator: Tech Cap & Cost	-0.018	-0.006	0.115	0.16	0.873	No
H3d	Moderator: Tech Cap & Differ	-0.134	-0.139	0.127	1.054	0.292	No

Note: \*Significant at .05 level.

## 6 Discussion

Several findings warrant further discussion. First, emphases on both cost leadership and differentiation were positively associated with performance in Russian firms. Cost leadership is about organising firm resources in order to produce a product or service at the lowest cost feasible. Indeed, many Russian firms still seek to maintain competitiveness and survive environmental turbulence, but others tend to switch to technology development, both in product and in process (Saidov, 2014). Although resource scarcity was a critical concern in previous decades (Prohorov, 2002), many Russian executives still emphasise a simple, cost leadership strategy (Balashova and Gromova, 2016). Although less common in emerging economies, differentiation can improve access to markets through varied product or service offerings and – if executed properly – can drive performance as well (Acquaah and Agyapong, 2015; Panibratov and Latukha, 2014; Markgraf, 2016; Nielson, 2013).

Second, the optimal model included marketing and technology capabilities but only the cost leadership strategy – not differentiation – was significantly associated with firm performance when marketing and technology capabilities were included in a composite model. This finding suggests that among Russian firms, marketing and technology capabilities may be stronger performance drivers than differentiation.

There are several possible explanations for these findings within the Russian context, where marketing is less organic than in Western nations. Although many Russian firms integrate marketing and branding concerns with overall strategy, some gain access to markets by other means. One example is involving the government in the company strategy (e.g., political NMS), which can occur in both state-owned and private entities.

Russian firms often experience technological and institutional constraints (Panibratov, 2016). Mitigating them requires many companies to develop their own unique resources and capabilities without involving government in the process. It is interesting that these two approaches are contradictory by nature. More specifically, firms with strong government involvement are typically not interested in developing their own competitive advantages based on technology and marketing, as both types of capabilities are effectively replaced by government support. Such firms tend to be less long-term oriented as well. On the contrary, companies that are less dependent on the state due to home government indifference or reluctance to support tend to focus on developing capabilities and crafting strategies that leverage them.

Russian managers are advised to identify the distinct firm resources that allow the firm to develop alternative responses to the competitive environment. Simultaneously, the firm must be able to develop the ability to manage the use of available resources (i.e., marketing competencies and technological competencies) in order to meet the threats and opportunities that exist in the emerging economies or elsewhere. The ability to leverage resources and competencies gives the firm an opportunity to take advantage of strategic decision making in order to develop distinct competencies. A more flexible response to planning can provide more versatile capabilities and response to competitive threats and opportunities, resulting in more effective strategy implementation and higher firm performance (Sinkovics and Roath, 2004).

Finally, capabilities did *not* moderate the strategy-performance relationships as surmised initially. Hence, vis-à-vis competitive strategy, capability development appears to play a stronger role in performance. Becoming a learning organisation is critical to maintaining the dynamic capabilities necessary to meet the constant emergence of intense worldwide competition. Indeed, firms should acquire, generate, integrate and utilise knowledge in order to learn and manage technologies and establish mechanisms to acquire capabilities such as knowledge in order to build new capabilities and upgrade existing ones (Kocoglu et al., 2012).

Russian firms often focus on best practices, technology, and advanced marketing research to drive strategic decision-making. Many have learned to survive during crises and uncertainty by developing capabilities that can enable a greater focus on advanced data analytics (Simachev et al., 2014). Dynamic marketing and technology capabilities represent important assets for many Russian firms. The development of marketing capabilities can be a key strategic priority for many organisations that compete in Russia and other emerging markets. For example, in Cuban state-owned enterprises marketing capabilities made a significant contribution to enterprise optimisation and competitiveness in the early phase of economic transition (Llonch et al., 2011).

Many Russian firms focus on maintaining competitiveness and surviving environmental challenges (Dura and Driga, 2013). Resolving business problems within the context of dependencies (see Collis, 1994) helps uncover the potential of an organisation for strategic development. The continuous development of dynamic capabilities is often seen as a key focus for Russian companies functioning in an

unpredictable, volatile market, as it increases an organisation's ability to adapt to uncertainty (Saidov, 2014; Winter, 2003).

While Russian companies have had to function under difficult periods of change and uncertainty, many Russian firms have leveraged natural resource endowments, low energy prices, open markets, an educated labour force, and government support. Integrating knowledge, marketing and technology capabilities have improved their competitiveness (Dura and Driga, 2013). Historically, Russian companies have not been leaders in overall innovation in products, but many firms have been innovative in specialty areas such as manufacturing that require marketing capabilities and efficiencies linked to technological capabilities. Significant differences exist between and among economic sectors as related to the application of marketing innovations. One illustration relates to office equipment and computer manufacturers, which utilised various marketing techniques but pay little attention to product packaging. Companies in the machinery, equipment, and automobile manufacturing sectors were directed toward technological innovations for production processes (Kuznetsova and Roud, 2014). However, in chemical and petrochemical sectors, firms tend to develop and emphasise their own strengths in introducing new technologies and current management methods. The differences relate to the development and implementation of government policy and measures that will help meet the competition (Kuznetsova and Roud, 2014).

## **7 Conclusions, limitations and future research**

This study contributes to the literature by investigating how firms rearrange resources and capabilities vis-à-vis competitive strategies to enhance performance. Findings supported earlier work that reinforced positive performance links with both cost leadership and differentiation. However, the differentiation-performance link was not significant when marketing and technology capabilities were included in a composite model, suggesting that marketing and technology capabilities may be stronger performance drivers than competitive strategy among Russian firms.

Resource scarcity has been identified as a major concern for many Russian businesses and can have a major impact on strategy development and implementation. The ability to acquire talent or human resources that have the requisite knowledge and competencies is a key concern as well (Latukha, 2015). While Russia has experienced a significant transformation in business operations, it has not always been sufficient to formulate and execute appropriate, sustainable strategies in the global environment (Jumpponen et al., 2008). While the changes from the command economy have allowed young managers to plan for the long run, they often must rely on instincts and training to succeed (Latukha, 2015).

The instability of the Russian economy creates an ongoing management threat. The uncertainty forces managers to combine old and new management practices in ways that might be inappropriate (Latukha and Panibratov, 2015). Increased competition resulting from opening markets places more pressure on managers to evaluate strategies more intensely. As a result, managers often must modify entire business strategies because of changes in world prices and difficulties in acquiring competent talent necessary to operate their businesses. Access to adequate financing is also a key concern, particularly in Russia and other emerging economies (Latukha, 2015; Jumpponen et al., 2008).

Russian managers appear to understand the essence of strategy development within a cost leadership-differentiation framework, but strategy execution is a major challenge. They also recognise the importance of marketing and technology capabilities, but they need the appropriate resources and the appropriate configuration of managers involved in the decision-making to make their businesses sustainable. This study elucidates some of the critical factors necessary to move in this direction.

Two important, realistic avenues for future research are noteworthy. First, a balance between methodological consistency and cultural applications is crucial. Challenges inevitably exist when surveys are modified or translated into other languages for sampling in other cultures, requiring researchers to make critical judgments. Two decades ago, Punnett and Shenkar (1994) warned against the application of interviews, experiments and observational approaches to nations with markedly different cultural traditions. Moreover, while survey research is useful when language barriers are overcome, their reliability suffers where educational differences are also highly pronounced. Because many management constructs developed in the USA and other Western nations may be inappropriate in countries with emerging economies like Russia, new or modified constructs may more accurately explain the phenomena. Hence, scholars must seek to advance knowledge within the context of extant management theory while also developing new constructs for new national contexts and cultures where appropriate.

Finally, replications of this study for other emerging markets – especially those in the CIS – may help identify common influences of firms' capabilities on performance. Without this extension, the generalisability of these findings remains tenuous.

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