

**Strategy process in Russian “non-strategic companies” – coping with the
economic recession**

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Abstract

The paper reports on behavior of Russian medium-size companies during the first months of economic recession. Using the convenience sample survey and a series of corporate stories we revealed the options of turnaround strategies and the patterns of strategic choice. We discovered that economic recession provoked the “return” of company owners into the role of “internal strategists” or even into operations management. Under such conditions companies with dispersed ownership have visible disadvantages in building consistent strategic agenda and timely implementation of robust strategies, as any strategic actions largely depend on “concert” of corporate strategists.

By factor analysis of the actions implemented or planned for implementation we discovered two patterns of strategic behavior – cost leadership and differentiation. Cost leadership is more popular option as it provides more chances for sustainability in the short terms. The selection between two strategic options is less determined by the past performance and company’s competitiveness, than by ambitions of key “internal strategists.” In this respect leadership studies with proper research instruments will have better insights into strategic behavior of Russian enterprises.

Introduction

As the waterfall of “petrodollars” had dried out, the Russian economy faced again the deep economic recession¹. Although we cannot claim that the depth of the recession in Russia is bigger than in any other countries, the fivefold fall of local stock markets in October-November 2008, the devaluation of local currency by 40% in December-January 2008, the drop in manufacturing output by 21% in January-February 2009, and the rise of unemployment by 30% in September 2008 - February 2009 hardly represent a rosy picture².

Although the economic indicators of the Russian economy show the same trends with those in other major economies, the Russia’s government economic policy has two distinctive features. First, we may see the very fragmented efforts to deal with the crisis: only in the second half of March 2009, six months after the crash of the Russian financial markets, the first comprehensive anti-crisis program was announced (earlier measures, implemented in November-December 2008, dealt mostly with the financial sector³). Second, from the very beginning there was clear selectivity of the government’s aid efforts. As early as in December 2008, the list of 295 “systemic organizations” that should be the government’s priorities for state aid was announced⁴ (see Appendix 1). In the plans for 2009 within Ruble 1,600 billion of supporting “the real economy” again Ruble 474.4 billion will be the decrease of tax burden (mostly as decrease of tax on corporate income still to be received⁵), Ruble 267.7 billion of sector specific measures (aimed towards defense industry, auto industry, transport, agriculture and construction), Ruble 300 billion of state guarantees (again mostly for the same sectors). Only Ruble 6.2 billion are planned for support of small and medium enterprises (plus Ruble 50 billion allocated to the Vneshtorgbank and

earmarked to refinance credits to small and medium enterprises) and Ruble 300 billion were planned to allocate as fiscal stimulus aimed at regions⁶.

Thus, we decided to focus our attention on Russian “non strategic” companies, that barely have any chances to attract the state aid or even to become the object of special monitoring. Those “non strategic companies” include dozens of thousand middle companies in manufacturing and services across Russia as well as same and larger companies in Moscow and St.Petersburg. We tried to clarify how the recent and current macroeconomic trends do affect enterprises’ behavior, which common and, possibly, less common measures have been used to cope with the crisis.

In our recent paper⁷ we synthesized the existing approaches to strategy process research and created a complex model of strategy process which included: relative power and interests of stakeholders (shareholders, customers, employees, state authorities), personal motives of internal strategists, set of strategic goals, strategic resources (dynamic capabilities), forms of strategic planning, strategic actions at corporate, competitive and functional levels, applied metrics of company performance evaluation, relationships between the elements. That model proved itself as valid and suitable for empirical studies of strategy processes during the “fat times”. Specific conditions of economic depression in Russia forced us to simplify the model, especially for “non strategic companies”. First, such companies are experiencing almost identical shifts in positioning in all relevant markets (markets for goods and services, capital markets, labor markets). Second, during the crisis times we may expect simplification of sets of personal motives of internal strategists. However, the biggest problem during the crisis times happens with the standard decomposition of strategic actions into corporate, competitive

and functional strategies. Usually corporate strategies refer to the composition of company's assets, competitive strategy – to utilization of assets, and functional strategies – again to composition and utilization of assets, this time within narrow functional domains. During the hard times most anti-crisis measures become truly cross-functional, the property rights towards specific assets, especially intangible ones (relational, technological etc.), become more vague. In this respect, all crisis strategic actions may be represented as measures to release, to present and to develop the company assets. Thus, we centered our analysis on three topics:

- The general changes in competitive positioning
- The currently used forms of strategic planning
- Implemented strategic actions as various actions of asset management.

Accordingly to the research topics, the paper is organized as follow. In the first section we evaluate the changes in competitive position Russian companies have experienced in the past six months. In the second section we present currently used forms of strategic planning alongside with the sets of strategic actions planned for implementation or currently being implemented. In this section we rely on the results of a series of convenience sample surveys, administered in December 2008-February 2009. The third section includes several cases that illustrate typical patterns of strategy formation and likely combinations of strategic actions. Discussion and suggestions for further research form the last section of the paper.

Repositioning of Russian “non-strategic” companies and the strategic options to escape the “recession trap”

If we try to present the common outcomes of the financial crisis in Russia, the most obvious cases will be the massive repositioning of Russian companies along

the three measures of competitiveness –unit costs, perceived prices, perceived use value (quality).

Three factors made the sharp rise in unit costs almost inevitable. First, in December 2008 –January 2009 non-strategic companies that served the needs of “strategic companies” as suppliers of components and industrial services followed the trends of their bigger partners in fall in production volume. In many cases the drop in demand for supplies and services was even greater than the drop in the final production. This led to the fall in capacity utilization of non-strategic companies and the subsequent rise in unit costs. For non-strategic companies in consumer markets the recession started a bit later, in January 2009, with the total fall in consumer demand. This also led to the rise of unit costs. Second, as the accumulated stock of *imported* supplies and components has dried up, Russian companies were forced to import goods accordingly to the prices nominated in Euro and US Dollar, that made all imported goods automatically more expensive by 25-30%. The bigger the share of imported components, goods and services was in the total supply of Russian companies, the bigger was the rise in unit costs. However, the third component of production inflation has had the most destroying effect as it was not properly accounted. We mean here the rise of the cost of capital. Here, again, we may retrace two sides– the overall scarcity of capital resources and the price for equity and credits. The overall scarcity of capital resources were stipulated by the extremely high level of net capital outflow (US\$ 147.9 billion in the second half of 2008 and further US\$30 in the first quarter of 2009; the total capital outflow over the past 9 months was 13% of Russia’s GDP and two times bigger than the total amount of all realized and planned anti-crisis measures). Thanks to the timely governmental measures of injection of liquidity

into the banking system the credit resources have not experienced the same extinction as the equity. In January 2009 the amount of long-term credits (credits longer than one year) reached Ruble 7.3 Trillion and increased from September 2009 by 15%; the amount of short-term credits was in February 2009 only 9% smaller than in September 2008)⁸. However, unlike for equity, the price for credit resources increased dramatically. For large Russian companies that borrowed mostly from foreign banks (the total foreign corporate debt in October 2008 reached US\$500 billion) the devaluation of Ruble signified the increase by 25% of both the principal and the interest rates. For “non-strategic companies” that borrowed mostly from local banks, there was not such dramatic increase in the principals of credits, but the interest rates rose from 12% in August 2008 to 22-25% in April 2009)⁹. We also should add to the picture the rise of government-regulated prices for gas, electricity and railway services by 12-15% in January 2009, and the spreading practice of large Russian companies to delay payments for their local suppliers and to use non liquid company bills instead of cash as the mean of payment for local suppliers.

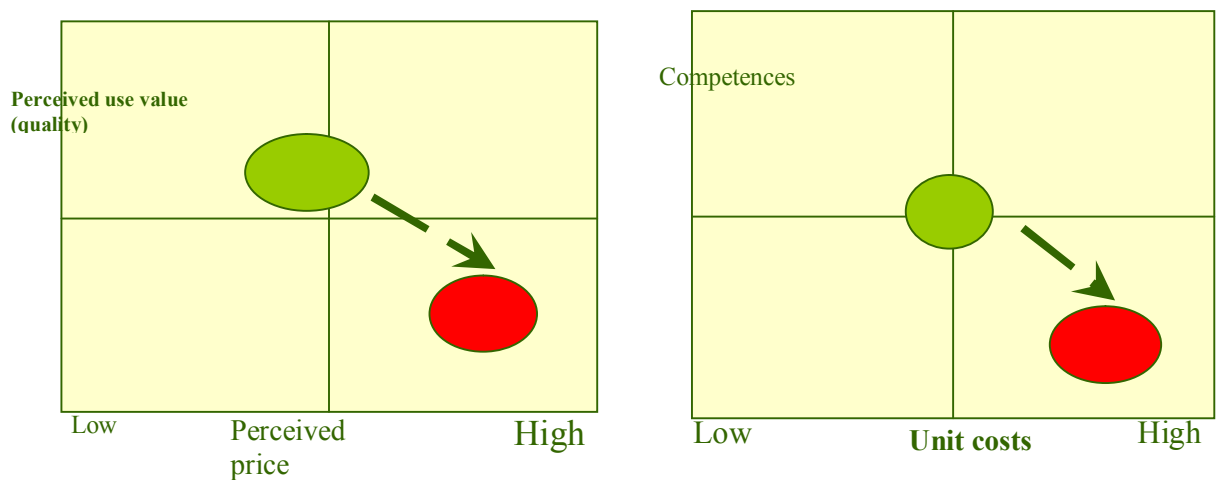
All together (decrease of demand, the rise of prices of imported supplies, the rise of price of financial resources, the rise of prices for services of “natural monopolies” and the payment delays) did not allow Russian “non strategic companies” to use discounts and sales as the mean to promote demand. As they dared to do so, the penalty for such action was not only the fall of profitability of sales, but heavy losses. As we already mentioned (see Note 5), the total amount of losses exceeded the total amount of profits in January 2009. Moreover, the total amount of losses was in January 2009 4.5 times bigger than in January 2008, and the share of loss-making companies increased by 15%.

As the absolute prices remained mostly stable, the perceived prices (the percentage of the total expenses spent for purchase of a specific good or service) have increased. This not only led to the further erosion of demand from both firms and households, but also had a profound impact on the third measure of competitiveness – the perceived use value (quality). It is commonly believed that the price and quality are closely interconnected in shaping the consumer choice. Usually marketing research deals with particular aspects of quality that justify the price demanded. However, we should see the reverse relationship as well – the level of perceived price does justify the particular demands for goods and services' features. Thus, as the perceived prices are increasing, the customers are eager to demand the increase in quality. In such conditions, even if the absolute product characteristics remain the same, the customers are inclined to see the perceived use value as deteriorating.

We should remind here about the hidden source of all particular measures of company competitiveness – the company's competences. During the times of rapid changes in economic environment, the key element of company's competences is innovative capabilities. In our previous study we presented the very slow path of accumulation of innovative capabilities of Russian firms. We have seen that such actions as “pricing for new products”, “achieving the necessary quality levels for new products”, “selecting the qualified workforce” became more difficult in 2000-2004¹⁰. That trend was extended in later years¹¹. Thus we may expect further erosion of companies' competences during the rapid and unpredicted changes in market conditions.

The above reasons make clear the general drift of competitive positioning of “Russian non-strategic companies” – the rise of unit costs, the rise of perceived prices, the fall in perceived use value, and the fall in company competences (see Figure 1).

Figure 1. Repositioning of Russian companies during the early months of recession



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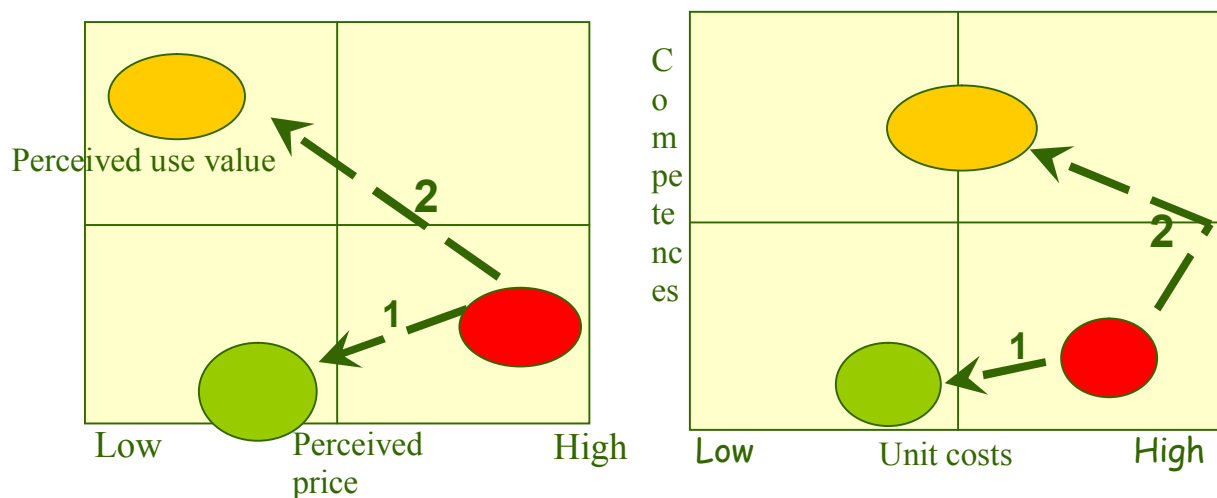
Companies, “entrapped” into the combination of high costs, low quality and high perceived prices have no much time for selection of strategic pathways. The conservation of the situation provokes further erosion of competitive position and endangers the very existence of a company. Thus, if by some reasons company’s owners see no opportunities to alter the situation, they should move quickly out of business by partial or complete selling of assets, orchestrating bankruptcy proceedings or even by a complete company’s liquidation.

If the owners will opt to continue business, they will face two options. The first obvious option is to pursue “cost leadership” (on Michel Porter’s terms). To do so the company must find the ways to save not just on total, but on unit costs and make more appealing price offers. The problem here is that massive cost reduction are usually accompanied by compromises on quality, so the company enters into the spiral of further downgrading and moves on towards the very low end of quality scale.

The second option is to embark on differentiation strategy (again in M. Porter’s term). Here the company must invest into competences and by doing so it will try to improve quality up to the level that corresponds to the increased perceived price. The danger here is that investments usually lead (at least, in the first periods) to increase in unit costs. As such increases are not covered by the corresponding increases in *absolute price*; the company will face further deterioration in profitability of sales, before any positive effects of investments will take place.

The outlined options of coping with the crisis are depicted in Figure 2 as strategic trajectories along the four dimensions of competitiveness (perceived price, perceived use value, unit costs, and company’s competences).

Figure 2. The choice between cost leadership (Trajectory 1) and differentiation (Trajectory 2)



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We may also expect that Trajectory 1 (cost leadership) should be based mostly on *maintaining of exiting assets* (tangible and intangible ones, including relational and reputational assets); Trajectory 2 (differentiation), from the other side, should be based on development of the asset base of the firm. Our goal was to see whatever such theoretical propositions are confirmed by the real practices of strategic actions of Russian firms.

Planned and realized strategic actions of Russian “non-strategic companies”

In December 2008-February 2009, we administered a survey that embraced executives of 113 Russian companies. Around 40% of them were companies in manufacturing, 60% -- companies in services. Although a third of companies had in 2008 the amount of sales between Ruble 100 million and Ruble 1 billion, and the further third were companies with the sales that exceeded Ruble 1 billion, none

of the surveyed companies were included in the lists of “strategic organizations” or “enterprises of regional importance.”

The first question was to assess the changes the companies have experienced in 4-5 months prior the survey (see Table 1).

Table 1. Changes in surveyed companies in the past 3-5 months (percentages of respondents)

	Indicator	The degree of change				
		Decrease by 30% or more	Decrease by 10-30%	Small Changes (+/- 10%)	Increase by 10-30%	Increase by 30% or more
1	Volume of sales	13	30	39	17	1
2	Backlog	11	33	44	11	1
3	Level of costs	4	25	51	16	5
4	Level of prices	3	17	54	24	3
5	Number of personnel	9	23	55	7	6
6	Volume of credits received	12	8	55	17	8
7	Volume of credits given	8	9	44	27	12

The biggest changes occurred in the volume of orders (seriously decreased in 44% of companies), the volume of sales (seriously decreased in 43% of companies), the amount of debt of suppliers (seriously increased in 39% of companies), and the

number of employees (seriously decreased in 32% of companies). All this data corresponds well to the usual figures during the sharp recession. More surprising was the pricing behavior of the surveyed companies – a quarter of them reported significant increases in price for their goods and services, while only 20% of companies reported some decrease in prices. This data confirms our prediction about the sharp rise of *perceived prices* during recession.

We also tested the proposition that the level of competition *before* the recession does affect the changes during the first months of economic troubles. We found that the level of competition affected the dynamics of sales – the sharper was the competition in Summer 2008, the bigger was the drop of sales a few months later (Sign. 0.010). However, the past level of competition does not affect trends in other performance measures. This means that companies under the same external conditions indeed selected various pathway that were reflected in differences of employment, financial, pricing and other policies.

The second question was to see the forms currently used for designing strategic actions. Here we may clearly see the complete “fall of strategic planning” even greater than Henry Mintzberg dreamed¹²: exactly 31% of the surveyed companies have no plans at all, all decisions are made “accordingly to current circumstances”, further 35% of companies have a few separated programs of actions. At the same time, 28% of companies have already developed the systems of scenarios and have identified the sets of actions in each scenario.

In this respect, we should be extremely cautious dealing with the data obtained from Russian executives on actions and measures that “have been taken into initial

consideration or are under detailed development.” We may more or less believe only to the both poles of the used scale (“already implemented” or “never considered”) (see Table 2).

Table 2. Actions of companies (percentages of respondents)

Action	Status			
	Not considered	Early stages of consideration	Detailed evaluation and design	Under implementation
Company liquidation	92	7	1	-
Selling out of the firm	85	8	4	3
Selling out of a controlling share	84	9	2	5
Selling out a part of tangible assets	70	18	6	6
Selling out a part of intangible assets	89	8	1	2
Mass (more than 15%) redundancies	34	29	17	20
Debt refinancing	40	26	16	18
Corporate restructuring (establishing parts of business as new legal entities)	58	19	10	13

Table 2 (continued).

Optimization of capacity utilization (equipment, warehouses, personnel)	10	29	29	32
The change in supply schemes (suppliers and supplies) (круга поставщиков)	13	27	29	32
Saving on technical maintenance	31	20	25	24
Saving on administrative expenses	11	22	18	50
Intensification of advertising efforts	51	28	11	10
Intensification of lobbying efforts	33	26	17	24
Intensification of contacts with competitors	44	23	20	12
More openness in internal communications	38	26	12	25
Bonds' issues	94	4	1	1
Injection of additional capital by current owners	45	19	16	20
Acceleration of design and market launch of new products	28	20	22	31

Table 2 (continued).

Investments into Research and Development	54	21	16	9
Investments into dealerships	39	25	21	15
Attraction of new personnel	51	20	10	20
Purchase of new equipment	61	17	11	11
Purchase (exchange) of patents and know-hows	78	12	6	4
Acquisition of other companies	68	16	9	7

Four measures have been already under implementation by a considerable share of the surveyed firms in the first months of recession:

- Saving on administrative expenses – 49% of companies reported such measures as currently being implemented.
- Optimization of capacity utilization (32% of companies)
- Revision of the structure of supplies and the circle of suppliers (31% of companies)
- Acceleration of new products' development and market launch (31% of companies).

In our study we were able to receive the reports not only on the implemented measures, but on plans and projections, so we might see the sets of options currently being examined by Russian company strategists.

Because of the large number of possible anti-crisis measures and tight associations between measures we decided to use factor analysis to reduce the dimension of the phenomenon¹³. We identified 8 factors that summarily accounted for 66% of the total variance; three factors accounted for 40% of the total variance, other factors had limited explanation power (eigenvalues less than 1.5). By examination of correlations between the most important factors and the initial variables we were able to understand the hidden patterns of enterprises' behavior.

The first important factor that explained almost 18% of the total variance may be interpreted as *cost leadership efforts*. It has strong correlations (in descending order) with such measures as:

- “debt refinancing,”
- “mass personnel redundancies,”
- “corporate restructuring” (creation of new legal entities and the transfer of assets and liabilities into new firms),
- “saving on technical maintenance of the equipment,”
- “revision of supply schemes,”
- “optimization of capacity utilization”.

We may see that such a set of measures, especially saving on technical maintenance and corporate restructuring (presumably aimed to save most valuable assets from possible creditors’ claim in the case of bankruptcy) give to the company no much chances to return to a normal track as the macroeconomic situation will return into a better shape. Thus, it was not surprising that Factor 1 correlates strongly (coefficient 0.217) with the other factor that accounted for 9% of the total variance and could be deciphered as “*planning for going out of business*”. That factor is visible behind such measures as:

- selling out tangible and intangible assets;
- selling the considerable shares in the firm;
- the complete selling of the firm.

Finally, the second factor by importance that explained 13% of the total variance may be called as “*differentiation efforts*.” It correlates with the following set of planned and implemented measures:

- investments into Research and Development;
- purchase and exchange of patents and know-hows;
- acceleration of new products’ development;

- investment into company's dealers;
- purchase of other firms:
- intensification of advertising:
- intensification of lobbying efforts.

We may see here the very reasonable and complete set of measures designed to increase all types of company competences: technical competences, marketing competences, relational assets. Moreover, such measures aim not only to counterbalance the recession, but (especially by purchasing of other firms and by development of marketing networks) to create a completely new competitive landscape in relevant markets.

We should remind here that there was positive correlation between the first important factor (“cost leadership”) and the third important factor (“giving up the business”). At the same time, the second important factor (“differentiation”) has negative correlation (coefficient -0.076) with the third one. It means that when the company embarks on “cost leadership” (chooses Trajectory 1), it does it very careful, with a proper account for the possibility of a failure of the strategy and the company itself. Contrary, the companies that dare for “differentiation” (Trajectory 2) are acting more resolutely, thus leaving fewer options “to surrender.” From one side, such an approach encourages specific investments; from the other side, the “sunk costs” of an appropriate strategy is much higher.

We tried to find the possible explanations in position of the surveyed companies towards the selection of a particular strategic trajectory. We found that most factors that are traditionally used in strategic studies for explanation of patterns of

strategic choice became irrelevant in the present conditions of economic recession. First, we definitely proved that “leadership” factors (attitudes of the CEO towards risks, the temperament of the CEO, the length of service of the CEO in the present position) have no significant impact on the realization or preparation of different strategic options. The company size (measured either in total sales or in the number of employees) also has no significant influence on selection of strategic options. Finally, the single measures of company’s competitiveness (assessment of price, quality and costs prior the recession) have no significant role in choosing between anti-crisis trajectories. However, the real company competitiveness is built not by single measures, but by composition of measures. We have proved¹⁴ that the best composite measure of competitiveness is the relationship between the relative level of quality and the relative level of costs. We computed the composite index of company competitiveness as the relationship of the sum of three measures of quality (relative level of technology, relative level of product/service quality, reputation of the company’s trademarks) and the assessment of unit costs. Next we performed correlation analysis between the composite index of pre-recession company competitiveness and the identified important factors of strategic actions during the recession. We found strong negative correlation (coefficient -0.241) between the pre-recession competitiveness and Factor 1. It means that ***the higher was the relative competitiveness level of a company prior the recession, the lower are the chances that Trajectory 1 will be chosen.*** However, we found no significant correlations between the pre-recession competitiveness and Factor 2. It means that we were still unable to truly understand the patterns of strategic choice during the recession.

Thus, we decided to move from quantitative to qualitative analysis and to examine the “subtle” factors behind the choice of adaptation strategy.

“Subtle” factors behind the choice of adaptation strategy

The participants of the survey were asked to write in a free form “an essay” that should describe the most acute problem their company currently faces and the ways of dealing with that problem. By the end of March we received 33 “confessions,” most of them very frank. In a few cases we received really trilling stories about the current corporate dramas. The respondents allowed the research use of those materials under condition of strict confidentiality of their names and the names of their companies.

By careful investigation of each story and comparative analysis of all the documents we were able to reveal:

- the common problems, concerns and apprehensions of Russian companies during depression;
- the relative popularity of identified strategic trajectories (cost leadership and differentiation);
- real composition of implemented measures within each trajectory;
- pitfalls and failures during implementation of particular strategies;

Most importantly, we were able to identify factors behind both the choice of strategic trajectories and the ways of their implementation.

The absolute majority of respondents (that should be rather called story-tellers) expressed *two major concerns* – the deterioration of market conditions and corporate disorders. In the first issue is clear, that second needs more explanation.

There were different legal forms among 33 companies – closed partnerships, closed joint stock companies, open joint stock companies. However, the ownership structure of the researched companies had a very few variants:

- one company (the local electrical supplier) is state-owned;
- four companies (regional mobile operator, food hyper-market, medical clinic and local network of cinemas) are subsidiaries of large corporations:
- all other companies are truly private companies, either created from privatized assets (medical centers, engineering company, dairy producer) or built from scratch (property developers, public relations and event management, banks, producers of auto equipment, operators of ATM, furniture producers, printing-house for advertising materials etc.) accordingly to the needs of the emerged market economy.

Private companies are clearly divided into two subtypes: companies under sole proprietorship and companies owned by “small gangs” of relatives or (formerly) close friends. The current process in private companies is the general return of owners to day-to-day management of operations. Here the divergence between sole proprietorships and partnerships begun: not all partners may find appropriate “place” in operation management. In addition, former “brothers-in-arms” usually have developed different attitudes towards risks, have already chosen various life pathways, or simply grew out of everyday intercourse. Under conditions of economic depressions the market for privately held assets has almost annihilated, so conflicting partners are unable neither to split their companies nor to find the ways for other forms of “corporate divorce.” The result is the complete strategic paralysis, described almost in every story on private partnerships¹⁵. The situation is

clearly considered by sole proprietors as their major competitive advantage. Mister X, the sole owner of a chain of auto parts stores writes in his essay:

“As most of competitors have two-three owners while I am the sole owner of my business, I may give away a part of profit and make money on trade volume. For me is more important to attract clients and thereby to force competitors out of business. I may compete by price with all actors in the market. This year (2009), I am planning to open two new stores”.

Regarding the popularity of particular trajectories, we found that Trajectory 1 (cost leadership) is clearly more popular than Trajectory 2 (differentiation).

The typical combination of strategic actions in Trajectory 1 is well described by Mrs. Mr. Z – Vice-president of a medium-size company involved into design and installation of control systems for warehouses and container terminals:

“In 2008, even before the financial crisis, we met with the fall in sales. First, the head of sales left the company and newly appointed people could not compensate his skills; second, many clients refused to purchase additional services (customer support for installed equipment and software) because of low quality and unclear pricing for such services. The crisis just aggravated our problems, so we were forced to fix quickly the situation. We decided to implement the following measures:

- To bring to the market the “express versions” of all our services (installation of equipment and software). There are services with no customization, but they are 30-40% cheaper and the delivery time is 50% shorter.

- Prior to the crisis we dealt only with two suppliers of equipment, ignoring the third one, who is very popular. Recently we achieved the status of the official distributor for that supplier too.
- We decided to propose to the clients to select between the three levels of customer support. Each level differs on the quality and the intensity of services, and has visible differences in price too.
- As the demand for warehouses declined, we re-oriented the designers of automation systems for warehouses for the works on container terminals. Shortly there will be no organizational barriers for the unified pool of specialists working on warehouses as well as on container terminals – formerly two separated lines of business.
- The former head of sales is returning back to the company.
- We have intensified promotion and advertising efforts that require serious expenses in the short term.
- We fired a number of employees who were recruited during 2008 and who have not proved themselves as efficient specialists.”

The typical amalgamation of actions in Trajectory 2 is well described in the story by Mr. W, the General Director of a private medical center:

“We are currently involved into following actions:

- Careful analysis of the current level of services and redesign of particular services (aimed to create uniquely comfortable conditions for patient and to eliminate completely the waste of time of patients.
- Purchase of new equipment for the offer of a unique service (for the local market).

- Invention of a “family doctor” – a special person that is responsible for all contacts of the clients with the functional specialists.
- Establishing of a special association of private clinics that should lobby the specific interests of its members.
- Optimization of the use of specialized equipment and other facilities.
- Intensification of bargaining on price and payment conditions for medical supplies.

By all these measures we intend to re-design our medical center as the absolute unique institution on the local medical market, well ahead of other private centers or state-owned clinics”.

The examination of the “stories” showed that in reality there is no “chasm” between Trajectory 1 and Trajectory 2. Company pursuing cost leadership and differentiation use many common “robust” strategies, regarding the promotion and advertising efforts, optimization of capacity utilization, bargaining with suppliers, some compromises on prices. The difference lies in more “subtle” aspects, especially in the degree of customization in goods and services and in the approaches to investments – in Trajectory 1 investments should minimize unit costs, in Trajectory 2 investments may lead to increase of unit costs.

We may see that active turnaround strategies, both in Trajectory 1 and 2, are likely to be implemented under two conditions:

- the controlling (usually sole) owner has no major interests in other companies, so his/her fortune depends completely on the well-being of the company;

- the sole owner has medium or low preference for micro involvement, so he/she is giving to company managers the chances to show their initiative and to take risks.

For embarking on Trajectory 2 the third condition should be present - the sole owner should very specific attitudes towards his/her business that may be better describing as “feelings of superiority” or even as “arrogance”. Such sentiments are not always based on really favorable quality/costs ratio (as we proved by correlation analysis in the previous section), but they provide the grounds for additional investments into quality during the hard times.

Invitation to discussion and suggestions for further research

We have examined the behavior of Russian medium-size companies, deprived from any visible state support during the times of deep recession. We have seen that somber macroeconomic conditions coupled with unfavorable settings of value chains provoke the rise in unit costs and the fall in relative quality of goods and services offered by “non-strategic companies.” We also proved that the only chances for company survival during the recession are turnaround strategies that may be either “cost leadership” (attempts to push down costs and to stabilize quality) or “differentiation” (attempts to increase quality compromising on costs). Many types of actions are the same in both turnaround trajectories and are suggested by common sense and the needs to preserve the most valuable assets from corrosion or complete annihilation.

The most striking result of our analysis is the very weak influence of the past performance on the choice of turnaround trajectories. Of course, companies in bad financial shape before the crisis have little chances for survival. At the same time,

the good competitiveness of the company prior the recession does not guarantee even the design of a consistent set of strategic measures. The major obstacle here is the governance structures of Russian private companies. During the crisis times, the applied schemes of strategic decision-making in partnerships largely flawed, thus creating the situation of “strategic paralysis”. In this respect, companies under sole proprietorship have “natural” advantages over their competitors with dispersed ownership.

The evaluation of turnaround stories also revealed that the choice between variants is largely based on aspirations of key strategists, without proper identifications of particular unique resources.

Our results may be treated differently by adepts of various schools of strategic management¹⁶. For partisans of an “entrepreneurial school” our results will be the additional evidence of the power of “visionary leadership” that is able to transform the worst circumstances into a spectacular success. For researchers with different “theoretical affiliation”, especially for adherents of a resource-based view on strategy, the attempts to differentiate under volatile market conditions and the extreme costs of debt and equity resembles more to the heroism of a kamikaze. In any case, the limited time horizon of our study prevent us to assess the robustness of any strategic trajectory really chosen¹⁶.

Our calculations, speculations and conclusions are based on a convenience-sample survey and on a couple of dozens of stories. Again we should remind that we tried to observe the behavior of Russian enterprises during the first months of economic recession, at the time when “wait and see” attitudes were still prevalent. We will

be glad if further more intensive studies will depict rather different pictures of the reality. We will be especially happy to see that “strategic paralysis” is got over, that the strategic actions are set in tune with company resources and capabilities; and, last but not least, that “non strategic companies” will be considered as a significant and respectable part of the national economy.

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Notes:

1. For the causes and triggers of economic recession see Zamaraev, B., Kiyutsevskaya, A., Nazarova A. ‘Ekonomicheskie itogi 2008 goda: konets “tuchnykh” let’. *Voprosy ekonomiki*, No. 3, 2009, p. 4-25.
2. The data was assembled mostly from official statistical publications at <http://www.gks.ru>
3. Accordingly to World Bank’s calculations, Ruble 1,089 Billion (2,6% of GDP) was spent in 2008 as fiscal anti-crisis measures, among them Ruble 785 Billion was for strengthening the financial sector and Ruble 304 Billion – for supporting the real economy. Measures for the financial sector included Ruble 335 billion of recapitalization and other direct support, and Ruble 450 billion of subordinated

loans. Additional Ruble 830 billion was injected into the financial system in 2008 by a combination of changes in reserve requirements and increases of the amount of funds available. In supporting the real economy only Ruble 52 Billion was sector specific support. (see Russian Economic Report No. 18, World Bank in Russia, 2009, p. 9-12) <http://www.worldbank.org/ru>

4. Two companies were mentioned *twice* in the official list (Uralvagonzavod as No. 160 and No. 219; “Saturn” as No. 156 and No. 178) - see <http://www.government.ru/content/7a18dd27b6b94b95968b706902949de3.doc>
5. We may project that the expected saving on corporate taxation is largely exaggerated. For example, in January 2009 the share of loss-making companies was 38.9%; the total amount of losses exceeded by US\$ 5.2 billion the total sum of profits (see http://www.gks.ru/bgd/free/b04_03/Isswww.exe/Stg/d02/48.htm)
6. The Ministry for Regional Development set in March 2009 the list of 1148 “enterprises of regional importance” that should be monitored before any request from regional authorities for state aid from the federal government’s budget (see <http://www.minregion.ru/workitems/ListNews.aspx?PageID=470>). Although the Ministry’s directive specifies that “other companies may be monitored,” it “de facto” further restricted the set of enterprises that may pretend for state support.
7. Gurkov, I. ‘Strategy process as formulation and realization of corporate goals: The synthesis of surveys in Russian firms’, *Journal for East European Management Studies*, 14, 1, 2009, p. 48-64.
8. See *Kommersant*, No. 57 (4112), 01.04.2009, p. 2
9. The official data reports lower figures (see, for example, http://www.cbr.ru/statistics/print.aspx?file=credit_statistics/credits_deposits_09.htm&pid=pdko&sid=skofrub) but publications in business press testify that even

- large “strategic companies” borrowed from local systemic banks at 21% of annual interest rate (see *Kommersant*, no. 62 (4117), 06.04.2009, p. 8.
10. See Gurkov, I. ‘Innovative actions and innovation (in)capabilities of Russian industrial companies – An extension of the quasi-longitudinal study’. *Post-Communist Economies*, 18, 3, 2006, p. 297-313.
 11. See Gurkov, I. ‘Strategicheskiy protsess rossijskikh kompanij’. *Ekonomicheskaya nauka sovremennoj Rossii*, (forthcoming).
 12. See Mintzberg H. 1994. *The rise and fall of strategic planning*. New York and Toronto: Free Press.
 13. As we expected limited correlations between factors, we used OBLIMIN rotation with Kaiser Normalization. Rotation converged in 49 iterations. Coefficients in the correlation matrix for identified factors ranged between -0.096 and 0.245.
 14. see Gurkov, I. ‘Dominant strategic archetype of the Russian industrial firm’. *Journal for East European Management Study*, 12, 1, p. 35-52.
 15. Sometimes company managers are lucky to keep company’s owners away from operations management. Mister Y describes the situation: “The first shareholder receives annual dividends and does not hinder the management to work (but permanently he is somewhere around and receive monthly report on operations). The second shareholder lives in London and appears periodically. His impact on company affairs is low as his share of dividends”. Here we tried to follow as close as possible the original text. In other citation we provided the condensed text.
 16. For a review of modern schools in strategic management see: Mintzberg, H., Ashlstrand, B., Lampel, J. (1998) *Strategy Safari: A Guided Tour Through the Wilds of Strategic Management*. New York: Free Press.

17. See: Dorward, N., Weidemann, P. 'Robustness as a corporate objective under uncertainty'. *Managerial and Decision Economics*, 2 (3), September 1981, p. 187-205.