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Business environment and strategies of wood industry companies in Leningrad and Vologda regions – results from a pilot study

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Abstract
This pilot study examines resources and capabilities and their utilisation to support business and marketing strategies in the case of small/medium-sized wood industry companies in the Leningrad and Vologda regions. An increasing body of literature emphasises the strategic choices of core competencies/capabilities based on resources and the combination of these with marketing strategies. Both competencies and capabilities need to be aligned to the business environment where the company operates. The realisation of the potential that resources and capabilities provide as actual competitive advantages was studied based on managers' perceptions on their companies' market position. Furthermore, the competitive advantages at the market place were analysed against the competitive environment where the companies operate, and their decisions of the current and future geographical location. The data consists of personal interviews of managers in 12 wood industry case companies operating in Leningrad region and 6 companies in Vologda region. The interviews were conducted between May 2005 and January 2006.

The interviewed managers of Russian woodworking companies emphasised closeness to the markets, good logistic connections and large market size as the main sources of their competitive advantage. Forest resources and availability of wood raw material or price of wood raw material were not considered as particularly significant sources of competitive advantage. The overall reliability, good image and reputation of the company and its qualified and skilled personnel were the most important factors in which the interviewed managers of case companies estimated to be in the best competitive position against their rivals. In profit margins, in market share, and in networking with other companies producing similar products, the respondents perceived to be in the weakest competitive position in comparison to their competitors. High taxation, corruption and lack of capital strongly characterised the problems present in their business environment. In the future, these case companies wanted to change from commodity products towards more specialised products, and focus more on export markets in Europe than the domestic markets. If the results are more generalisable, competition in the European markets for wood products will intensify, extending also to the markets for higher value added wood products.

Keywords
wood products industry, Northwest Russia, resources, competitive advantage, competitive positioning, environmental quality

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1 Background

1.1 Forest sector development in Northwest Russia

In Europe (including the Russian Federation), the production of sawn softwood increased in 2000–2005 from 95 mill. m^3 to 106 mill. m^3, an increase of 11.5% (Faostat). During the same period, the consumption of sawn softwood in the markets of the European Union (EU) increased by 3.6% and the net exports increased from 3 to 7 mill. m^3. Thus, competition between the producers of sawnwood has increased markedly in Western Europe, and Europe has turned from a net importer to a net exporter of sawnwood (European Forest Sector Outlook… 2005). Major phenomena in the background of changing European markets for wood products are the political and economic changes from central planning to open market economy in Russia and the Eastern and Central European countries. Production in the Baltic and Nordic countries has increased rapidly from the early 1990s onwards. Also in Central Europe (Germany, Austria and the Czech Republic), the production of sawnwood increased rapidly in the late 1990s and the early 2000s, and a new wave of investments was ongoing in 2004–2006. By year 2005, the situation in the European markets has turned to clear excess supply and stagnating prices especially in the case of pine sawnwood (e.g. Finnish Forest Sector Economic Outlook 2004).

The dissolution of the Soviet Union in 1991 reduced sawnwood production and consumption dramatically in the region. Production and particularly consumption of sawnwood and other wood products has picked up only slowly in Russia.[1] However, since 1992 Russian exports of (coniferous) sawnwood have increased from 6 mill. m^3 to over 14 mill. m^3 in 2005, and Russia has increased its market share back to the level of the Soviet period for example in German markets (Mutanen et al. 2005). After the 1998 crisis, the economic development has been improving and the GDP has shown higher rates of growth. The low per capita consumption of sawnwood (0.06 m^3 in 2004) and large population (150 mill.) make Russia a lucrative potential market area for wood industry products.

From the European perspective, the majority of Russian forest products exports originate from the European part of Russia and from Northwest Russia[2] (NWR) especially. In 1999, about 29% of the total Russian exports of roundwood, 35% of plywood exports and 40% paper exports originated from Northwest Russia (Dudarev et al. 2002). Although recent development in the production of sawnwood and plywood in NRW shows positive trend, capacity utilisation in e.g. sawmilling industry is still about only 40 percent (Karvinen et al. 2006).

[1] Because of the lack of actual consumption statistics, apparent consumption figures for Russia are underestimates. The production in local small sawmills is not included in the Rosstat production statistics.
[2] In this paper, Northwest Russia refers to the Northwestern Federal District of Russian Federation including the regions (oblasts) of Arkhagelsk, Kaliningrad, Leningrad, Murmansk, Novgorod and Pskov, the Rebulics of Karelia and Komi, the Federal City of St. Petersburg and Nenets Autonomous District. The area of the Northwestern Federal District is about 1.7 mill. km^2 and the population 14 mill. according to the 2002 census.

Due the vast area of NWR, a comprehensive study of the whole region's forest industry would have required excessive research resources. We concentrated in this study on selected regions within NWR. The regions of Vologda and Leningrad and the City of St. Petersburg were selected, since the regions' woodworking industry is relatively developed and the regions are close to markets in the Baltic Sea area and beyond. From the Finnish perspective, the selected study area is also one of the most interesting market areas for wood-based products in Russia due to the fast growing purchasing power potential in and around St. Petersburg.

In terms of production of wood based panels, Vologda is the most important region in NWR, while in sawnwood production, Vologda is the second most important region and Leningrad the fourth (Karvinen et al. 2006). Thus, in terms of competitors for Scandinavian forest industry, the industry situated around St.Petersburg and in Vologda is of highest interest. The role of forest resources and sawmilling industry in Leningrad and Vologda regions are compared in Table 1. Forest resources in Vologda are twice the volume in Leningrad region but the use of allowable cut is lower in Vologda. Instead, the population is concentrated in the City of St.Petersburg, which has a growth in construction industry around 10% annually and thereby provides great consumption potential for wood products. Rate of capacity utilisation in the sawmilling industry is in both regions, and especially in St.Petersburg, very low, which provides potential for growth even without major new investments in capacity (Karvinen et al. 2006). Especially, there is high potential to increase consumption of wood industry products in the cities of Moscow and St.Petersburg. Also, the overall density of small and medium sized enterprises (SMEs) is the highest in St.Petersburg (Liuhto et al. 2004).

Table 1. Characteristics of Leningrad region, St. Petersburg and Vologda region (2003)

	Leningrad region	**St.Petersburg**	**Vologda region**
Population, mill.	1.67	4.66	1.27
Urban population %	66	100	69
GDP per capita (USD)	1696	2076	1865
Forest sector in region's exports, %	10.9	-	9.4
Value of forest sector exports, mill. USD	297	269	159
Forest resources, mill.m^3	825	-	1602
Use of allowable cut in forests under Ministry of Natural Resources, %	54	-	41
Sawnwood production, 1000 m^3	491	64	919
Capacity utilisation rate in sawmill industry, %	65	4	54

Sources: Karvinen et al. (2006), Liuhto et al. (2004), Sutyrin, S. & Sherov, V. (2005).

In principle, Russia has vast but relatively under-utilised roundwood resources. However, in practice the question of economic accessibility is present due to lacking infrastructure and limited road network. The low costs in wages, stumpage and energy prices together with high potential in consumption growth make Russia a very lucrative target for investments in forest sector. In addition, Russian industrial policy favours developing processing industry instead of exporting roundwood by threatening to increase tariffs on exported roundwood (e.g. www.idanmetsatieto.fi). Thus, publicly announced investment plans in sawmilling have started to grow amounting over 8 mill. m^3 since 2001. Although the size of ongoing wood industry investments is rather large by production volume, they are low in terms of value. For example, during 2000–2005, the three large Finnish forest industry companies have invested altogether about 350 mill. € in forest industry in Northwest Russia, which, however, amounts to only a minor share in their total foreign investment stock. Furthermore, the share of forest industry in the total stock of foreign investments into Russia has remained rather low, 3–4% (Liuhto et al. 2004). Among the Russian regions, the highest investment potential and lowest risk are in Moscow and St.Petersburg (www.expert.ru). Accordingly, by 2004, Leningrad region and St.Petersburg had accumulated most foreign investments after Moscow and Russian Far East.

In contrast to positive factors such as market size, growth potential and cost competitive inputs, there are many unresolved problems present in Russia. Investing in Russia includes risks, among which widespread corruption and difficult legal environment play a prominent role. According to a recent survey, main difficulties identified in selected leading companies in Leningrad region were high number of small companies, lack of finance capital and long-term forest leases, lack of profitability in sawmilling, poor infrastructure and practical problems in operations the region (International Finance Corporation 2000). Also, lack of marketing and management skills were found to exist.

Despite the high potential of Russian forests and forest industry, economic research on Russian forest industry business is very limited. Changing market and institutional environment requires up-to-date research in order to the results to have any practical relevance. Previous studies analysing Russian forest sector development have mainly focused on aggregate market level issues (e.g. Backman 1995) and have not used company level empirical data. In a survey of western forest industry companies investing in Russia, Nilsson and Söderholm (2002) found well-developed infrastructure and market size to be more important for investment decisions than prices of raw materials. They concluded that foreign investments in Russian forest sector are likely to remain low until a fundamental reform takes place in the legal and political system. Thus, market seeking as the main motivation for investments is not realised until institutional issues such as property rights and proper law enforcement will be solved.

1.2 Objectives

The objectives of this study are to describe companies in woodworking industry and to investigate how the companies perceive the business environment currently in NWR. In particular, we aim to form an updated understanding of the wood products industry in the Leningrad (including city of St. Petersburg) and Vologda regions with regard to how this industry perceives the business environment (compared, e.g. to Bystriakova 1999). We also evaluate how the problems and possibilities present in companies' internal structures and in external business environment have developed during the 2000s from the companies' standpoint. Furthermore, we study what kind of core capabilities the companies emphasise, and how the companies plan to develop their business in the future.

This study addresses the following specific questions.

1. Which are the strategic resources and core competencies on which the selected wood industry companies operating in NWR base their potential competitive advantages?
2. Which were the most important reasons for choosing current company location in NWR?
3. What kind of marketing/business strategies the companies have and how the resources and core competencies are linked with these strategies?
4. Are there differences in strategies/core competencies between Russian and foreign owned companies operating in NWR?
5. How companies perceive their competitive position in the market?
6. What are the main challenges and future opportunities in business environment of wood industry companies in NWR?

The empirical information produced in this study assists wood industry companies already operating in Russia to benchmark themselves against other companies on a general level (not against specific named companies) and to identify areas in their operation, which need development. In addition, foreign companies planning to enter Russian markets/enlarge their operations there may use the results to evaluate the general competitive situation of the markets. Data have been obtained through personal interviews of managers of selected case companies in the region.

2. Theoretical background

2.1 Achieving sustainable competitive advantage through company resources and capabilities

To be competitive, a company needs to have superior performance in comparison with its competitors. Usually, superior performance is connected with superior quality of products and services, or other means of differentiation. The second option is to gain such cost-advantage that facilitates cost-leadership. The third alternative is to be a niche-company and focus on a certain very small market segment (Porter 1985). The concept of sustainable competitive advantage may be seen as a function of the uniqueness or difficulty to imitate the source of this advantage (see e.g. Hoffman 1999). However, not all company resources have the potential to provide competitive advantage; instead, these resources must possess four attributes: rareness, value, inability to be imitated and inability to be substituted (Barney 1991).

Our theoretical background is based on an increasing body of literature, which emphasises the strategic choices of core competencies/capabilities, i.e. the resource based view (RBV, Barney 1991, Pralahad and Hamel 1990, Fahy 2002), and the combination of these with company-level strategies in creation of sustainable profitability. Compared with the traditional industrial organisation perspective and Porter's (1985) three generic strategies, the RBV defines availability of resources - tangible, intangible or human - and their heterogeneous combination in the formation of competitive advantage. While the Porter's commonly applied framework is dominantly based on the industry characteristics, the RBV underlines the role of company's internal resources and is therefore more suitable for analysing heterogeneous group of small- and medium sized companies, as in this study. Previously, the RBV has been adopted in management studies of woodworking industry in e.g. Lähtinen (2006) and Korhonen and Niemelä (2005). However, to our knowledge RBV has not been applied in the analysis of woodworking industry in transition countries and particularly in Russia.

Any component of the total offering (the total product consisting of a physical good and related services and other product intangibles) may be a source of competitive advantage. In fact, high quality of physical products may be strategic necessities or the "license to operate" in some markets, whereas the real competitive advantage is derived from elsewhere, such as from service skills and relationships (e.g., Mäkinen 1996). Services, information and other intangible characteristics of products increasingly build up the total offering provided for customers also in wood products industry (e.g. Toivonen et al. 2005). These can be developed as core (intangible) organisational capabilities of woodworking companies, which are incorporated into the business strategy thereby creating potential competitive advantage. High quality of services and other product intangibles may be based on high technological resources, but also on capabilities and knowledge embodied in people in organisations and the organisation's operations. Generally, these intangible capabilities are more difficult to imitate by competitors than technology and physical product characteristics, and therefore they are often more important sources for sustainable competitive advantage than tangible resources (e.g. Galbreath 2005, Fahy 2002).

As a remnant of socialistic era, networks are an important part of Russian business culture, where firms base business relationships on informal ties and extending favours (e.g. Peng and Heath 1996). Therefore, the role of institutions, politics and various modes of business networks between companies and relations between companies and local authorities need to be acknowledged as potential sources of competitive (dis)advantage. Figure 1, modified from Grant (2002), broadly summarizes our theoretical frame of reference. Importantly, both the competencies and capabilities need to be aligned with the business environment, where the company operates, in order to identify industry key success factors.

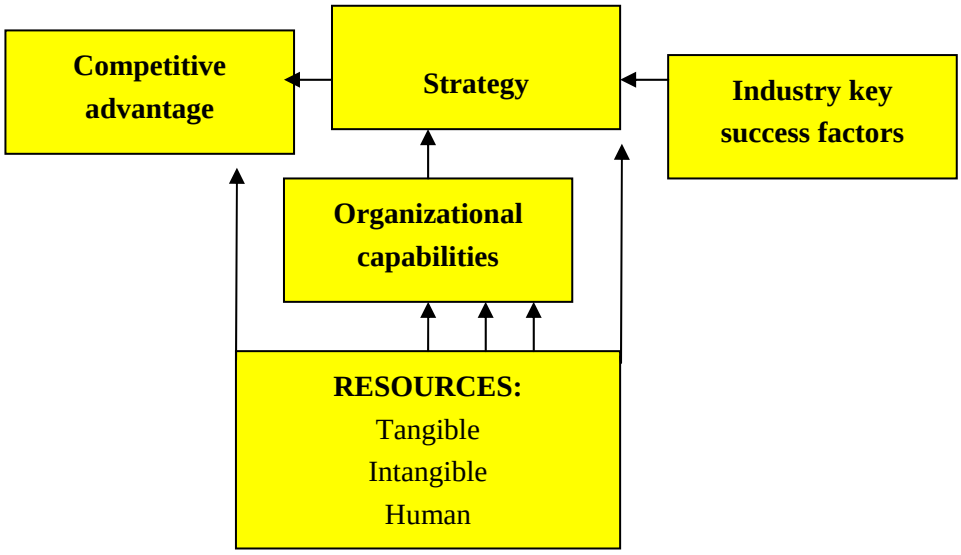

Figure 1. Relationships between resources, capabilities and competitive advantage (modified from Grant 2002)

Improvement in the competitive position may also be searched through transfer or enlarging operations to a new location. The new location may allow the company to gain a higher market share through increasing sales or lower production costs. Understanding companies' resource base is central to effective positioning of the company in the market and highlight important differences between company-specific and country-specific resources (Fahy and Smithee, 1999). Pye (1998) lists the main motivating factors for companies to invest in new locations as follows, and we have included in parentheses some relevant examples suitable for this study as follows:

- *markets* (size, growth, export platform opportunities),
- *resources* (raw materials and other similar inputs),
- *employment factors* (work force, such as availability and abilities of work force, working culture such as reliability and attitude towards working, and its costs),
- *financial efficiency* (cost advantages, free trade),
- *know-how* (embodied in technology) (technology, abilities, possibility to use new company to gain technical knowledge),

- *strategic position* (first mover, follow customers, opportunities of acquisition),
- *geographic location* (are we getting closer to our important customers?, proximity to buyers/suppliers, can we be present geographically on a wider area and thus win new markets/market shares?) and
- *investment climate* (attitudes towards foreign investors, stability of the society, historic trading links such as Hansa league, regulatory environment, cultural-physical-language-business systems closeness).

2.2 Marketing and competitive strategy frameworks applied in the study

The concepts of competitive strategy and marketing strategy or export strategy are not clearly distinct in literature. Thus, these are used often as synonyms. Actually, in order to hold continuously sustainable competitive advantage, it is necessary to combine/link competitive and marketing strategies. Marketing planning model by Juslin (e.g. Juslin & Hansen 2003) applied in the background of this paper, is conceptualised as a hierarchical process, where strategic decisions of products, customers, and market-area set guidelines for marketing functions and structures. The model results in a typology of three different strategies: commodity product, specialty product and custom-made product strategies.

Juslin's strategy concept is regarded to be on the same level with a general business strategy, based on the argument that decisions of products and customers are strategic and belong to business strategy rather than lower level tactical planning. Juslin's strategy concept has clear connections with Porter´s typology of three competitive strategies, although Porter's strategies are not directly in the background of Juslin's strategies. A comparison of Juslin's and other well-known marketing/business strategy concepts is presented by Niemelä (1993).

Juslin included in his marketing strategy model the concept of core competencies (see Niemelä 1993), which makes his model particularly suitable for this study. This concept underlines the strategic importance of consciously taking company resources and capabilities into consideration, and aligning these with marketing strategy, when formulating the roadmap for sustainable competitive advantage.

2.3 Competitive position and operating environment of companies

In analysing the competitive position of companies, we employed a framework presented by Hooley et al. (2001). Competitive positioning forms a dynamic link between resources and capabilities, strategies and firm performance. In its core is the combination of choice of target market area (i.e. among which segments the company competes) and competitive advantage (how the company will compete) as benchmarked by a company against its rivals. There is feedback loop in the theory since a superior performance of a company against its rivals is

expected to result in e.g. enhanced assets and improving customers expectations. Performance of companies in the industry is interlinked as performance of one company will affect aspirations and strategies adopted by its competitors and has an impact also on the relationship with other supply chain members.

The same internal resources and capabilities presented in the previous section are evaluated by companies against their main rivals. It is of interest, which are the main dimensions that companies use to position their offerings in comparison with their competitors. Generally, the competitive position attributes (listed in Appendix B3) are condensed into three main dimensions: 1) company and personnel factors, 2) product and production factors and 3) attributes related to operating environment. In these three categories, companies' competitive position, as perceived by the managers against their main competitors' in the market, is being evaluated. Finally, based on our theoretical framework (Figure 1), in addition to internal structure and resources, also external factors in the operating environment of the company are of importance in creating sustainable competitiveness.

2.4 Operationalisation of the theoretical framework

A 6-page questionnaire, including both multiple-choice sections on sources of competitive advantage, competitive position of companies and development of business environment and a few open-ended questions about future development, was prepared for the study (Appendix B). Questionnaire was designed in English, translated into Russian, and double-checked by native speakers.

In the interviews of managers, sources of competitive advantage and factors determining company location were assumed to be highly multidimensional and they were evaluated using a large number of attributes present in Appendix B, in such a way that only their interpretation differs between whether competitive advantage or company locations is the issue being questioned. The lists of potential 33 attributes were given to the managers of the companies, and they were asked to weigh them according to their perceived importance as providing competitive advantage to their company. The same attributes were evaluated from the viewpoint of making decisions on the company location.

Regarding marketing strategies, we operationalised the theoretical framework as a typology of three different product strategies (commodity product, specialty product and custom-made product strategies), three customer strategies (serving of as many customers as possible, few well defined end-use segments or a few known end users), and four market area strategies (export markets, domestic Russian markets, few target countries, as many countries as possible).

Respondents were asked to value 43 different attributes regarding their internal structure and external factors concerning the competitive position of the company. At first, competitive attributes were condensed into three main categories: company and personnel, product and production and environmentally related attributes. In these three categories, companies

estimated their competitive position on average to be very similar with their competitors' in the market.

Regarding the development of companies and their aims for the future, in section C of our questionnaire, managers were first asked about the development of general business environment, which sets boundaries for the development of individual companies. They were given a list of 20 potential problems present in the markets of NWR and they were asked on how well these would describe the current operating environment. Then managers were given a list of 19 possible objectives for the future business regarding product differentiation, means to achieve scale economies, expansion on new markets and means to attract investment funding.

In order to get insight into future competitive strength of woodworking industry of NWR, a wide variety of potential future objectives of company performance were evaluated concerning:

- company growth and profitability
- employment opportunities
- product and market diversification strategies
- financing opportunities
- corporate social responsibility

Finally, three open-ended questions on the most important challenges and opportunities of companies during the next 3-5 years and on the possible effect of new Forest Code on the companies were given to the interviewees.

3 Data collection

3.1 Leningrad region and St. Petersburg

At the beginning of May 2005, a preliminary list of 50 wood industry companies was gathered from a previous study (Bystriakova 1999), Yellow Pages and information presented by a Russian consulting company (Statisticheskaja baza dannyh… 2003). The main criterion in selecting the companies for interviews was the sufficiently large scale of production (over 5 000 m^3/year) of timber products.

There were several problems in conducting the interviews. Firstly, the contact information presented in public sources such as on Yellow Pages or on web pages (including companies' own ones) often was incorrect and in several cases - despite all the efforts - correct contact information could not be found. Furthermore, when the companies were contacted it was found that despite the preliminary information, they did not produce wood products at all or their production volumes were lower than 5 000 m^3/year. These shortcomings reduced the original number of companies from 50 to 28. Also the phone call arrangements showed that very often, the managers of production units could not decide on participation in a research project independently from the top-managers of the companies. Only in a couple of companies, the managers of productions departments made a decision about participation by themselves.

Figure 2. Location of the interviewed companies in Leningrad region and St. Petersburg

Of the 28 companies contacted, only a minority was willing to be included in the study. In many cases, managers were unwilling to provide the foreign organisation with information related to

business performance. Several other reasons why not to participate were also present, such as anxiety that results of the study could be used by Finnish woodworking companies to eliminate Russian competitors or to conquest the resource base of an enterprise. Furthermore, in several cases, the managers agreed to participate in the study at first but changed their mind without any explanations and simply stopped answering phone calls. These reasons resulted that eventually, the total number of companies interviewed in Leningrad region and St. Petersburg was reduced to 12, of which one insisted on remaining anonymous. The locations of these companies are presented in Figure 2. The interviews were conducted in Russian.

The completed interviews showed that the managers of the companies were experienced with the forest industry business and they knew very well the features of business processes within the Russian woodworking industry. There were just few cases of misunderstanding or incorrect interpretation of the questions by the interviewees. Mainly, difficulty to understand key concepts was related to questions about attitude of the company to participation in providing social assets to local community. A few managers asked to explain what does mean "to provide social assets". Some of the managers considered the question about ecological quality of the company's products as a question related to amount of polluting materials in products of their companies, but not as a question of ecological safety of the products and production processes.

3.2 Vologda region

In Vologda region, the interviews were conducted between November 2005 and January 2006. Compared to Leningrad region, the companies in Vologda generally were more eager to participate in the study and only one potential company refused to answer the questionnaire. Due to low production volume, the role of the company that refused to participate was rather insignificant. The locations of the interviewed companies are presented in Figure 3. Six companies were included in the data and the interviews were conducted in Russian in these companies.

In sum, the majority of managers of companies contacted in Vologda was very interested in this research project and was willing to answer the questions. This shows a steady interest in cooperation with Finland, which is an important business partner for Russian forest industry.

3.3 Methods of analysis and validity of results

A low sample size, as in this study, is typical of the difficulties in conducting quantitative research in transition countries (e.g., Mockaitis et al. 2006). Therefore, we report only descriptive statistics from multiple choice questions as averages over both regions. Consequently, the study needs to be regarded as a case study, and the results are indicative rather than a generalisation of the whole woodworking industry in NWR.

Figure 3. Location of the interviewed companies in Vologda region

The validity of the results is, however, supported by the fact that the interviews showed that the managers of the companies had significant experience in forest related business and were knowledgeable of the features of business processes and problems within the Russian woodworking industry. In addition, the companies covered a fairly large share of the total production within the regions targeted (see Chapter 4.1 for details).

4 Results

4.1 Descriptive statistics of interviewed woodworking companies

All interviewees represented private enterprises, which had either Russian or foreign ownership or were joint ventures. One aim of this study was to make comparison between Russian and foreign owned woodworking industry companies. However, due to small number of observations in each ownership category, it was not possible to analyse separately foreign owned or Russian companies without violating their confidentiality. In the following, we will therefore give the aggregate results. The results from the two regions, i.e. from Leningrad (including St. Petersburg) and Vologda, are compared visually. Thus, no statistical methods are used. If detected, the differences between two regions are described verbally. The summary statistics of interviewed 18 companies in Table 2 mostly refer to year 2004, but there were some exceptions that the data were available only for the year 2003.

Table 2. Summary statistics of interviewed woodworking industry companies in Leningrad (including St. Petersburg) and Vologda

	Number or value		
	Leningrad region	Vologda region	Total
Year of company foundation:			
• Before 1991	1	4	5
• During 1991-1999	6	1	7
• After 1999	5	1	6
TOTAL	12	6	18
Average number of employees	92	408	282
• In the smallest company	23	80	23
• In the largest company	783	1540	1540
N of companies according to their main field of operations:			
• Logging	4	1	5
• Sawmilling	6	1	7
• Joinery and carpentry	1	3	4
• Other, wholesale trade of wood	1	1	2
Average sawnwood production in m^3	34 000	25 000	32 000
Average roundwood consumption (under bark) in m^3	138 000	132 000	136 000
Legal form of ownership:			
• OOO	7	2	9
• ZAO	5	1	6
• OAO	-	3	3
TOTAL	12	6	18

All interviewed managers did not provide the value of turnover in their companies. However, the number of employees was given for each company. The average number of employees was 282 persons, but the range was huge from the smallest (23 employees) to the largest (1540 employees). Due to the very low labour productivity in Russia, in terms of turnover, these companies could nevertheless be classified with EU standards as either small or medium sized enterprises (SMEs).

The majority of companies, 14, produced sawnwood, one company produced panels, three were in joinery and carpentry and two were also involved in the wholesale trade of roundwood. Nine companies reported that they had also sales of chips, sawdust or bark and three companies sold firewood as a by-product. However, logging operations provided the main source of turnover in five sawnwood producing companies (their origin in Soviet *lespromhozes*), representing vertically integrated organisations typical in Russia.

An average volume of sawnwood production in the interviewed sawmills was over 32 000 m^3 and the respective roundwood consumption (including the joinery and carpentry company) 136 000 m^3. Thus, some of our companies were of substantial size and represented about 65 % of sawnwood production in Leningrad region, which counterbalances well the relatively small number of companies in the sample. For example, official data for year 2003 gave sawnwood production of 555 000 m^3 for St. Petrsburg and Leningrad region, but after this there have been new foreign investments by e.g. Swedwood Tikhvin. Regarding Vologda region, the case companies were more oriented in the production of panels, joinery and carpentry. The sum of sawnwood production in the three interviewed companies producing sawnwood was 75 000 m^3, representing a minor proportion of capacity (over 0.9 mill. m^3) in the Vologda region.

As mentioned, case companies did not report their turnover very often, so we did not calculate average turnover. Also profitability figures were reported in only few cases and it can be generalised that the development in those few cases show either stable or decreasing profitability. Due to taxation, companies are not willing to show profitability in their operations. Most commonly used indicators for the success of companies were productivity of employed labour and sales growth. Financial performance came only third in importance. Increasing market share in target areas was seen the least important among those provided in question B4 (see Appendix B). All interviewed managers mentioned that they had formulated a strategy document in the form of a business plan, but we did have any examples about the type or structure of these. It was not possible to process results according to our original plan between foreign owned companies and companies with Russian ownership without violating their confidentiality. Thus, comparisons between foreign and Russian companies are not reported.

4.2 Marketing and product strategies

In Figures 4–6, marketing and market strategies of the case companies are presented regarding their choice of products (commodity, specialty or custom-made), customer (as many as

possible, few well-defined or known end-users) and by targeted market area (export markets, domestic markets, few target countries or as many countries as possible). Most commonly, the companies produced commodity products. When comparing the mean values of the answers, the companies from Leningrad region seemed to follow commodity product strategy, whereas in Vologda custom-made product strategy was more emphasised.

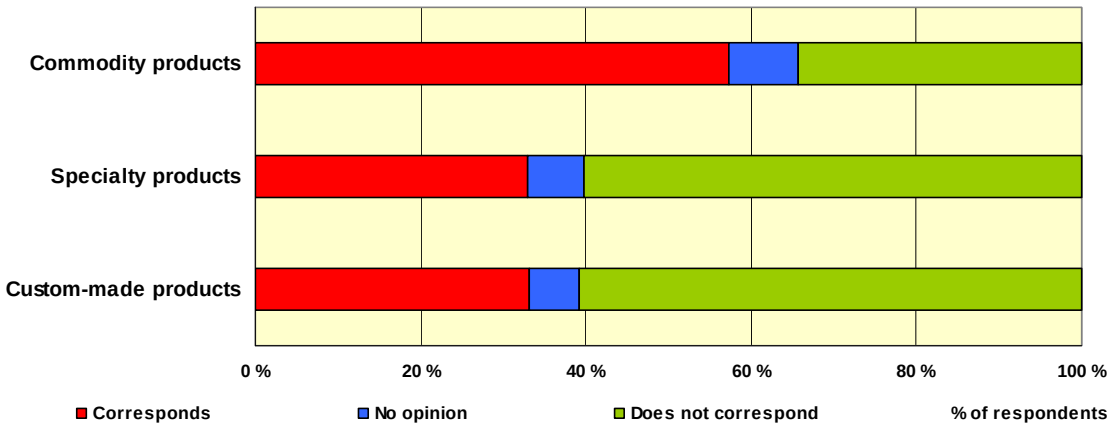

Figure 4. Product strategies of the interviewed companies.

Regarding the preferred choice of market area, export markets and domestic Russian markets were equally preferred by the case companies. Regarding the question on the number of export countries (either few or as many as possible), respondents from Leningrad region seemed to prefer export market in their market area strategy. The companies from Vologda region focused on few target countries.

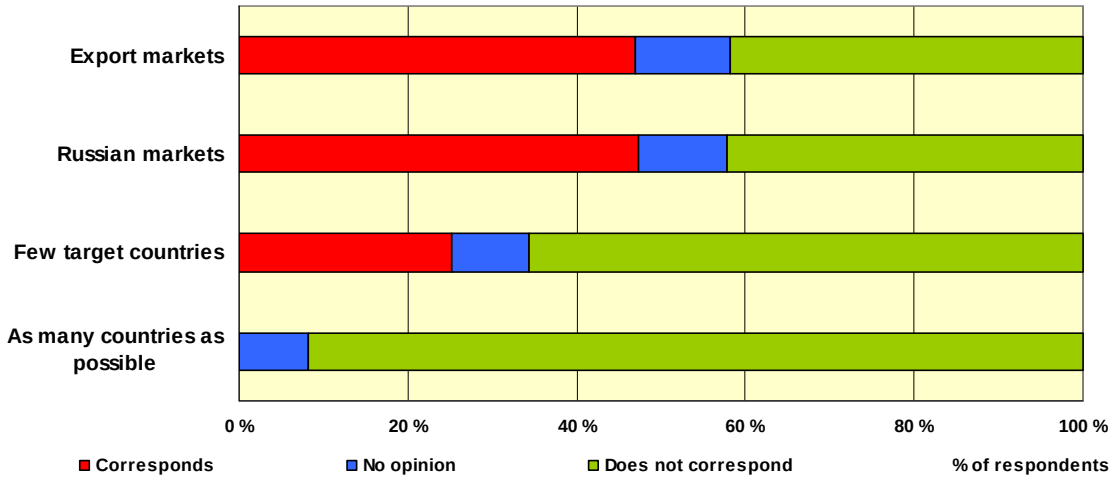

Figure 5. Market area strategies of the interviewed companies

Regarding the choice of customer, there were hardly any differences between the strategies. Based on the mean value of the respondents, companies targeted their products for well-defined

end-use segments. Companies in Vologda strived for achieving as many customers as possible, while companies in Leningrad region tried to focus on few well-defined end use segments.

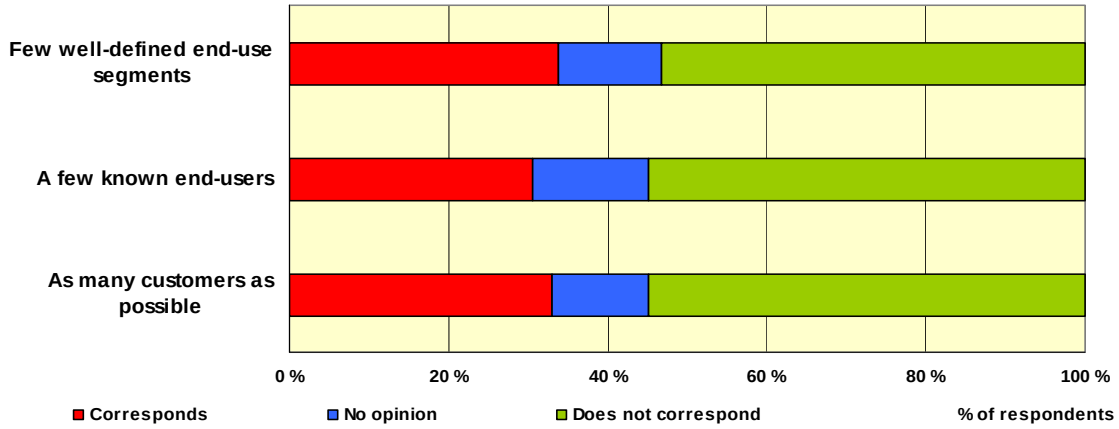

Figure 6. Customer strategies of the interviewed companies

4.3 Competitive advantages and competitive position

4.3.1 Sources of competitive advantage

The interviewers gave a list of 33 potential competition related attributes in six main categories: markets, resources, operating environment, technology and organisations, communication and logistics and external networking (see Appendix B). The managers of the companies ranked these competitive advantage related issues according to the value they perceived. “Very important” attribute was graded as 3 and “not an important attribute” was graded as 1.

In Figure 7, the main six categories of competitive advantage are presented according to their mean values of the importance. The mean values were calculated across the values of attributes in each category. Communication and logistics and markets seem to be the most important sources of competitive advantage. Instead, resources were perceived to be the least important source of competitive advantage. Communication and logistics was perceived to be especially important source of competitive advantage among companies in Leningrad region (mean value 2.5).

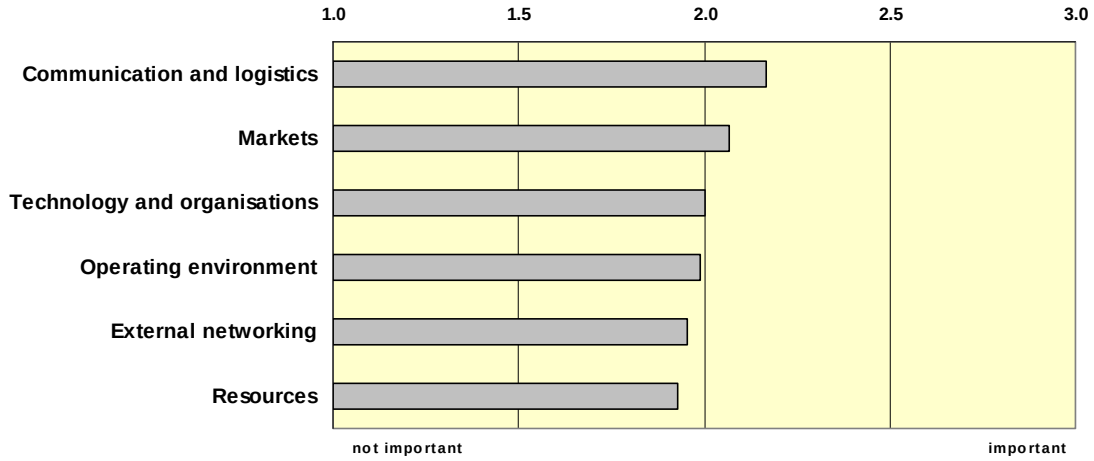

Figure 7. Sources of competitive advantage in the interviewed companies

From all the individual attributes, closeness to main market area was seen "very important" by most of the companies. In addition, issues related to the price of labour force, large markets and logistic connections were given high grades. Attributes related to labour quality and costs and abundant R&D sources appeared also high on the agenda. Instead, issues related to existing production facilities, existing network of distributors, price of wood or low general cost level were given surprisingly low scores, and secure wood supply outweighed these factors. About 40% of the companies replied that price of wood is not at all an important source of competitive advantage for them.

In Figures 8–13, the sources of competitive advantage are analysed more thoroughly by the distribution of answers. In communication and logistics, which was generally ranked to be the most important source of competitive advantage, in one hand, closeness to the main markets was perceived to be most important single source of competitive advantage. On the other hand, marketing infrastructure in the region was detected to be a minor source of competitive advantage (see Figure 8). By comparing the mean values of the answers, all the communication and logistics related attributes seemed to be more important sources of competitive advantage for the companies in Leningrad than in Vologda region.

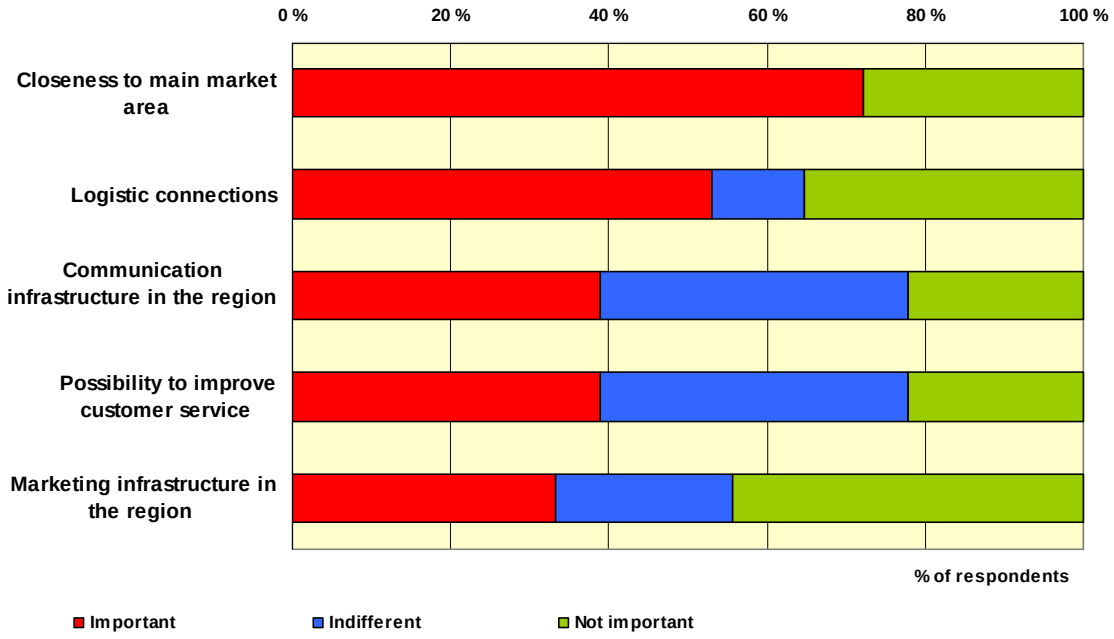

Figure 8. Communication and logistics related issues as a source of competitive advantage

Figure 9 describes market related attributes as sources of competitive advantage. From the single attributes, large markets (measured in demand) was the most important source of competitive advantage, whereas low competition between other producers were found to be the least important source of competitive advantage. Large markets were especially important for the companies of Leningrad region, whereas the companies from Vologda region considered low competition as a source of competitive advantage.

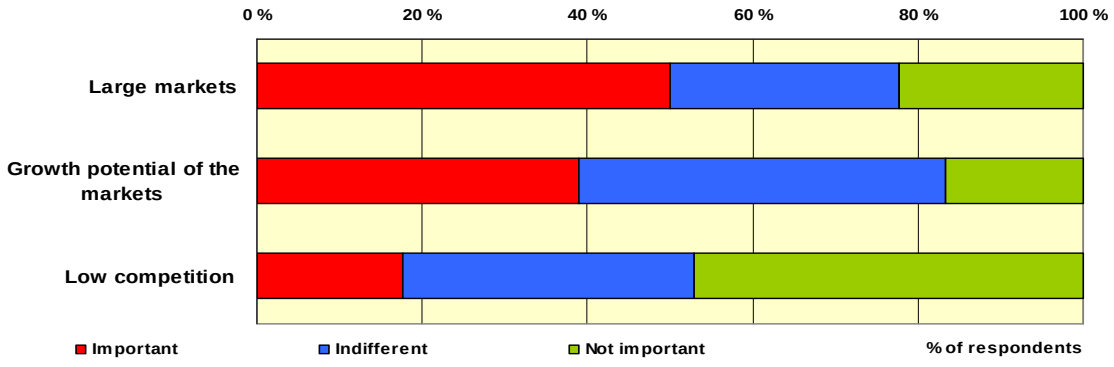

Figure 9. Market related issues as a source of competitive advantage

Technology and organisations were ranked to be the third important source of competitive advantage overall. From the single issues in this category, highly developed organisational structures in the region were perceived to be the most source of competitive advantage. The difference between other attributes was, however, was very small (see Figure 10). Between the respondent groups, clear difference can be detected in relation to the possibility to improve their own technology. This issue was very important source of competitive advantage for the

companies from Leningrad region while among the companies from Vologda ranked this attribute with low grades.

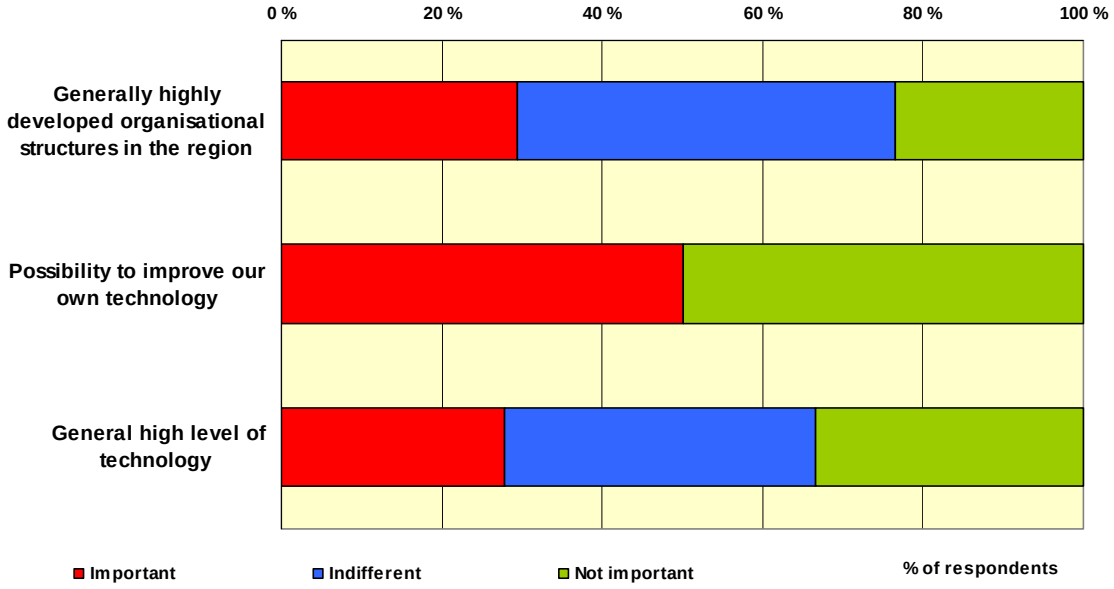

Figure 10. Technology and organisation related issues as a source of competitive advantage

From the attributes of operating environment, strong R&D resources were perceived to be the most important source of competitive advantage by the case companies. Instead, for low general cost level in the region was given the lowest grades in this category (see Figure 11). The clearest distinction between the respondent groups was in the R&D sources. For the companies in Vologda region this was one of the main sources of competitive advantage, whereas the companies in Leningrad region considered this attribute only moderately important source of competitive advantage.

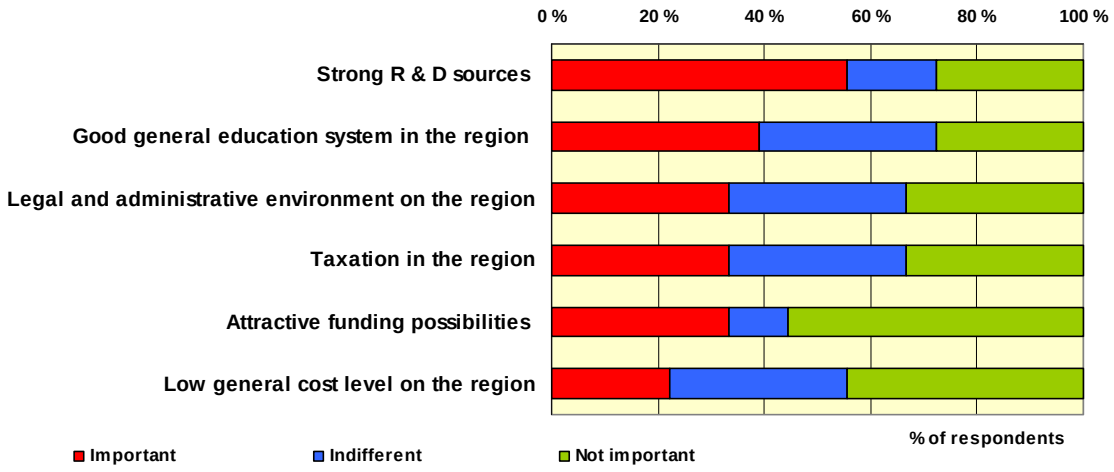

Figure 11. Operating environment related issues as a source of competitive advantage

According to the answers concerning external networking, three almost equally important sources of competitive advantage was detected. The respondents gave highest grading on good social relationships with people in other companies in the sector, possibility to learn from other companies within the same sector and good social relationships with people in administrative and legislative institutions. In contrast, the existing networks of distributors were perceived to be the least important source of competitive advantage (see Figure 12). Between the companies in Vologda and Leningrad, two differences were detected. Companies in Leningrad region considered good social relationship with people in administrative and legislative institutions as an important source of competitive advantage, whereas the companies in Vologda preferred the existing networks of companies producing similar products.

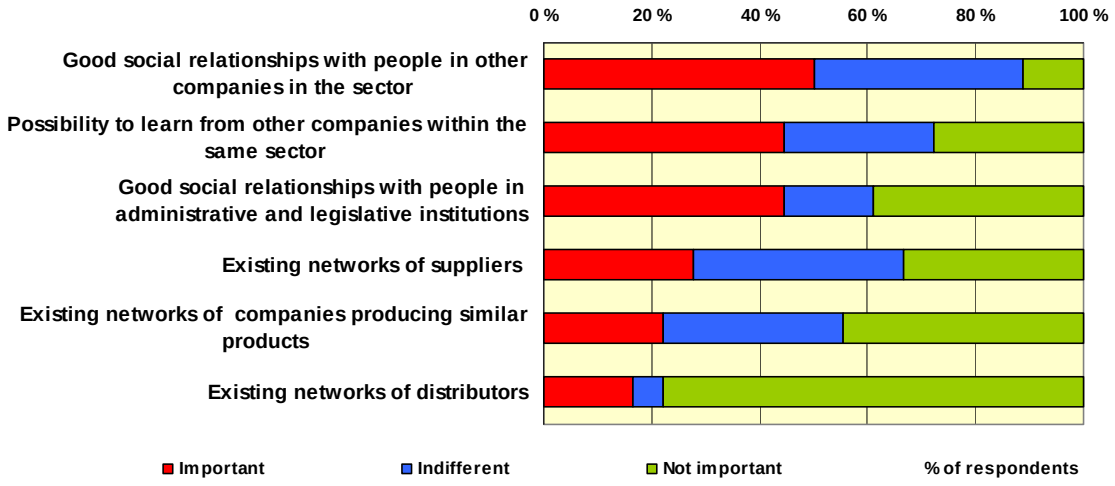

Figure 12. External networking related issues as a source of competitive advantage

Among the main six categories of potential sources for competitive advantage, resources were detected to be the least important. Differences between various resource related attributes were, however, rather large. The price of labour force was ranked to be one of the most important sources of competitive advantage from all the 33 attributes. In addition, qualified and skilled personnel and the price of energy were also significant sources of competitive advantage. Existing production facilities, in turn, were not an important source of competitive advantage for most of the respondents (see Figure 13).

Although resources generally were perceived to be a minor source of competitive advantage, several differences between the two regions were detected. The price of labour force and qualified and skilled personnel were very important sources of competitive for the companies in Leningrad region. Among the companies in Vologda, the price of wood raw material, possibility to choose between different energy sources and possibility to attend emissions trade according to Kyoto protocol were the most important sources of competitive advantage. However, regarding Kyoto protocol, some interviewees were not familiar with the concept of emission trading. The distribution of importance scores was highest within the attributes of resources category. Thus, the means of attributes are, to some extent, affected by answers of a single

company. This makes the interpretation of results from resource related questions more uncertain than in the cases of other five categories of competitive advantage.

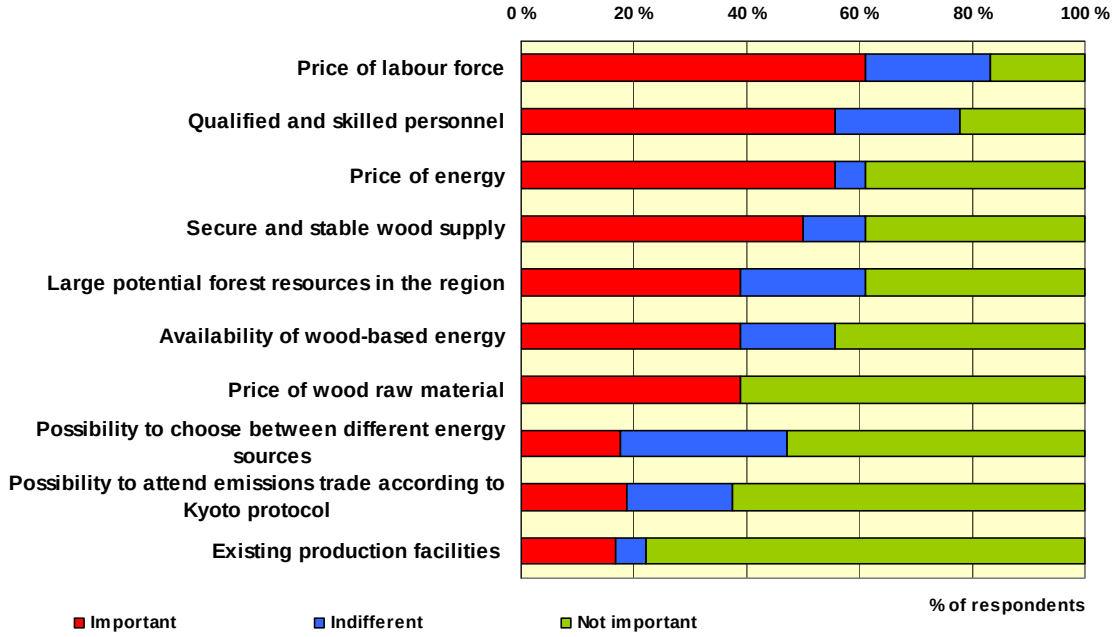

Figure 13. Resource related issues as a source of competitive advantage

4.3.2 Importance of sources of competitive advantage for choosing company's current location

Similar factors as the sources of competitive advantage in Chapter 4.3.1 were also studied in terms of their importance for company's current location. In general, companies gave rather identical scores for the main six attributes when asking both the sources of competitive advantage and the relative importance of these attributes to their location decisions (see Figures 7 and 14). Markets were perceived to be the most important single reason for the case companies' current location by these companies themselves.

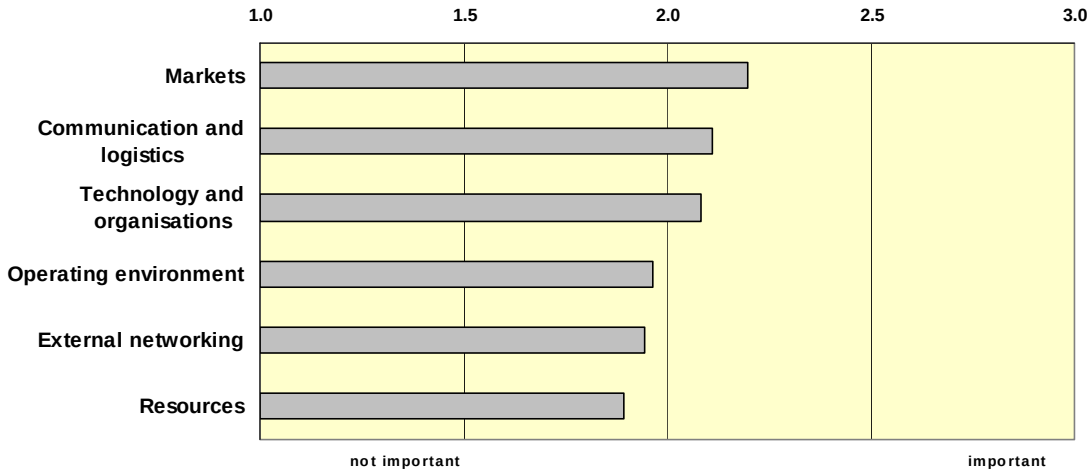

Figure 14. Importance of selected attributes for choosing company's current location

In Figures 15–20, factors for company's current location are analysed more thoroughly by the distribution of answers. Large markets were generally ranked to be the most important reason for companies' current location. In turn, low competition between other producers' was detected to be the least significant factor for companies' current location (see Figure 15). Large markets were particularly important location related attribute for the companies in Leningrad region.

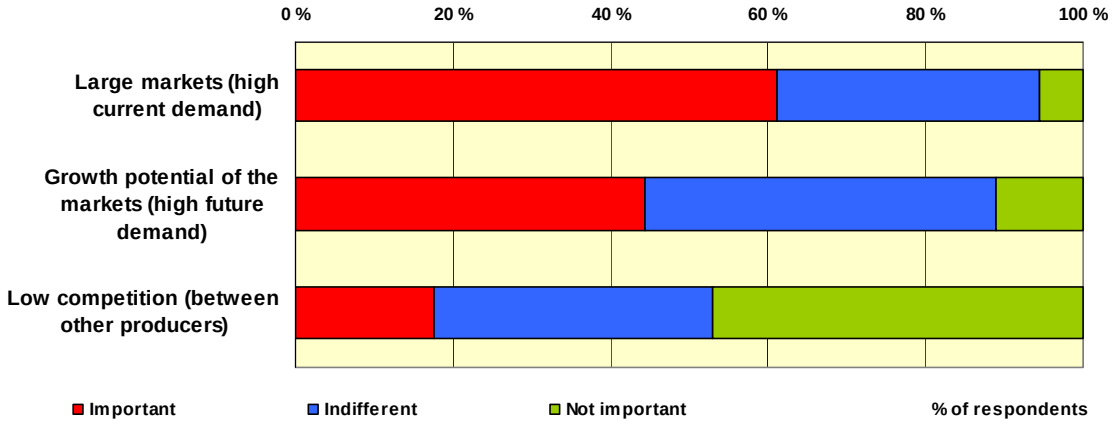

Figure 15. Importance of market related issues in choosing company's current location.

The importance of communication and logistics in companies' current location is described in Figure 16. Closeness to main market area was considered the most important single factor affecting companies' current location. Over 70% from all the respondents and each company in Leningrad region ranked this attribute as "very important". In general, communication and logistics had more significance on companies' location decisions among the companies in Leningrad region than among the companies in Vologda. This may be due the geographical differences between regions. Leningrad region is a growing market in itself due to the city of St.Petersburg and there are close connections to export markets via Baltic Sea.

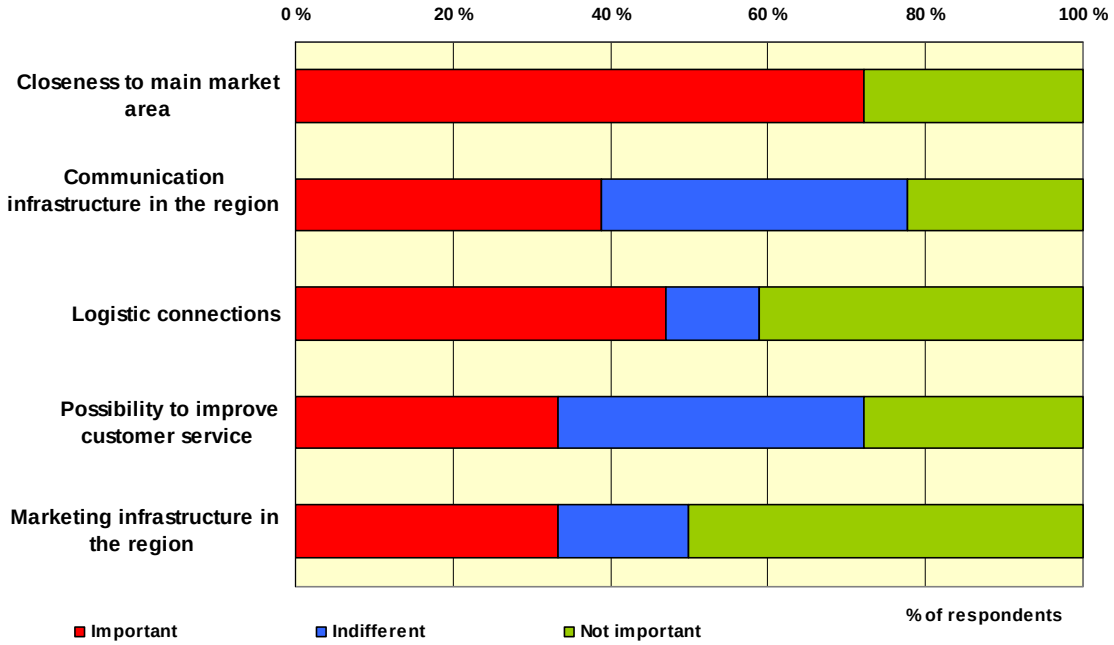

Figure 16. Importance of communication and logistics related issues in choosing company's current location.

In technology and organisations related issues a few differences between various attributes were detected (see Figure 17). In general, highly developed organisational structures in the region were the most important attribute having an effect on company's current location. However, less than half of the companies considered possibility to improve their own technology very important attribute when the company's current location was chosen. Possibility to improve their own technology was especially important for the companies in the Leningrad region.

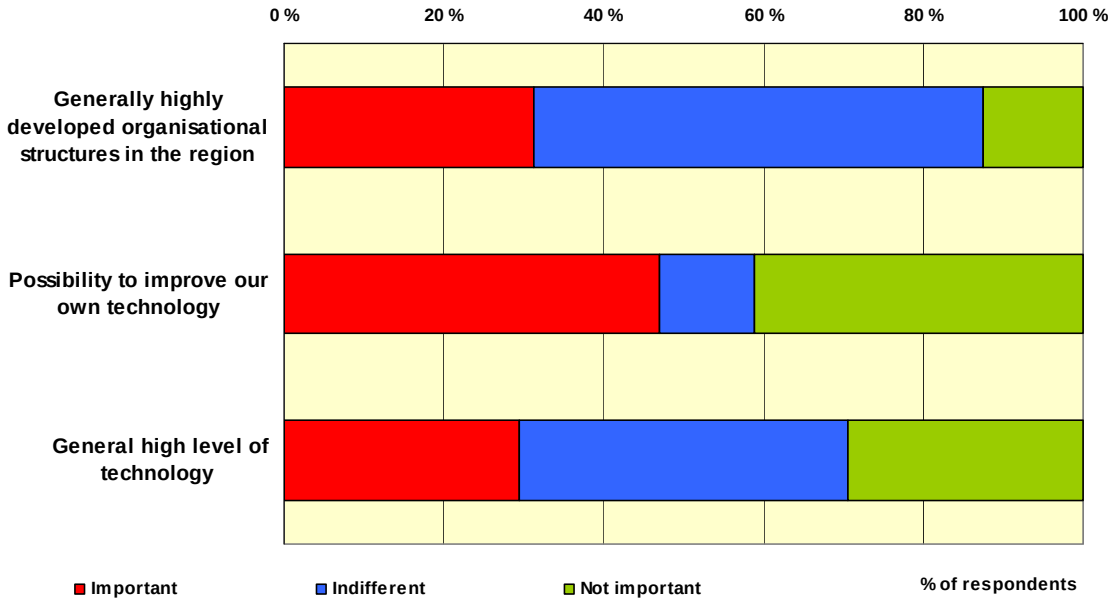

Figure 17. Importance of technology and organisation related issues in choosing company's current location

Operating environment related attributes were all almost equally important, when companies chose their current location (see Figure 18). In addition, the differences between various respondent groups were marginal.

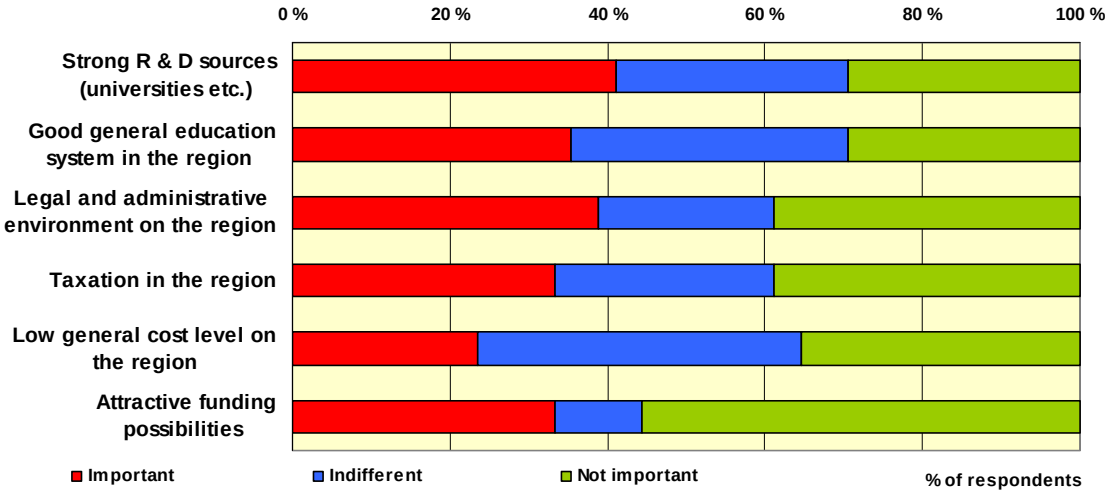

Figure 18. Importance of operating environment related issues in choosing company's current location

Every second company considered good social relationships with people in other companies a very important attribute affecting company's current location (see Figure 19). Possibility to learn from other companies within the same sector had almost similar importance. However, existing networks of distributors was not important for over 70% of the companies. Good social relationships with people in administrative and legislative institutions were attributes that were more important for the companies in Leningrad region. Instead, the companies in Vologda valued existing networks of companies producing similar products more important than the companies in Leningrad region.

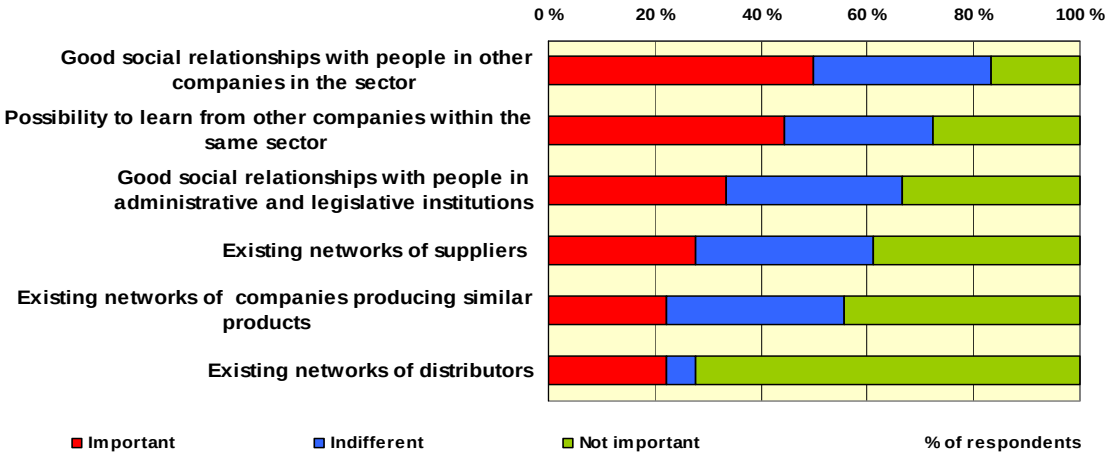

Figure 19. Importance of external networking related issues in choosing company's current location

In Figure 20, the importance of resources for companies' current location is described. On the average, the price of labour force was perceived to be the most important attribute affecting

companies' current location. In addition, over 60% of the companies valued the price of energy very important. However, over 80% of the respondents estimated existing production facilities insignificant when choosing company's current location, which reflects the current poor condition of production capacity. The price of labour force, the price of energy and qualified and skilled personnel were attributes that were clearly more important for the companies in Leningrad region than in Vologda. This may reflect the increasing competition on skilled employees with other industries and rising wages in Leningrad region in the future.

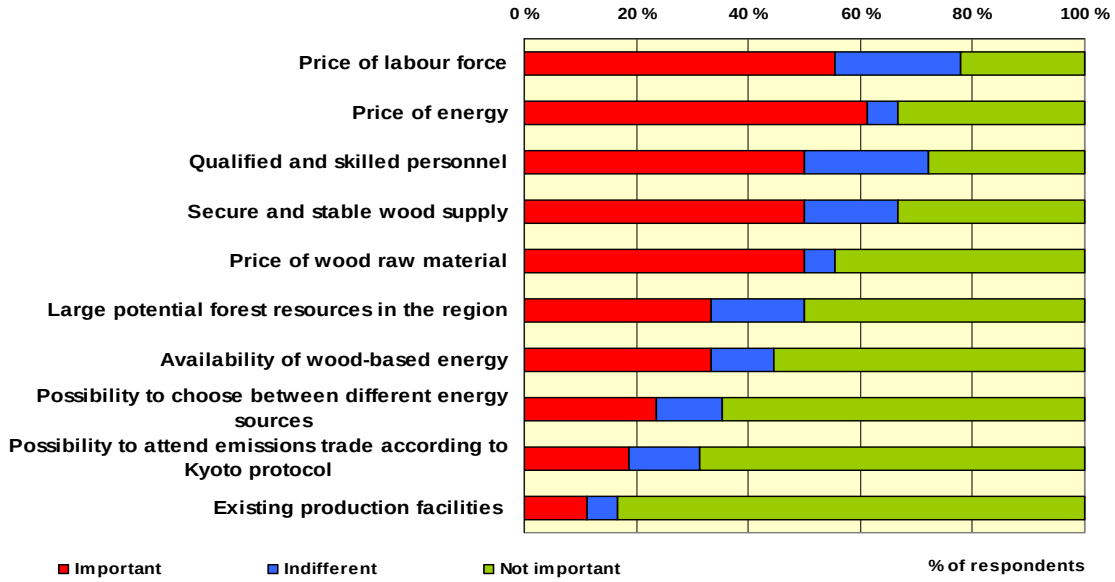

Figure 20. Importance of resource related issues in choosing company's current location

4.3.3 Companies' competitive position

The respondents valued 43 different attributes regarding their internal resources and capabilities and external factors concerning the competitive position of the company in relations to their rivals. "Clearly better" position was graded as 5 and "clearly weaker" position was graded as 1. The competitive attributes were condensed into three main categories: 1) company and personnel, 2) product and production and 3) environmentally related attributes (see Figure 21). In all these three categories, the companies evaluated, on an average, their own competitive position to be similar with their competitors' positions. In company and personnel related properties and environmentally related properties, the companies in the Leningrad region estimated to have a better competitive position than the companies in Vologda in comparison with their competitors.

Overall, it was evident that the case companies were well aware of the various potential features that are related to their competitive position and they were open-minded and interested in developing their competitive position.

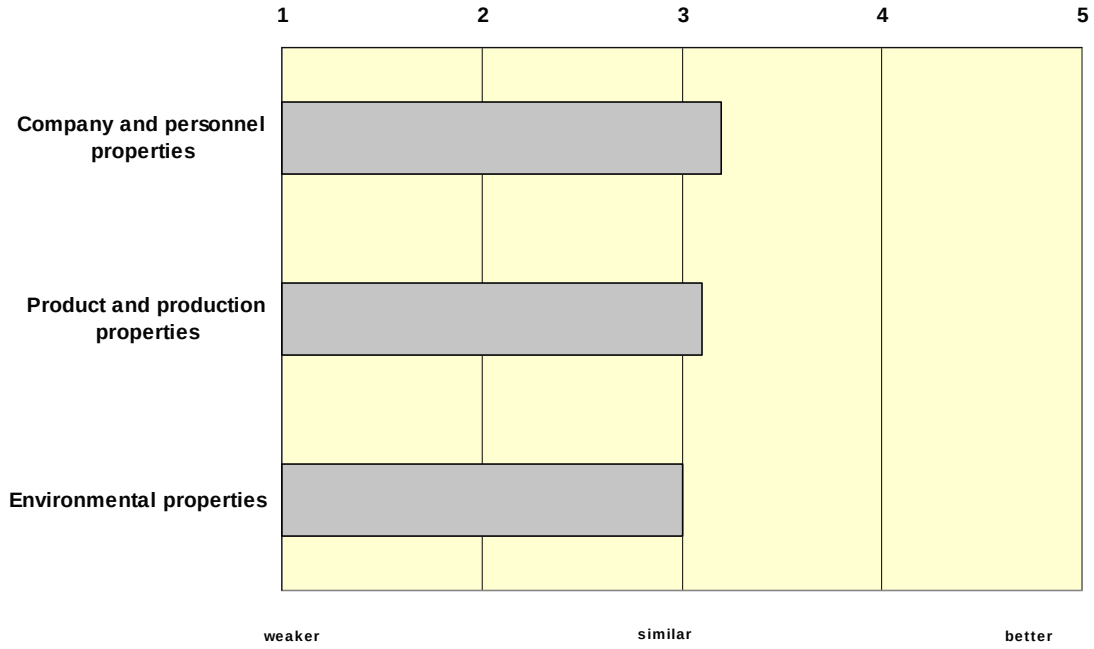

Figure 21. Competitive position of the interviewed companies in comparison to other companies

In Figures 22–24, the distributions of answers in the three main categories regarding companies' competitive position are presented. The attributes have been ranked according to their average importance. In the distributions of Figures 22–24, answer "better position" includes options 5 (clearly better position) and 4 (somewhat better position). Accordingly answer "weaker position" includes options 2 (somewhat weaker position) and 1 (clearly weaker position). Similar position includes option 3 from the questionnaire.

In company and personnel related attributes (see Figure 22), the overall reliability of the company, good image and reputation of the company and qualified and skilled personnel were the three most important aspects, in which the interviewed companies estimated to have the best competitive position in comparison to their competitors. Interestingly, these are all mainly related to intangible resources. In profit margins, in market share, and in networking with other companies producing similar products the respondents perceived to be in the weakest competitive position in comparison to their competitors.

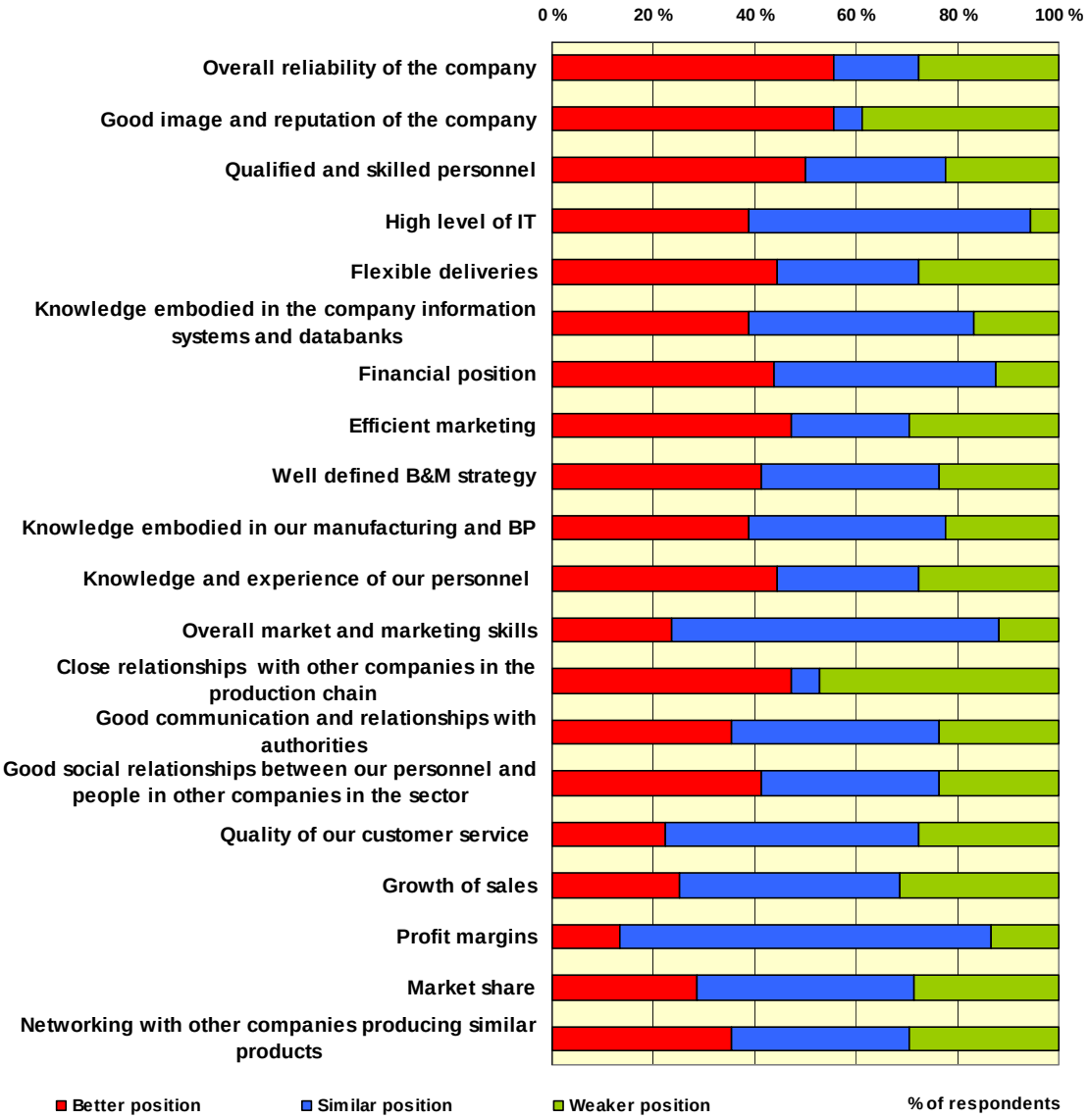

Figure 22. Competitive position of the interviewed companies in company and personnel related properties

When comparing the competitive position of companies in Leningrad and in Vologda, companies in Leningrad region perceived to be in a better competitive position in comparison to their competitors than the companies in Vologda. In one attribute, the companies from Vologda felt that they were in a better position than their competitors were, i.e. in good social relationships between our personnel and people in other companies in the sector

In product and production related issues, the interviewed companies had the best competitive position in comparison to their competitors in well-known product brands, in quality of physical products and in innovative products (see Figure 23). R&D activity, high quality design and patents of products and processes were issues where the interviewed companies felt to be in the weakest position in comparison to their competitors. Alike in company and personnel related

issues, also in product and production related issues the companies in Leningrad region estimated to a have better competitive position in comparison with their competitors than companies in Vologda. However, in R&D activity, high quality design and patents of products and processes, the companies in Vologda estimated to have a better competitive position in comparison to their competitors than the companies in Leningrad region.

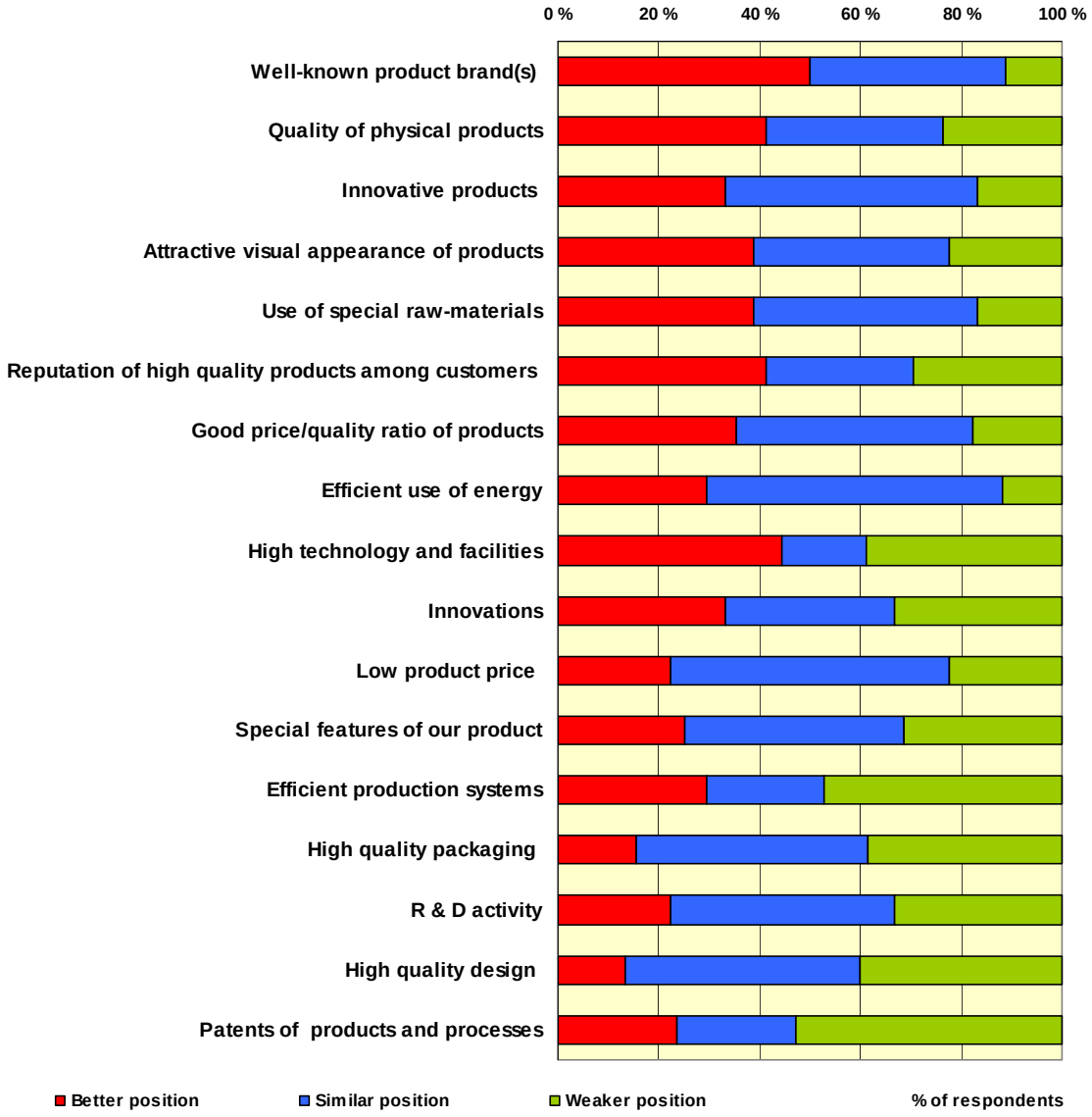

Figure 23. Competitive position of the interviewed companies in product and production related properties

In environmental issues, the differences between the most important attributes seemed to be rather small (see Figure 24). However, in two properties: share of renewable energy in the total energy consumption and in green arguments in advertising, the interviewed companies estimated to be in a weaker position than their competitors. The differences between two respondent groups are very identical with the company and personnel related properties and with the product and production related properties: companies in Leningrad region estimated to have better competitive position in comparison to their competitors, whereas companies in Vologda felt they were in weaker position compared to their competitors.

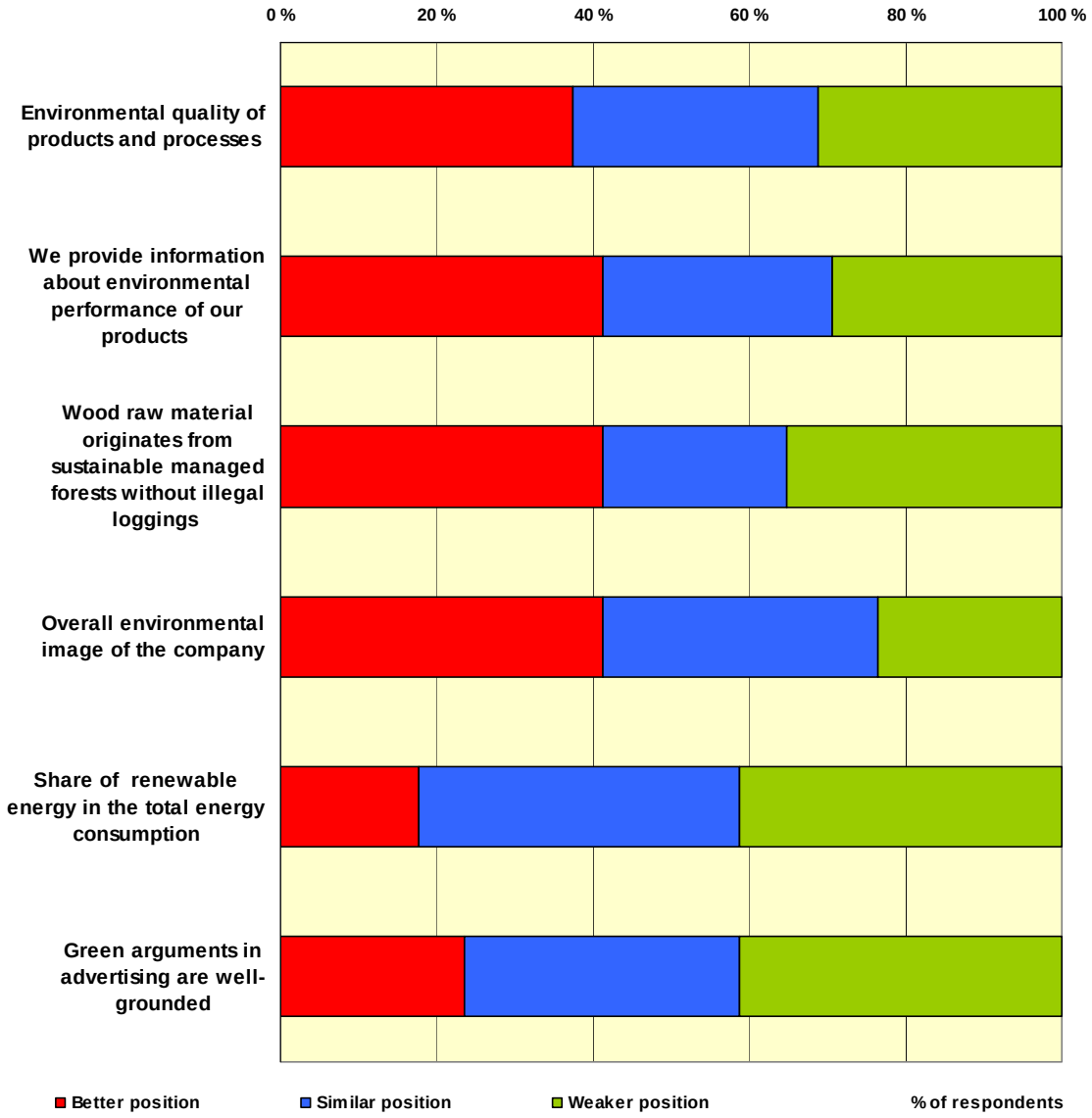

Figure 24. Competitive position of the interviewed companies in environmental properties

4.4 Development of business environment and future challenges of companies

The managers of the case companies were asked about the development of general business environment, which sets boundaries for the development of individual companies. In Figure 25, the answers are listed according to the average importance of various factors. At the top of the list stands high taxation. Existence of non-sound business practises is perceived by case companies to be the second most important issue to characterise their business environment. Lack of capital, which reflects the difficulties to develop operations and increase the production volume and quality, is also seen in the lack of research and development activity.

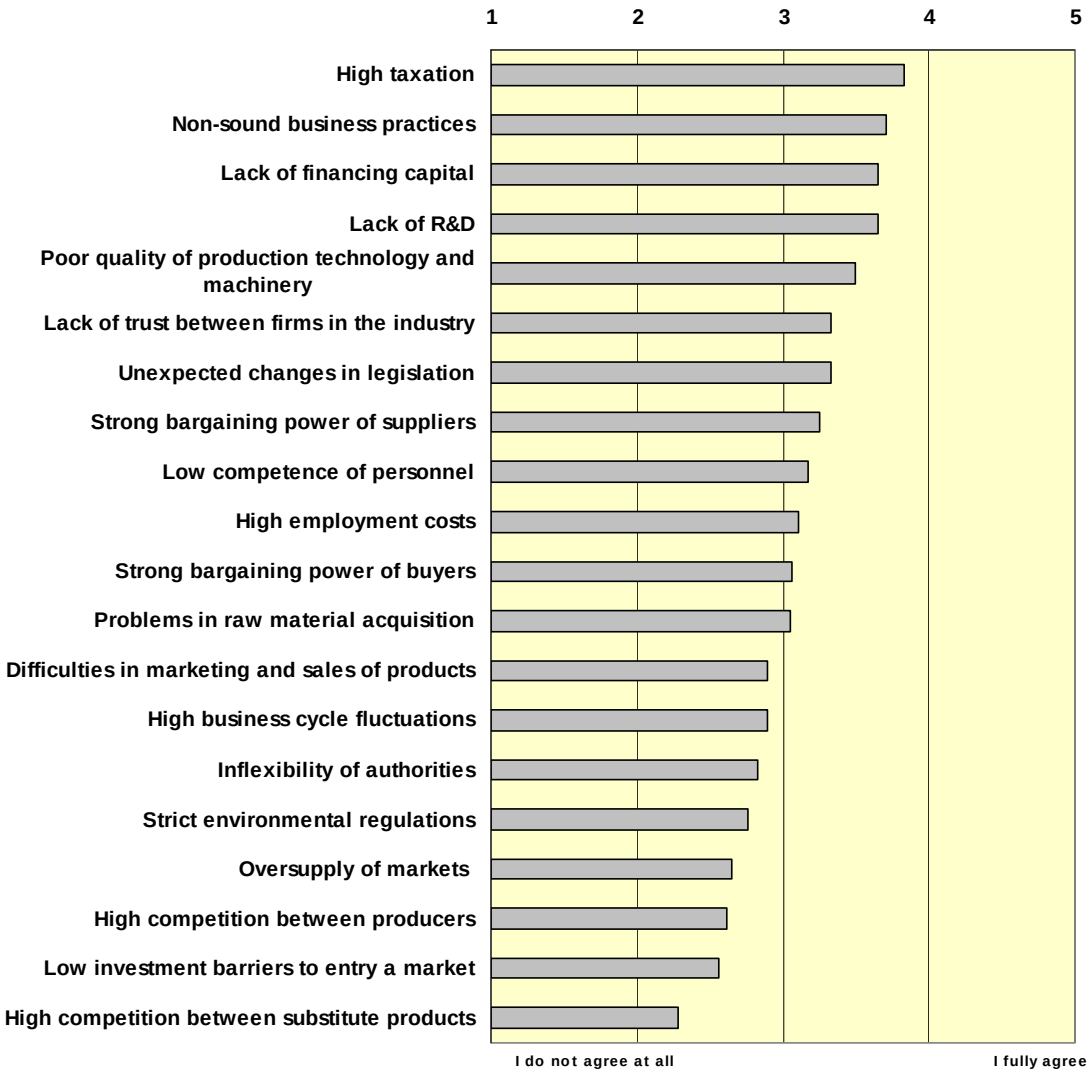

Figure 25. Importance of selected arguments describing business environment of woodworking companies in Northwest Russia

On the lower end of Figure 25, there are features of the business environment on which the case companies do not uniformly agree. For example, companies do not perceive excess supply of markets or competition between substitute products to be present. Regarding investment barriers to entry, they disagree strongly that these are low, which is consistent with the existing lack of capital that they agreed to be the most clearly present in their business environment. As other possible impediments for development of business environment, an absence of investment mechanisms and structures was mentioned by two companies.

Companies in Leningrad region perceived their business environment in NRW very differently from companies in Vologda region. In Vologda, strong bargaining power of suppliers, low competence of personnel and high employment costs described best the business environment of woodworking industry. In Leningrad region, business environment is characterised by high taxation, lack of financing capital and non-sound sound business. Thus, regional differences

between Russian regions arise also in our study and point out the importance of the activities of regional administration in development of individual companies.

Regarding the future development of companies and their aims for the future in Figure 26, the three most commonly favoured issues were increasing the physical quality of products, increasing the scale of operations, lowering the production costs and increasing company size through green field investments. The case companies clearly wanted to expand their market share in the European Union rather than expand to their domestic markets. In contrast, case companies were least interested in moving the company to a more attractive location, attracting Russian investors or increasing the size of production by mergers or buy-outs. Regional differences were also present: the companies in Vologda were relatively willing to move the company to another, more attractive location, whereas the companies in Leningrad region strived to increase the quality of the physical product and to get higher price for the final product.

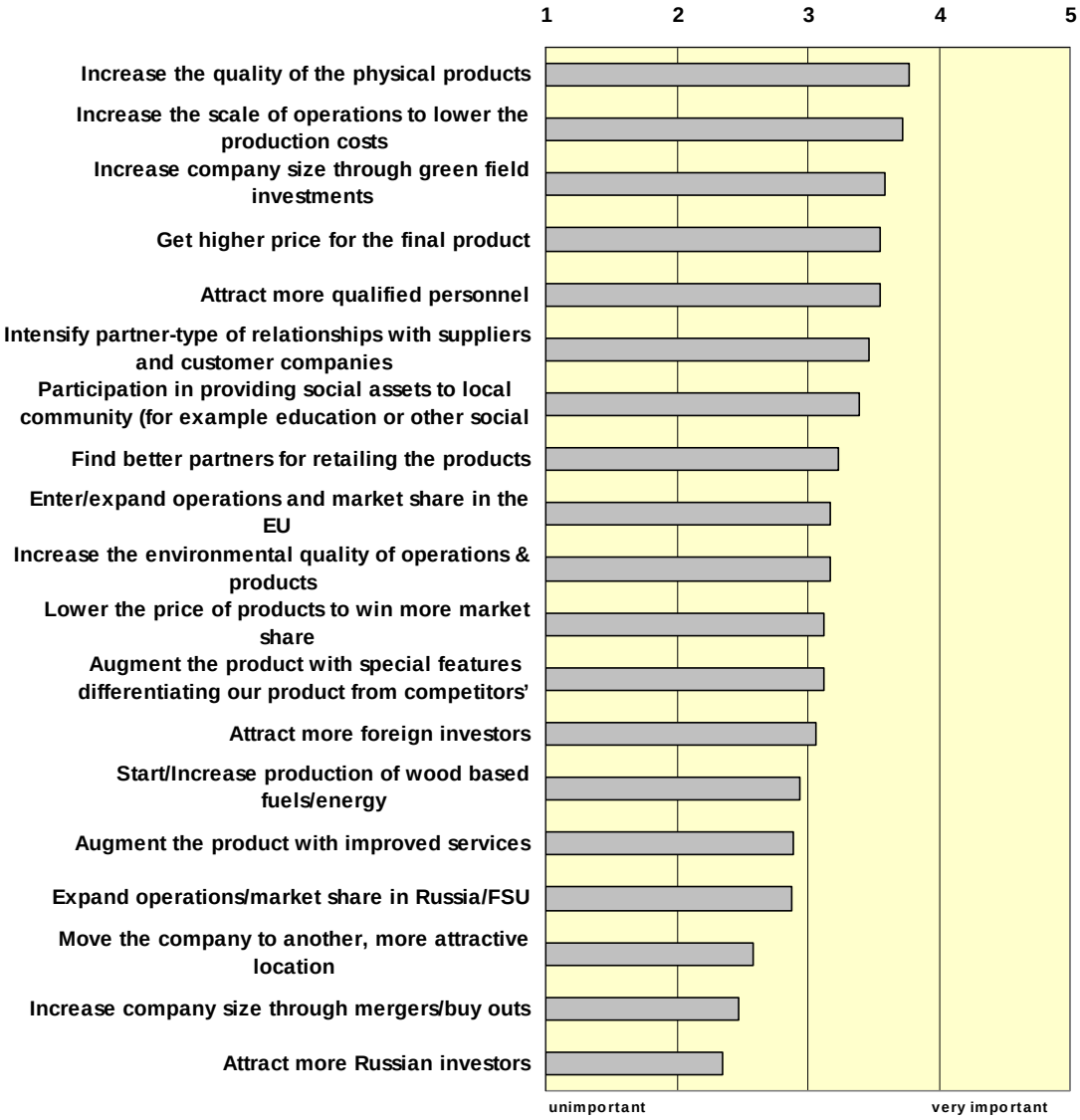

Figure 26. Importance of company objectives during the next 3–5 years

Finally, the managers were given three open-ended questions regarding challenges and opportunities that their companies perceive in the future development. The most commonly mentioned opportunities were the following issues:

- Increasing the quality and price/quality ratio of production
- Investments into new equipment
- Improving access to bank loans and falling interest rates in lending
- Increasing the scale of production
- Introducing new products
- Training of personnel
- Partnership with both Russian and foreign companies (e.g. IKEA)

Regarding the challenges of companies during the next 3–5 years, the following issues were named:

- Lack of capital for production and infrastructure development
- Vagueness of forest laws
- Unpredictability of market development
- Uncertainty of legislation
- Lack of private property rights
- Corruption
- Lack of profitability
- High exchange rate fluctuations
- High taxation
- Low liquidity
- High share of external factors in cost structure of production
- Out-dated tax legislation
- Powerful natural monopolies

The third open-ended question considered the impact of new Forest Code for the case companies. In Leningrad region, the answers were generally ranging from “difficult to say” or “positive”, but two companies were afraid that the effect of new Code would be even negative on company profitability and one company was sceptical that there would simply be any effect at all. In Vologda, the firms were more sceptical and none of the case companies considered the new Forest Code to have any positive effect on their long term profitability.

5 Conclusions and discussion

The objectives of this study were to evaluate how the managers of case companies in NWR perceive their competitive advantages, competitive position and the general business environment. Due to limited research resources, a semi-structured survey was targeted to companies operating in the regions of Leningrad (including St. Petersburg) and Vologda. Our main focus was on the resources and capabilities these companies emphasise in adapting to the changing market environment, and on the question of how the case companies plan to develop their businesses in the future. Our results provide insight into the relative importance of market related factors, institutional factors and company resources in the perceived competitiveness of woodworking companies in these regions.

The study brought out genuinely new information of organisational structures and strategies of small and medium sized forest industry companies including their views about the current business environment in NRW. Most commonly, the case companies produced commodity products, but in the future the companies aimed to emphasize more the production of specialty products. Export markets and domestic Russian markets were equally preferred market areas by the case companies. However, in the future, the case companies wanted to increase their market share in the European Union rather than expand more in their domestic markets.

The interviewed managers emphasised communication, logistics and market related factors (such as closeness of main market area) as “very important” sources of competitive advantage. This result applied especially the companies interviewed in the Leningrad region. This result points out the superior importance of market seeking as a motive to operate for companies operating in the Leningrad region. The result is similar to the previous findings of Nilsson and Kleinhof (2001) on Russian logging companies. Instead, issues related to abundant forest resources, low wood prices or low general cost level were given relatively lower rankings by the case companies, and secure and stable wood supply was found to outweigh these factors. This is in accordance with results of an earlier study analyzing international forest industry companies operating or planning to invest for operations in Russia, where the importance of well-developed infrastructure and market size were found to be more important factors for investment decisions than the cost of raw materials or low wages (Nilsson and Söderholm 2002). Our interviews indicate that there is also great overlap regarding factors determining company location and sources of competitive advantage.

Competitive position by the case companies was evaluated against the perceived success of their main rivals using three main categories; 1) company and personnel features, 2) product and production attributes and 3) environmental aspects. In company and personnel related attributes, the overall reliability of the company, good image and reputation of the company and qualified and skilled personnel were the three most important factors in which the interviewed managers of case companies estimated to have the best competitive position in comparison to their competitors. In profit margins, in market share and in networking with other companies producing similar products, the respondents perceived to be in the weakest competitive position

in comparison with their competitors. In product and production related issues, the interviewed companies estimated to have the best competitive position in comparison with their competitors in well-known product brands, in quality of physical products and in innovative products. In properties related to environmental issues, companies did not perceive to be superior compared to their rivals in any of the aspects.

Regarding the external business environment, the case companies most commonly mentioned high taxation and lack of financing, which appear to be a general finding in studies of SMEs regardless of the country (e.g., Pissarides et al. 2003). Problems with non-sound business practises were often claimed to exist, which is a major challenge for policy reforms as well for potential foreign investors.

Our results can be considered as a preliminary step in understanding business development of the woodworking industry companies in NWR. Due to the explorative nature and small sample size (18), the possibility of generalising our findings is limited. Therefore, there is room and need for further qualitative and quantitative research about Russian woodworking industry. In order to capture future development paths of forest industry companies in Russia, a comparative study could also be planned for e.g. woodworking companies in the Baltic countries, which are, in comparison with Russia, clearly leading in the process of economic transition. Nevertheless, if our findings are replicable in further studies, the message is clear to the managers of woodworking industry in NWR: labour skills outweigh low raw material costs and intangible resources need to be valued over tangible assets. For forest industry in Finland, the message is also clear: competition from Russia in the European markets for wood products will likely intensify in the future. The competition may also extend to the markets of further processed and more value added wood products from commodity sawn wood and wood-based panels.

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Appendix A. List of interviewed companies

Leningrad region (incl. St Petersburg)*	Location of company
Amadeo	Podporoj'e
DOZ – 2	St. Petersburg
Inok	Volosovo
Kronverk	St. Petersburg
Lomonosovsky LDPZ	Lomonosov
Quintiex	Priozersk
Setnovo & Setles (Stora Enso)	St. Petersburg*
Swedwood Tihvin	Tihvin
Tehnopark Sosnovo	St. Petersburg
Tihvinsky kompleksniy lespromhoz	Tihvin
Timber Holding	Lodeinoe Pole
*Headquarters, mills: Impilahti (Republic of Karelia) and Nebolchi (Novgorod region)	
Vologda region	
FESKO	Cherepovets
Sotameko	Sokol
Belozersky LPH	Belozersk
Babaevsky LPH	Babaevo
Vashkinsky LPH	Lipin Bor
Rusprominvest SMF	Cherepovets

Note: One company insisted remaining anonymous.

Appendix B. Research questionnaire

QUESTIONNAIRE FOR AN ACADEMIC RESEARCH PROGRAMME:
Business Environment of Wood Products Industry in Northwest Russia
The Finnish Forest Research Institute Metla & Pellervo Economic Research Institute PTT

Dr. Anne Toppinen & Lic. Sc. Ritva Toivonen email: anne.toppinen@metla.fi

PART A: Firm/Production Unit Background

A. 1a.The Name of the company?_____
1b The Name of the Production Unit_____
A. 2. When has the firm/Unit been founded? _____
A. 3. Position of interviewed person in the firm/Unit?_____
A. 4. Number of employers in 2004 firm/Unit? _____
A 5 The turnover of the firm in USD/€/Rb/ _____
or in this Unit in 2004
A. 6. In what branches the businesses unit operates? (% in the total turnover of the Unit)

Logging_____
Sawmilling and planning_____
Wood based panels (particleborad, plywood, fibreboard)_____
Joinery and carpentry, e.g. windows and doors_____
Wooden houses_____
Other, what?_____

- Indicate annual **roundwood consumption**, in cubic meters (with bark):
  spruce: sawlogs _____ pulpwood _____
  pine: sawlogs _____ pulpwood_____
  birch sawlogs _____ pulpwood _____
  other, what: sawlogs _____ pulpwood _____

- Indicate annual **volume of production**, tons/m3:
  Sawn timber _____
  Wood based panels_____
  Joinery and carpentry_____
  Other wood-based products or wood residues, which?_____
- Indicate annual **volume of supply and consumption of wood –based fuels**, tons/m3:
  Consumption, specify which fuels _____
  Supply, specify which fuels _____
  Do you trade with wood-based fuels/energy wood _____
  We sell, specify which fuels :_____
  We buy, specify which fuels :_____

A.7. How do you obtain wood raw material, and if you lease forests, for how long are the lease contracts?_____

A. 8. What is the form of ownership of the firm?

Ownership (tick appropriate):	State enterprise (100%)		
	Private enterprise owned by:		
	Russian owner	Foreign owner	Joint venture
Legal form	Partnership	Ltd company	Public Ltd company
	(OOO)	(ZAO)	(OAO)

PART B: MARKETING AND PRODUCTS

B. 1. How do the following alternatives correspond to the marketing decisions of your company/Production Unit?
5= corresponds exactly - 1 = does not correspond at all

Strategic choice	Exactly				Not at all
We produce…	5	4	3	2	1
Commodity products					
Specialty products					
Custom-made products					
We serve….					
As many customers as possible					
Few well-defined end-use segments					
A few known end-users					
We target…					
Export markets					
Russian markets					
Few target countries					
As many countries as possible					

Commodity products: bulk products with a lower degree of processing, product features do not differ from the those of competitors, fairly easy for users to change from one producer's product to the another's product.

Specialty products: either a better quality or a higher degree of processing as compared with commodity products; customers get added value from the quality/degree of processing which may be seen in price

Custom-made products: designed and manufactured according to the unique needs of customers, planning and design requires knowledge about specific needs of the orderer

Please list the main products (and services) which your enterprise/unit provides, and name which are commodities, which are specialty products, and which are custom-made products:

_____
_____
_____
_____

Does your company have a formulated business plan or strategy document? YES NO

B.2. a) How important the following issues are as <u>potential sources of competitive advantage</u> to your company/Unit? b) How important these <u>were for choosing your company's</u> <u>current location</u>?

	3=very important reason/ source for competitive advantage, 2= difficult to say (not very important but also not clearly unimportant) 1= not an important reason/not a potential source of competitive advantage					
	I mportance as a source of **competitive advantage**			Importance as a reason for **location**		
	3	2	1	3	2	1
Markets Large markets (high current demand)						
Low competition (between other producers)						
Growth potential of the markets (high future demand)						
Resources: Existing production facilities						
Price of energy						
Possibility to choose between different energy sources						
Availability of wood-based energy						
Possibility to attend emissions trade according to Kyoto protocol						
Secure and stable wood supply						
Price of wood raw material						
Large potential forest resources in the region						
Price of labour force						
Qualified and skilled personnel1)						
Operating environment Legal and administrative environment on the region						
Taxation in the region						
Attractive funding possibilities						
Low general cost level on the region						
Good general education system in the region						
Strong R & D sources (universities etc.)						
Technology and organisations General high level of technology						
Possibility to improve our own technology						
Generally highly developed organisational structures in region						
Communication and Logistics Communication infrastructure in the region						
Marketing infrastructure in the region						
Possibility to improve customer service						
Logistic connections						
Closeness to main market area						
Extern. Networking Possibility to learn from other companies within sector						
Good social relationships with people in other companies in the sector						
Good social relationships with people in administrative and legislative institutions						
Existing networks of companies producing similar products						
Existing networks of suppliers						
Existing networks of distributors						
Other, what?						

B. 3. What is your company's <u>competitive position</u> in comparison with other companies in the market?

5=Clearly better position 4= Somewhat better position 3= Similar position 2= Somewhat weaker postion 1= Clearly weaker position					
	5	4	3	2	1
Efficient marketing					
Overall market and marketing skills of personnel					
Well defined business and marketing strategy					
Qualified and skilled personnel					
High level of information technology (IT)					
R & D activity					
Innovative operations and production processes					
Innovative products					
Patents of products and processes					
Quality of physical products					
Use of special raw-materials					
High production technology and facilities					
High quality design					
Efficient use of energy					
High quality packaging					
Attractive visual appearance of products					
Special features that differentiate our product from competing products					
Low product price					
Efficient production systems					
Knowledge and experience of our personnel					
Knowledge embodied in the company information systems and databanks					
Knowledge embodied in our manufacturing and business processes					
Quality of our customer service					
Flexible deliveries					
Good image and reputation of the company					
Overall reliability of the company					
Reputation of high quality products among customers					
Well-known product brand(s)					
Overall environmental image of the company					
Share of renewable energy in the total energy consumption					
Environmental quality of products and processes					
Green arguments in advertising are well-grounded					
Wood raw material originates from sustainably managed forests without illegal loggings					
We provide information about environmental performance of our products					
Growth of sales					
Profit margins					
Financial position (low debts vs. own capital)					
Market share					
Good price/quality ratio of products					
Close relationships with other companies in the production chain					
Good communication and relationships with authorities					
Good social relationships between our personnel and people in other companies in the sector					
Networking with other companies producing similar products					

B4. What are the indicators of business success used in your company/Unit?

	1=IN use	2=NOT in use
Financial performance (return on capital or else)		
Sales growth (change in turnover)		
Growth of Exports		
Number of personnel employed		
Productivity of employed labor		
Increasing market share on target area		
Other, what?		

What was the profit in in Rbl (or in USD / €) of your company turnover

1995 **1998** **2001** **2004**
_____, ____% **_____, ____%** **_____, ___%** **_____, ____%**

PART C: BUSINESS ENVIRONMENT AND FUTURE CHALLENGES

C 1. How well do the following arguments describe business environment of your industry in Northwest Russia?

	5= fully agree 3= not agree, not disagree 1= do not agree at all				
	5	4	3	2	1
Lack of financing capital					
High taxation					
Oversupply of markets					
High competition between producers					
High competition between substitute products					
Strong bargaining power of suppliers					
Strong bargaining power of buyers					
Low investment barriers to entry a market					
Problems in raw material acquisition					
Difficulties in marketing and sales of products					
Low competence of personnel					
Poor quality of production technology and machinery					
Lack of Research and Development					
High employment costs					
Inflexibility of authorities					
Non-sound business practices (e.g. corruption)					
Lack of trust between firms in the industry					
High business cycle fluctuations					
Unexpected changes in legislation					
Strict environmental regulations					
Other problems, what?					

C2 How <u>important are the following objectives</u> to your company during the next 3-5 years?

	5=Very important objective 3= Not important or unimportant 1= Unimportant				
	5	4	3	2	1
Get higher price for the final product					
Increase the quality of the physical products					
Augment the product with special features differentiating our product from competitors' products					
Augment the product with improved services					
Attract more Russian investors					
Start/Increase production of wood based fuels/energy					
Lower the price of products to win more market share					
Increase the scale of operations to lower the production costs					
Attract more qualified personnel					
Find better partners for retailing the products					
Attract more foreign investors					
Increase the environmental quality of operations & products					
Enter/expand operations and market share in the EU					
Expand operations/market share in Russia/FSU					
Increase company size through mergers/buy outs					
Increase company size through green field investments					
Intensify partner-type of relationships with suppliers and customer companies					
Move the company to another, more attractive location					
Participation in providing social assets to local community (for example education or other social benefits)					
Other, what?					

C3: What are <u>the most important challenge or source of uncertainty</u> for the successfull future development of your company (Production Unit) during the next five years?

C4: What are <u>the best opportunities</u> for the successful future development of your company (Production Unit) during the next five years?

C5: Please evaluate an effect of new Forest Code to your company/department.

THANK YOU VERY MUCH FOR YOUR TIME AND CO-OPERATION !