

# Fighting for survival at the edge of the empire -- recent changes in business and management of Russian industrial subsidiaries of foreign MNCs

Igor Gurkov

[www.hse.ru/staff/gurkov](http://www.hse.ru/staff/gurkov)

gurkov@list.ru

# Evolution of the post-Crimea Russian economy

- Economic sanctions of USA, EU and some other countries against the largest Russian banks, oil companies, military enterprises and selected physical persons (since March 2014)
- Self-imposed Russian embargo on imports of foodstuffs from USA, EU and some other countries (August 2014)
- Galloping inflation
- Devaluation of the national currency
- Fall in oil prices and budget revenues
- Economic recession

# Devaluation of the local currency (Rubles per US\$)



Source: Bank of Russia

# Some parameters of economic recession (August 2015 to August 2014)

- Gross Domestic Product (GDP) -- ↓ 3,5%
- Industrial Production -- ↓ 4,5%
- Turnover of foreign trade -- ↓ 40,8%
- Investments -- ↓ 6,8%
- Disposable income -- ↓ 4,9%
- Salary -- ↓ 9,8%
- Retail turnover -- ↓ 10%
- Agriculture -- ↑ 2,3%
- Consumer prices -- ↑ 15,8%\* /20-50%(Est.)
- Unemployment -- ↑ 8,9%\* /20-30%(Est.)

# The split in dynamics of different sectors (industries)

- **Stability of output or moderate growth**
  - coal, electricity, oil, gas, metallic ores
- **Significant growth –**
  - food products (cheese, meat), timber and timber products, chemical products (paints, plastics)
- **Significant fall --**
  - cars (-26%), trucks (-23%), rail stock (-55%)

# The split in performance of different sectors (industries)

- The differences between export-oriented (oil, gas, ores and metals, basic chemical products) and locally-oriented industries
- The differences between exporters of oil/gas and exporters of other products
- The differences between capital-intensive and labor-intensive industries
- The differences between locally-owned and foreign-owned companies

# Subsidiaries of foreign corporations versus locally-owned companies

## Advantages

- Lower costs of capital
  - Support from parents and sister-subsidiaries
- (Gurkov, 2015)
- Effective and efficient innovation routines (Gurkov and Filippov, 2013)
  - Efficient HRM systems

(Gurkov, 2016)

## Disadvantages

- Slower decision-making processes within corporate hierarchies
- Anxiety of shareholders (especially of US-listed companies)
- The greater share of US\$-nominated costs in the total costs (up to 75-85%)
- Occasional attacks of federal and local authorities
- High non-recoverable investments (that would have to be written-off in case of an exit)

# What is going on in MNCs in Russia -- Strategies

- Simplification of product mix (margin generators and volume generators)
- Correction of value proposition (“domestication”)
- Supportive investments to increase the share of Ruble-denominated costs (car production, foodstuffs, cosmetics)
- “Low-profile strategies” (avoiding publicity on corporate affairs in Russia)



# Industrial investments of foreign corporations in Russia (2014-2015)

- **In total** – 130 new plants opened between January 2014 and September 2015, *31 new plants opened by German firms*
- **Size** – median employment – 100 persons, median investments – US\$ 30 mln.
- **Major industries** – food production, timber products, chemical products, car industry (engines and spare parts)
- **Major regions** – Moscow region, St,Petersburg region, Kaluga region, Tatarstan (*Muslim region*)
- **Origin of corporate parents** – Germany (25%), France (11%), USA (11%), One object is UAE investments

## Industrial projects of German companies in Russian in 2015-2015

Name of the parent	Number of plants
Becker Mining	1
Berlin-Chemie	1
BERVEL GmbH	1
Bosch	4
Bucher-Guyer AG, Giletta	1
Continental	2
DynaEnergetics	1
Henkel	1
Hochland	1
Horsch Maschinen GmbH	1
Kiekert AG	1
Knauf Insulation	2
MAHLE Aftermarket GmbH	1
Muller Kerzenfabric AG	1
PUK-WERKE KG	1
RMA Pipeline Equipment	1
SAAP	1
Schaeffler AG	1
Schattdecor	2
Siemens AG	2
Volkswagen Group	2
Wolf System GmbH	1
Zahnradfabrik	1
<b>Total</b>	<b>31</b>

# What is going on in MNCs in Russia -- Operations

- Feverish installation and putting in motion of new capacities
- Working at non-optimal capacity utilization levels
- Revision of marketing schemes (dealers networks)
- Revision of supply schemes
- Occasional redundancies
- Saving on overheads

# What is going on in MNCs in Russia – *Organizational climate*

## Gradual destruction of the proclaimed principles of organization

- **Integrity** – adherence to traditional values (i.e., thrift, efficient and careful use of resources, social responsibility, lack of conflict, financial independence, discipline, and exemplary behavior);
- **Humanity** – tact and generosity, commitment to family values, respectful behavior, and constructive attitudes towards mistakes and problems;
- **Focus on the future** – strategic and long-term thinking and behavior, the ability to adapt to real conditions, the ability to change, willingness to change, and initiative;
- **Willingness to take risks** and constant promotion and support of innovations;
- **Responsibility for results** – pragmatism, focus on success, quality that is first-class;
- **Partnerships with customers and cost leadership** (i.e., the most rapid and efficient production at the lowest cost);
- **Trust** – freedom in decision making, personal responsibility, sanctions for breach of trust, reliability, tolerance, keeping promises, social guarantees, and the principle of payment according to the quantity and quality of labor;
- **Loyalty** – compliance with the company's rules, discipline, and mutual reliability;
- **Involvement** – generosity, praise, recognition, criticism, censure, delegation of responsibility, and promotion and development of employees; and,
- **Endurance** – recognition and promotion of special achievements, exceptional personal involvement, exposure, reliability, the ability to bear loads, and discipline.

# What can be learned from Russian subsidiaries of MNCs

- “**Ambidexterity**” (ability to work under contradictory goals and objectives)
- “**Briskness**” (Wendigkeit, Behendigkeit) – ability to penetrate into small holes and slots and to move quickly
- **Creativity** – finding how to perform the task that cannot be performed
- **Psychological stability** – ability to sustain stress and not to succumb to the panic