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The strategy process in Russian 'non-strategic' companies: coping with economic recession

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This article reports on the behaviour of Russian medium-size companies during the first months of economic recession. Using a convenient sample survey and a series of corporate stories we examine the options for turnaround strategies and the patterns of strategic choice. We find that economic recession provoked the ‘return’ of company owners to the role of ‘internal strategists’ or even into operations management. Under such conditions companies with dispersed ownership have visible disadvantages in building a consistent strategic agenda and timely implementation of robust strategies, as any strategic actions largely depend on a ‘concert’ of corporate strategists. Factor analysis of the actions implemented or planned for implementation reveals two patterns of strategic behaviour – cost leadership and differentiation. Cost leadership is the more popular option as it provides more chances for sustainability in the short term. The selection between the two strategic options is less determined by the company’s past performance and competitiveness than by ambitions of key ‘internal strategists’.

As the waterfall of petrodollars dried up the Russian economy again faced deep economic recession.¹ Although we cannot claim that the depth of the recession in Russia is greater than in any other countries, the fivefold fall of local stock markets in October–November 2008, the devaluation of the currency by 40% in December 2008–January 2009, 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 picture.²

Although the economic indicators for the Russian economy show the same trends as those for other major economies, the Russian government’s economic policy has two distinctive features. First, we may see very fragmented efforts to deal with the crisis: only in the second half of March 2009, six months after the crash of Russian financial markets, was the first comprehensive anti-crisis programme announced (earlier measures, implemented in November–December 2008, dealt mostly with the financial sector³). Second, from the very beginning there was clear selectivity in the government’s aid efforts. As early as December 2008 the list of 295 ‘systemic organisations’ that should be the government’s priorities for state aid was announced.⁴ In the plans for 2009, of RRB 1600 billion for supporting ‘the real economy’, RRB 474.4 billion will again be reduction of the tax burden (mostly of tax on corporate income still to be received⁵), RRB 267.7

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billion will be sector-specific measures (aimed at the defence, motor and transport industries, agriculture and construction) and RRB 300 billion state guarantees (again mostly for the same sectors). Only RRB 6.2 billion are planned for support of small and medium enterprises (plus RRB 50 billion allocated to Vneshtorgbank and earmarked to refinance credits to small and medium enterprises) and RRB 300 billion to be allocated as fiscal stimulus aimed at regions.6

We therefore decided to focus our attention on Russian ‘non-strategic’ companies, which have barely any chance of attracting state aid or even becoming the object of special monitoring. Those ‘non-strategic’ companies include tens of thousands of medium-size companies in manufacturing and services across Russia as well as similar and larger companies in Moscow and St Petersburg. We tried to clarify how the recent and current macroeconomic trends affect enterprises’ behaviour, and what common and possibly less common measures have been used to cope with the crisis.

In a recent article (Gurkov 2009) we synthesised the existing approaches to strategy process research and created a complex model of the strategy process which included the relative power and interests of stakeholders (shareholders, customers, employees, state authorities), personal motives of internal strategists, the 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 and relationships between these elements. That model proved itself valid and suitable for empirical studies of strategy processes during the ‘fat years’. 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, labour markets). Second, during crisis times we may expect simplification of sets of personal motives of internal strategists. However, the biggest problem during crisis times arises with the standard decomposition of strategic actions into corporate, competitive and functional strategies. Usually corporate strategies refer to the composition of companies’ assets, competitive strategy to utilisation of assets, and functional strategies again to composition and utilisation of assets, this time within narrow functional domains. During hard times most anti-crisis measures become truly cross-functional, and the property rights to 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 company assets. Thus we centred our analysis on three topics:

- General changes in competitive positioning.
- Currently used forms of strategic planning.
- Strategic actions implemented as actions of asset management.

In accordance with these research topics, the article is organised as follows. First we evaluate the changes in competitive position Russian companies have experienced in the past six months. Then we present currently used forms of strategic planning alongside the sets of strategic actions planned for implementation or currently being implemented. In this section we rely on the results of a series of convenient sample surveys, administered in December 2008–February 2009. The next 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 article.
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 and 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 falling production volume. In many cases the drop in demand for supplies and services was even greater than the drop in final production. This led to a fall in capacity utilisation of non-strategic companies and a subsequent rise in unit costs. For non-strategic companies in consumer markets the recession started a bit later, in January 2009, with the collapse in consumer demand. This also led to a rise in unit costs. Second, as the accumulated stock of imported supplies and components dried up, Russian companies were forced to import goods at prices denominated in euros and dollars, which made all imported goods automatically 25–30% more expensive. 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 cost inflation has had the most destructive effect as it was not properly accounted. We mean here the rise in the cost of capital. Here again we may trace two elements – the overall scarcity of capital resources and the price for equity and credits. The overall scarcity of capital resources was determined by the extremely high level of net capital outflow (USD147.9 billion in the second half of 2008 and a further USD30 in the first quarter of 2009; the total capital outflow over the past nine months was 13% of Russia’s GDP and double the total amount of all implemented and planned anti-crisis measures). Thanks to timely governmental measures to inject liquidity into the banking system, credit resources have not experienced the same extinction as equity. In January 2009 the amount of long-term credits (credits longer than one year) reached RRB 7.3 trillion and increased from September 2009 by 15%; the amount of short-term credits in February 2009 was only 9% smaller than in September 2008. 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 USD500 billion) the devaluation of the ruble meant an increase of 25% in both the principal and interest rates. For non-strategic companies that borrowed mostly from local banks, there was not such a dramatic increase in the principal of loans, but interest rates rose from 12% in August 2008 to 22–25% in April 2009. We should also add to the picture the rise in government-regulated prices for gas, electricity and railway services by 12–15% in January 2009, and the spreading practice of large Russian companies delaying payments to their local suppliers and using non-liquid company bills instead of cash as the means of payment for local suppliers.

All these factors together (decrease of demand, rise in prices of imported supplies, financial resources and services supplied by ‘natural monopolies’ and payment delays) prevented Russian non-strategic companies using discounts and sales to promote demand. When they dared to do so, the penalty was not just falling 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 in January 2009 was 4.5 times bigger than in January 2008, and the proportion of loss-making companies increased by 15%.
As absolute prices remained mostly stable, perceived prices (the percentage of total expenditure needed for purchase of a specific good or service) 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 price and quality are closely interconnected in shaping 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 justifies the demand for goods’ and services’ particular features. Thus, as perceived prices are increasing, customers are eager to demand increases in quality. In such conditions, even if the absolute product characteristics remain the same, customers are inclined to see the perceived use value as deteriorating.

We should recall here the hidden source of all particular measures of company competitiveness – the company’s competences. During times of rapid change in economic environment, the key element of a company’s competences is innovative capabilities. In an earlier study we presented the very slow path of accumulation of innovative capabilities by Russian firms. We have seen that such actions as ‘pricing for new products’, ‘achieving the necessary quality levels for new products’ and ‘selecting the qualified workforce’ became more difficult in 2000–04 (see Gurkov 2006). That trend was extended in later years (see Gurkov 2009). Thus we may expect further erosion of companies’ competences during the current 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).

Companies trapped in the combination of high costs, low quality and high perceived prices have not much time for selection of strategic pathways. Prolonging the situation provokes further erosion of competitive position and endangers the very existence of a company. Thus, if for some reasons a 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 complete liquidation.

If the owners opt to continue in business, they will face two options. The first, obvious option is to pursue ‘cost leadership’ (in Porter’s term). To do so the company must find 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 is usually accompanied by compromises on

![Figure 1. Repositioning of Russian companies during the early months of recession.](image-url)
quality, so the company enters the spiral of further downgrading and moves on towards the very low end of the quality scale.

The second option is to embark on a differentiation strategy (again in Porter’s term). Here the company must invest in competences and by doing so try to improve quality up to the level that corresponds to the increased perceived price. The danger here is that investment usually leads (at least initially) to an 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 the investment will take place.

The options outlined for 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).

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

**Planned and implemented 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 and 60% companies in services. Although a third of the companies had 2008 sales of between RRB 100 million and RRB 1 billion, and a further third were companies with sales that exceeded RRB 1 billion, none of the companies surveyed was included in the lists of ‘strategic organisations’ or ‘enterprises of regional importance’.

The first question was to assess the changes the companies had experienced in the four or five months prior to the survey (see Table 1).

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 to suppliers (seriously increased in 39% of companies) and the number of employees (seriously decreased in 32% of companies). All these data correspond closely to the usual figures during a sharp recession. More surprising was the pricing behaviour of the companies surveyed: a quarter of them reported significant increases in price for their

![Figure 2. The choice between cost leadership (Trajectory 1) and differentiation (Trajectory 2).](image-url)
goods and services, while only 20% of companies reported some decrease in prices. These data confirm our prediction about the sharp rise of perceived prices during recession.

We also tested the proposition that the level of competition before the recession affects the changes during the first months of economic troubles. We found that the level of competition affected the changes in sales – the sharper was the competition in summer 2008, the bigger was the drop in 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 different paths that were reflected in differences in employment, financial, pricing and other policies.

The second question related to the forms currently used for designing strategic actions. Here we may clearly see the complete ‘fall of strategic planning’, even greater than Mintzberg dreamed (1994): exactly 31% of the companies surveyed had no plans at all, all decisions were made ‘accordingly to current circumstances’, while a further 35% of companies had a few separate programmes of action. At the same time, 28% of companies had already developed systems of scenarios and 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 the two poles of the scale used (‘already implemented’ or ‘never considered’) (see Table 2).

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

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

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

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Decrease by 30% or more</th>
<th>Decrease by 10–30%</th>
<th>Small changes (+/−10%)</th>
<th>Increase by 10–30%</th>
<th>Increase by 30% or more</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of sales</td>
<td>13</td>
<td>30</td>
<td>39</td>
<td>17</td>
<td>1</td>
</tr>
<tr>
<td>Backlog</td>
<td>11</td>
<td>33</td>
<td>44</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>Level of costs</td>
<td>4</td>
<td>25</td>
<td>51</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>Level of prices</td>
<td>3</td>
<td>17</td>
<td>54</td>
<td>24</td>
<td>3</td>
</tr>
<tr>
<td>Number of personnel</td>
<td>9</td>
<td>23</td>
<td>55</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Volume of credits given</td>
<td>12</td>
<td>8</td>
<td>55</td>
<td>17</td>
<td>8</td>
</tr>
<tr>
<td>Volume of credits received</td>
<td>8</td>
<td>9</td>
<td>44</td>
<td>27</td>
<td>12</td>
</tr>
</tbody>
</table>
Because of the large number of possible anti-crisis measures and close associations between measures we decided to use factor analysis to reduce the dimensions of the problem. We identified eight factors that summarily accounted for 66% of the total variance; three factors accounted for 40% of the total variance, while the other factors had limited explanatory 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’ behaviour.

The most important factor, which 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:

<table>
<thead>
<tr>
<th>Action</th>
<th>Not considered</th>
<th>Early stages of consideration</th>
<th>Detailed evaluation and design</th>
<th>Under implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company liquidation</td>
<td>92</td>
<td>7</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>Selling the firm</td>
<td>85</td>
<td>8</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Selling a controlling share</td>
<td>84</td>
<td>9</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Selling a part of tangible assets</td>
<td>70</td>
<td>18</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Selling a part of intangible assets</td>
<td>89</td>
<td>8</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mass (more than 15%) redundancies</td>
<td>34</td>
<td>29</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td>Debt refinancing</td>
<td>40</td>
<td>26</td>
<td>16</td>
<td>18</td>
</tr>
<tr>
<td>Corporate restructuring</td>
<td>58</td>
<td>19</td>
<td>10</td>
<td>13</td>
</tr>
<tr>
<td>Optimisation of capacity utilisation</td>
<td>10</td>
<td>29</td>
<td>29</td>
<td>32</td>
</tr>
<tr>
<td>Change in supply arrangements (suppliers and supplies)</td>
<td>13</td>
<td>27</td>
<td>29</td>
<td>32</td>
</tr>
<tr>
<td>Saving on technical maintenance</td>
<td>31</td>
<td>20</td>
<td>25</td>
<td>24</td>
</tr>
<tr>
<td>Saving on administrative expenses</td>
<td>11</td>
<td>22</td>
<td>18</td>
<td>50</td>
</tr>
<tr>
<td>Intensification of advertising efforts</td>
<td>51</td>
<td>28</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>Intensification of lobbying efforts</td>
<td>33</td>
<td>26</td>
<td>17</td>
<td>24</td>
</tr>
<tr>
<td>Intensification of contacts with competitors</td>
<td>44</td>
<td>23</td>
<td>20</td>
<td>12</td>
</tr>
<tr>
<td>More openness in internal communications</td>
<td>38</td>
<td>26</td>
<td>12</td>
<td>25</td>
</tr>
<tr>
<td>Bond issues</td>
<td>94</td>
<td>4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Injection of additional capital by current owners</td>
<td>45</td>
<td>19</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>Acceleration of design and market launch of new products</td>
<td>28</td>
<td>20</td>
<td>22</td>
<td>31</td>
</tr>
<tr>
<td>Investment in research and development</td>
<td>54</td>
<td>21</td>
<td>16</td>
<td>9</td>
</tr>
<tr>
<td>Investment in dealerships</td>
<td>39</td>
<td>25</td>
<td>21</td>
<td>15</td>
</tr>
<tr>
<td>Attraction of new personnel</td>
<td>51</td>
<td>20</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Purchase of new equipment</td>
<td>61</td>
<td>17</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Purchase (exchange) of patents and know-how</td>
<td>78</td>
<td>12</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Acquisition of other companies</td>
<td>68</td>
<td>16</td>
<td>9</td>
<td>7</td>
</tr>
</tbody>
</table>
We may see that such a set of measures, especially saving on technical maintenance and corporate restructuring (presumably aimed to save the most valuable assets from possible creditors’ claims in the event of bankruptcy), give the company little chance to return to a normal track as the macroeconomic situation improves again. Thus it was not surprising that Factor 1 was strongly correlated (coefficient 0.217) with another factor, which that accounted for 9% of the total variance and could be interpreted as planning for going out of business. That factor is visible behind such measures as:

- selling off tangible and intangible assets;
- selling substantial shares in the firm;
- complete sale of the firm.

Finally, the second most important factor, which explained 13% of the total variance, may be called differentiation efforts. It is correlated with the following set of planned and implemented measures:

- investment in research and development;
- purchase and exchange of patents and know-how;
- acceleration of new product development;
- investment in the company’s dealers;
- purchase of other firms;
- intensification of advertising;
- intensification of lobbying efforts.

We may see here a 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 counteract the recession but (especially by purchase of other firms and development of marketing networks) to create a completely new competitive landscape in relevant markets.

We should recall here that there was a positive correlation between the most important factor (cost leadership) and the third most important factor (giving up the business). At the same time, the second most important factor (differentiation) had a negative correlation (coefficient \(-0.076\)) with the third. This means that when a company embarks on cost leadership (chooses Trajectory 1) it does it very carefully, taking proper account of the possibility of failure of the strategy and the company itself. Companies that risk differentiation (Trajectory 2), on the contrary, are acting more resolutely, thus leaving fewer options to ‘surrender’. On one hand, such an approach encourages specific investments; on the other hand, the ‘sunk costs’ of an appropriate strategy are much higher.

We tried to find possible explanations for the positions of companies surveyed 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 risk, the temperament of the CEO, the length of service of the CEO in the present position) had no significant impact on the implementation or preparation of different strategic options. Company size (measured either by total sales or by number of employees) also had no significant influence on selection of strategic options. Finally, the single measures of a company’s competitiveness (assessment of price, quality and costs prior to the recession) had no significant role in the choice between anti-crisis trajectories. However, real company competitiveness is built not by single measures but by combination of measures. We have proved (see Gurkov 2007) 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 pre-recession competitiveness and Factor 1. This means that the higher the relative competitiveness level of a company was prior to the recession, the lower are the chances that Trajectory 1 will be chosen. However, we found no significant correlation between pre-recession competitiveness and Factor 2. This means that we were still unable to truly understand the patterns of strategic choice during the recession. We therefore 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 in the survey were asked to write in free form an ‘essay’ that would describe the most acute problem their company currently faced and the ways of dealing with that problem. By the end of March we had received 33 ‘confessions’, most of them very frank. In a few cases we received really thrilling stories about the current corporate dramas. The respondents allowed the research use of those materials on the 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:

- common problems, concerns and apprehensions of Russian companies during the depression;
- the relative popularity of the identified strategic trajectories (cost leadership and differentiation);
- the real combinations of measures implemented 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 implementing them.

An absolute majority of the respondents (who should rather be called story-tellers) expressed two major concerns – the deterioration of market conditions and corporate disorders. The first issue is clear; the second needs more explanation. There were different legal forms among the 33 companies – closed partnerships, closed joint stock companies and open joint stock companies. However, the ownership structure of the companies researched had very few variants:
• one company (the local electricity supplier) is state-owned;
• four companies (regional mobile operator, food hypermarket, medical clinic and local network of cinemas) are subsidiaries of large corporations;
• all other companies are truly private companies, either created from privatised assets (medical centres, engineering company, dairy producer) or built from scratch (property developers, public relations and event management, banks, producers of motor vehicle equipment, operators of ATMs, furniture producers, printing-house for advertising materials etc.) according to the needs of the emerging market economy.

Private companies are clearly divided into two sub-types: 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 divergence between sole proprietorships and partnerships has begun: not all partners find an appropriate ‘place’ in operational management. In addition, former ‘brothers-in-arms’ have usually developed different attitudes towards risks, have already chosen different life pathways, or simply grown out of everyday intercourse. Under conditions of economic depression the market for privately held assets has almost vanished, so conflicting partners can neither split their companies nor find ways for other forms of ‘corporate divorce’. The result is complete strategic paralysis, described in almost every story on private partnerships. The situation is clearly considered by sole proprietors as their major competitive advantage. X, the sole owner of a chain of motor parts stores, writes:

As most of my competitors have two–three owners while I am the sole owner of my business, I may give away a part of my profit and make money on trade volume. For me it is more important to attract clients and thereby to force competitors out of business. I may compete on 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) was clearly more popular than Trajectory 2 (differentiation).

The typical combination of strategic actions in Trajectory 1 is well described by Z, vice-president of a medium-size company involved in design and installation of control systems for warehouses and container terminals:

In 2008, even before the financial crisis, we experienced a fall in sales. First, the head of sales left the company and the newly appointed people could not compensate for 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 the situation quickly. We decided to implement the following measures:

• To bring to the market ‘express versions’ of all our services (installation of equipment and software). These are services with no customisation, 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 official distributor for that supplier too.
• We decided to propose to clients that they select between three levels of customer support. Each level differs on the quality and intensity of services, and has visible differences in price too.
• As the demand for warehouses declined, we reoriented the designers of automation systems for warehouses for work on container terminals. There will soon be no organisational barriers within a unified pool of specialists working on warehouses as well as on container terminals – formerly two separate lines of business.
The former head of sales is returning to the company. We have intensified promotion and advertising efforts that require serious expenditure in the short term. We dismissed a number of employees who were recruited during 2008 and who have not proved themselves as efficient specialists.

The typical combination of actions in Trajectory 2 is well described in the story by W, the general director of a private medical centre:

We are currently involved in the following actions:

- Careful analysis of the current level of services and redesign of particular services (aimed to create uniquely comfortable conditions for patients and to eliminate completely waste of patients’ time).
- Purchase of new equipment to offer a unique service (for the local market).
- Invention of a ‘family doctor’ – a special person who is responsible for all contacts between clients and the functional specialists.
- Establishing a special association of private clinics that should lobby for the specific interests of its members.
- Optimisation of the use of specialised equipment and other facilities.
- Intensification of bargaining on price and payment conditions for medical supplies.

With all these measures we aim to redesign our medical centre as an absolutely unique institution on the local medical market, well ahead of other private centres or state-owned clinics.

Our examination of the ‘stories’ has shown that in reality there is no chasm between Trajectory 1 and Trajectory 2. Companies pursuing cost leadership and differentiation use many common ‘robust’ strategies for promotion and advertising, optimisation of capacity utilisation, bargaining with suppliers and some compromises on prices. The difference lies in more subtle aspects, especially in the degree of customisation in goods and services and in the approaches to investment – in Trajectory 1 investment should minimise unit costs, in Trajectory 2 investment may lead to increased unit costs.

Active turnaround strategies, both in Trajectory 1 and in Trajectory 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 gives managers the chance to show their initiative and take risks.

For embarking on Trajectory 2 a third condition should be present – the sole owner should have very specific attitudes towards his/her business that may be better described as feelings of superiority or even as arrogance. Such sentiments are not always based on a really favourable quality/costs ratio (as we proved by correlation analysis in the previous section) but they provide the foundation for additional investment in quality during hard times.

**Invitation to discussion and suggestions for further research**

We have examined the behaviour of Russian medium-size companies deprived of any visible state support during times of deep recession. We have seen that sombre macroeconomic conditions coupled with unfavourable macroeconomic parameters cause a rise in unit costs and fall in the 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 stabilise quality) or differentiation (attempts to increase quality while compromising on costs). Many types of actions are the same in both turnaround trajectories and are suggested by common sense and the need to preserve the most valuable assets from corrosion or complete annihilation.

The most striking result of our analysis is the very weak influence of past performance on the choice of turnaround trajectories. Of course, companies in bad financial shape before the crisis have little chance of survival. At the same time, good competitiveness of a company prior to 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 schemes of strategic decision making employed in partnerships proved largely flawed, thus creating a 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 was largely based on the aspirations of key strategists, without proper identification of particular unique resources.

Our results may be treated differently by adherents to various schools of strategic management. For partisans of an ‘entrepreneurial school’ our results will be additional evidence of the power of ‘visionary leadership’ that is able to transform the worst circumstances into a spectacular success. For researchers with a 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 resemble more the heroism of the kamikaze. In any case, the limited time horizon of our study prevents us assessing the robustness of any strategic trajectory actually chosen (see Dorward and Weidemann 1981).

Our calculations, speculations and conclusions are based on a convenient sample survey and on a couple of dozen stories. Again we should note that we tried to observe the behaviour of Russian enterprises during the first months of economic recession, at a time when ‘wait and see’ attitudes were still prevalent. We shall be glad if further more intensive studies depict rather different pictures of reality. We shall be especially happy to see that strategic paralysis has been overcome, that strategic actions are set in tune with company resources and capabilities and, last but not least, that ‘non-strategic’ companies are considered a significant and respectable part of the Russian economy.

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Notes
1. For the causes and triggers of economic recession see Zamaraev et al. (2009).
2. The data were assembled mostly from official statistical publications available from: http://www.gks.ru.
3. According to World Bank calculations, RRB 1089 billion (2.6% of GDP) was spent in 2008 as fiscal anti-crisis measures, including RRB 785 billion for strengthening the financial sector and RRB 304 billion for supporting the real economy. Measures for the financial sector included
RRB 335 billion of recapitalisation and other direct support and RRB 450 billion of subordinated loans. An additional RRB 830 billion was injected into the financial system in 2008 by a combination of changes in reserve requirements and increases in the amount of funds available. In supporting the real economy only RRB 52 billion was sector-specific support (see World Bank in Russia 2009, pp. 9–12).

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/7a18dd27bb694b959687b06f02949de3.doc.

5. We may anticipate that the expected saving on corporate taxation is greatly exaggerated. For example, in January 2009 the share of loss-making companies was 38.9%; the total amount of losses exceeded the total sum of profits by USD 5.2 billion (see http://www.gks.ru/bgd/free/b04_03/IssWWW.exe/Stg/d02/48.htm).

6. In March 2009 the Ministry for Regional Development published a 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?PageID¼470). Although the ministry’s directive specifies that ‘other companies may be monitored’, it ‘de facto’ further restricted the set of enterprises that may apply for state support.

7. See Kommersant, no. 57 (4112), 1 April 2009, p. 2.

8. The official data report 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 the business press testify that even large ‘strategic companies’ borrowed from local systemic banks at 21% annual interest rate (see Kommersant, no. 62 (4117), 6 April 2009, p. 8).

9. 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.

10. Sometimes company managers are lucky to keep the company’s owners away from operational management. Y describes the situation: ‘The first shareholder receives annual dividends and does not hinder the management (but he is permanently somewhere around and receives monthly reports on operations). The second shareholder lives in London and appears periodically. His impact on company affairs is low, as is his share of dividends’. Here we tried to follow the original text as closely as possible. In other citations we provided a condensed text.

11. For a review of modern schools in strategic management see Mintzberg et al. (1998).

References


