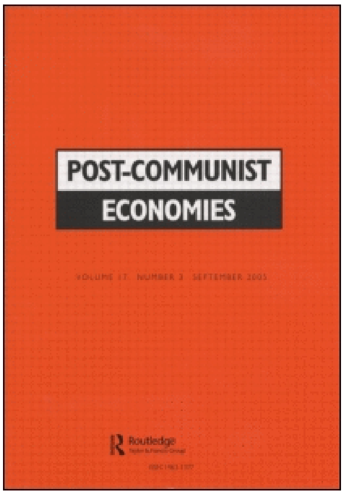

Post-Communist Economies
Publication details, including instructions for authors and subscription information:
http://www.informaworld.com/smpp/title~content=t713440896

The Russian corporation: patterns of behaviour during the crisis

Andrei Yakovlev[a]; Yuri Simachev[b]; Yuri Danilov[c]
[a] Institute for Industrial and Market Studies, State University - Higher School of Economics, Moscow, Russia [b] Interdepartmental Analytical Centre, Moscow, Russia [c] Centre for Capital Market Development, Moscow, Russia

Online publication date: 21 May 2010

To cite this Article Yakovlev, Andrei , Simachev, Yuri and Danilov, Yuri(2010) 'The Russian corporation: patterns of behaviour during the crisis', Post-Communist Economies, 22: 2, 129 — 140
To link to this Article: DOI: 10.1080/14631371003740555
URL: http://dx.doi.org/10.1080/14631371003740555

Post-Communist Economies
Vol. 22, No. 2, June 2010, 129–140

The Russian corporation: patterns of behaviour during the crisis

Andrei Yakovlev[a]*, Yuri Simachev[b] and Yuri Danilov[c]

[a]*Institute for Industrial and Market Studies, State University – Higher School of Economics, Moscow, Russia;* [b]*Interdepartmental Analytical Centre, Moscow, Russia;* [c]*Centre for Capital Market Development, Moscow, Russia*

(*Received 4 August 2009; final version received 24 February 2010*)

This article considers the behaviour patterns of Russian firms before and during the financial crisis of 2008–09. To facilitate comparison, we define three main groups of actors at the firm level in the Russian economy – large, politically connected companies; medium-size firms that expanded in the 2000s with the help of administrative support, and successful medium-size firms driven by market factors. Many of the large companies practised highly risky financial policies and experienced a decrease in efficiency before the crisis, and the managers and owners of some Russian firms have been engaging in opportunistic behaviour during the crisis; the forms and causes of this behaviour are analysed here. We conclude by proposing some policy implications with emphasis on supporting successful medium-size firms driven by market factors.

Despite official attempts in the spring of 2008 to designate Russia as a safe haven in the stormy sea of the global financial crisis, the crisis has deeply affected the Russian economy. As experts at the World Bank noted, 2009 was a difficult year for the Russian economy, with larger than expected losses in output and employment and a sharp rise in poverty (World Bank 2009). In Russia, the 2009 recession is estimated to have been much sharper than was the one following the 1998 crisis. During the 2009 recession GDP is estimated to have fallen by 8.7%, compared with 5.3% in the 1998 crisis, and this represents the largest negative annual growth since the break-up of the Soviet Union. The contraction reflects both external factors (import demand among Russia's main trading partners decreased by an estimated 15% in 2009) and domestic factors (an 18% decline in investment and a 4.7% contraction in private consumption). The government also put in place a large fiscal stimulus programme, and as a result the fiscal budget is projected to move from a surplus of 4.3% of GDP in 2008 to a deficit equivalent to 7% of GDP in 2009.

The peak of the crisis fell in the first quarter of 2009 (see Table 1). Since then the Russian economy, aided by higher oil prices and stronger global demand, has begun slowly to turn around. According to the estimates of World Bank experts, it could grow modestly, from a low base, by 3.2% in 2010 and 3.0% in 2011, thanks to better fiscal and balance of payments outlooks. But downside risks remain, associated with weak domestic demand and remaining structural constraints (World Bank 2010, pp. 124–126).

*Corresponding author. Email: ayakovlev@hse.ru

ISSN 1463-1377 print/ISSN 1465-3958 online

DOI: 10.1080/14631371003740555
http://www.informaworld.com

Table 1. Main indicators of Russian economic development, 2006–2009.

	2006	2007	2008		2009			
			Jan–Dec	**Q4**	**Q1**	**Q2**	**Q3**	**Jan–Sept**
GDP growth, %	7.7	8.1	5.6	1.1	−9.8	−10.9	−9.4	−10.0
Industrial production growth, year on year, %	6.3	6.3	2.1	−6.1	−14.3	−15.4	−11.0	−13.5
Fixed capital investment growth, year on year, %	16.7	21.1	9.8	−2.3	−15.6	−21.0	−19.0	−18.9
Federal government balance, % GDP	7.4	5.5	4.1	4.1	−0.4	−4.0	−4.0	−4.0
Inflation (CPI), % change, end of period	9.0	11.9	13.3	13.3	5.4	1.9	0.6	8.1
Current account, USD billion	95.6	76.6	102.3	8.1	9.4	7.6	15.0	32.1
Unemployment, % (ILO definition)	7.2	6.1	6.4	7.1	9.1	8.6	7.9	8.1
Memo: Oil prices, Urals (USD/barrel)	61.2	69.5	95.1	54.9	44.1	58.6	67.9	57.1
Reserves (including gold), USD billion, end of period	303.7	478.8	427.1	427.1	383.9	412.6	413.4	413.4

Source: World Bank (2009) on the databases of Rosstat, CBR, Ministry of Finance, Ministry of Economic Development, Bloomberg data.

In our opinion the poor performance of the Russian economy during the crisis (especially compared with China and India, which continued to grow in 2009) should be associated with distorted incentives and negative expectations at firms' level. Prudent macroeconomic policy is not enough for sustainable economic growth. Not only government but also companies have to make efforts to overcome the crisis. The firms that continue to modernise their production processes and businesses to boost productivity will define the post-crisis trajectory of the Russian economy. In the realm of industrial policy, the government's duty is not to bail everyone out but to provide incentives and opportunities for these kinds of firms. In order to formulate an effective, coherent anti-crisis industrial policy that contains a vision for the future, it is essential to understand the models of behaviour guiding present-day Russian firms, how these models have been distorted by the crisis, and how they are expected to evolve. We will try to address these issues in this article.

The pre-crisis situation or the Russian corporate sector in the early and mid-2000s

Recent studies (Puffer and McCarthy 2003, Yakovlev 2004, Andreff 2005, Yakovlev and Danilov 2007) suggest that although the quality of corporate governance in Russia was improving in the 2000s (in terms of formal indicators), certain features of Russian corporations were preserved, such as their

- Highly concentrated ownership and control;
- Rapid pace of corporate integration (with integrated business groups dominating the Russian economy); and
- Tendency to 'personify' Russian business.

More detailed studies (Dolgopyatova *et al.* 2009) have also furnished evidence of the emergence of new tendencies in the Russian corporate sector. One of these tendencies is the separation of ownership and management. This tendency has manifested itself most explicitly in holding company groups (business groups), which often include several scores of independent juridical persons. Because the final owners are incapable of managing the entire complex of assets in their possession, they employ managers to run their enterprises instead.

Another tendency is the increase in the real use of instruments of modern corporate governance. In the first half of the 2000s measures such as establishing greater transparency, hiring outside directors, paying regular dividends and launching domestic and international IPOs were largely cosmetic; they were primarily taken to improve the corporate reputation of Russian companies in global markets rather than to affect real decision making. However, a survey of 822 joint-stock companies conducted in the framework of a joint Russian–Japanese project in 2005 (Dolgopyatova *et al.* 2009) demonstrated that the firms had introduced these best practices of corporate governance not merely to boost their image or appease minority shareholders (whose role was nonetheless still weak). Russian companies are instead increasingly using the instruments of corporate governance to resolve the agency problem between owners and managers. They are focusing on internal instruments, such as granting a bigger role to boards of directors, introducing incentives for managers based on company returns etc. The substantial renewal of management teams in large and medium-size enterprises and the establishment of a link between personnel changes and company returns are some of the positive effects of this trend.

The above-mentioned tendencies are typical mostly of ordinary member companies of business groups. This is how Russian business groups, which were created largely to defend the property rights and interests of company owners in the imperfect institutional environment, have become advocates of best practices of corporate governance in recent years.

In general, recent studies present a picture of a gradually changing Russian corporate model. In the 1990s the 'transition firm' became a standard fixture on the Russian business scene. Run by managers who were independent of shareholders, this entity was characterised by a very opaque ownership structure, crude violations of shareholder rights, hostility to outside investors and blatant disregard for the standards and mechanisms of corporate governance (Blasi *et al.* 1997, Kraakman *et al.* 2000). This peculiar corporate model is now becoming a thing of the past. As a result, although some elements of national corporate identity have remained intact, in the mid-2000s Russian joint-stock companies began edging toward the classical path of development in market-oriented economies. We can therefore speak about two different models, one for large-scale businesses and another for medium-size companies, each playing an objectively different role in the economy. In the next section, we will discuss the criteria for distinguishing these two models.

The prospective model for medium-size Russian companies can be defined as a closely held firm (as described by Berglöf and von Thadden 2000) with a bias towards concentrated ownership, a limited presence on securities markets and distance from the state. On the contrary, owing to particular features of public policy in Russia, the largest companies can be expected to model themselves after development firms, which rely on informal ties with investors and the government; this model is commonly found in South-East Asia.

What are large and medium-size businesses?

There are different definitions of large and medium-size companies in the Russian academic and business environments. For instance, in the latest Expert-400 rating computed in the autumn of 2008 from 2007 data, the bottom rungs were occupied by companies with annual sales volumes of around USD400 million. However, Yakov Pappe, the leading Russian expert on the problems of big business, believes that large companies in Russia nowadays are those with annual sales volumes of USD1 billion in the oil and gas industry and USD500 million in the remaining industries (Pappe and Galukhina 2009, p. 22).

Yakovlev and Danilov (2007) classified companies with an annual turnover of more than USD1 billion as 'large'. According to this criterion, in 2007, 151 firms qualified as large companies (based on the Expert-400 rating). However, very few large companies are public in real rather than juridical terms. Of the 151 large companies, only 39 have a formal market for their stock (enabling their market capitalisation to be calculated). For this reason, using the single criterion of capitalisation to estimate business scales in Russia is not fully accurate.

Estimating the share of large corporations in the Russian economy is a task requiring many complex calculations. The existing data allow only a relatively accurate comparison between the pre-tax returns (minus losses) of the largest corporations, which can be calculated from the data presented by *Expert* magazine, and the profit and loss accounts of large and medium-size enterprises, which can be computed from Rosstat data. This comparison gives the share of the largest corporations in the Russia economy (with sales exceeding USD1 billion) in 2007 as 49.5%.

Determining the characteristics of medium-size businesses in Russia is also a difficult task. For instance, according to Federal Law No.209-FZ 'On the Development of Small and Medium-size Enterprises in Russia' (Section 4, point 1), medium-size enterprises include those with 100–250 employees. The relevant federal government guideline has set a limit of RRB400–1000 million in annual sales for medium-size enterprises (or no more than USD40–41 million for 2008). Using broader approach in its special 'Medium-size Business' project (Vin'kov *et al.* 2008) *Expert* magazine included in this category companies with an annual turnover of more than USD10 million, with the exception of the enterprises listed in the Expert-400 rating. In 2006 the number of such companies in Russia's private sector was about 13,000, and their weight in total earnings relative to all Russian companies with a turnover of more than USD10 million was 44%.

We define large companies as those with an annual turnover of over USD1 billion and medium-size companies (by international standards) as those with a turnover ranging from USD50 million to USD1 billion. According to this definition, in 2006 there were more than 3000 medium-size companies in Russia.

Patterns of firm behaviour in the pre-crisis period (2006–2008)

We have observed the following tendencies to be typical of the entire corporate sector in Russia over these three years:

- Expansion of the public sector with an increasing volume and variety of assets in state-owned companies, including the establishment of new joint-stock companies with government stakes (industrial holding companies based on the restructuring of state-owned assets, development institutions, and capitalisation with the use of public funds);
- Expansion of public demand by means of government procurement of goods; public support for large-scale investment projects with the funds of The Investment Foundation of the Russian Federation and the state Bank for Development and Foreign Economic Affairs (VneshEkonomBank); organisation of large-scale programmes to develop infrastructure (e.g. the 2014 Winter Olympic games in Sochi, the 2012 APEC summit in Vladivostok); and the implementation of the National Housing Project. As a result, some corporations are seeking public resources and trying to acquire special foreign assets to achieve their goals;
- Increasing pressure of competition from global markets and a tendency to speed up mergers and acquisitions ('buy or you will be bought');
- More foreign borrowing and a heavier debt burden; and
- Imposition of tough restrictions on foreign investors and shareholders (The Law on Investment in Strategic Enterprises; the conflict between the Russian government and British Petroleum).

At the same time, a number of these tendencies were limited to certain groups of companies in the corporate sector. For instance, large enterprises expanded their scale, their organisational structure became more complicated, their internal efficiency declined and their owners' ability to exercise control over them was undermined. However, this tendency was typical of all large corporations entering global financial markets and seeking to establish a strong foothold. At the same time, some tendencies specific to Russia also took shape:

- Informal relationships with the government became closer (especially after the YUKOS affair). Practically no large enterprise could survive in the Russian market at that time unless it had the endorsement of the state (Puffer and McCarthy 2007);

- For many companies, relationships with the government paved the way for receiving administrative rents, which in the short run were much higher than anything achievable by reliance on business streamlining and improvement of internal efficiency; and
- At the same time, this proximity to the state produced an illusion of lower risk and created an incentive for active borrowing (mostly abroad, because the Russian financial system was underdeveloped) as well as for super-aggressive buying-up of assets.

The remaining uncertainty about ownership rights could also be a factor behind the growing indebtedness of the corporate sector. For instance, according to Alexander Shokhin, the President of the Russian Union of Industrialists and Entrepreneurs (RSPP), despite high returns on domestic investment (which in 2006–07 triggered substantial growth in foreign investment in Russia), many owners of private Russian companies preferred to funnel their profits into foreign off-shore accounts and invest in decidedly less rewarding projects. At the same time, their companies in Russia were financed by borrowing. For this reason, companies were burdened with excessive debts and, in the event of takeovers, the would-be acquirers had to assume liability for these debts.

It is therefore evident that the internal efficiency of the largest Russian companies continued to deteriorate. The decline went undetected by external investors – and apparently by owners and top managers of these companies – owing to the smokescreen created by high rates of economic growth and readily obtainable money.

However, medium-size businesses have been coming to the fore in recent years, neck and neck with their larger counterparts. Contrary to the conventional wisdom of the expert community, these companies grew quickly in the 2000s and were solely responsible for pushing the real diversification of the Russian economy forward (Vin'kov *et al.* 2008, Sementsov *et al.* 2008). As shown in a study conducted by *Exper*t magazine, these companies were very diverse in terms of their rates of development. In 2000–06 about a quarter of these medium-size firms (defined by *Expert* magazine as earning more than USD10 million in sales) experienced a decline in real turnover at constant prices in spite of rapid overall economic growth in the country; on the other hand, 38.5% of these firms displayed an increase in turnover at annual rates of 20% and more (three times higher than the average GDP growth rates in that period).

These data conform to the results of the project on the competitiveness of the Russian economy conducted by the SU-HSE and the World Bank in 2005–07. This study showed that Russian companies were characterised by a considerable diversity in productivity levels, with dispersion within each sector being considerably larger than among sectors (Golikova *et al.* 2007). In the group of the most competitive and efficient firms, which make up 20–25% of the total number, productivity is at least three times higher than the sectoral average. At the same time, a large percentage (30–40%) of all firms exhibit extremely low productivity. There are clusters of inefficient firms in every sector, even in the most competitive ones. The intersectoral dispersion between the best 20% and the worst 20% of Russian firms is as high as 20–25 times. These results prove that there are high entry and exit barriers, which have served to prolong the life of the inefficient, non-market sector of manufacturing.

Consequently, it is safe to say that before the 2008–09 crisis differences between Russian companies were usually very high. While some firms were highly efficient, in line with international standards of competitiveness, others were utterly inefficient and should have died but nevertheless managed to survive.

Meanwhile, a segment of successful medium-size firms has emerged in the economy, with greater mobility and internal efficiency than the companies belonging to the first echelon. Medium-size companies have generally had difficulty obtaining access to external financial resources, meaning that they have had lower ratios of debt to sales than large corporations. In recent years medium-size companies have been actively trading on stock markets, especially on the Russian market (Box 1).

In our opinion, successful medium-size firms have a higher level of internal efficiency than the firms in the first echelon because their businesses can be more easily supervised by their owners. The medium-size firms are also less likely to rely on connections with the public administration; furthermore, they work in a more competitive environment and are more inclined to make innovations. Successful medium-size Russian firms, in comparison with their foreign counterparts, can quickly adapt to unfavourable external conditions, including severe business climates.[1]

At the same time, as shown by a more detailed examination of the most successful 217 medium-size companies in *Expert* magazine's project, these companies' ultra-high rates of growth were often due to their success in finding specific market niches with practically unlimited demand.

Generally speaking, on the eve of the 2008–09 crisis big businesses suffered from a relative decline in efficiency, which remained unnoticed by outside investors and unrecognised by their owners and top managers. At the same time, a segment of fast-growing companies came into being in Russia, accounting for 20–25% of the total

Box 1. The role of the stock market as the source of investment for large and medium-size Russian companies in 2007–2008

In 2007 19 corporations conducted IPOs and entered the securities market; another 10 conducted secondary public offerings on the market and another five corporations with Russian assets conducted public offerings on foreign stock exchanges. In 2008 another seven corporations conducted IPOs; 10 corporations conducted SPOs and two foreign companies with Russian assets publicly floated their shares (Danilov and Yakushin 2009). This large inflow of corporations to the equity market enables us to present a fairly representative evaluation of this market in terms of percentage distribution of large and medium-size corporations.

Number of IPOs in 2007–2008

Categories of Corporations	Large	Medium-size	Not included in Expert-400 (non-classifiable)	All corporations
Conducted IPOs	7	6	13	26
Conducted SPOs	7	7	6	20
Foreign corporations with Russian assets, conducted IPOs and SPOs	3	0	4	7
Total	17	13	23	53

The above data suggest that although the stock market is more accessible to the largest corporations, a substantial number of medium-size Russian corporations are relying heavily on it as a source to fund their dynamic growth.

number of medium-size businesses. Their steady growth over seven years is evidence of their efficiency. However, medium-size companies with low and medium levels of efficiency remained in the second echelon too.

These three segments – large companies, efficient medium-size firms and the rest of the medium-size firms – behaved quite differently in the crisis situation. This is the focus of our analysis in the next section.

Reaction to the crisis

At the outset of this section we have to issue a certain methodological caveat. In 2008–09, in the implementation of the stimulus package, the Russian government could rely only on aggregate macroeconomic data available from Rosstat and on some ‘special cases’ (like AvtoVAZ etc) provided by industry representatives. Only at the end of 2009 could government and expert community obtain the first empirical data on enterprises’ behaviour. However, this empirical information was not sufficient to distinguish clearly between different types of firms. Therefore, the typical models we have created here should be interpreted as hypotheses based on available cases and facts as well as on a certain logic; they will certainly require further empirical testing. Nevertheless, we believe that, even in this hypothetical form, our models could serve as useful tools for analysing what is going on in the real sector of the Russian economy as well as for designing more adequate instruments of economic policy.

We must also emphasise that the models of firm behaviour described could be influenced by the general situation in the relevant sectors. In cases of plunging demand, even efficient medium-size companies could fail, but if demand declines smoothly or remains stable, large and inefficient firms might opt to pursue less opportunistic strategies.

With respect to the reaction of Russian enterprises to the crisis, we assume that on the way out of the crisis the decisive factor will be the behaviour of the largest and fastest-growing (efficient) medium-size companies. The composition of efficient medium-size firms could change over the course of the crisis and in the post-crisis period, because the medium-size companies that focused heavily on the expansion of public demand will probably fall apart and new efficient medium-size companies will enter the market. (For instance, these new players might evolve from companies that manage to complete investment projects with imported equipment and orientation towards domestic consumer demand, which is expanding now via the replacement of imports due to the ruble devaluation.) At the same time, we must distinguish between two medium-size sub-groups that developed steadily and swiftly in the pre-crisis period. The first group includes the companies that have experienced rapid growth by finding new market niches, implementing new business ideas and introducing new technologies and products. The second group encompasses the firms whose success has been based on their decision to resort to so-called administrative resources. As we understand them, administrative resources consist of informal support from public authorities, a practice that limits competition and gives preferential treatment to certain companies (the construction industry has frequently made use of these ‘resources’).

In reality, these two sub-groups can be hard to distinguish. In the 2000s, for example, many successful medium-size companies tried simultaneously to rely on market forces *and* seek out administrative resources. Nevertheless, we believe that the distinction is useful for analytical purposes. To illustrate this point, we provide a stylised description of how three groups of firms – the largest companies, successful medium-size enterprises that have relied mostly on market factors, and successful medium-size enterprises that have mostly depended on administrative resources – reacted to the crisis.

The largest companies

- Have been hampered by excessively aggressive policies and the systematic underestimation of risks;
- Possessed a more complicated management structure; they have the status of public companies. The owners do not have adequate information about the condition of their businesses, and it is difficult to prevent managers from engaging in opportunistic behaviour. However, the main owners cannot take advantage of every possible measure for improving efficiency because they are obliged to disclose and explain all major actions to their shareholders and investors;
- Enjoyed close proximity to the state. This enables them to lobby for assistance, but upon receipt of this aid they tend to become saddled with additional 'social obligations' (support of employment), which impede their efforts to restructure and improve efficiency;
- Could take out public loans against shares. These loans are unlikely to be repaid, however, and the terms of the loans mean they could become the property of the state. But because the state has not yet announced its plans or intentions in such cases, this situation is going to produce further uncertainty about ownership rights. The relevant risks objectively give managers and current owners incentives to engage in opportunistic behaviour and withdraw assets, which obviously does nothing whatsoever to promote restructuring;
- Could block the allocation of public support to more efficient companies in the second echelon by virtue of their close proximity to the state and common interests;
- Were more likely to lobby for public support. This is because government leaders, on the basis of contacts with representatives of large companies and in the absence of other reliable sources of information, tend to form a distorted picture of current events that is biased towards negative trends, which gives big businesses additional impetus to lobby for public support.

Medium-size companies whose growth largely depends on market factors

- Could obtain significant incentives to increase exports;
- Could demonstrate dynamic growth based on import substitution provided that they had completed their investment projects;
- Faced limited access to foreign technologies and components owing to the devaluation of the ruble and thus had serious difficulty in completing their modernisation projects;
- Could collude with one another when competing for resources for expansion and development, with companies relying mostly on support from the public administration;
- Could prepare for drastic restructuring under severe crisis conditions;
- Tried to keep a low profile vis-à-vis the expansion of their activities in order to avoid the imposition of additional social obligations and pressure to deal with inefficient partners.

Medium-size companies whose growth largely depends on administrative support

- Faced a dramatic drop in competitive power;
- Might resort to opportunistic strategies involving drastic lay-offs, hoping to provoke 'social tension' among the authorities and create conditions for lobbying for public support;

- Relied more actively on their connections with government, using up the resources that are intended to support entrepreneurial activity (e.g. funds for ensuring access for small and medium-size enterprises to federal and municipal procurement systems) and limiting the scope of competition;
- Might be able to rely on the regional and local authorities with whom they cooperate.

Although companies in the different groups behave in different ways, one could expect the Russian market to undergo a substantial redistribution of property rights – owing to the high level of indebtedness of the Russian corporate sector.[2] However, the government slowed the bankruptcy wave by providing loans to the biggest companies via state-owned banks (Sberbank, VTB, VneshEkonomBank). Some redistribution of property and control may be pushed through in 2010 by sales of shareholdings used as collateral in these credit deals in 2008–09. However, we believe that the redistribution will hardly change the structure of ownership in Russian companies: it is likely to remain highly concentrated. In this respect, the methods used for settlement of defaults on corporate bonds during the acute phase of the crisis are fairly informative (Box 2).

Preliminary conclusion and policy implications

We believe that successful medium-size companies that relied mostly on market factors in their development during the 2000s could become the driving force for enhanced corporate efficiency and might lift the Russian economy out of the crisis. Of course, we cannot give a precise forecast of their future role. Nevertheless, relying on the data obtained from the project conducted by the SU-HSE and the World Bank as well as from *Expert* magazine's project on medium-size enterprises, we can say that before the outbreak of the crisis the share of efficient, fast-growing enterprises ranged from a quarter to a third of the total number of medium-size firms. Their share was still higher in terms of total sales than that of small and medium-size enterprises.

However, during the acute stage of the crisis this type of enterprise was essentially ignored by federal policy makers; the main target of support during the financial crisis was the largest companies. For example, at the end of December 2008 the government approved a list of 295 'system-creating' enterprises[3] and declared that these firms could expect to receive government credit guarantees, interest rate subsidies, restructured tax debts, public procurements and preferential export and import tariffs. The criteria for inclusion in this list were annual sales of over RRB15 billion or around USD500 million and a workforce of no less than 4000 employees; in addition, firms on the list were required to have the status of enterprises forming company towns and a certain level of tax payments.

We believe that the government's policy of favouring the largest firms during and after the crisis is risky because these companies are generally inefficient and their owners and managers lack sufficient incentives for restructuring. Their reluctance to restructure is partly due to the heavy reliance on customs instruments for protecting domestic producers; this protection limits domestic competition and hence offsets the urgency of restructuring efforts. Devaluing the ruble can have a similarly negative effect by virtue of limiting access to foreign technologies and lending. At the same time, devaluation increases uncertainty about property rights, for many of the companies that relied on foreign lending for modernisation will have serious problems paying off their debts.

Box 2. Behaviour of medium-size companies in case of default on the corporate bond market

Under crisis conditions defaults on corporate bonds have become much more frequent. There were 109 technical defaults during October 2008–March 2009. In the event of technical default on payment, issuer companies can choose one of the following strategies:

- They can mobilise all possibilities to avoid a full-fledged default. In this case, as a rule, a corporation can use the days remaining in the loan period to try to cover its liabilities in order to prevent its technical default from turning into a full-fledged one. Otherwise, the corporation can immediately open talks about restructuring to keep its creditors from suing for bankruptcy after a full-fledged default. This occurred in 21% of the technical defaults registered in the period October 2008–March 2009.
- They can try to avoid bankruptcy after the default has been declared. They can either attempt to restructure their liabilities in talks with the holders or to swap their debt for property (i.e. convert bonds into equities). This happened in 3% of the technical defaults registered in October 2008–March 2009.
- They can either do nothing or engage in asset withdrawal before their bankruptcy in an attempt to swindle their creditors. This approach results in a full-fledged default followed by bankruptcy. Companies took this route in 76% of the technical defaults registered in October 2008–March 2009.

It should be noted that these figures became much worse in the first months of 2009 (at the end of October, November and December these indicators were 31%, 22% and 47% respectively). We believe that the government's bailout policy was the main catalyst of Russian corporations' rapidly growing defaults. Once firms realised that the government would come to the rescue, they toned down their efforts to avoid bankruptcy by themselves. For this reason, the general rate of technical defaults went up from 5% in October 2008 to 16% in February 2009, but then down to 10% in March 2009.

A possible alternative to supporting the largest companies would be to create demand by launching public investment projects and programmes (primarily directed at the development of infrastructure), which should be open to all economic agents that meet public quality–price ratio criteria vis-à-vis their goods and services. This approach will be more likely to provide public support for efficient firms that are able to enter new markets, ensure an increased supply of their goods and services in the crisis situation, and create new jobs.

Notes

1. In this context we would like to quote Lev Freinkman, who, in his description of Russian firms at a workshop in the SU-HSE, said that, in contrast to its foreign counterparts, the successful Russian medium-size business lived in a highly imperfect institutional environment and acted in the manner of a subversive guerilla detachment. In other words, this type of firm is extremely durable yet able to dissolve and vanish if necessary.
2. According to Aleksashenko (2008), by the autumn of 2008 the external debts of the Russian corporate sector were about USD500 billion, of which USD200 billion were scheduled to mature before the end of 2009.

3. This list was approved on 23 December 2008 by the Government Commission for Higher Stability of Economic Development in the Russian Federation. On 12 May 2009 an additional nine companies were added to this list (so that it now consists of 304 enterprises). The complete list can be found at http://www.government.ru/content/4be99bcb0e2341c4b6d8774f9a18a4c4.doc.

References

Aleksashenko, S., 2008. Krizis-2008: pora stavit' diagnoz. *Voprosy ekonomiki*, 11, 25–37.

Anti-Crisis Programme of the Government of the Russian Federation for 2009 (published on 19 March 2009). Available in English from http://premier.gov.ru/eng/anticrisis/.

Andreff, W., 2005. *Corporate governance structures in postsocialist economies: Toward a Central Eastern European model of corporate control?*, EACES Working Paper, 4.

Berglöf, E. and von Thadden, E.-L., 2000. The changing corporate governance paradigm: implications for transitional and developing countries. In: S.S. Cohen and G. Boyd, eds. *Corporate governance and globalization: long-range planning issues*. Cheltenham: Edward Elgar.

Blasi, J., Kroumova, M. and Kruse, D., 1997. *Kremlin capitalism: the privatization of the Russian economy*. Ithaca, NY: Cornell University Press.

Danilov, Yu. A. and Yakushin, A.F., 2009. *IPO v Rossii: itogi 2008*. WP CCMD, 3, Moscow: TsRFR.

Dolgopyatova, T., Iwasaki, I. and Yakovlev, A., 2009. *Organization and development of Russian business: a firm-level analysis*. New York: Palgrave Macmillan.

Golikova, V. *et al.*, 2007. *Russian manufacturing at the crossroads. What prevents firms from becoming competitive?* Moscow: HSE.

Kraakman, R.H., Black, B. and Tarassova, A., 2000. Russian privatisation and corporate governance: what went wrong? *Stanford law review*, 52, 1731–1808.

Pappe, Ya. Sh. and Galukhina, Ya. S., 2009. *Rossiiskii Krupnyi biznes: pervye 15 let. Ekonomicheskie khroniki 1993–2008gg*. Moscow: Izdatel'skii dom GU-VShE.

Puffer, S.M. and McCarthy, D.J., 2003. The emergence of corporate governance in Russia. *Journal of world business*, 38, 284–298.

Puffer, S.M. and McCarthy, D.J., 2007. Can Russia's state-managed, network capitalism be competitive? Institutional pull versus institutional push. *Journal of world business*, 42 (1), 1–13.

Sementsov, S. *et al.*, 2008. 'Lokomotiv' rossiiskoi ekonomiki. *Voprosy ekonomiki*, 11, 102–109.

Vin'kov, A. *et al.*, 2008. Delat' srednii biznes. *Ekspert*, 10 (599), 32–83.

World Bank, 2009. *Russian economic report no. 20*, November 2009.

World Bank, 2010. *Global economic prospects: crisis, finance, and growth 2010*. Washington, DC: The World Bank, January.

Yakovlev, A., 2004. Evolution of corporate governance in Russia: government policy vs. real incentives of economic agents. *Post-communist economies*, 16, 387–403.

Yakovlev, A. and Danilov, Yu., 2007. *Russian corporation development in the next twenty years: Ownership structure, the role of the state, and corporate finance*. HSE, mimeo.