

Inside a Russian Exporter: Its Goals, Inner Logic and Management Innovations

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1. Introduction

After the fourfold fall of Ruble in the last quarter of 1998, Russian industries have received an unique impetus for both import substitution and export expansion. In 2000, the registered trade surplus of the Russian Federation reached US\$ 64.2billion¹. Russian exports of so called “strategic commodities” have already reshaped several important international markets². However, the flow of Russian exports consists not only of commodities, but also of merchandises aiming to fulfil the low-end niches in the world markets.

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¹ “Emerging Markets Indicators,” in: The Economist, 26.02.2001, 138.

² See White, G. L. “Car makers swerve as palladium goes through the roof. Russian moves lift price of exhaust-cleaning metal,” in: The Wall Street Journal Europe, 06.03. 2000, 1.

In order to understand the behaviour of Russian exporters and to predict their possible actions in the future, we should address the following issues:

1. What is the current proportion of actively exporting companies in various Russian industries?
2. Which changes in export intensity have taken place since 1998?
3. What is the relationship between the level of exports and current performance of Russian companies?
4. How the expansion in international markets is conjoined with other goals of top management?
5. How export activities are associated with various business and management innovations?

We also assume that our study will be exploratory, as the empirical evidence on corporate management in Russian exporters is still rather fragmented thereby limiting broad theoretical constructions.

2. Research Design

2.1 The sample

In the present paper, we address the outlined issues using the results of a large-scale survey of Russian CEOs. In October-December 2000, we conducted the survey which embraced 1000 CEOs of various companies. The response rate was 73%. The respondents presented companies of all legal forms in main Russian industries, which are situated in 78 Russian regions. The overall composition of companies in the sample is presented in Tables 1-4.

Table 1. The of industries in the sample

Industry	Percent
Machine-building	26.3
Food-processing	14.1
Energy	11.2
Electronics	10.2
Wholesale operations	9.3
Textiles	9.1
Transportation	7.5
Chemicals	6.8
Retailing	6.4
Extraction	6.3
Agriculture	6.1
Ferrous and non-ferrous metallurgy	6.1
Timber and forestry	6.0
Construction	5.9
Housing services	4.6
Information services	3.5
Finance and insurance	2.2
Science and education	2.2

Most of the surveyed CEOs manage industrial companies with significant level of diversification. Around 20 percent of CEOs indicated two and more main lines of business for their companies. The most popular combination is the amalgamation of the main area of production activities, the wholesale operations and housing services.

Table 2. Distribution of companies by the size of staff

Staff	Percent of companies
Less than 20	1.6
21 – 50	5.7
51 - 100	5.7
101 - 500	25.6
501 - 1000	18.3
1001 - 3000	26.7
More than 3000	16.3

Most of CEOs in the sample manage large companies. However, in terms of sales such overstuffed companies are not so large in comparison to Western standards.

Table 3. Distribution of companies by the sales in 2000

Sales	Процент
Less than US\$40,000	3.7
40,000-400,000	10.4
400,000-2,000,000.	19.1
2,000,000-8,000,000	28.9
8,000,000-20,000,000	17.9
More than US\$ 20,000,000	20.0

Another very important point was the ownership status of the surveyed companies. Traditionally, it is almost impossible to get a realistic picture of ownership structure of Russian companies via surveys. Therefore, we asked not about ownership structure, but about ownership status of the companies.

Table 4. Ownership status of the surveyed companies (percent)

Ownership status	Percent
State-owned companies	17.5
Formerly state-owned privatized companies	69.2
Newly emerged private companies	9.3
Joint ventures	1.5
Other forms	2.5

The so-called “old” companies, established before 1991, form the absolute majority of the sample. Therefore, we cannot accept our sample as a totally representative for the Russian economy. However, we consider it as a quite representative sample for the Russian privatized industries.

2.2 Research Instruments

The main research instrument was the questionnaire which consisted of several blocks accordingly to the goals of the study.

To map the overall assessment of the company situation we used two questions. First, CEOs were asked to assess the financial situation of their firm on a 3-point scale ranged from (“bad” to “good”) and to compare the present situation with the situation two years ago (on a 5-point scale ranged from “much deteriorated” to “much improved”).

To map the spread of aspirations towards international markets and to relate this goal to other goals of the top management we asked managers to indicate an unspecified number of the most visible goals of the top management. We listed 8 main possible goals (from production at the world standards to maximising company’s value) and allowed managers to add to the list of goals.

To see how export aspirations are translated into real actions in terms of process and product innovations we asked CEOs to report on business innovations which had been undertaken in their companies. We offered to managers a list of 9 measures with a possibility to add to the list. We used here the following 3-point scale: 1- no changes, 2 – minor changes, 3 – major changes. In addition, we presented, again on a 3-point scale, the list of the eight most fashionable management tools, including ISO standards, marketing research using the Internet resources etc.

3. Findings

3.1 The level of export activities.

First at all, we clarified the level of exports by the surveyed companies in the past three years (see Table 5).

Table 5. The share of exports in total sales (Percentage of companies)

Share of exports in total sales	1998	1999	2000
Less than 5%	49.4	47.7	47.3
5 - 20%	11.6	12.8	14.7
21 - 50%	4.9	6.0	4.9
51 - 80%	4.2	3.7	4.6
More than 80%	3.1	4.1	4.4
No answer	26.8	25.7	24.1

First and foremost, our results show that exports remain a quite secretive area of the Russian business life. Around a quarter of the surveyed CEOs has not provided answer to that question, while for other scales the non-response rate was within 1-3%. We may conclude that the subsequent analysis will be relevant to so-called “white exports,” with proper custom clearance and tax proceedings. From one side, this may limit the overall reliability of our study. From the other side, we intend to perform a special study on those “non-respondents” in order to clarify their peculiarities of business behavior.

Nevertheless, the data suggests that despite the relative expansion of the physical volume of Russian exports, the extensity of export operations in Russian industries

remains quite stable – around 60% of companies had minimal exports in 1998 and almost the same proportion of non-exporters and minimal exporters was in 2000.

The shifts in export extensity became clearer as we compared the changes that have taken places within the groups of exporters (see Table 6).

Table 6. Shifts in export intensity within groups of exporters between 1998 and 2000

		Share of exports in sales in 1998 (% of companies)					Total
		Less than 5	5 -20	20 - 50	50 - 80	More than 80	
Share of exports in sales in 2000 (%)	Less than 5	59.6	2.3	0.2	0.0	0.0	62,1
	5 - 20	6.2	11.5	1.2	0.6	0.0	19,4
	20 - 50	1.0	1.0	3.3	1.2	0.0	6,3
	50 - 80	0.6	0.8	1.5	3.1	0.2	6,2
	More than 80	0.4	0.0	0.6	1.0	4.0	6,0
Total		67,7	15.6	6.7	5.8	4.2	100.0

There is a minimal shift (within 10% of the group population) between the selected groups of exporters. However, the analysis of exports in industry setting present a more clear picture of specific shifts in Russian export-oriented sectors (see Table 7).

Table 7. Changes in export intensity (industry analysis)

		Direction of changes (%% of companies within industry)						
		Minus 30-50 percent points	Minus 15-30 percent points	No changes	+ 15-30 percent points	+ 30-50 percent points	+50-70 percent points	+ 70 and more percent points
Industry	Extraction	0.0	13.9	80.6	2.8	2.8	0.0	0.0
	Energy	4.3	2.1	83.0	10.6	0.0	0.0	0.0
	Timber	0.0	3.2	67.6	25.8	3.2	0.0	0.0
	Chemicals	0.0	0.0	89.7	10.3	0.0	0.0	0.0
	Metals	3.6	14.3	60.7	7.1	10.7	3.6	0.0
	Machines	0.0	3.8	77.1	15.1	2.3	0.8	0.8
	Electronics	0.0	2.7	89.2	5.4	0.0	0.0	2.7
	Food	0.0	1.9	88.5	3.8	3.8	1.9	0.0
	Textiles	0.0	14.3	76.2	4.8	4.8	0.0	0.0
	Construction	0.0	0.0	100.0	0.0	0.0	0.0	0.0

The biggest expansion of export intensity took place only in metallurgy, where 10% of companies expanded the proportion of exports in total sales by 30-50 percent points. Significant changes (expansion by 15-30 percent points) took place in Russian timber companies (25% of companies) and in machine-building, chemicals and energy production. Other industries have not experienced serious changes in export intensity. For example, the Russian construction industry (at least its “open side”) remains totally locally-oriented.

3.2 Comparison of exporters

To receive a clear picture of particular strengths and weaknesses of Russian exporters, we divided all companies into five groups accordingly to the reported share of exports in total sales. Group 1 combined companies with less than 5% of sales in exports, Group 2 – with exports between 5 and 20 % of sales, Group 3 – with exports between 20 and 50% of sales, Group 4 – with exports between 50 and 80% of sales. Group 5 comprised “total exporter,” which share of exports in sales more than 80%.

The subsequent analysis will be based on comparison between those groups using the statistical techniques ONEWAY ANOVA.

As a prerequisite of analyzing we compared the perceived performance of companies with different export intensity (see Tables 8-9).

Table 8. Perceived current economic situation by assessment by CEOs

Current economic situation	Group 1	Group 2	Group 3	Group 4	Group 5
Bad	21.4	9.7	2.9	12.1	0.0
Satisfactory	64.4	76.7	80.0	69.7	62.5
Good	14.2	13.6	17.1	13.2	37.5

At the first glance, orientation towards export sales is the “ticket to heaven” to Russian industrial companies. “Total exporters” differ significantly from all other groups in positive assessment of the current situation.

Table 9. Perceived performance dynamics in 1999-2000 by assessment of CEOs

Performance dynamics	Group 1	Group 2	Group 3	Group 4	Group 5
Much worse	7.1	4.8	0.0	3.0	0.0
Somehow worse	10.7	4.8	5.7	3.0	12.5
No change	10.4	9.6	8.6	9.1	12.5
Somehow better	55.2	52.9	57.1	48.5	40.6
Much better	16.6	27.9	28.6	36.4	34.4

At the same time, the total openness towards foreign markets does not guarantee automatically the stable performance. Despite the very positive conditions for most Russian exports, around 12% of “total exporter” feel themselves “somehow worse” by comparison to 1998. This fact will be used in the further speculations.

After the comparison of the overall performance dynamics, we compared the sets of declared goals of CEOs in different groups (see Table 10).

Table 10. Comparison between sets of declared goals (Percents of CEOs stressed in each group)

Goal	Group 1	Group 2	Group 3	Group 4	Group 5
World standards of quality	54.6	61.3	68.6	78.8 ¹	81.3 ¹
Maintaining employment	46.3 ³	38.7	25.7	42.4	43.8
Maintaining the company image	41.6	34.9	34.3	27.3	43.8
Overseas expansion	6.7	26.4 ¹	31.4 ¹	45.5 ^{1,2}	28.1 ¹
High wages to employees	19.1	24.5	25.7	27.3	18.8
Maximization of company value	6.7	6.6	8.6	9.1	15.6
Expansion into new markets in Russia	47.8 ⁵	38.7 ⁵	45.7 ⁵	30.3	9.4

Note: Superscripts present statistically significant difference at 0.05 level with the corresponding group

We may see quite interesting divergence of goals. The importance of quality in view of CEOs grows together with the proportion of exports in total sales. Consequently, the importance of local markets decreases as Russian companies establish their permanent presence overseas. The most interesting case, however, is presented by “dual companies,” with the share of exports in total sales between 50 and 80%. They “tremble” between foreign and Russian markets and cannot make the definitive choice. It is also worth to note that companies of that Group 4 put higher priority for wage improvement than companies of other groups.

Besides the goals of CEOs, we compared the practical measures that accompany the realization of goals (see Table 11).

Table 11. Comparison of intensity of innovations in companies of various groups (percentage of companies in each group)

Type of innovation	Group	Did not realized	Implemented	
			In some extent	In great extent
New methods of project financing	<i>Group 1</i>	59.9	31.2	8.9
	<i>Group 2</i>	55.4	31.1	13.6
	<i>Group 3</i>	51.6	36.4	12.1
	<i>Group 4</i>	35.5	54.8	9.7
	<i>Group 5</i>	33.4	43.3	23.3
New Russian business partners	<i>Group 1</i>	31.6	51.6	16.8
	<i>Group 2</i>	22.2	51.9	26.0
	<i>Group 3</i>	20.0	65.7	14.3
	<i>Group 4</i>	15.7	56.3	28.1
	<i>Group 5</i>	36.7	40.0	23.3
New foreign business partners	<i>Group 1</i>	75.0	22.0	3.0
	<i>Group 2</i>	54.3	40.0	5.7
	<i>Group 3</i>	27.3	57.6	15.2
	<i>Group 4</i>	25.0	34.4	40.6
	<i>Group 5</i>	23.3	30.0	46.7
New marketing channels	<i>Group 1</i>	44.1	44.0	11.9
	<i>Group 2</i>	27.4	47.2	25.5
	<i>Group 3</i>	31.4	37.1	31.4
	<i>Group 4</i>	12.9	58.1	29.0
	<i>Group 5</i>	38.7	35.5	25.8
New forms of recruitment and personnel selection	<i>Group 1</i>	56.3	32.8	10.9
	<i>Group 2</i>	45.3	33.0	21.7
	<i>Group 3</i>	34.3	54.3	11.4
	<i>Group 4</i>	18.2	48.5	33.3
	<i>Group 5</i>	29.0	48.4	22.6
New methods of performance appraisal	<i>Group 1</i>	50.0	36.2	13.8
	<i>Group 2</i>	36.1	42.9	21.0
	<i>Group 3</i>	22.8	57.1	20.0
	<i>Group 4</i>	24.3	51.5	24.2
	<i>Group 5</i>	20.0	43.3	36.7
New wage schemes	<i>Group 1</i>	36.8	40.0	23.2
	<i>Group 2</i>	22.6	45.3	32.1
	<i>Group 3</i>	14.3	57.1	28.6
	<i>Group 4</i>	12.1	60.6	27.3
	<i>Group 5</i>	25.8	35.5	38.7
New organizational structures	<i>Group 1</i>	54.7	31.2	14.1
	<i>Group 2</i>	51.9	36.8	11.3
	<i>Group 3</i>	42.8	40.0	17.1
	<i>Group 4</i>	45.4	39.4	15.2
	<i>Group 5</i>	40.0	46.7	13.3
Spin-offs and establishing of subsidiaries	<i>Group 1</i>	78.2	13.1	8.7
	<i>Group 2</i>	82.1	13.2	4.7
	<i>Group 3</i>	79.4	17.6	2.9
	<i>Group 4</i>	75.0	15.6	9.4
	<i>Group 5</i>	67.8	29.0	3.2

The most wide-dispersed innovation in Russian business life after the financial crisis of 1998 is the revision of traditional supply schemes. Three quarters of the surveyed companies reported significant changes in the circle of their business partners. For locally oriented companies this was the change of Russian partners, for foreign-oriented companies (Group 5) this was a dramatic revision of foreign partners. We may speculate that active Russian exporters exhibit the growing selectivity in their business contacts. We should remind that “maintaining the company image” is the second important goal of CEOs of export-oriented companies. Therefore, Russian (legal) exporters are looking not only for profitable deals, but also for respectable business trading partners. The stronger requirements Russian export-oriented companies impose on their foreign partners is also suggested by introduction of new methods of project financing.

From the internal point of view, Russian total exporters (Group 5) started a new HRM revolution. They are experimenting with new wage schemes and also trying to change the traditional Russian forms of performance appraisal.

At the same time, active Russian exporters (Group 4 and Group 5) are not quite active in implementing of new organizational structures. They also quite reluctant to give up any portion of direct control over operations by establishing subsidiaries.

Besides new forms of business process, we tried to clarify the extent of adoption of new management methods and techniques (see Table 12).

Table 12. Implementation of new management methods (percentages of companies in each group)

Method	Group	No implementation	Implemented with minimal effect	Implemented with significant effect
ISO 9000-140000	<i>Group 1</i>	59.7	24.3	16.0
	<i>Group 2</i>	41.8	33.7	24.5
	<i>Group 3</i>	46.9	18.8	34.4
	<i>Group 4</i>	33.3	18.2	48.5
	<i>Group 5</i>	30.0	36.7	33.3
Computer programs for business planning	<i>Group 1</i>	51.3	35.2	13.4
	<i>Group 2</i>	38.8	37.9	23.3
	<i>Group 3</i>	35.3	35.3	29.4
	<i>Group 4</i>	31.3	40.6	28.1
	<i>Group 5</i>	25.0	37.5	37.5
Computer programs for financial planning	<i>Group 1</i>	46.2	37.8	16.0
	<i>Group 2</i>	36.2	41.9	21.9
	<i>Group 3</i>	41.2	35.3	23.5
	<i>Group 4</i>	27.3	33.3	39.4
	<i>Group 5</i>	16.7	40.0	43.3
CAD/CAM	<i>Group 1</i>	49.7	30.9	19.4
	<i>Group 2</i>	37.9	33.0	29.1
	<i>Group 3</i>	40.6	25.0	34.4
	<i>Group 4</i>	25.8	32.3	41.9
	<i>Group 5</i>	41.9	19.4	38.7
GAAP	<i>Group 1</i>	84.9	12.4	2.7
	<i>Group 2</i>	79.4	13.7	6.9
	<i>Group 3</i>	81.8	18.2	0.0
	<i>Group 4</i>	77.4	22.6	0.0
	<i>Group 5</i>	70.4	18.5	11.1
Computerized systems of managerial accounting	<i>Group 1</i>	39.0	39.9	21.1
	<i>Group 2</i>	25.5	46.2	28.3
	<i>Group 3</i>	32.4	50.0	17.6
	<i>Group 4</i>	18.2	42.4	39.4
	<i>Group 5</i>	12.9	45.2	41.9
Marketing analysis using the Internet resources	<i>Group 1</i>	55.6	30.0	14.4
	<i>Group 2</i>	31.7	51.0	17.3
	<i>Group 3</i>	44.1	41.2	14.7
	<i>Group 4</i>	43.8	34.4	21.9
	<i>Group 5</i>	48.3	31.0	20.7
Computerized systems of personnel testing	<i>Group 1</i>	83.0	13.1	3.9
	<i>Group 2</i>	74.0	18.3	7.7
	<i>Group 3</i>	74.3	25.7	0.0
	<i>Group 4</i>	68.8	25.0	6.3
	<i>Group 5</i>	67.7	25.8	6.5

As it was expected, total exporters (Group 5) are more active in implementation of all the selected forms of new management techniques. However, the real effects of such new managerial “fads” differ significantly for companies of various groups. Total exporters see the greatest effect in financial techniques, that enable them to manage effectively the cash inflows from export operations. Total exporters are also the only group of Russian companies which see any positive effect from implementation of GAAP standards.

At the same time, “dual” companies (with the share of export in total sales between 50 and 80 percent) put especial emphasis on new methods for product design and manufacturing. Almost a half of companies of Group 4 see the implementation of ISO standards as the most fruitful amendment of the standard management techniques. Companies of Group 4 also appreciate the introduction of CAD/CAM techniques.

4. Conclusions

Let first shortly repeat our main findings.

- Around 30% of Russian companies is now actively involved in export operations. The extensity (the proportion of exporters) did significantly increased since 1998 in production of raw materials and basic commodities, but also in machines and electronics.
- Export aspirations start with a “window of opportunity” of the perceived price competitiveness of Russian goods in foreign markets. At the same time, as the share of exports in total sales grows, the top management pays greater attention to quality of goods and services sold overseas.

- Active export operations are accompanied by serious revision of the value chain. Companies which export between 50 and 80 percent of their production have implemented the complete revision of both local and foreign trading partners.
- There several difference even within export-oriented companies. So-called “total exporters” (with the share of exports in total sales 80% and more) put especial emphasis on “normalisation” and better management of financial inflows. Total exporter especially value new techniques of financial planning and managerial accounting. They also somehow forced to use GAAP standards in their financial reporting.
- The so-called “dual companies” (with the share of exports between 50 and 80% of sales) are catching up their more successful colleagues. However, CEOs of “dual companies” are especially preoccupied with improvement in manufacturing practices. They value ISO standards and CAD/CAM systems, but do not see nay sense in GAAP standards.
- There is a visible gap between actively exporting and domestically oriented Russian companies. Locally-oriented companies are still in tenets of “post-Soviet” management practices. This is especially applicable for HRM practices (staffing, performance appraisal etc.)
- It is very important to stress that all the surveyed CEOs, including CEOs of active exporters, do not consider high wages for employees as a priority. The illusion of the “low wage workforce” as a competitive weapon persists even in industry where personnel expenses occupy a small fractions of total operating costs (like in oil and gas production, metallurgy).

In general, our study suggests the gradual formation of two quite separate sectors in the Russian economy. The sector of active exporters, that is presented by 10% of Russian firms, is intended to imitate the latest Western management techniques in operation and marketing management, while preserving some legacy of Russian HRM practices. Locally-oriented Russian companies do not see any positive effects from implementation of expensive Western management “fads.” Even the companies which export between 20% and 50% of their sales share the same patterns of innovation management as their locally-oriented colleagues. It means that the gap between the export-oriented sector and the rest of the Russian economy will be widening.

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