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Master's Thesis

FOREIGN COMPANIES' STRATEGIES ON THE RUSSIAN MARKET DURING THE CRISIS

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ABSTRACT

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Concept of crisis is the subject of many studies and publications in specialized articles and in journalistic publications. The thesis includes next key objectives: concept of the crisis is defined, disclosed external and internal factors affected company's strategy, shown specific characteristics of Russian market and their influence on the foreign companies.

The Master's Thesis identifies successful foreign companies' strategies on the Russian market during crises in 2008 and 2014. The study is qualitative and it is based on integrative analysis of literature, secondary data and results of the interview, conducted among foreign companies that operates on the Russian market

Findings of the thesis show an effect of the crisis on the company's strategy. It provides information about specific external and internal factors that affects on company's strategy during the crisis. Theoretical findings help to understand complex concept of crisis and its main aspects in context of strategy. Analysis of specific characteristics of Russian market provides a base for assessment of efficiency of chosen strategy. Comparison between Russian cresses and companies behaviors in these periods shows how different is strategy because of the nature of the crisis. Results of the thesis could be used as a guideline for foreign companies in Russian market during the crisis period

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1. INTRODUCTION

The part one includes presentation of theoretical background, research questions and objectives in the first chapter of the thesis. Introduction chapter provides evidences of the topicality of the studied subject and briefly demonstrates characteristics of famous economic and financial crises.

1.1 Background

Nowadays people worldwide concerned about crisis. Concept of crisis is the subject of many studies and publications in specialized and in journalistic publications. We can hear about the economic crisis everywhere, but not everyone can understand, what does it mean, what is the nature of the crisis, what reasons and possible consequences. There were different crises all over the world for the last 150 years of human existing:

- **1857** – The first global economic crisis
- **1873** – International financial crisis
- **1914** – Global financial crisis caused by the First World War
- **1920-1922** – Global economic crisis induced by postwar deflation
- **1929-1933** – Great Depression
- **1957-1958** – World Economic crisis
- **1973** – The economic crisis that began in the United States
- **1987** – Black Monday (financial crisis)
- **1994-1995** – Mexican financial crisis
- **1997** – Crisis in Asia
- **1998** – Collapse in Russia
- **2008** – World Economic Recession
- **2014-2015** – Economic and Political crisis

The financial crisis that began in late 1857 was the first world-wide economic crisis. It had struck the economy and social life at the same time the United States, Germany, Britain and France. The crisis began in the United States. The reason was the massive bankruptcy of railway companies and stock market collapse. The collapse of the stock market triggered the crisis of American banking system. That same year, the crisis spread to England and then throughout Europe. A wave of excitement swept the stock exchange even in Latin

America. Since the years immediately preceding the Panic of 1857 were prosperous, many banks, merchants, and farmers had seized the opportunity to take risks with their investments and as soon as market prices began to fall, they quickly began to experience the effects of financial panic

The next global economic crisis began in 1873 with Austria and Germany. The crisis of 1873 is regarded as a major international financial crisis. The prerequisite for the credit crisis was the rise in Latin America, fueled by England, and the speculative rise in the property market in Germany and Austria. It was the longest in the history of capitalism crisis: it ended in 1878.

In 1914 there was a global financial crisis caused by the outbreak of World War II. The reason was - total sale of securities of foreign issuers governments of the US, Britain, France and Germany to finance military operations. This crisis, unlike others, does not spread from the center to the periphery, and began almost simultaneously in several countries after the warring parties began to liquidate foreign assets. This led to the collapse of all markets as commodities and cash.

Next global economic crisis, caused by postwar deflation (increased purchasing power of the national currency) and recession (decline in production), was in 1920-1922. The phenomenon was due with banking and currency crises in Denmark, Italy, Finland, Netherlands, Norway, the US and the UK.

1929-1933 - the Great Depression. It was the longest, deepest, and most widespread depression of the 20th century. Worldwide GDP fell by 15% from 1929 to 1932. The depression originated in the United States, after the fall in stock prices that began around September 4, 1929, and became worldwide news with the stock market crash of October 29, 1929 (known as Black Tuesday). The Great Depression had devastating effects in countries rich and poor. Personal income, tax revenue, profits and prices dropped, while international trade plunged by more than 50%. Unemployment in the U.S. rose to 25%, and in some countries rose as high as 33%. Cities all around the world were hit hard, especially those dependent on heavy industry. Construction was virtually halted in many countries. Farming communities and rural areas suffered as crop prices fell by approximately 60%. Some economies started to recover by the mid-1930s. In many countries, the negative effects of the Great Depression lasted until the beginning of World War II.

The first post-war global economic crisis began in late 1957 and lasted until mid-1958. He gripped the United States, Britain, Canada, Belgium, the Netherlands and some other capitalist countries. Industrial production in the advanced capitalist countries fell by 4%. The army of unemployed reached almost 10 million people.

The economic crisis that began in the US in late 1973 and breadth of the countries, the length, depth and destructive power significantly surpassed the global economic crisis 1957-1958, and a number of characteristics close to a crisis of 1929-1933. In 1973 there was also the first energy crisis, which began with the filing of countries - members of OPEC, to reduce the volume of oil production.

The Black Monday 1987. October 19, 1987 US stock index Dow Jones Industrial has fallen by 22.6%. Following the US market collapsed the markets of Australia, Canada, Hong Kong. Possible cause of the crisis: the outflow of investors from the market after a strong reduction of the capitalization of a few large companies.

In 1994 1995 years there was the Mexican crisis. At the end of the 1980s, the Mexican government has pursued a policy of attracting investments into the country. In particular, officials opened a stock exchange, brought to the site, most Mexican state-owned companies. In 1989 - 1994 years in Mexico influx of foreign capital. The first manifestation of the crisis of capital flight from Mexico: foreigners have become fear of the economic crisis in the country. In 1995, the country was gone $ 10 billion, crisis in the banking system.

In 1997 started the Asian crisis. The most massive decline in Asian stock markets since the Second World War. The crisis - a consequence of the departure of foreign investors from South-East Asia. The reason - the devaluation of the national currencies of the region and the high level balance of payments deficit of Southeast Asian countries. Economists' estimates, the Asian crisis has reduced world GDP by $ 2 trillion.)

In 1998 there was an economic collapse in Russia. It was one of the most severe economic crises in Russia's history. Causes of default: huge public debt of Russia, low world commodity prices (Russia a major supplier of oil and gas to world markets) and the pyramid of state short-term bonds, which the Russian government has failed to pay on time. The ruble against the dollar in August 1998, January 1999, fell 3 times c 6 rubles. per dollar to 21 rubles. per dollar.

Start of another powerful economic crisis experts predicted to 2007 2008 years. In America, it predicted the ruin of the oil markets in Eurasia complete defeat dollar. According to International Monetary Found Report - World Economic Outlook, Crisis and Recovery (April, 2009) – recession in 2008-2009 was the hardest and the deepest after the World War II. Moreover, the downturn is truly global: output per capita is projected to decline in countries representing three-quarters of the global economy. Economies around the world have been seriously affected by the financial crisis and slump in activity. The advanced economies experienced an unprecedented 7½ percent decline in real GDP during the fourth quarter of 2008, and output is estimated to have continued to fall almost as fast during the first quarter of 2009. Western Europe and advanced Asia have been hit hard by the collapse in global trade, as well as by rising financial problems of their own and housing corrections in some national markets. Emerging economies too are suffering badly and contracted 4 percent in the fourth quarter in the aggregate. The damage is being inflicted through both financial and trade channels, particularly to east Asian countries that rely heavily on manufacturing exports and the emerging European and Commonwealth of Independent States (CIS) economies, which have depended on strong capital inflows to fuel growth.

The crisis in Ukraine has led to several rounds of sanctions between the Russian Federation and leading OECD economies (World Economic Situation and Prospects 2015). Over the course of 2014, those countries have introduced a series of increasingly tough sanctions against the Russian economy, affecting the defense, finance and energy sectors by restricting exports of arms, double-use technology and certain equipment for the oil industry, and by curbing access of Russian banks and companies to international capital markets. The measures have already imposed a serious toll on the Russian economy through worsening business sentiment and an outflow of capital, and have triggered a reciprocal response.

In August of 2014, the Government of the Russian Federation decided to impose counter-sanctions against those countries—most notably imposing a one-year ban on imports of their food products, despite the fact that switching to alternative suppliers may imply high transaction costs and lead to higher inflation, which currently poses a serious macroeconomic threat to the Russian economy. Weaker Russian import demand has already affected a number of EU economies, as the Russian market absorbs almost 5 per cent of the euro area's exports (World Economic Situation and Prospects 2015). Some countries, such as

the Baltic States and Finland, will lose transit revenue. Globally, the tourism industry will suffer from the depreciation of the Russian currency. The Russian ban on food imports, in turn, will mostly hurt those countries which are strongly exposed to trade with the Russian Federation, not only through direct losses by the agricultural sector, but also their consequential effects. Total EU food exports to the Russian market amount to approximately $11 billion annually. The forgone food exports would impact the entire logistics sector (including transport), put pressure on the states' budgets to compensate for farmers' losses, put banks exposed to agricultural borrowers at risk by increasing the number of non-performing loans, and constrain credit extended to farmers. For some East European countries (especially the Baltic States and Poland) and also for Finland and Norway, the Russian Federation absorbs a significant share of their food exports. For Poland, fruit and vegetable exports to the Russian Federation provided revenue of around $1 billion last year. The loss of the Russian market may also have a multiplier effect on the region, through weaker aggregate demand in the affected countries, resulting from significant intraregional trade links (World Economic Situation and Prospects 2015). Although the EU members will be able to file a compensation claim with the EU, and the European Commission in late August announced support measures for dairy exporters and fruit and vegetable farmers, full coverage of losses is not likely. Nevertheless, at the macroeconomic level, the impact of the Russian food import ban still remains to be seen. By contrast, some countries, among them Argentina, Brazil, Serbia and Turkey, as well as some CIS economies, may benefit from the current situation, becoming alternative food product suppliers to the Russian Federation.

1.2 Research question, objectives and limitations

Research question – What are successful strategies that companies took during economic recession (in 2009 and 2014) in Russia? *Research objectives* – to identify specific characteristic of crisis in Russia, show the different nature of the crisis in 2008-2009 and 2014-2015; show specific characteristics and mechanisms of anti-crisis strategies in Russian market (crisis management); show the dependence of company's anti-crisis strategy and external environment; different companies' behavior during different economic crisis (2009 and 2014-2015); how the environment influence company's strategy.

Methodology – qualitative method, semi structured interviews. Selected method will be described in chapter 6.

1.3 Structure of the study

The structure of the study represented in Table 1.

Table 1. Structure of the study

Input	Chapter	Output
Theoretical background, complexity of the nowadays political and economic situation, description of central concepts.	Chapter 1 INTRODUCTION	Topicality of studied problem and connection between central concepts. Research structure, objectives and limitations
Previous studies about the economic crisis concept	Chapter 2 DESCRIPTION OF THE CONCEPT OF THE CRISIS	Understanding of the crisis concept, different indicators of the crisis
Literature and practical examples of different approaches of the crisis management on the national and company levels	Chapter 3 CRISIS MANAGEMENT	Representation of economic security approaches and company crisis management examples insight
Theory related to companies strategic management in crisis supported by examples	Chapter 4 CRISIS DEVERSIFICATION TROUGH STRATEGY	Picture of the crisis effect on company's strategy
Conception of the risk management on national and company levels	Chapter 5 RISK MANAGEMENT	Idea of different risk management approaches
Existing research methods and methodologies; how to make a good interview	Chapter 6 METHODOLOGY	Composition of the methodology and interview questions
Statistics, press releases, stock market reports	Chapter 7 CISIS ON NATIONAL LEVEL	Analysis of Russian market, characteristics of crises in Russia, international companies in Russian market and their behavior during the crises
Companies' information, annual reports, interviews' data	Chapter 8 ANALYSIS OF COMPANIES' INTERVIEWS	Picture of companies' strategies in Russian market during economic crises
Literature review and empirical findings	Chapter 9 DISCUSSION	Successful strategies during the Russian crisis
Results and findings	Chapter 10 CONCLUSSION	Results summary and suggestions for further research

2. DESCRIPTION OF CENTRAL CONCEPT

At the present stage it is not possible to give a generally accepted definition of a crisis in the development of socio-economic system. The economic crisis is characterized by a drop in production occurring on a large scale (Gukasyan, 2007). Every economic crisis has demonstrated by a sharp violation course of production caused by the imbalance between production (supply of goods on the market) and the needs of the population (effective demand). In this case, it is possible that production needs ahead or when effective demand outstrips production. In the first case there is a crisis of overproduction, the second - a crisis of underproduction.

Archana Sharma and Sachin Kumar Srivastava (2014) provide several definitions of the crisis in their article “Crisis Evaluation and Its Management: A Model for Managers“. Crisis literally means an "emergency" or "urgency". Crisis is also defined as "such events which act as a turning point for better or worse". The word crisis has been derived from the Greek word 'Krisis' meaning differentiation or decision.

The late US President John F. Kennedy noted, "When written in Chinese, the word crisis is composed of two characters - one represents danger and the other represents opportunity”.

Pauchant and Mitroff recommends that a crisis is a "disruption that physically affects a system as a whole and threatens its basic assumptions, its subjective sense of self, and its existential core"; Fink (1986), Kash and Darling (1998) holds that a crisis is an unplanned event emerging from the internal or external environment of an organization, region or country which can disrupt operations, threaten people physically and mentally, and endanger the viability of entities no longer able to cope with the situation using normal managerial producers. Dirk Glaesser (2006) explains that crisis is a dangerous and extraordinary situation in which a decision must be made under time pressure. He further states that crisis is seen as a critical change in important aspects of organization that endanger or disrupts the system.

Crisis is any action of failure to act that interferes with an organization’s ongoing functions, the acceptable attainment of its objectives, its viability or survival, or that has a detrimental personal effect as perceived by the majority of its employees, clients or constituents (Selbst, 1978).

Glaesser (2006) defines crisis as an undesired, extraordinary, often unexpected and timely limited process with ambivalent development possibilities. It demands immediate decisions and counter measures to control further development positively for the organization (destination) and restrict negative consequences as much as possible.

Sharma and Srivastava (2014) also distinguished nature and components of the crisis:

- Crisis situation are unexpected or sudden in nature. At times some crisis situation are expected for e.g.- war after prolonged tension. Yet one cannot be certain when the war will actually take place or for how long the war will go on;
- Crisis situations are extra ordinary in nature or else create extra ordinary situations;
- The crisis differs from person to person, organization to organization and from unit to unit. In today's world, disasters and crisis doing recognize international borders and affects all;
- Crisis nature varies from one crisis to another;
- Crises are complex in their nature.

Akaev, Pantin in their work Technological Innovations and Future Shifts in International Politics (2014) considered the crisis as poly-structural and multifunctional complex phenomenon encompassing system or subsystem with its most important characteristics are: the scale of the crisis, the coverage of an object or process generating factors, areas of potential development, the impact on the system, consequences for the socio-economic system (Akaev, Pantin, 2014). It is therefore necessary to define a specific set of signs of crisis and indicators for the qualitative and quantitative assessment of the monitoring system in its stable condition, before the crisis, during the crisis and after its approval.

Crisis as a stage of extreme aggravation of contradictions in the economy or individual enterprises, the company reflects the most acute problems of the system. This may be a crisis of overproduction, underproduction, the crisis of goods and services, contractors relationship crisis in the market caused by or resulting in non-payment crisis and as a consequence, to bankruptcy. At the macroeconomic level, the signs of the crisis can be attributed fall in major economic indicators of the system, such as GDP, industrial production, inflation, hyperinflation, massive bankruptcy and so on (Akaev, Pantin, 2014). At the microeconomic level (enterprise-wide organizations) should consider such factors as the value of the

current ratio, the value of equity ratio, the presence of damages on the basis of core activities, the availability of damages on the basis of financial and economic activity, the value of the coefficient of loss (recovery) solvency assessment of the dynamics of group profitability indicators, assessment of trends in the development of productive capacities, indicators of business activity , the presence of strategic development plans, the format and quality of accounting policies, the availability of corporate culture.

According to Kindleberger and Aliber (2011), the essence of economic crises is found in overproduction in relation to effective total demand, in a mismatch of social capital, mass company bankruptcies, the rise in unemployment and other social and economic shocks. As Reinhart and Rogoff (2011), economic crises became regular when commodity production had become a dominating production form, with the market as its spontaneous regulator and when the gap between production and consumption had thus increased. At the same time, (Ferguson, 2012) states, that crises are cyclic (cyclicality is defined as a multifarious event, some of its forms have global character; cyclicality is some kind of provision for the development of an economy in terms of market relationships; cyclicality is considered as a form of progressive development of society; cycles and crises present as a result of developments specific to each country) (Groh, 2014).

Based his theory on Shiller studies (2012) Groh (2014) explains cyclicity of economic development and crisis occurrence as a consequence of gradual imbalance and a complete loss in the capability of internal self-regulation mechanism of the economic system. By the time a crisis appears, the economic system has reached the top of its possible development, where further development within the present paradigm is impossible. The system has exhausted its productive industrial potential and is in conflict with current business mechanisms and property relationships. Depletion of the necessary principles for running a business happens: Material and technical, market and social. It is possible to solve the accumulated disagreements only with thorough revision of all of the fundamental principles for running a business, coordination of the strategic vision of corporate mission and the nature of enterprise activity, which provides a system's transition to a new balanced state, which is a necessary precondition for its further development (Groh, 2014).

Table 2. Comparison of different studies related to crisis

Feature for comparison	Kondratieff	Mensch	Schumpeter
Nature and reasons for crisis	Crisis is a part of economic development cycle (cyclical nature of economic development). Causes of long cycles (40-60 years) – changes of infrastructure (upgrade the most durable economic facilities - buildings, roads, large, complex productions). These changes caused by decreasing of capital efficiency. Updating the "core capital goods" does not happen smoothly, but abruptly. Scientific and technological inventions and innovations are playing a crucial role in economic development process.	Based his theory on Schumpeter's studies and on structural analysis of instability. Mensch has revealed the weakness of Schumpeter's model: it is not the diffusion of innovations, but above all, in the development of knowledge in the form of basic innovations	Explanation of economic fluctuations in the long term, which amounts to technical innovations and improvements, changing the infrastructure, as well as the involvement of new resources and the development of new territories (Theory of Economic Development)
Main crisis phases and theirs characteristics	Each cycle has two phases: upward wave (wars and social upheaval) leads to economic boom and shorter bearish wave (during the emergence of the iconic innovation) leads to crisis. The rise of a wave is usually accompanied by a particularly large number of wars and all sorts of political turmoil, including the Revolution. There is a constant rise in prices and wages, tendency to spend more during the recovery phase, on the contrary during the recession, falling prices and wages take place. The recovery phase leads to a desire to save, and the recession - to to the	During depression economics is more receptive to innovation. Depression makes people look for opportunities for survival and innovation process can provide them. During the decay phase of accumulation observed particular innovation which, however, is only beginning to be applied to the beginning of the growth phase. During the recession phase (periods of depression), the economy is structurally ready for basic innovations that subsequently occur in groups with the corresponding multiplier effect. Further, their	There are an infinite number of cycles. Phase of increased economic activity is a period during which the development of technology and the discovery of new resources provide a good basis for growth in the first place - for the growth of investment. At such times, the pace of technological progress much faster. In long periods of expansion into effect a revolutionary technique that deeply alters the nature of the economy. This technique provides the basis for increasing the mass of capital goods and investment growth

	reduction in purchasing power. Accumulation of funds is also due to falling investment in the period of general recession, when profits are low and the risk of bankruptcy.	distribution, with simultaneous improvement of innovation leads to growth. Over time, there is a process of substitution of "innovation process" "product innovation"	
Driver of the crisis	Kondratieff cycles can be considered as a breach of (the crisis) and the restoration of economic equilibrium in the long term. The main reason of this based in the mechanism of accumulation, storage and dispersion of capital sufficient to create a new main productive forces.	Inconsistent over time the emergence of innovation ‘leap’ is not due to interruptions in the production of scientific knowledge, but due to the behavior of entrepreneurs who initially wary of highly risky investments in innovation. In periods of depression at some entrepreneurs are not left with no alternative but to start a completely new design (basic innovations), unless, of course, they do not want to die	Technical and social-organizational innovation is an internal engine of capitalist economic development, which proceeds with the inherent instability in the form of cycles: the rise-recession-depression-recovery. Market cycles do not exist by themselves, but are determined by the dynamics of innovation or innovation atrophy, respectively

Many classical economic theories consider crises as a part of economic development cycle. The problem of economic cyclical development is studied by Spiethoff, Tugan-Baranovsky, Marx, Veblen, Mitchell, Clark, Hicks, Keynes and Schumpeter, Kondratieff, Samuelson, etc. Table 2 demonstrates Kondratieff's, Mensch's and Schumpeter's points of view. Although their work united by one theme, but they can find a variety of interpretations as to why, phase and cycle characteristics, various explanations and predictions. Therefore, the question of cyclic and non-cyclic fluctuations is still relevant.

Classic theories show that crisis is characterized by a sharp decline in production, which begins gradually from reduction of business activity: rarely are concluded trade deals, reduction in the volume of business transactions in loans and cash. The crisis is also characterized by impaired balance between supply and demand on any product or in any particular industry sector. Crisis emerges as a general overproduction, accompanied by a rapid decline in prices, collapse of banks and production stoppage, loan interest growth and unemployment.

Gore proposes locating the global crisis in the context of long-waves of global development (Gore, 2010). Empirical evidence to support such a theory was first offered by Kondratieff in 1935 when he suggested the existence of 50 year cycles in wholesale prices in the USA, France and UK stretching back to the late 18th century. Building on more recent work on long-waves, Gore suggests that there are recurrent global development cycles of 50–60 years in which there are regular 25–30 years rhythms of growth acceleration and deceleration embedded with a Kondratieff long cycle of rising and falling price inflation. Financial crises regularly occur at key points in these long waves, and the current global financial crisis can be associated with the ending of a 60 year cycle which began in the early 1950s. Since the timing of each cycle will inevitably depend on many other factors he suggests it is not the precise periodicity that matters, but the shared causal mechanisms behind the cyclical behavior. Recurrent production and price cycles, he suggests, are driven by the rhythm of investment and innovation during the life-cycle of successive technological revolutions.

Each Kondratieff wave is carried by the introduction of a few leading sectors which provide cheap inputs to a wide range of activities, investment in associated transport, communication and energy infrastructure. Induced investment and innovation in sectors linked to

the leading sectors, as well as new infrastructure and new organizational and managerial practices consequently takes place in synchronized surges of interdependent innovation (Copestake, 2010). In the so-called Kondratieff spring, economic growth accelerates as a new generation of technology is fully deployed and its full potential is realized. But bottlenecks in supply put upward pressure on wholesale prices at the same time, and eventually the growth process slows down as markets are saturated and opportunities for innovation and investment dwindle. This is the Kondratieff summer, which eventually turns into a stagflation crisis. A new growth cycle (Kondratieff autumn) begins with the resolution of this crisis. This happens through the extension of the life-cycle of the on-going technological revolution through spatial reorganization and also the emergence and initial installation of sectors which eventually lead a new technological revolution. Economic growth picks up again, but with less upward pressure on wholesale prices, partly because of overinvestment in the previous period, but as prices fall there is underinvestment in production of basic commodities, including agriculture. Eventually, the growth cycle slows because there is an increasing mismatch between the emerging technological forces, the new geography of production and the socio-institutional framework within which development takes place. So the Kondratieff autumn gives way to a winter of deflation and slump (Copestake, 2010).

Taking the 1950s as a new spring and the 1970s as a new summer, Gore suggests it may be useful to regard the 2008 crisis as indicative of a new global winter. In developing this line of analysis Gore does not deny the pivotal role of the financial sector in the crisis, but suggests that it is at least in part symptomatic of a wider problem of transition to a new development trajectory based on sustained investment in a new cluster of low-carbon, ICT and knowledge-intensive innovation, and their application throughout the economy. This in turn requires institutional change and associated changes in how people think about economic development.

Gore's analysis focuses initially on productive capacities and the importance of raising material living standards. He also demonstrates how discourses of development can usefully be viewed as endogenous to long-waves of capitalism (Gore, 2010). However, he concludes with a strong reassertion of the importance of ideological struggle to the timing of shifts from one economic growth phase to another, arguing in the current context that 'a paradigm shift in development thinking and practice is a crucial element of the socio-economic transformation which is necessary to re-boot the global development cycle'.

Economic convergence through active national development policies and the reform of global financial architecture and knowledge systems are, he argues, necessary ingredients for sustained recovery.

Akaev, Pantin developed a model of interaction between technological and political changes in their work Technological Innovations and Future Shifts in International Politics (2014) (Figure 1).

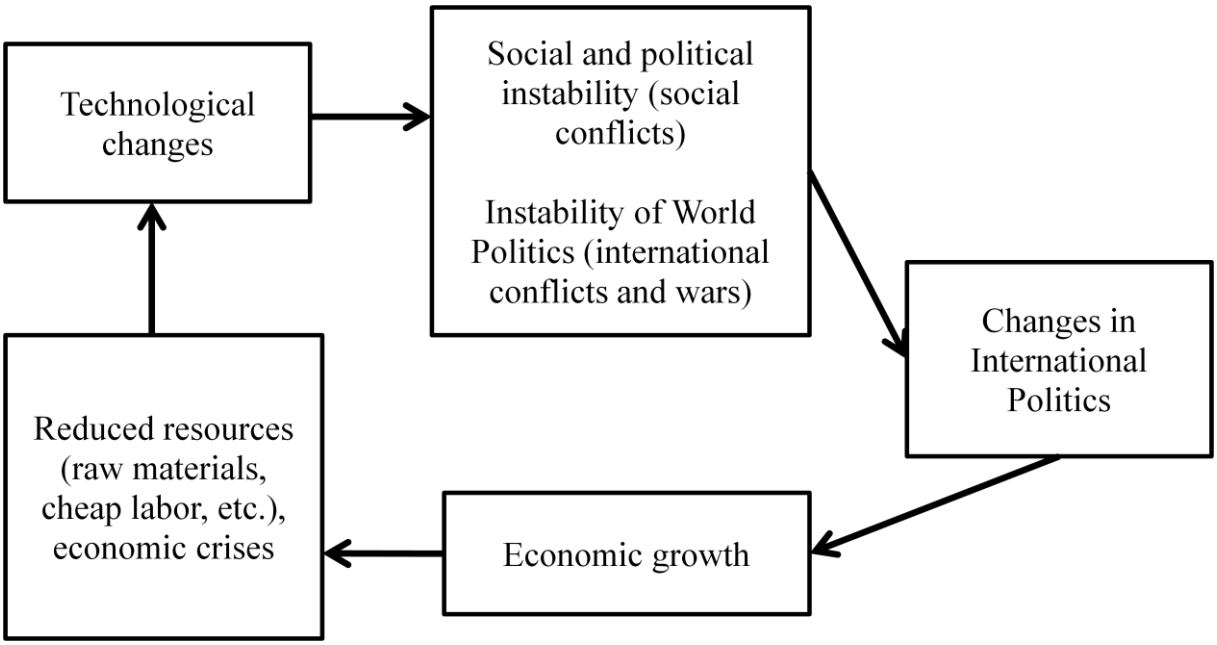

Figure 1. Interaction between technological and political changes (adopted from Akaev&Pantin, 2014)

Model proposed by Akaev and Pantin shows that serious changes in international politics are caused by large technological shifts, but are not immediate. First of all, technological shifts give rise to social and domestic political instability in many countries, including developed ones. After that, instability in international politics intensifies, leading as a result to important geopolitical shifts and changes in the balance of power in the international arena. Along with technological and other changes, these geopolitical shifts form conditions for a fast economic growth by opening new markets and resources. However, some time after it turns out that such available resources as raw materials, a relatively cheap and qualified labor force, as well as former technologies can no longer meet the increased demands of economics. This results in a saturation of the market, a fall in demand for former production, and a slowdown in the former high rate of production growth. Economic crises

occur, which stimulate new technological shifts, and the general cycle repeats—this time on a new, higher level and in new conditions (Akaev, Pantin, 2014).

Scholars determine that the general reason for the interconnection between large technological changes and shifts in international politics is that basic technological innovations and rapid development of new branches of industry tip the former balance of power in world politics and the world economy. Akaev and Pantin made a conclusion that it is highly probable that large shifts in international politics and international relations will take place in coming decades. These shifts will in many respects be connected with the further development and massive introduction of new technologies, since the development of these new technologies will inevitably change the balance of economic, political, and military power between the leading powers, as well as between the key regional, economic, and political unions(Akaev, Pantin, 2014).

Much of the discussion arising from the global financial crisis can be analyzed within this framework, particularly reappraisal of how far society and the state should limit the freedom of their financial and other markets (Copestake, 2010). Fischer questions the extent of China's economic emancipation through export led growth, and de Haan assesses how the crisis has affected the balance between its economic and social policies. Chun et al. reflect on Korea's capacity to expand its global role as an aid donor, and Mehrotra reviews India's relative success in sustaining its development strategy through the crisis. In contrast, Gore and Hudson emphasise emergent or systemic features of global capitalism that limit the room for manoeuvre of even the largest individual countries. They also illustrate the need for development studies to cultivate links with those in other fields already researching the dialectic between techno-economic and socio-institutional drivers of change at this level. An extra challenge for development studies is to do this at the same time as doing justice to the diverse and hugely complex ramifications of such global changes at the national level and below.

Depending on the spread the crisis can be divided into global, national, regional and local. The global crisis covers the entire socio-economic system on a planetary level. National and regional crises develop within a single country or region. Local crises occur within one or more of the socio-economic subsystems.

The concepts of crisis and crisis management are closely related to risk management and the concept of "risk". Crisis management always involves the assessment and consideration of the possible risks in any decision, especially when these decisions are made in the apparent manifestation of signs of a crisis in the company.

Crises of social and economic systems can be considered as one of the stages of their life cycle. From this point of view it is necessary to consider the development and functioning of the system. Functioning - the action of time supports the livelihoods of unity, providing an opportunity to the qualitative performance of functions preserving the integrity and basic characteristics.

Development - an irreversible process with a certain regularity of change of direction, necessarily leads to the emergence of a new quality.

The close relationship functioning and development reflects the dialectical unity and contrast these main components of the socio-economic system.

The critical state of the system leads to a weakening of the vital forces of the system, imbalance, it is impossible to achieve previously set goals. Furthermore, the individual elements are destroyed and subsystems. Nevertheless, crises cannot be unambiguously assessed as negative or destructive phenomenon. Naturally, they cannot occur without some tension caused by, for example, the contradiction between technology and the environment, between the level of technology and qualified personnel, and so on. But ultimately, the correct choice of anti-crisis program and a consistent and complete its implementation, they lead to stabilize at a new stage of development.

Characteristics of the crisis of 2008-2009 were: reduction of volumes and tighter credit conditions; a sharp drop in capitalization companies; sharp (albeit uneven) fall in stock market indices; rising budget deficits; recession in production; fall in employment; decline in producer prices and, finally, a reduction in consumer spending.

Many economists suggest that economic depression in 2009 in USA was a part of the downward phase of the Kondratieff cycle theory. This stage is a period of prolonged low prevalence of the economic situation, lasting about 20 years, when in spite of the rise time,

dominated by depression and sluggish business activity, resulting in unstable global economy develops, at times falling into a deep crisis.

Karl Marx describes possibility of economic crisis as an opportunity mismatch acts of buying and selling associated with the function of money as a medium of exchange, playing the role of the sign of a universal equivalent. In contrast to the quantity theory of money in the Marxist theory of money - a commodity that has value, not just a certain number of characters. This is related to the reasons for the possible separation of the financial sector from the real, as well as why this separation leads to the formation of "bubbles". The latter do not have as their basis the new value, and therefore are not money in the strict sense of the word.

Compared with the classical ideas of Marx world has changed significantly, and one of these fundamental changes - the formation of a huge financial sector.

The economic recessions and crises that have already started to stimulate technological innovations will bring about important technological and social shifts, and then shifts in international politics in the near future. However, based on preceding historical periods, one or even two crises are usually not enough to introduce basic innovations and develop new branches of industry. A period of economic, social, and political shocks is required for new technologies and branches, as well as new social institutions, to pave the way and press the branches and institutions which dominated before. The best examples here are the periods of the 1930s– 1940s and the 1970s–early 1980s. In the first case (during the 1930s–1940s), such factors as the world crisis of 1929–1932, another economic crisis (1937–1938), and, finally, World War II were required for the new technologies and branches to gain a foothold and for rapid economic growth to commence worldwide (Akaev, Pantin, 2014).

It is likely that the global financial and economic crisis of 2008–2009 represents only the beginning of the next phase of serious shocks in international economics and politics. According to our estimates, this phase is likely to last till 2018–2020. The strongest consequences of the global crisis have taken hold in Europe in the form of the so called “debt crisis,” but are not restricted to it. The rise of food prices caused by the crisis has severely hit many developing countries, and in the Middle East, accompanied by other factors, it has stimulated a whole series of revolutions and civil wars.

Taking into account the economic cycles and the fact that the world economy and financial system are in an unstable condition, the next economic crises are very likely to break out in the periods of 2013–2015 and 2018–2020 (Dynkin and Pantin 2010, pp. 29–31). These crises almost surely will involve serious social and political shocks in many countries, as well as dangerous international conflicts.

One should also take into account that in the modern age, the interaction of economic and political crises is reinforced by the influence of a prolonged global ecological crisis and its consequences. Global climate change, soil erosion, desertification, and the lack of drinking water, which is already felt in many regions of the world, will lead to more frequent natural disasters, great economic losses, and human casualties. Unfortunately, nowadays, the investments in new technologies, capable of reducing the destructive consequences of global ecological changes, do not correspond to the scale of the threat at all. Many states and their unions continue to increase their already substantial war potentials, while they remain helpless in the face of natural cataclysms. Modern international politics is to a lesser extent aimed at states' joint resistance to natural and anthropogenic disasters, as well as to the consequences of the global ecological crisis. Nevertheless, sooner or later international politics should acquire a serious ecological dimension. The new cycle of technological development may also contribute to this important shift in international politics (Moody and Nogrady 2010).

Table 3 represents how the theoretical concept and studies of the crisis contribute to the empirical part of the thesis.

Table 3. Connection between theoretical part and empirical part of the thesis

Theoretical concepts	**Contribution to empirical part**
Chronological representation of last crises	Shows differences between crises and provides special characteristics of each crisis that affects on company's strategy
Definitions of the crisis and characteristics of the crisis concept, such as a drop in production occurring on a large scale, reducing the purchasing capacity of the population and decline in demand, decrease in funding, political conflicts, etc.	Theoretical part provides aspects that affect on companies' strategies and shows why strategy is dependent on the characteristics of the crisis
Cyclicity of economic development. Crises as a	How companies plan their strategies, do they consider the possibility of the crises during the

part of economic development cycle	planning. Is it possible to forecast the crises in terms of company's strategic development and use some proactive management initiatives
Interaction between technological and political changes (Akaev & Pantin model). Economic crisis as a part of technological and political changes, it stimulates new technological shifts	Connection between political, economical, technological and social changes and its affect on the company's strategy. Possible reaction of the company on each of that changes
Presentation of risk management concept, crisis management concept, relations between different types of crises	Provides a background for next parts and shows connectivity of the entire study

- **Crisis indicators**

In terms of crisis management is very important to classify the indicators of crisis, to determine their optimal set, allowing to assess the situation in a timely manner to induce the approach of the crisis, assess its possible consequences and develop a program of recovery from the crisis. It should be borne in mind that there is always the danger of the crisis, if only because of the existence of random unpredictable crises, and remember. Economic indicators - a macro-economic indicators published in the form of reports of government or independent organizations and reflect the state of the national economy. They are published at a certain time and provide market information about whether improved or deteriorated state of the economy. Gross domestic product (GDP) is one of the economic indicators, which shows the total value of all goods and services produced within a year in the country without dividing the resources used in their manufacture, import and domestic. Annual percentage growth rate of GDP at market prices based on constant local currency. According to World Bank World Development Indicators (2015) it is clearly seen dramatic changes in GDP growth in 2009. Figure 1 presents the results. This huge dip shows economic recession in the world. Aggregates are based on constant 2005 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

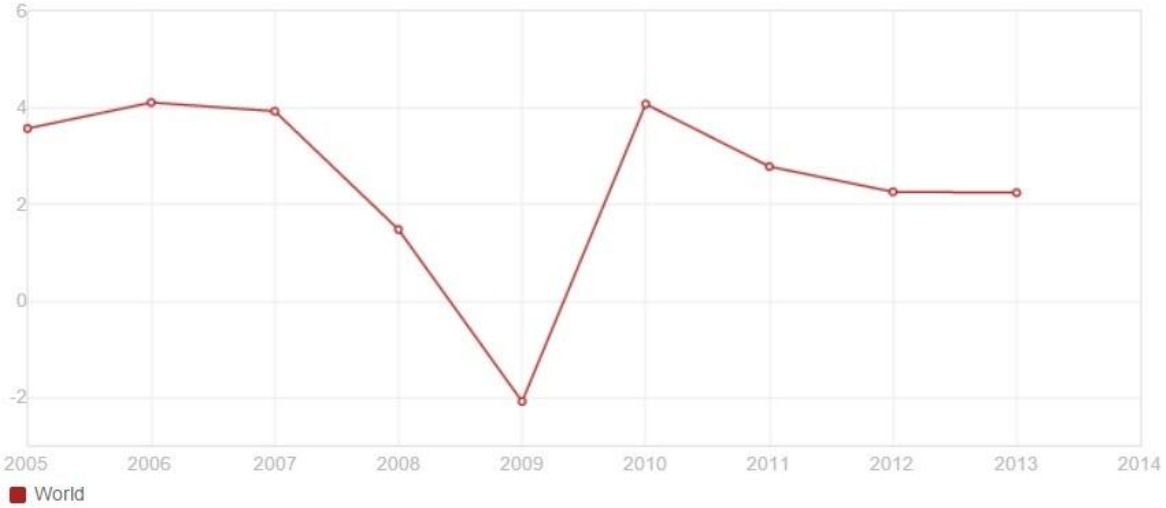

Figure 2. GDP growth (annual, %) (The World Bank, 2015)

A steady decline in GDP indicates excessively tight monetary policy of the state in which the understated effective demand does not allow the company to realize its production.

One of the indicators of crisis is inflation, which is overflow channels of circulation of money supply beyond the needs of trade, which causes devaluation of the currency and rising prices. As a rule, inflation is characterized by a constant upward trend in the average price level. The main indicators of inflation in all countries are the consumer price index and producer price index. Figure 2 shows The World Bank results related to world inflation. Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used.

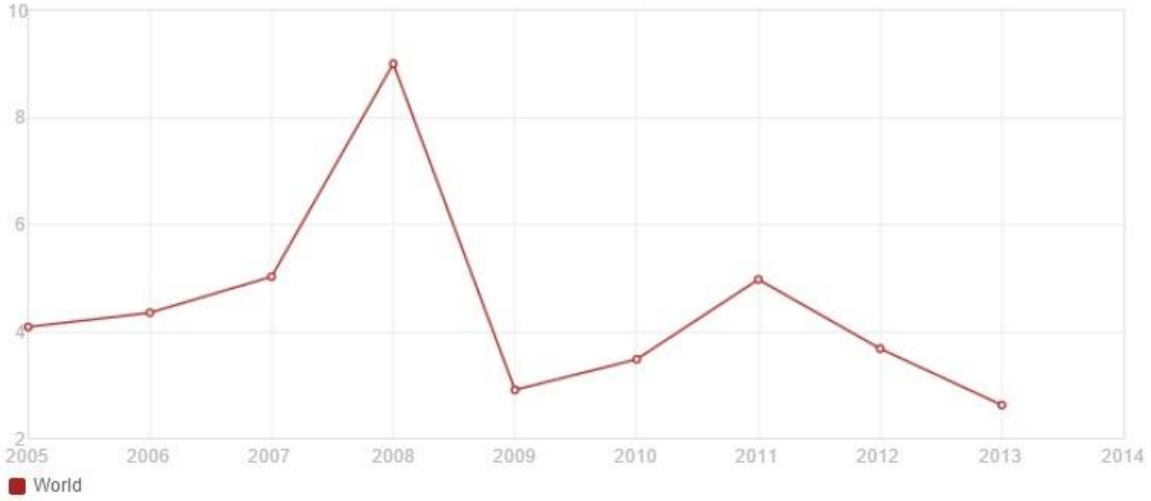

Figure 3. Inflation consumer prices (annual, %). The World Bank

The Consumer Price Index (Consumer Price Index, CPI) - the main indicator of inflation, which measures the change in prices of goods and services included in the fixed basket, covering goods and services of constant demand (food, clothing, fuel, transportation, medical care and so on). Peak in 2008 shows a sharp increase in the price level of goods and services. This change was caused by the release of excessive money supply, but rather the increasing flow of emission of dollars.

As a result of economic recession companies' capacity to invest decreased and companies decided to stop or suspend their projects. Figure 3 represents changes in FDI flow.

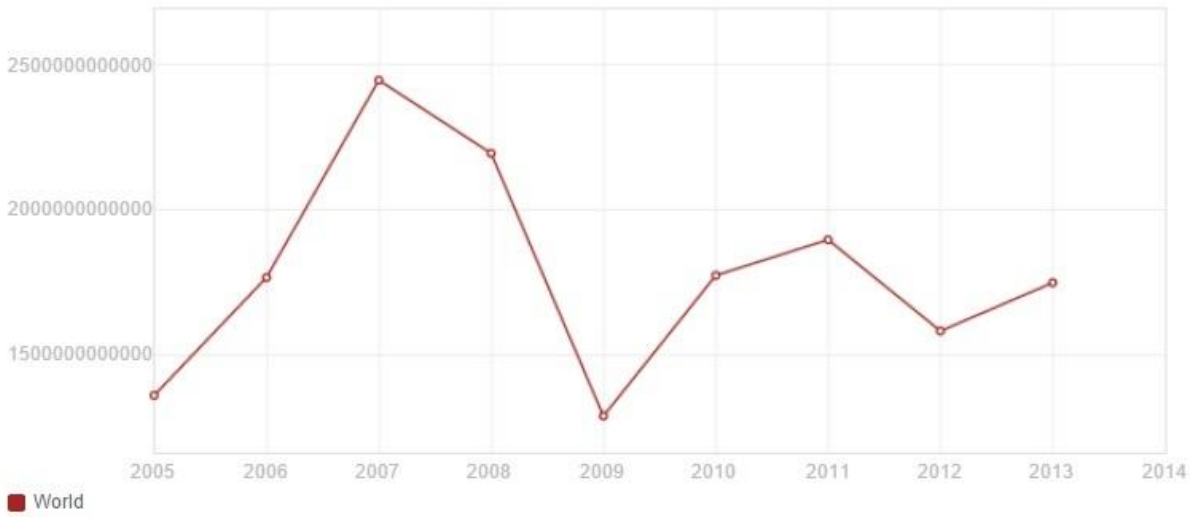

Figure 4. Foreign direct investment, net inflows (BoP, current US$). The World Bank

According to UNCTAD Investment Briefs global FDI inflows are declined by about 21 per cent in 2008, to an estimated $1.4 trillion. on the one hand, tighter credit conditions and lower corporate profits have weakened companies' capability to finance their overseas projects. On the other hand, the looming global economic recession and a heightened appreciation of risk have eroded business confidence and therefore companies' propensity to expand internationally. As a result, many large transnational corporations (TNCs) have revised their global expansion plans, and a large number of greenfield and cross-border merger and acquisition (M&A) projects are being cancelled or suspended. The trend is widespread, hitting many sectors ranging from extractive industries to manufacturing and services.

Another indicator of economic crisis is unemployment level. Unemployment is the socio-economic situation in which part of the active, working population cannot find work that these people are able to perform. Unemployment is due to excess amount of people wanting to find a job over the number of available jobs, the corresponding profile and qualifications of applicants for these places. Figure 4 shows The Word Bank Data related to unemployment level.

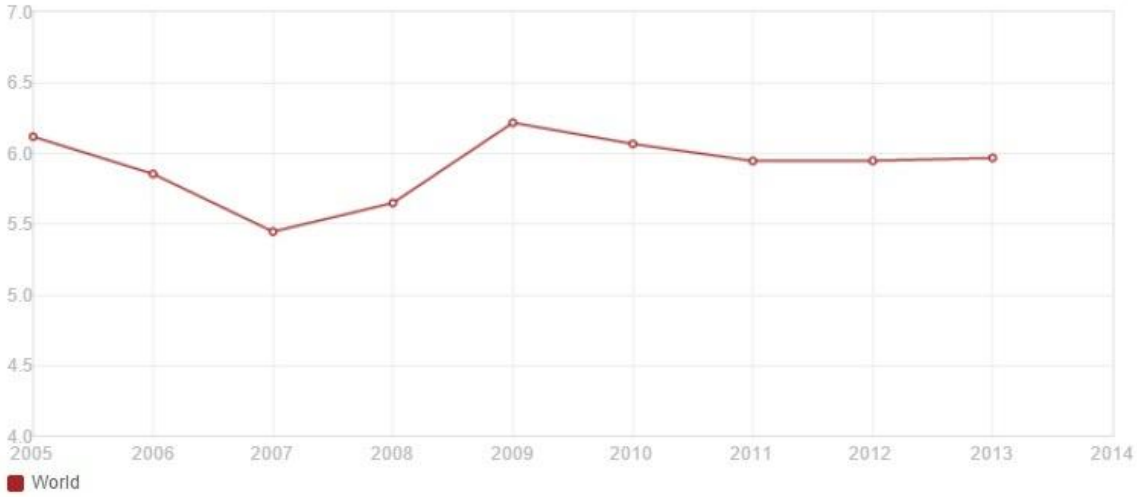

Figure 5. Unemployment, total (% of total labor force) (modeled ILO estimate). The World Bank

World unemployment began to rise up in 2008, with a peak in 2009. Unemployment reflects the direct condition of national economy at the moment. Due to the growth of unemployment declining incomes of the population, and this accordingly leads to a decrease in

purchasing power. There is sharp reduction of the incomes in companies that operate within internal market. Unemployment also leads to lower wages for competitive workplaces because the number of job seekers exceeds the number of job offers, and many job seekers willing to work even for lower pay. This issue leads to the fact that the costs of enterprises significantly fall, but because the economic situation does not change.

3. CRISIS MANAGEMENT CONCEPT

Crisis management is often used as the shorthand phrase for all management practices concerned with nonroutine phenomena and developments. Crisis management is most easily associated with the hectic moments of crisis decision making, but it also covers the managerial areas of prevention and preparation, and, following the immediate crisis response, the sensitive domain of recovery and change (Comfort 1988).

Responding to crisis is a serious challenge because a crisis demands critical decisions that must be made in awkward circumstances (Janis 1989). Moreover, crises generate barriers to high-quality decision-making processes. Indeed, common problems multiply exponentially. Crisis managers must solve complex dilemmas without the information they require, in fluctuating organizational settings marked by bureaupolitics, and under conditions of severe stress. If we consider the dilemmas that emerge during crises, crisis management may well be considered an impossible job (Boin and ‘t Hart 2003). Crises present decision makers with psychological challenges as well. These critical situations often cause stress that, in turn, may impair the judgment and rational capacity of individuals (Stern 1999).

Dayton in his work Managing Crisis in the Twenty-First Century (2004) shows that crisis managers often vacillate between immediate action and long-term effectiveness. Traditional crisis management repertoires are marked by a preoccupation with the ‘‘here and now’’: they must deal with the acute threat. The consequences of initial decisions tend to fade into the background in the immediacy of the moment. The modern crisis, however, is a long-term process rather than a single event. Long after the onset of a crisis, managers can be confronted with problems that take the form of the ‘‘crisis after the crisis.’’ For instance, in the wake of a relatively minor disaster - such as an oil spill or a leaking gas station - the long-term effects on a community may prove to be much harder to manage (Erikson 1994). Such crises do not fit traditional crisis repertoires.

Hart, Heyse and Boin (2001) consider two parallel trends of the crisis concept: the politicisation of crises, and the `crisification' of politics. Together, they make for a formidable challenge to public authorities. Risk and crises force political and bureaucratic elites to go back to the hard core of the state, i.e., the protection of life, property and society (Hart a.o., 2001). Schoolars identify three main developments in crisis management practice, which

bring new challenges to crisis managers. These are: the evolution of an industrial towards a risk society; a development from heroic to besieged crisis response; and a change from episodic to continuous crisis management.

Hart, Heyse and Boin (2001) provide evidence of proliferation of risk, complexity and tight couplings. Harvey (1989) explains that globalization, new technologies and economic growth have produced time-space compression, as distances shrink, people and goods are moving faster and farther, communication networks become more complex and indispensable, and technological advances spill over from one domain into another almost effortlessly. There are obvious costs to these developments. Complexity reigns and couplings between system components become tighter and tighter, turning the world into an `error- inducing system' (cf. Perrow, 1999).

With the psychology of risk and unsafety becoming so prominent, crisis communication has come to rival operational decision making and action as the prime focus of attention for crisis managers (Rosenthal, 1998). Crisis management is, to an extent, becoming dematerialised: it is not just running the physical response operation that counts, managing the `image fallout' that follows the outbreak of crisis has become important as well (Hart a.o., 2001).

Palttala and Vos (2012) show that crisis communication are important in crisis management process. Crises take organizations and people by surprise, create threatening circumstances, and demand a short response time from those dealing with them (Ulmer, Sellnow, & Seeger, 2007), crisis is a situation of high uncertainty in which communication aims to reduce uncertainty about response, public perception, resolution, blame, and consequences (Stephens, Malone, & Bailey, 2005). Crisis communication defined as sending and receiving messages which explain the specific event, identify its probable consequences and outcomes, and provide specific harm-reducing information to affected communities in an honest, candid, prompt, accurate, and complete manner (Reynolds & Seeger, 2005;Coombs,2007).

Palttala and Vos (2012) determine several variables that affect on crisis management. These variables set requirements for crisis communication: crisis type, time phase, organizational systems, and critical stakeholders (Pearson & Mitroff, 1993). It has been emphasized (Coombs, 2006) that the chosen communication strategy should be carefully selected

according to the special and unique characteristics of the ongoing crisis situation and the expectations of the stakeholders.

Currently, it is understood that risk and crisis communication processes form a solid continuum, and that the two overlap in real time (Reynolds & Seeger, 2005). Effective crisis communication must begin long before an event occurs and continue after the immediate threat has receded (Palttala, Vos, 2012). This way, crisis communication covers crisis phases from pre-crisis prevention and preparation strategies and response to post-crisis containment and evaluation strategies (Fearn-Banks, 2004 in Dardis & Haigh, 2009).

Extensive planning and preventive measures are needed for all kinds of crises, but equally important is the ability to improvise solutions for unforeseen problems that inevitably arise (Demuth, 2002). Flexibility in decision making is crucial, as crises can have unforeseen dimensions that hinder precise decision making (Seeger, 2002).New threats may compound the risk and require a new set of communication strategies (Reynolds & Seeger, 2005). For this reason, the scorecard content should go beyond crisis-specific best practices, which might be difficult to adapt in various kind of situations. Instead, the instrument should increase understanding of the quality criteria behind situation-specific experiences and this way support learning relevant to diverse situations. This line of thinking is in accordance with the best practices approach of Seeger (2006) and aims to improve mutually beneficial relationships, acknowledging the complex nature of crises and communication (Sellnow, Ulmer, Seeger, & Littlefield, 2009).

Crises usually follow similar chronological phases (Pearson & Mitroff, 1993; Stephens et al., 2005). In disaster management, these phases are labelled prediction, warning, emergency relief, rehabilitation (short term), and reconstruction (long term), and the activities include mitigation, preparedness, response, and recovery (Moe & Pathranarakul, 2006).

3.1 Economic security as a part of national crisis management

No economic policy is notable for several days to bring the country out of a deep crisis. Countries cannot carry out certain similar economic politics, in different countries, it is different. It depends on the economic condition of the country, held in by her strategic course. Economic policy changes in different periods even within the same state. It cannot be the

same in the countries with developed market economies and countries in transition to a market economy.

The era of globalization emphasizes, more than ever, the need for a coherent and integrated approach to economic security which should be analyzed in terms of profound links between national and international economic environments (Tiberiu & Costel, 2012). For the first time the term "economic security" has appeared in the 70s. One of the main tasks of economic security is to preserve and strengthen the country's position in the global economic system. In terms of economic and financial crisis, the economic security is a key component of national security at least in terms of resources and ensuring a dynamic balance for other components of this system.

Economic security is a complex internal structure, in which there are three of its most important elements: economic independence, stability and resilience, the ability to self-development and progress. Economic independence has relative character because the international division of labor does national economies interdependent from each other; possibility of control of a national resource, achievement of such level of production, efficiency and quality of production which provides its competitiveness and allows participating in world trade, cooperation communications and an exchange of scientific and technical achievements as equals. Stability and sustainability is considered as a protection of property in all its forms, creation of reliable conditions and guarantees for enterprise activity, control of the factors capable to destabilize a situation (fight against criminal structures in economy, prevention of serious gaps in distribution of the income threatening to cause social shocks). Ability to self-development and progress is recognized as creation of favorable climate for investments and innovations, continuous modernization of production, increase of professional, educational and common cultural level of workers become necessary and indispensable conditions of stability and self-preservation of national economy.

Cioaca (2010) describes economic security as a key component of national security in terms of resources and ensuring a dynamic balance for other components of this system. The economic security is a complicated and dynamic concept derived from many economic phenomenon that occur both nationally and globally. Economic security is directly affected by the competitive economy, by the way it adapts to changes in the global economy (Cioaca, 2010).

The connections between economy and security, in the context of a multicultural international background, generate important, significant aspects (Rotaru, 2009). Rotaru (2009) provides economic dimension of security refers to the functioning, in the quantum of the specific cities for organizing and running the society, of the social and political systems, of the state, public institutions, national organizations and authorities, and, as part of these, international alliances and coalitions, and so on economic dimension of security is proved by the fact that without a strong modern economy, there does not exist, or there cannot truly exist, safety, prosperity and stability, neither at individual or family level, nor at state, or international community level. Rotaru (2009) shows that value of economic security consist of its ability and potential to ensure the best resource needs in order to maintain the vitality of the other systemic fields. The economic security is ultimately the direct consequence of the state's economic power, being caused by factors as: the country's size, the political system's stability, relationships with the international economic environment and the institutionalization of external contacts, the ability to institutionally and socially adapt to the changes occurring in the internal and external conditions (Rotaru, 2009).

The operational optimization of the economic dimension of the national security, according to Rotaru (2009) depends on next factors:

- the consolidation of macroeconomic stability and implementation of coherent fiscal policies, while promoting a stimulating, firm, constructive type of law-making system; the improvement of business environment; bureaucracy diminishing;
- favorable laws for investors and constant stimulation of economic growth, through notable production, as required by the market;
- encouraging the small and medium sized enterprises through effective laws;
- strategic continuation of long-lasting restructuring and modernization of the national economic system;
- promoting applicable economic policies, in accordance with the market's ever changing social needs and requirements;
- the development of international economic relations, focused on active, stimulating, mutually beneficial forms;
- the reinforcement of the banking and insurance system, as well as control over capital markets, where major actors from the social environment are involved;

- the agricultural and forestry rebirth, as significant fields of state's economic power;
- the optimal territory planning and rehabilitation of transport infrastructure;
- the widespread promotion, within all fields of the economic spectrum of the social system, of new technologies, essential for the society's post-modern development; attracting significant foreign investments (Rotaru, 2009).

Based on described factors Rotaru presents a concept of economically powerful state as a stable, affording political and strategic initiatives, always to be credited and obeyed. He illustrates his ideas by providing an example of the case of Japan, which, practically, does not have almost any natural resources (90% of raw material is imported), of Switzerland, located in an area without resources.

Macroeconomic stability is important for business, but equally important is the fact that by itself it can increase the productivity of a nation. Maintaining macroeconomic stability is essential to prevent adverse effects associated with sudden fluctuations. Economic indicators fluctuations, a high interest rate monetary policy, an unstable exchange rate can be for investors as many signs of declining marginal productivity of capital (Keynes, 2009).

Basic education, the quality of higher education and training are crucial for economies that want to move the value chain beyond simple production process. The global financial crisis threatens to deprive millions of children in the poorest countries of education, with a secondary effect on future economic growth. Governments are forced to reduce expenditure on education, which might lead some parents to withdraw children from school. Thus, we witness the 'creation of a lost generation with huge costs to society' (Bokova, 2010).

Economic security threats can affect not only economic environment, but also political, social and even the country's military, distorting the natural meaning of the steps for connecting to the values of democracy and civilization. Risks to economic security and development should be identified, monitored and evaluated continuously. Unidentified, undefined and unopposed timely, risks can turn into threats. Combined with domestic economic vulnerabilities, they can generate far-reaching negative effects on the entire process of development (Tiberiu & Costel, 2012).

The economic security of the country includes not only the maintenance of a sufficient level of socio-political and military stability of the state, but, above all, the development of the

economy with its inclusion in the processes of globalization. Condition of the economic security depends on the possibility of implementing the internal and external public interest.

Economic security is a part of the most important functions of the state. The problem of economic security has never existed by itself. It is derived from the objectives of economic growth at each stage of development of the society. The specific content of this problem varies with prevailing in the active period of internal and external conditions (Senchagov, 2002).

One of the main tasks of national security is determined by unity, the relationship and balance of all types of security change their priority depending on the situation (Hajiyev, 1998).

Summarizing, the economic security is a set of conditions and factors that ensure the independence of the national economy, its stability and resilience, the ability to continuously update and self improvement consider the globalization process.

3.2 Economic security in Russia

For Russia term of economic security is relatively new. Russian economist Berezin (2008) identifies it as state of a subject, characterized by the presence of a stable income and other resources that allow to support the standard of living for now and for the foreseeable future. It includes:

- preservation of solvency;
- planning of future cash flows of the economic entity;
- security of employment.

Russian “Security Act" defines the economic security as a protection of the residents’ vital interests and national economy from internal and external threats. Economic security is a major component of the national security system. Guarantee economic security is a prerequisite for sustainable development of the national economy.

The Russian Federation is going through a difficult historical period of the new socio-economic relations. The transition to new forms of governance takes place in a persistent deficit in the legal framework governing economic relations, the backlog of legislation from the real processes taking place in society. During international relations, Russia is faced the position of industrialized countries and large foreign corporations desire to exploit the unstable economic situation in Russia in their economic and political interests. All this makes it especially relevant targeted activities to ensure economic security of the country and its citizens on the basis of a unified state strategy (official web-site of The Security Council of the Russian Federation).

National Security Concept of Russian Federation is the legal act, fixing the main provisions of national security, including economic. It was approved by presidential decree of December 17, 1997 №1300 (as amended by Presidential Decree of 10 January 2000 №24). National Security Concept of Russian Federation is a system of guidelines aimed at ensuring the security of Russian society and state from external and internal threats in all spheres of life. This legal act stipulates that under the national security of Russia refers to the safety of its multinational people as the bearer of sovereignty and the only source of power in the Russian Federation.

Russian national economic security includes next objectives:

- forecasting the emergence of internal and external threats;
- development and implementation of the necessary measures to mitigate the impact of internal and external threats;
- protection of sovereignty and territorial integrity of the country;
- development and implementation of economic policies aimed at enhancing economic growth;
- creation of conditions for scientific and technological development;
- security of human’s and citizen's rights and freedoms;
- improving the efficiency of the state apparatus;
- maintaining the balance of international relations;
- the formation of mutually beneficial relations with other states;
- improvement of the environmental and ecological conditions;
- integration of national economies into the world economy;

- the formation of a common economic space with the CIS countries;
- protection in the world markets the interests of domestic producers;
- formation regime of financial and credit independence of Russia;
- increased state regulation of foreign companies doing business activities in the country;
- formation of an effective legal framework of business entities;
- escape and recovery of the national economy from the crisis.

All these objectives could be achieved by applying an effective mechanism for economic security ensuring, that represented by a system of organizational, economic and legal measures to prevent economic threats and includes the following elements (Firsov, 2008):

- objective and comprehensive inspection of the economic and social situation in order to identify, predict and prevent threats to economic security;
- selection of critical values of socio-economic indicators, that will point out instability and conflict;
- state activities to detect and prevent internal and external threats to the security of the economy.

The main purpose of the mechanism of economic security is to create a set of optimal conditions for life and human development, socio-economic and military-political stability in Russian society, preserving the integrity and statehood of Russia, opposition to the effects of internal and external threats (Bart, 2010).

3.3 Crisis Management (company level)

The main areas of crisis management at the level of an economic entity are considered to be constant monitoring of the financial and economic condition of the company; develop protocols to ensure the integrity of the information flow in the enterprise; development of new managerial, financial and marketing strategies; reduction of fixed and variable costs; improving productivity; fundraising founders; increased staff motivation.

Pearson and Judith (1998) based on previous studies distinguish characteristics of organizational crises: highly ambiguous situations where causes and effects are unknown (Dutton, 1986; Quarantelli, 1988); low probability of occurring but, nevertheless, pose a major

threat to the survival of an organization (Jackson & Dutton, 1987; Shrivastava et al., 1988) and to organizational stakeholders (Shrivastava, 1987); offer little time to respond (Quarantelli, 1988); sometimes surprise organizational members (Hermann, 1963); present a dilemma in need of decision or judgment that will result in change for better or worse (Aguilera, 1990; Slaikeu, 1990).

Effective crisis management involves minimizing potential risk before a triggering event. In response to a triggering event, effective crisis management involves improvising and interacting by key stakeholders so that individual and collective sense making, shared meaning, and roles are reconstructed. Following a triggering event, effective crisis management entails individual and organizational readjustment of basic assumptions, as well as behavioral and emotional responses aimed at recovery and readjustment (Pearson, Judith, 1998).

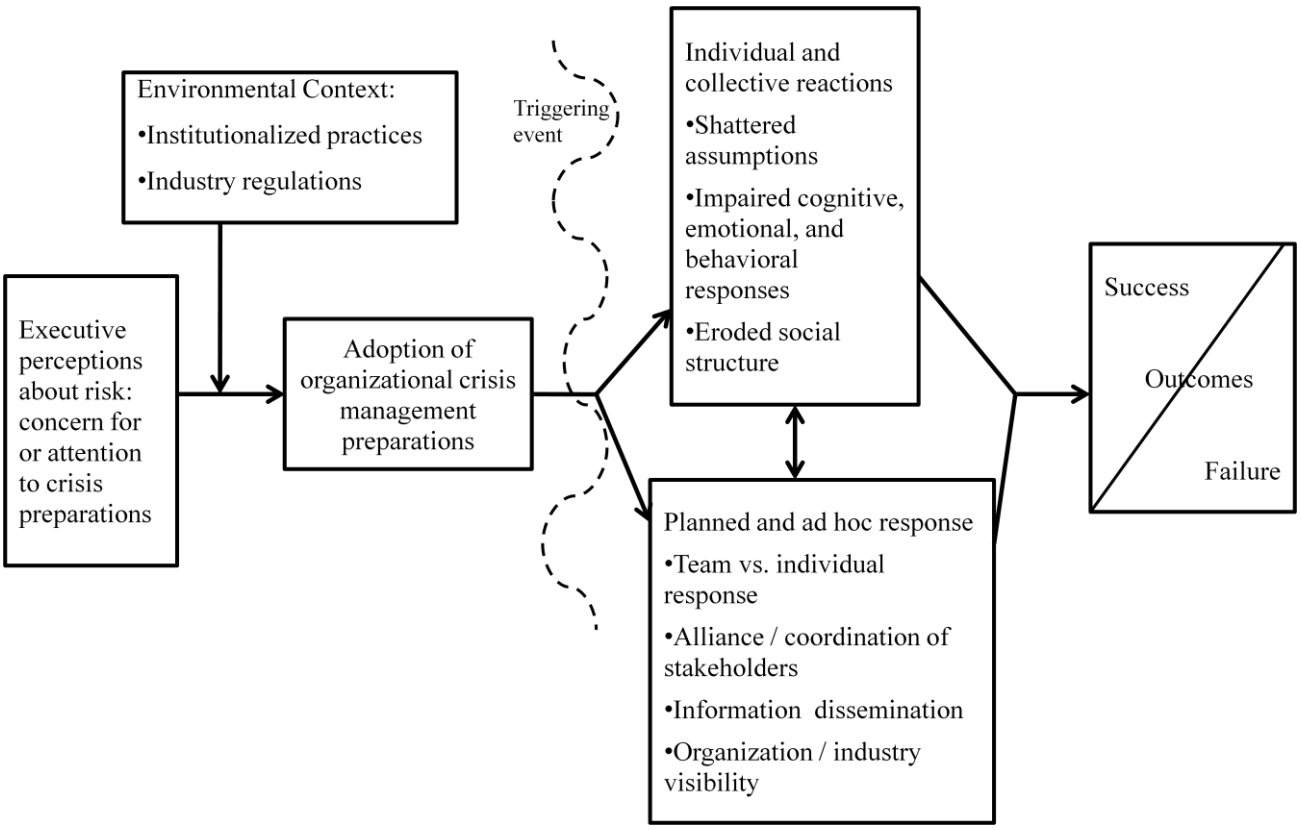

Figure 6. The Crisis Management Process (adopted from Pearson, Judith, 1998)

In Figure 6 scholars provide a vision of a comprehensive descriptive model of the crisis management process. The model represents effective crisis management process by:

- explicitly recognizing both subjective or perceptual components as well as objective components;
- acknowledging the complexity of outcomes;
- integrating previous models that dealt only with limited aspects rather than the entire crisis management process;
- linking multidimensional views of crisis and crisis management drawn from psychological, social-political, and technological structural perspectives (Pearson, Judith, 1998).

A crisis refers to an event believed to be relatively unpredictable that threatens important stakeholder expectancies and can negatively and significantly impact an organization's performance (Coombs, 2007). Crisis events can also lead to legal problems that can disrupt the normal functioning of business activity. The field of crisis management emerged after Johnson & Johnson experienced product sabotage when its Tylenol Extra Strength pain reliever was laced with deadly cyanide in 1982 (Mitroff & Anagnos, 2000).

When a crisis occurs, decisions seek to mitigate its negative impact on the organization, although positive effects can occur as well (Fearn-Banks, 1996). How an organization responds to a crisis can dramatically affect its reputation, financial performance and even survival (Coombs & Holladay, 2002).

During the past three decades, crisis research has emphasized case studies and applications and has focused primarily on two activities, crisis preparation and management of an ongoing crisis (Lalonde, 2007a).

Crisis management occurs in both public and private organizations. Although government agencies typically perform more poorly than private institutions when managing crises (Piotrowski, 2006), there is a general consensus that many organizations also struggle in this regard. Add to this the ever more costly nature of crisis management (Newkirk, 2001) and the need for additional research and more helpful approaches must be underscored. Specifically, resources are an essential component of effective crisis readiness, suggesting that firms in emerging nations might not be as well prepared as their counterparts in developed nations (Parnell, 2014).

Crisis management has been viewed by some as ‘a management of exceptions’ (Roux-Dufort, 2007). As such, crisis management activities occur only under extraordinary circumstances. Others have proposed a broader connotation, including such issues as crisis prevention and preparation, long-term effects of a crisis, links to competitive strategy and an expanded conceptualization of what constitutes a crisis (Coombs & Holladay, 2006; Elsubbaugh, Fildes, & Rose, 2004; Evans & Elphick, 2005). Indeed, both the occurrence of crises and the diversity of crisis types have increased (Lalonde, 2007a; Robert & Lajtha, 2002).

Managing a crisis as it unfolds is a difficult task, an intriguing dilemma that gets more complicated because the time frame and geographic spread of many crises has expanded (Hart, Heyse, & Boin, 2001).

After the crisis, the recovery phase of any crisis should focus on identifying the cause of the crisis and communicating well to key stakeholders. Crisis management research has shown that many incidents such as industrial accidents are not isolated occurrences (Shrivastava, 1987). Communicating with stakeholders is critical in this stage (Carlsen & Liburd, 2007).

It is important to distinguish among three constructs: crisis concern, crisis readiness and crisis management effectiveness. Crisis concern refers to the extent to which managers are worried about the likelihood of a particular crisis event and its impact on the organization. Although it is presumed that a higher crisis concern would translate into greater preparation and readiness, this is not necessarily the case (Parnell, 2011; Rousaki et al., 2006). A manager could report a high crisis concern when considerable crisis preparation has taken place because that preparation can raise both readiness and awareness. Moreover, high crisis concern could lead to groupthink in environments where leaders do not share information freely and vigorously debate alternatives (Herek, Janis, & Huth, 1987). Although a positive link between crisis readiness and crisis management effectiveness is intuitive, it is well established that effective crisis management is a function of both preparation (i.e., planning and readiness) and improvisation (Quarantelli & Dynes, 1977).As such, high crisis readiness is a necessary but insufficient prerequisite for effective crisis management. Hence, because this paper focuses on crisis concern, inferences to crisis readiness and effectiveness should be viewed as tentative (Parnell, 2014).

4. STRATEGIC MANAGEMENT IN CRISIS

Strategic and crisis management processes vary across borders. Significant differences in both competitive strategy assessment and crisis management orientation are often identified when organizations in developing nations are compared with those in emerging economies (Parnell, 2014).

Crisis situations are an inseparable attribute of corporate functioning in a market economy (in conditions of economic, financial and political instability). In consideration of it, corporations must adapt to conditions that are due to external environmental factors; internally, managers must determine a plan for anti-crisis corporate activity and adaptation to the situation (Groh, 2014).

According to Campbell and Sinclair (2009), strategic management in a crisis is a type of management aimed at defining the phenomena of a crisis and creating appropriate preconditions for well-timed prevention, weakening and overcoming of the problems. That activity aims to support the life of the corporation, business activity and the avoidance of bankruptcy. Crisis strategic management is a special system which is complex in character and which can completely neutralize temporal difficulties for a corporation's work (Bacon, 2006).

According to Groh (2014), crisis strategic management aims to identify the signs of a crisis and to create the necessary prerequisites for their timely prevention, weakening and overcoming in order to guarantee the continuance of the corporation's activity and the prevention of bankruptcy. Strategic management in a time of crisis is the method which makes it possible to recognize the crisis and to take measures to overcome its negative consequences. The techniques of crisis management include a number of consequent steps from the understanding of the influence of the crisis on the corporation to preventing, alleviating and overcoming the different types of crisis. Anti-crisis managers must have clear system vision and they must be able to analyze a number of the interconnected problems that could lead the corporation to bankruptcy or to a worsening of the position of its staff (Groh, 2014).

Groh (2014) also shows that crisis strategic management is a special type of management, which has common management features and non-specific characteristics. First, it is neces-

sary to mark out the basic principles of the system of crisis strategic management. Such principles are: The early diagnosis of the crisis in the financial activity of the firm, the speed of the reaction to the crisis phenomena, the adequacy of the reactions to the real threats to financial wealth and the achievement of total potential in order to overcome the crisis (Groh, 2014).

The main directions of anti-crisis management at the corporate level are the permanent monitoring of social- economic conditions, the development of new management techniques, financial and marketing strategies, the reduction of constant and variable costs, the attraction of stockholders' capital and the intensification of staff motivation. There are no standardized methods of preparation for possible global crisis phenomena; however, there is useful experience learned from a previous crisis (Campbell and Sinclair, 2009).

Based on Bacon studies (2006) Groh assumes that effective strategic management in a time of crisis provides for the combination of the following elements:

- The professional knowledge of members of the organization undertaking strategic management and their awareness of the characteristics of the business's strategic management
- The experience of anti-crisis activity and the work of the anti-crisis groups
- Managerial professionalism
- The anti-crisis activity of the management representatives (Bacon, 2006; Groh, 2014)

The basic element of strategic management of crisis is the development of a list of interested parties that have responsibility for the success of the functions of anti-crisis management (stockholders' meetings, Board of Directors, executing agency, audit committee).

Strategic crisis management provides that shareholders and managers of corporations must decide on an organizational structure for a subsystem of anti-crisis management and which of its contents to delegate to each member of the strategic management team. The system can make different organizational decisions subject to ensuring an adequate volume of activity, subjective assessments and the preferences of influential stakeholders. It is obligatory to take into account the stage of the crisis in the activity of the corporation. The distribu-

tion of the objectives of strategic management at different stages of crisis development is set out in Table 2. It shows the unit of the management team which is responsible for controlling each stage.

Groh (2014) proposes specification of the methods for achieving anti-crisis management by the governing bodies at different stages of the development of the crisis which shows practical solutions for problems for strategic crisis management, and provides the governing body with the basic scheme for determining responsibility for identifying separate problems for anti-crisis management. These methods are based on next key assumptions:

- Improve the quality of information, as the provision of timely and full information at all stages of decision-making promotes a successful overcoming of a crisis;
- Take a quick reaction with foresight about the crisis situation. The suddenness of a crisis and the negative consequences demand from managers urgent information-analysis. Every demonstration of signs of an emerging crisis situation must be immediately examined and taken into account;
- Realize strategic planning. It is the most important factor for stability and corporate development in conditions of dynamic changes in the external environment. The effectiveness of a strategy determines the appropriate external characteristics of a corporation, its position in the market, both overall and in the external environment;
- Raise the quality of common decisions, organize discussions of problems and take into account all points of view to decrease the probability of the leader acting alone;
- Take measures for crisis management in the directions of: Financial-economic activity, the culture of strategic management, the monitoring of the internal and external environments and the selection of rational criteria for making decisions (Groh, 2014).

4.1 Dynamic capabilities framework

Organizations increasingly must deal with discontinuous, complex and unpredictable change. Firms can learn how to adapt to dramatic changes in the environment, to respond to weaker signals, thereby avoiding damage, how to the firm and developing better solutions through dynamic capabilities for environment adaptation (Rouse, Zietsma, 2008).

In rapidly changing environments, there is obviously value in the ability to sense the need to reconfigure the firm's asset structure, and to accomplish the necessary internal and external transformation (Amit and Schoemaker, 1993; Langlois, 1994). This requires constant surveillance of markets and technologies and the willingness to adopt best practice.

Dynamic capabilities could be considered in terms of strategic management during changing environment (crisis). One of the key questions that attempts Dynamic capabilities theory is how can companies maintain threshold capability standards and hence ensure competitive survival (Ludwig, Pemberton, 2011). The capabilities approach places emphasis on the internal processes that a firm utilizes, as well as how they are deployed and how they will evolve. The approach has the benefit of indicating that competitive advantage is not just a function of how one plays the game; it is also a function of the 'assets' one has to play with, and how these assets can be deployed and redeployed in a changing market. Teece (1997) defined dynamic capabilities as the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments. Dynamic capabilities thus reflect an organization's ability to achieve new and innovative forms of competitive advantage given path dependencies and market positions (Leonard-Barton, 1992).

‘Dynamic' refers to the capacity to renew competences so as to achieve congruence with the changing business environment; The term 'capabilities' emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment (Teece et al., 1997).

Further, dynamic capabilities involve the organizational processes by which resources are utilized to create growth and adaptation within changing environments (Eisenhardt and Martin 2000, Lado, Boyd, Wright and Kroll 2006; Teece, Pisano and Shuen 1997). Dynamic capabilities pertain to the organization’s competencies to integrate, build, and reconfigure resource positions in rapidly changing environments. They also reflect organizational competencies to achieve new and innovative forms of competitive advantage despite constraints of path dependencies and previous market positions (Arthur 1994, Gruca and Nath 1994, Leonard-Barton 1992). Dynamic capabilities result from complicated organizational and strategic routines (Zollo and Winter 2002) through which managers reconfigure

and renew a firm's resource base to generate economically value-creating strategies (Foss 1996, Pisano 1994). Thus, these capabilities are the fundamental drivers of the creation, evolution, and recombination of other resources to provide new sources of growth (Henderson 1994, Henderson and Cockburn 1994, Zander and Kogut 1995).

Pettus, Kor and Mahoney in their work A Theory of Change in Turbulent Environments: The Sequencing of Dynamic Capabilities Following Industry Deregulation (2007) identified next important capabilities: organizational learning, managerial capabilities and strategic flexibility. Managers play crucial roles in developing and maintaining processes shaping the development of organizational capabilities (Kim and Mahoney 2006a). Managerial capabilities are dynamic drivers for achieving congruence between the firms' competencies for renewal of resource positions and changing environmental conditions (Teece, Pisano and Shuen 1997).

While there are many ways in which a firm can grow, growth in dynamic markets requires strategic flexibility (Sanchez 1995). Environmental adaptation requires that firms not only effectively manage their current resource bases but also develop flexibly to change their resource positions to respond to dynamic market conditions. Strategic flexibility requires organizational routines to reconfigure a firm's resources to respond to specific environmental changes (Zollo and Winter 2002). Equally important, firms need to scan the internal environment to create new or modified uses for the existing resources and to identify new resource acquisition possibilities (Ranft and Lord 2002). strategically flexible firms not only must possess routines to facilitate and develop new resource deployment insights, but must also possess the routines to mobilize these insights by transforming them into strategic decisions and actions (Helfat 1998, Teece and Pisano 1994).

Rouse, Zietsma in their work Responding to weak signals: The emergence of adaptive dynamic capabilities for strategic renewal (2008) studied two cases in the Canadian resource sector, in different industries. By analyzing companies cases researchers made next conclusion: when initial responses to these external pressures proved unsatisfactory, the firms developed adaptive capabilities which resulted in improved performance in the specific instance, and an increasing ability to deal with future external pressures. Scholars asserted that adaptive capabilities first emerged, and then coalesced into dynamic capabilities as they were reapplied across multiple settings. Rouse and Ziestma (2008) distinguished next

elements of the process: 1) a disconnection between environmental signals inconsistent with the firm's dominant logic and the organization's ability to deal with those signals (failure of strategizing), 2) cross-boundary organizing for learning, resulting in re-strategizing and new responses, 3) (re)organizing and (re)strategizing in response to subsequent stimuli, and 4) the development and enculturation of standard routines for scanning, interpreting, organizing and strategizing, enabling adaptive responses to even weak signals from the environment (Rouse, Zietsma, 2008).

According to Rouse, Zietsma, (2008) adaptive capabilities involve the ability to notice changes in the external environment quickly, to understand stakeholders' perspectives, and to develop successful responses to demands before they create survival risks. Adaptive capabilities emerged in our cases in the context of a failure of strategizing, followed by cross-boundary organizing and joint sense making with stakeholders. They involved an expansion and adjustment of the firm's dominant logics which enabled the firms to respond to weaker signals and develop a lasting adaptation capability. Then adaptive capabilities evolved into dynamic capabilities through replication and enculturation (Rouse, Zietsma, 2008). Based on developed conclusions Rouse & Zietsma (2008) build a process model of Emergence of Adaptive Capabilities – Figure 7.

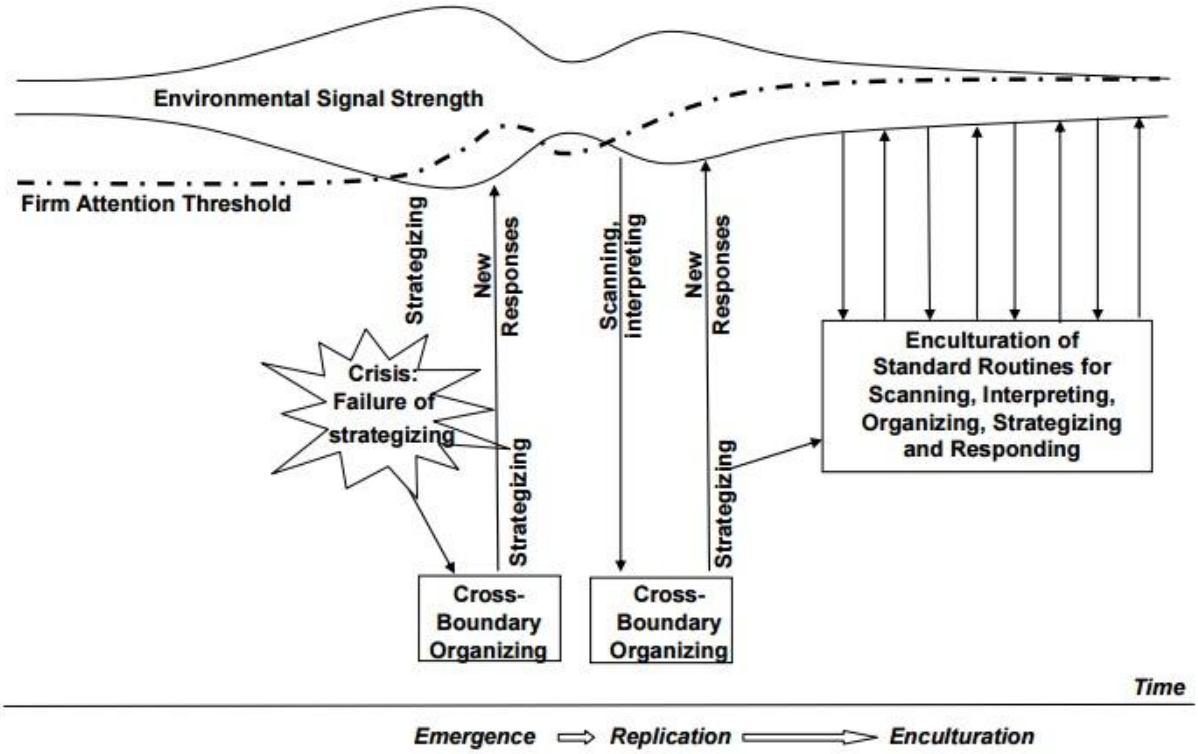

Figure 7. Process model of Emergence of Adaptive Capabilities (adopted from Rouse & Zietsma, 2008)

These findings provide a guideline for companies' strategic decisions during environmental changes. Crisis is considered as negative dramatic changes of the firm's external environment. Reacting to a crisis requires being aware that the storm is approaching (Billings, Milburn and Schaalman, 1980), having learned what strategic changes are needed and having determined how best to implement them, and having fungible resources to invest in this strategic shift (Person and Clair, 1998).

Realization of the potential benefits engendered by the reorientation of a firm's strategies depends on two factors: the need for change and the wisdom of the chosen change (Zahra et al., 2006, pp. 942-943).

Colombo a.o. in study Dynamic capabilities during the global crisis: evidence from Italian New Technology Based Firms (2010) described that regarding the need for change, the pervasiveness and destructiveness of the global crisis urgently call for an extensive re-adjustment of firms' resources and capabilities. The crisis has simultaneously transformed demand, input prices, credit conditions, relations to numerous stakeholders, and even the political realm (Campello, Graham and Campbell, 2010). Consequently, the pre-crisis stra-

tegic positioning of a firm is unlikely to fit the new environmental conditions, and radical strategic responses are needed to accommodate the new circumstances within the existing organizational framework (Smart and Vertinsky, 1984, p. 212).

4.2 Management of uncertainty

Another concept of strategic management that can be effectively applicable during the crisis is management of uncertainty. Moynihan in his work 'Learning under Uncertainty: Networks in Crisis Management' (2008). He focused on mechanisms that foster learning during crises — intra crisis learning and showed the role of network structure in reducing uncertainty.

A basic objective of crisis management is to accumulate wisdom by 'learning together from the event in order to prevent, lessen the severity of, or improve upon responses to future crises' (Hillyard 2000). Learning is one way of measuring the success of crisis response, with an effective response informing new policies and procedures that are applied to future incidents (Pearson and Clair 1998). According to Comfort, the crisis response network is 'necessarily a learning system" because it 'depends upon the ability of its participants to generate valid information, facilitate informed choice, and foster timely commitment to action. Further, the network is strengthened when the participants reflect upon actions taken, retain the procedures that proved effective, and discard those that were not" (1988). The ability to learn during crises gives responders the capability, flexibility, and confidence to deal with unexpected events (Roberts, Lajtha, 2002).

Moynihan (2008) has recognized several barriers to effective learning during crises:

- The high consequentiality of crises makes trial and error learning prohibitive;
- Crises require inter organizational rather than organizational learning;
- There is a lack of relevant experience, heuristics, SOPs, or technologies to draw on;
- The scope of learning required is greater than for routine situations;
- The ambiguity of previous experience gives rise to faulty lesson drawing;
- Crises narrow focus and limit information processing;
- There is a rigidity of response: actors recycle old solutions to new problems;
- Political dynamics give rise to bargaining and suboptimal decisions;

- Crises provoke defensive postures and denial of the problem, responsibility, or error;
- Crises provoke opportunism as actors focus on their positive role (Moynihan, 2008).

The consequentiality of crises makes learning more difficult. We learn best from experience, observing our failures and remedying them in the future (Senge 1990), but high-consequence events make incremental experiential learning prohibitively costly (La Porte, Consolini, 1991). The potential to learn depends greatly on the availability of applicable lessons. Some situations will clearly be more applicable than others, depending on variables such as time, geography, the nature and scope of the crisis, relevant technologies, the actors involved, and so on. However, crises, by their very nature, occur in unexpected and unique ways (Moynihan, 2008). Despite attempts to apply lessons from one crisis to another, the ambiguity of cause and effect relationships allows multiple, contradictory, and mistaken lessons to emerge from crises (Auf der Heide 1989 , Boin et al. 2005).

The dynamic nature of a crisis makes intra crisis learning more difficult than inter crisis learning (Lagadec 1990). In post crisis phases, the meaning of the event has been defined, making it easier to identify suitable policy changes. During a crisis, actors must engage in sense making under limited time and intense pressure, evaluating the nature and scope of a crisis and searching for an appropriate response (Boin, 2005).

5. RISK MANAGEMENT

With the development of civilization and technological progress, the importance of risk management is increasing and will be increased. Crisis can be considered as a dramatic risk for company as well as for country.

Grose encourages risk managers to redefine risk as all those "potentials" that could lead to loss. He defines nine categories or subsets that constitute risk, including occupational health (disease), public relations (falsehood), safety (hazard), security (threat), quality assurance (defect), environmental control (toxicity), legal counsel (liability), human resources (discord) and loss financing (insolvency) (Oshins, 1994).

Grose said that most companies have a basic risk logic: every company has risk, but no one will ever know all the risk. Risks are equally consequential, and all companies should balance risk and benefit. Grose identified next types of risk:

- Speculative – potential for loss due to investment, new product, new facility, or new program;
- Static – constant, undesirable situational factors related to an occupational or societal setting;
- Dynamic – fluctuating and unpredictable conditions due to natural or manmade forces;
- Inherent – deleterious factors unavoidably associated with operational phenomena (Grose, 1987, p. 31).

Grose (1987) provides risk classification in order to expand perception about risk, to preclude managers either from overlooking some hidden risks or from becoming too much entranced with a particularly visible risk, that could bring possibility of losing full risk spectrum (Grose, 1987, p. 32).

Dionne in his work Risk Management: History, Definition, and Critique (2013) analyzed the concept of risk management. The study of risk management began after World War II. Risk management has long been associated with the use of market insurance to protect individuals and companies from various losses associated with accidents. Other forms of risk management, alternatives to market insurance, surfaced during the 1950s when market

insurance was perceived as very costly and incomplete for protection against pure risk (Dionne, 2013).

Fadun in his paper Risk Management and Risk Management Failure: Lessons for Business Enterprises (2013) gives quotations of different scientists and provides definitions and identifications of risk and risk management. Risk is an essential part of business because firms cannot operate without taking risks. Risk is commonly associated with uncertainty, as the event may or may not occur. Risk implies exposure to uncertainty or threat (Kannan and Thangavel, 2008); and 'a decision to do nothing explicitly avoids the opportunities that exist and leaving the threats unmanaged' (Hillson and Murray-Webster, 2007). Traditionally, risk has been viewed as negative consequences and unfavorable events. The consideration of risk from the negative perspective is restrictive and misleading for two main reasons. First, uncertainty may manifest in either negative (threat) or positive (opportunity) form, or both; and second, the way a risk is perceive influences the manner in which it is handled (Hillson, 2002). Managing risks from negative perspective may result to complete omission of opportunities (benefits/gains) in the event being considered. However, perspectives on risk differ, as the risk definition depends on and is affected by the risk observer (Kelman, 2003). Moreover, risk sometimes entails some economic benefits, as firms may derive considerable gains by taking risk. Business grows through greater risk taking (Drucker, 1997). Risk is, therefore, integral to opportunities and threats which may adversely affect an action or expected outcome (Kaye, 2009; Lowe, 2010). Moreover, getting rid of risk undermines the source of value creation; thereby truncates potential opportunities (Knight and Petty, 2001; Grazino and Aggarwal, 2005; Garvan, 2007). In essence, to business enterprise risks are 'uncertainty that matter' (Hillson and Murray-Webster, 2011).

Risk management has long been associated with the use of market insurance to protect individuals and companies from various losses associated with accidents (Harrington and Niehaus, 2003).

Modern risk management started after 1955. Since the early 1970s, the concept of financial risk management evolved considerably. Financial risk management has become complementary to pure risk management for many companies. Financial institutions, including banks and insurance companies, intensified their market risk and credit risk manage-

ment activities during the 1980s. Operational risk and liquidity risk management emerged in the 1990s (Dionne, 2013.

International regulation of risk also began in the 1980s. Financial institutions developed internal risk management models and capital calculation formulas to protect themselves from unanticipated risks and reduce regulatory capital. At the same time, governance of risk management became essential, integrated risk management was introduced (Dionne, 2013).

Risk management became a corporate affair in the late 1990s. The major orientation decisions in firms' management policy (and monitoring) are now made by the board of directors. Most often, the audit committee monitors these decisions, although some large financial institutions have put risk management committees in place (Dionne, 2013).

The goal of corporate risk management is to create a reference framework that will allow companies to handle risk and uncertainty. Risks are present in nearly all of firms' financial and economic activities. The risk identification, assessment, and management process is part of companies' strategic development; it must be designed and planned at the highest level, namely, the board of directors. An integrated risk management approach must evaluate, control, and monitor all risks and their dependences to which the company is exposed. In general, a pure risk is a combination of the probability or frequency of an event and its consequences, which are usually negative (Dionne, 2013). Risk management is defined as a set of financial or operational activities that maximize the value of a company or a portfolio by reducing the costs associated with cash flow volatility (Stulz, 1996,2003).

Risk permeates firms' economic activities, because risk is the lifeblood of every organisation (Shimpi, 2001). Successful firms manage risk effectively, while those that do not suffer. Risk has no universal definition; hence, variability of outcomes is a common way of expressing risk (Skipper, 1997). Although definitions risk varies; risk has two dimensions or components: uncertainty and consequences. Consequently, risk can be described in terms of its effect (positive or negative) on objective (Hillson and Murray-Webster, 2004; Damodaran, 2008; Kannan and Thangavel, 2008). The recent global events (from the global financial crisis to the ensuing market volatility, decline in consumer confidence, and extreme fluctuations in energy prices) have demonstrated that uncertainty permeates firms' operations (Fadun, 2013).

Fadun (2013) claims, that the recent economic volatility has given risk management a new focus and eminence. Successful firms' are able and willing to effectively integrate risk management at all levels of management process from strategy to success (Fadun, 2013). Risk management is an invaluable tool for managing uncertainty associated with business. Business enterprises have always practice some forms of risk management, implicitly or explicitly (Meulbroek, 2002). The concept of risk management is, therefore, not so new because risk management techniques like: risk reduction through safety; quality control and hazard education; alternative risk financing; and insurance, including self-insurance and captive insurance, have been in existence for a long time (Doherty, 2000).

According to Fadun (2013) the major deficiency of traditional approach to risk management is the narrow focus on threats, rather than focusing on both opportunities and threats. The holistic approach to managing a firm's risks differs substantially from historical practice, as typical firm's tends to aggregate risk (effective risk management), rather than isolating them (traditional risk management) (Wolf, 2008; Hoyt and Liebenberg, 2011).

Grose claims that consolidating the risk management function includes four components: genesis of risk awareness, reality of risk spectrum, essential executive empathy and required risk revolution. On the genesis of risk awareness, the linking of risk and loss that occurred in the 1950s made the originator a visionary and not a manager, so advocacy led to specialization with the ultimate result being that we made hostile allies, resulting in a tug-of-war between "allies against loss. In terms of the risk spectrum, Grose explained that risk management entails a wide range of activities that create various ratios of financing and controlling losses. The acceptability versus unacceptability of loss is that executives consider losses to be subject to varying degrees of controllability. While the roots are in insurance, financial management and legal counsel, what is also at stake is safety and security, national prestige, environmental protection and personal health. Essential executive empathy is that the number and diversity of specialized but incomplete activities to reduce risk inevitably create bewilderment among executives. There will be open-mindedness among executives whenever risk managers view loss potential from the executives' perspective. In the required risk revolution, losses are consolidated so that the net impact of all losses is a single value. Losses must be reduced, and loss consolidation enables holistic management (Oshins, 1994).

Risk management should be integrated into an organization-wide process must have its own strategy, tactics, operational implementation. It is important not only to manage the risk, but also periodically review the activities and management of such funds. The high efficiency of resources during program execution Risk management can only be achieved through a systemic approach. This approach to risk management is the most common.

Risk management is a system of risk management and economic, rather, financial relations arising in the process of governance. Risk management includes the strategy and tactics of control. Along with risk management should be used the results of risk analysis and risk modeling. It is possible to identify next risk control actions: prevention, reduction, compensation of damage absorption. Warning (elimination) of risk - this is an exception source of risk as a result of deliberate actions of the subject of risk. Reduction (control) is called risk reduction in the probability of source of risk as a result of risk subjects. Absorption is called risk taking it without additional measures preventing, reducing or insurance.

Risk management is not a process for avoiding risks. Risk management does not eliminate risks, but manages risks associated with firms' operations, thereby maximizes opportunities and minimizes threats. Fadun (2013) has developed a model of effective risk management stages – Figure 8.

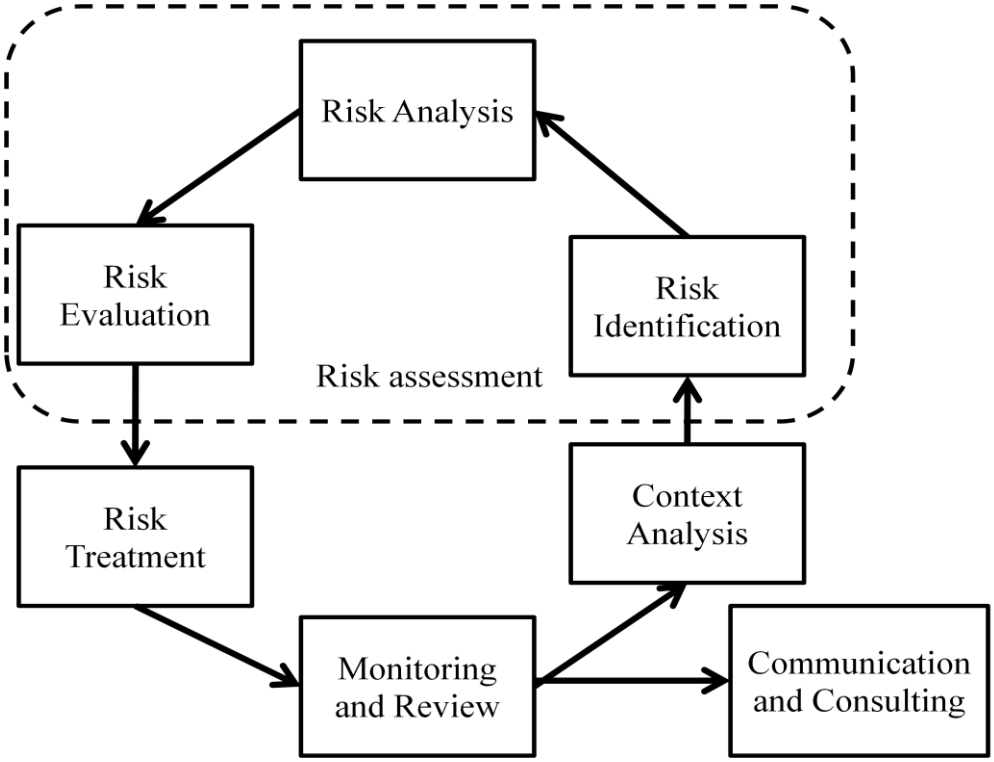

Figure 8. Stages of effective Risk Management (adopted from Fadun, 2013)

Model on Figure 8 represents next stages of effective risk management: context analysis; risk identification; risk analysis; risk evaluation; risk treatment; monitoring and review; and communication and consulting. Firms' focus varies, as they are subject to different types of risks. Similarly, the degree of risk management actions varies among business enterprises, subject to corporate risk culture and risk appetite (Fadun, 2013). The fundamental difference is that corporate risk culture is a chosen response; while, corporate risk appetite exists as a tendency independent of human choice (Hillson and Murray-Webster, 2011).

5.1 Proactive risk management

Proactive risk management means anticipating risks, their possible impact and consequences, and managing them in such a way as to mitigate or prevent them. Reactive risk management can draw unwanted attention from a company's upper management. If unanticipated risks occur and no mitigation plans are in place for immediate, responsive action, startups can be delayed and costs can escalate out of control. This can result in reduced market share and financial losses to company shareholders (McCormack, 1999).

Stulz (1996) provides empirical evidence that shows the practice of risk management is limited and does not correspond to the prescriptions of the academic literature. A 2005 research by Conference Board reports, through interviewing 271 executives, that more than 90 percent of the executives say they are building or want to build enterprise risk management (ERM) processes into their organization but only 11 percent report they have completed their implementation. The survey results indicate that more than two-thirds of both boards of directors and senior management staff consider risk management to be an important responsibility (Marshall and Heffes, 2005). Although ERM promotes a more strategic consideration of risk and its effective implementation can create a long term competitive advantage (Nocco and Stulz, 2006), as Slywotzky and Drzik (2005) suggest, many of the early adaptors treat their enterprise risk management as an extension of their audit or regulatory compliance processes.

Elahi (2013) claims that the need for implementing risk management in a company and the level of its involvement (operational, planning, or strategic) depends on the level of uncertainties the company faces. In a perfectly predictable world with no uncertainty, obviously, there is no need for risk management. However, as the level of uncertainties and their impacts on our business increases, our need for managing them and the level of attention they require rises as well (Elahi, 2013).

Before a crisis occurs, a crisis management team should be established (Clarke & Varma, 2004; Pearson & Clair, 1998).An effective team takes charge of planning for a crisis before it occurs, as well as managing the problems that emerge during the emergency (Crandall et al., 2014).Appropriate worst-case scenarios that are applicable to an organization's particular environment should be developed as a basic for crisis planning. Standard operating procedures should be developed to provide guidance to organizational members during a crisis and should be crafted before one occurs. Manager perceptions about and previous experience with organizational crises are key determinants in the steps they take to prepare for prospective events (Herbane, 2013).

Nowadays business world seems to face a trend of ever increasing uncertainties and risks. Elahi in his paper Risk management: the next source of competitive advantage (2013) distinguishes five major drivers for this trend:

1) *Faster pace of change.* The human world has always been changing, but the pace of change seems to have picked up dramatically in the last decade or two, with no stability visible on even long-range scanners (Pearson, 2004). Thornil and Amit (2003) use the data from 339 Canadian corporate bankruptcies to show that the failure among older firms can be attributed to their inability to adapt to environmental change. fast pace of change makes it difficult for companies to keep a sustainable competitive advantage. Lack of sustainable advantages and the decline in their duration could also explain the increasing trend of uncertainty and risk.
2) *Increasing complexity.* Complexity, in general, increases risk. A complex system is a system that cannot be explained by breaking it down into its component parts because the key element is the interaction between parts. As a result of these interactions, complex system exhibit emergence behavior (Horton, 2012).
3) *Multi-polar global order.* The emergence of new economic powers, are signs of a trend toward a multi-polar world order. When we have a greater number of influential powers around the globe, we can expect more unexpected events to happen due to the interaction and rivalry between these powers.
4) *Globalization.* In addition to strengthened risks, the increasingly interconnected business world can turn any local risk into a global one. Although major disruptions are rare in any specific location, the probability of having a major disruption somewhere around the globe is not rare anymore. Globalization means that businesses around the world are more and more interlinked. As a result, a disruption in any place spreads out quickly to many more regions, which means a business is hardly safe from a major disruption that happens elsewhere around the globe.
5) *Increasingly interconnected risks.* In addition to globalization trend which facilitates the quick spread of any local disruption, the increasing interconnection of different types of risks makes the matter even worse. The ‘Global Risk 2012’ provides a map (World Economic Forum, 2012) that shows the entire network of the interconnectedness between different major global risks. On this map, global governance failure is the most interconnected risk in 2012. Other major global risks with high levels of interconnectedness are: rising greenhouse gas emissions, critical systems failure, chronic fiscal imbalances, and unsustainable population growth (Elahi, 2013).

This high level of uncertainty can have a major impact on the competitive position of companies and hence warrants a strategic-level attention. Underestimating uncertainty can lead to strategies that neither defend against the threats nor take advantage of the opportunities that higher levels of uncertainty may provide (Courtney et al., 1997). This means, in such a volatile world, top executives should set company's strategies to acquire proper risk management capabilities. The company can then exploit these capabilities not only to control risk costs, but also as a means to protect or even gain competitive advantage (Elahi, 2013).

Drivers recognized by Elahi (2013) not only increase uncertainties, but also provide better risk management opportunities. Globalization can provide more sourcing alternatives; the information and communication technology has increased the pace of change in the business world, but at the same time these technologies provide better opportunities for monitoring, forecasting, and fast response. There is, however, a difference between the drivers' impacts on increasing uncertainties and their impact on the opportunities they provide for stronger risk management. The emergence of these drivers brings along the increasing uncertainties. The benefits of their opportunities, however, materialize only when a business takes the truble to deliberately and consciously pursue them. This pursuit, when it is performed through an integrated strategic approach, can lead to a proper set of risk management capabilities, which in turn can lead to competitive advantage (Elahi, 2013).

Crisis could bring not only negative consequences for the company. Crisis may force the company to revise its cost structure and cut down unnecessary expenses. Crisis can lead company to enter new market or develop new product that will bring additional revenue, or make an alliance with competitor. There are very few companies, however, who tend to use their abilities to manage risks as a source of competitive advantage. These companies go beyond compliance or cost-controlling defensive approaches and take a more aggressive stance toward risk. They have realized that their risk management capabilities can be leveraged as a source of competitive advantage. There are different ways through which risk management capabilities can turn into competitive advantage (Elahi, 2013).

ERM engages risks across a variety of levels in the organization; thus focusing on both opportunity and threat. Risk management provides a clear and structured approach to identifying, measuring and prioritizing risks in order to take appropriate actions to minimize losses. An ERM practice does not eliminate risks, but minimize risks (Fadun, 2013). How-

ever, implementation and maintenance of ERM indicates that a firm is committed to improved business processes efficiency. Fadun (2013) mentioned next benefits of ERM to organization:

- Saving resources: time, assets, income, property and personnel;
- Protection of an organization reputation and public image;
- Prevention or reduction of legal liabilities;
- Increasing the stability of operations and promoting continuous improvement;
- Protecting people and environment from harm;
- Avoiding fines for corporate non-compliance with regulations and legislation;
- Enhancing the ability to prepare for unforeseen and unexpected circumstances;
- Enhancing competitive advantage through improved decision support and market intelligence based on more accurate risk-adjusted management information;
- Improved shareholder value and confidence, which is especially valuable in times of crisis when shareholder trust is stressed to its maximum limits; and
- Assisting in clearly defining suitable risk management techniques, including insurance needs (Meulbroek, 2002; Hillson, 2006; Protiviti, 2006).

6. METHODOLOGY

Study is based on qualitative research methods – semi structured interviews. There are several reasons for it: necessary to get extensive information on the topic, understand in-depth the crisis concept, figure each companies position about the Russian crisis, analyze the current situation and lack of the relevant data. Qualitative methods help to get contemporaries' opinions about the crisis concept that will make the work vivid and relevant for today.

The research interview, one of the most important qualitative data collection methods (Sandy, Dumay, 2011). Interview is a purposeful discussion between two or more people (Kahn and Cannel, 1957). Interview helps researcher to gather valid and relevant data that is relevant to research question.

The research interview allows to get a context-free truth about objective reality producing relevant responses, with minimal bias. The interview process is "a pipeline for transmitting knowledge" (Holstein and Gubrium, 1995, p. 3). The qualitative research interview seeks to describe and the meanings of central themes in the life world of the subjects. The main task in interviewing is to understand the meaning of what the interviewees say. (Kvale,1996).

Good interview, according to Doyle (2004), requires not only the use of various skills, such as intensive listening and note taking, but also careful planning and sufficient preparation. To collect interview data useful for research purposes, it is necessary for the researchers to develop as much expertise in relevant topic areas as possible so they can ask informed questions. In terms of the interview design process, there are many decisions that must be carefully considered, such as who to interview, how many interviewees will be required, what type of interview to conduct, and how the interview data will be analyzed (Doyle, 2004).

Kvale (1996) says that the interviewer seeks to understand central themes in the life of the interviewee in qualitative (not quantitative), open accounts of specific experiences in the subject's life world. The interviewer tries to remain open to new and unforeseen phenomenon rather than imposing ready-made frameworks or categories. Although the interview is unstructured, it focuses on particular themes. Thus, the research interview is an enriching

experience for interviewees, who through dyadic interplay with the interviewer obtain new insights into their life world and the research theme (Kvale, 1996, p. 32-3).

Saunders (2009) allocates next types of Interview: structured interviews, semi-structured interviews and unstructured. Structured – questionnaires, quantitative research interview, use standardized set of questions. Semi-structured – have list of questions to be covered, that may vary from interview to interview. Semi-structured interview Wide-ranging category of interview in which the interviewer commences with a set of interview themes but is prepared to vary the order in which questions are asked and to ask new questions in the context of the research situation. Unstructured interview loosely structured and informally conducted interview that may commence with one or more themes to explore with participants but without a predetermined list of questions to work through (Saunders, 2009).

Semi-structured interview were employed for the collection of data from the sample. Questions that were posed to the interviewee have a relatively flexible structure in order to rephrase questions for respondents understanding. Questions that were asked during the interview were included background questions, opinion and value questions, knowledge questions and experience questions. Additionally, the interview was a one-to-one interaction by the internet (Skype) was used as the medium of communication. This is a result of the location barrier between the interviewer and interviewee.

10 companies were interviewed. All the companies are from different industries and different countries and operate on the Russian market. The survey of companies from different areas allows to get wider range of companies' strategies and will make work more affluent and interesting to read. Interviews' answers that were acquired from the data collection process were summarized and compared to the research topic to derive the list of strategies that companies used in Russian market during the crisis.

Questions are divided into several topics:

- Introductory questions related to company and person;
- Russian market;
- Questions related to innovation activity of the company;
- Strategic development questions;

- Crisis management questions;
- Current situation in Russia and its affect on company.

This questions division helps to conduct more detailed data and information about company's strategy and personal opinion of the interviewee (Appendices 1, 2). However, these topics are flexible and could be changed according to company context.

Study also includes analysis of secondary data, which include Ernst & Young's 2013 Russian attractiveness survey, World Bank reports, articles in newspapers and magazines, published interviews, companies' annual reports and web sites. Analysis of secondary data will support interviews with facts and figures. Companies' annual reports add real numbers and evidence for the paper. Statistics and publicist articles explain events, and the nature or reasons for the companies' decisions.

Visual presentation of the used methodology and expected results is on Figure 9.

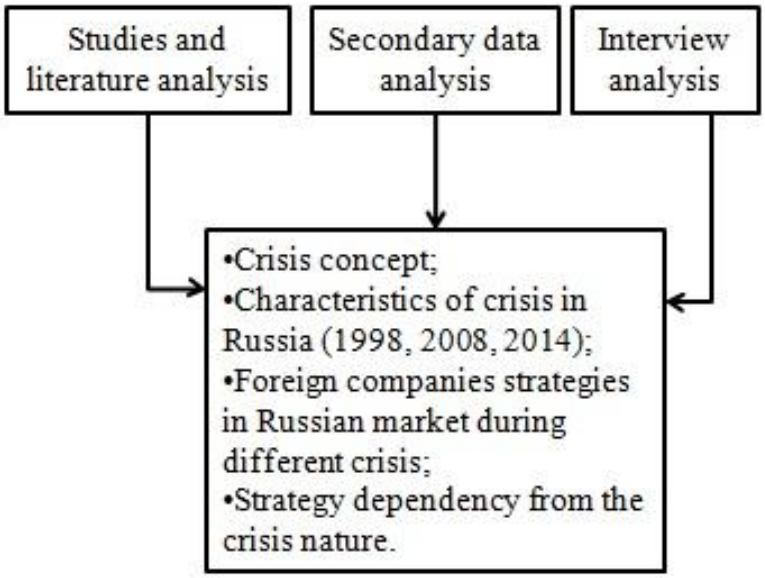

Figure 9. Visual representation of the methodology

7. CRISES IN RUSSIA

The nature of the economic crisis and its consequences depend on predetermined and political environment: a form of political rule and political regime, the nature of political power and the level of its legitimacy, the level of development of civil society, the personality of the political leader of the country, the composition of the political elite, the degree of development of the political system of the country and etc. Economic impact on the political system manifests itself in the fact that the level and state of development of the economy and stimulate initiate politically directed processes and activities: reforms and restructuring initiatives. The low level of economic development of the country, and especially the crisis state of the economy inevitably give rise to public-political measures aimed at economic recovery, the exit from the crisis.

For the last three decades Russia had faced 3 big crises – in 1998 (collapse of the entire system and devaluation of the ruble), 2009 (world economic recession) and current political and economic crisis 2014-2015.

7.1 Crisis 1998

The economic crisis of 1998, Russia was one of the worst economic crises in Russia's history. The crisis occurred against the backdrop of severe economic situation in the country is compounded by inefficient macroeconomic policies pursued by the authorities in the middle of the 1990s (Kuvalin, 2009). While rigid monetary policy (inflation control at the expense of non-monetary financing of the budget and due to hold an overvalued ruble) combined with soft fiscal policy (unnecessarily bloated budget decided by the State Duma and signed by President Yeltsin). The impetus for the emergence of the crisis given two external factors: the sharp decline in world prices for fuel and energy complex (the main Russian exports) and the crisis in Southeast Asia that broke out in mid-1997. To stabilize the situation, the Government of the Russian Federation and the Central Bank of the Russian Federation went to extraordinary measures. August 17, 1998 was declared a technical default on the main types of government debt. At the same time it was announced refusal to hold a stable exchange rate of the ruble against the dollar before the artificially maintained (in the direction of overstatement) massive intervention of the Central Bank of Russia (Kuvalin, 2009).

The first five post-Soviet years in the Russian economy can be called the era of stagflation. The overall economic activity measured by gross domestic product (GDP) declined by some 40%. This slump was even deeper than the Great Depression in the USA in the 1930s. Amid economic decline there was a very strong inflationary wave (Tiusanen, 2003).

According to the Central Bank, at the time of crisis, the Central Bank reserves amounted to $ 24 billion, liabilities to non-residents in the GKO / OFZ (Short-term government bonds / Federal loan bonds) market and the stock market - more than $ 36 billion. The total amount of payments to non-residents of the state amounted to 10 billion dollars a year.

Russia needed foreign loans, but could not reliably guarantee the debt service. Consequence of large external and internal borrowing undertaken by the Government of the reformers, was a huge public external debt of more than $ 150 billion, while international (gold and foreign exchange) reserves of the Russian Federation is at the end of August 1998 only 12.459 billion.

Presumably the output decline gives clear evidence of economic deterioration. However, in post-Soviet studies some features of the previous system must be taken into consideration including an overproduction of many input goods, a prevalence of worthless output, the nonexistence of some claimed output, and waste of output that was produced. Several Western studies maintain that much of Soviet industry actually destroyed value rather than created it.

This value-destroying process takes place when the value of a final product on the world market is less than the value of the raw material that it uses up in the production. Given the very uneconomic nature of this structure with value-destroying activities, systemic change was basically reasonable (Tiusanen, 2003).

This system of managed floating collapsed in August 1998. Tauno Tiusanen (2003) distinguishes several special factors in the ruble crisis 1998: in 1997−1998 falling prices for Russia's major exportable (oil) and growing investor doubts about all emerging markets in the wake of the Asian crisis combined delivered a powerful external shock to the Russian economy. The Asian financial crisis led to a drop in oil prices in June to the level of 10.77 dollars per barrel, and then, after a brief period of stabilization in November, the cost of Brent fell below $ 10. This was one of the factors of defaulting in Russia in the 17th Au-

gust 1998. In the internal economy, budget deficits were virtually out of control making up roughly 7–8% of the local GDP. The reckless borrowing of the public sector caused interest rates to skyrocket: treasury bills (government bonds) had a real interest rate of 40–50%. As the maximum devaluation risk under the rules of the managed floating was only 15%, the risk taken by foreign investors looked pretty moderate (Tiusanen, 2003).

Negative results were: undermined public confidence, uncertainty and hesitation in Russian banks, national currency and the state for foreign investors; destruction of small businesses; collapse of banking system, several banks have filed for bankruptcy; depositors of bankrupt banks lost deposits; household savings have depreciated, the standard of living has fallen, the number receiving unemployment benefits has doubled. At the same time there was a political crisis that soon after the default resigned prime minister Kiriyenko and the head of the Central Bank of Russia Dubinin. The new prime minister Primakov was approved and the head of the Central Bank - Gerashchenko.

Tiusanen (2003) also identifies one oddity in the Russian RUB-crisis of 1998. Normally, currency devaluation is closely linked with a deficit in current account (CA). If a country cannot pay its import bill with her export earnings, a deficit in CA is a result. Considerable and long-lasting deficits cannot be financed forever. In that case, devaluation is normally a tool to restore relative equilibrium in the bookkeeping of the external economy. In the Russian case, CA has permanently been in surplus, even in the crisis year of 1998. This peculiar feature has a simple explanation: Russia's resource base is unusually rich, and thus, export of various commodities, especially energy bearers, guarantees a rather high level of export earnings. Under these circumstances, the capacity of export-oriented segments of the economy to benefit from the devaluation has proven limited (Tiusanen, 2003).

However, there was also a positive influence on economic development after the shock suffered by the economy, as well as changes in the economic policy of the government and the Central Bank, which took place after the change of leadership. There was growth of export efficiency - export-oriented enterprises have received additional competitive advantage on the international market; enterprises operating in domestic market increased their competitiveness due to the fact that price for foreign products has grown dramatically; there also were many structural changes in the economy. The crisis in 1998 was short and was replaced by a very large-scale economic growth.

The crisis in Russia in 1998 had a significant impact on the economic situation in different countries. There also was devaluation of national currencies in Ukraine and Kazakhstan, economic slowdown in countries such as Belarus, Moldova, Georgia, Lithuania, Latvia and Estonia during period 1998-1999. Foreign holders of GKO got only a tiny amount from Russian government (about 1% of the debt). Swiss bank CSFB, which controlled 40% of the market, suffered considerable losses.

Tiusanen (2003) mentions that there was a turnaround in 1999, when GDP grew in real terms by 5,4%. Productivity improvement was with almost 12% remarkable. Retail trade (-6,3%) and import (-28,5%) suffered clear setbacks, obviously as a result of the strong devaluation of the ruble. Figure 5 is build based on WIIW figures contained in Tiusanen's work. A real economic miracle took place in 2000: Russian GDP expanded by no less than 9% in real terms. Export grew with phenomenal figure of over 60% amid global boom of oil prices. Also import grew considerably (by 30%) after two years of deep decline. Investment growth of almost 18% in 2000 is also impressive. Productivity in 2000 increased over 10%, a second essential hike in a row. Retail trade recovered from the two-year slump showing a 9% increase in 2000. One year later (2001), export value was virtually on the same high level of the previous year. Investment grew by almost 9% in 2001. Retail trade and import showed rapidly increasing tendency with 10,6% and 23,6% growth rates, respectively. In 2002, GDP growth was 4,3%, while export again virtually stagnated. Investment activity growth decelerated strongly, but was still on the growth path (+2,6%). Retail trade increased still strongly by 9,1%. Import increase was relatively moderate (6,7%) which is higher than the overall GDP-growth in 2002 (Tiusanen, 2003). There also were series of socio-economic reforms In the 2000s: tax, land, pension (2002), banking (2001-2004), the monetization of benefits (2005), reform of labor relations, power and rail transport. These reforms improved the investment climate in the country and contributed to the development of the economy.

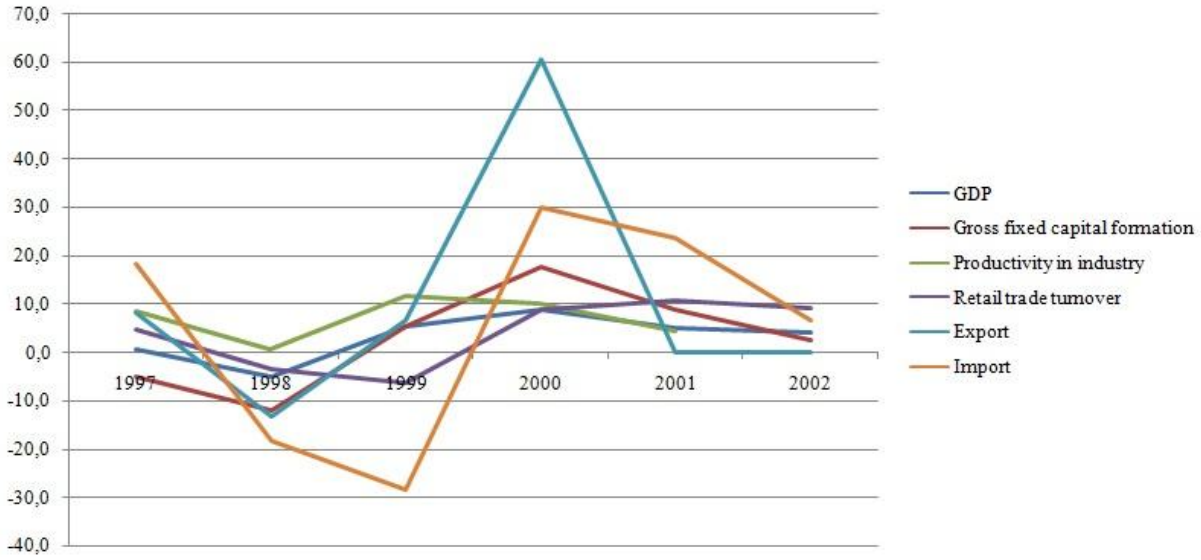

Figure 10. Overview of Russian indexes during 1997-2002 period

Figure 10 illustrates changes in Russia that occurred before and after crisis 1998 – dramatic decline in 1998-1999 and rapid raise in 2000.

Russian economy recovered from the 1998 crisis extremely rapidly. The reason for this positive turnaround is rather simple: the oil price moved dramatically upwards in 2000 causing an export boom in Russia. In the wake of this external shock, investment activity experienced a remarkable revival. At the same time, RUB exchange rate appreciated rather strongly in real terms. These positive developments were rapidly reflected on average living standard (Tiusanen, 2003).

7.2 Crisis 2008-2009

The global recession in 2009 is the global economic downturn that began with the crisis in the US financial sector in 2007-2008. The crisis consisted in the reduction of volumes and tighter credit conditions; a sharp drop in capitalization companies; sharp (albeit uneven) fall in stock market indices; rising budget deficits; recession in production; fall in employment; decline in producer prices and, finally, a reduction in consumer spending.

In 2009 the global economy contracted for the first time since the Second World War. Gore illustrates hi work The Global Recession of 2009 in a long-term development perspective (2010) by ex-president George W Bush's explanation of USA economic downturn started in February 2008. The economic adjustment was occurring 'because we built too

many houses' (Bush, 2008). But on 15 September, after the announcement of the bankruptcy of

Lehman Brothers, fear and panic gripped financial markets and the slowdown turned into a globally synchronized slump.

The global financial crisis and its effects are still unfolding. But, contrary to predictions that they had 'decoupled' from trends in advanced economies, developing countries were severely affected in 2009. The main transmission channels were lower commodity prices and reduced demand for manufactured exports (Baldwin, 2009), a steep fall in private capital inflows, a slow-down in remittances, as well as the financial losses associated with collapses in their own stock markets and extreme exchange rate volatility. The extent of the recession is obscured in the headline figures which show that whilst real GDP fell by 3.5 percent in advanced economies in 2009, it continued to grow by 1.9 per cent in developing economies (UN, 2010). India and China continued to grow apace in 2009. If these two countries are excluded, the real GDP of developing countries is estimated to have declined by 2.2 per cent in 2009 (World Bank, 2010a). GDP per capita declined in 60 out of 107 developing countries in 2009 (UN, 2010) and it is expected that the crisis will leave an additional 64 million people in extreme poverty by the end of 2010 (World Bank, 2010b). The IMF, UN and World Bank are all predicting that the world economy will grow again in 2010 and that developing countries as a group will grow around 5.2 per cent in that year. But all analysts agree that the financial crisis will have long-standing negative effects on the potential output of the real global economy and there are also strong downside risks in the forecasts (Gore, 2010).

In August 2007, the global economy bent but did not buckle. Activity slowed in the face of tightening credit conditions, with advanced economies falling into mild recessions by the middle quarters of 2008, but with emerging and developing economies continuing to grow at fairly robust rates by past standards. However, financial wounds continued to fester, despite policymakers' efforts to sustain market liquidity and capitalization, as concerns about losses from bad assets increasingly raised questions about the solvency and funding of core financial institutions. The situation deteriorated rapidly after the dramatic blowout of the financial crisis in September 2008, following the default by a large U.S. investment bank (Lehman Brothers), the rescue of the largest U.S. insurance company (American Interna-

tional Group, AIG), and intervention in a range of other systemic institutions in the United States and Europe (World Economic Outlook, 2009).

The global economic and financial crisis of 2007–09 caused more damage to the Russian economy than to any other G-20 country. Russia's GDP shrank by 8 percent in 2009, while the stock index fell 80 percent from its peak. Until 2008, Russia was hailed as an economic miracle, enjoying rapid GDP growth, macroeconomic stability, and an unprecedented rise in real disposable income (more than 10 percent per annum on average over eight years). Huge oil revenues and capital inflows drove Russia's impressive growth. The oil and gas sector's share of the country's GDP, budget revenues, and exports grew with the rise in oil and gas prices (Aslund, Guriev, Kuchins, 2010).

Aslund a.o. in their work Russia after the Global Economic Crisis (2010) found several reasons of Russian economy decline: a sharp decline in the price of oil and other commodities as well as capital outflows ($131 billion in the fourth quarter of 2008 alone) put the economy in a tailspin. Corporate debt equaled more than 25 percent of GDP by the time the global crisis broke, while the share of foreign borrowing in banks' liabilities reached 20 percent (Aslund, Guriev, Kuchins, 2010).

Since the 2000s, the Russian economy was celebrated so-called "Groningen effect" - the negative effect exerted by the strengthening of the national currency (caused by rising prices for exported oil) on the economic development of the country and leads to the priority development of the commodity sector to the detriment of production (Sterkin, Papchenkova, 2013). Active growth of oil prices during this period (from 25-30 to 100 US dollars per barrel) resulted in a greater dependence of the Russian economy on this factor and an increase in the contribution of energy producing sectors in the economy (40-50% of the Russian budget was formed at the expense of oil and gas revenues) (Mirkin, 2011). These issues caused dependence of federal budget from the oil prices.

The sharp drop in stock market indices, folding banking, mass layoffs or reduced working week - all this is now inherent to the country. However, the official existence of the crisis in Russia was recognized in December 2008, when the Ministry of Economic Development officially announced the beginning of the recession, even though economists have long been described as the numerous signs of recession, and the "malfunctioning" of the Russian statistics.

According to the World Bank, the Russian crisis of 2008 began as a private sector crisis triggered by excessive borrowing by the private sector in a deep triple shocks from the terms of trade, capital outflows and the tightening of external borrowings.

The Financial Times (18 September 2008) sees the primary cause of the fall of the Russian stock market, the liquidity crisis and capital outflows in August - September 2008 in the domestic problems of the country: the Russian financial sector hardest hit by the credit crunch in the US. For the Moscow Stock Exchange and the Bank for International exacerbated the situation which existed crisis, explains mainly by internal factors - the August Russian-Georgian conflict.

The crisis not only hurt Russia's economy but also uncovered some acute problems facing the country, which, if left unresolved, will hinder sustainable growth in the future. Even without a global crisis, these problems would have inevitably led to an economic collapse (or at least a significant slowdown) by the end of the decade. Many Russian economists note that a slowdown in some important sectors began well before the crisis, and the causes were purely domestic, having nothing to do with the global environment (Aslund, Guriev, Kuchins, 2010).

During the crisis it is necessary to select indicators that can be characterized and predict a positive or negative dynamics of the economic situation within country. Such important crises indicators as unemployment and GDP growth are considered below. Comparison with Finnish figures is made for better understanding. Finland and Russia historically have a close relationship. Over the past decades have been established close political and economic relations between the two countries. Russia is the leading trade partners of Finland, with a share of 13.9% of Finnish foreign trade. Finland's share in Russia's trade is 2.2%, which is the 15th highest rate (according to Russian Ministry of Economic Development). Businesses in both countries are actively involved in the implementation of bilateral economic ties. Despite the significant differences in the structure of the economies of both countries, Finland - one of the most important partners of Russia in the North of Europe and the European Union. On the one hand, there are investments of Russians in Finland: many Russian people have purchased a property in the country and contributed thus the establishment and development of real estate market. The state of the tourism industry, including Helsinki, is also strongly dependent on tourists from Russia. On the other, Finnish

entrepreneurs active operates in Russian market. Finnish concern Stockman has created a network of branches in Russia, the largest Finnish wood concerns, significant volumes of Russian raw materials. There is constant communication energy cooperation. There is absence of any significant hydroelectric in Finland, and except for a few nuclear power plants, the country is totally dependent on energy supplies from Russia. Accordingly, Russia is the largest supplier, and its share in total imports is 18%.

For the last decade Russian unemployment has undergone through different changes. There is also a high level of hidden unemployment in Russia, which arises as a consequence of the fact that the country has too rigid labor laws with respect to employers. By Labor Code, which operated in 2009, when an employee leaves the employer is obliged to pay him a salary for two months. Thus, employers are trying to force the employee to leave of their own volition, in order to avoid the above-mentioned articles of the Labor Code of the Russian Federation. The main way to reduce staff exposure was the withdrawal of a term less forced to leave and transfer to part-time. This reduces the average annual wages of the employee in the future at a lower cost to reduce staff. As of June 2009, the number of employees working part-time, according to official figures there were around 9%. But this figure is actually much higher. According to Russian Ministry of Economic Development unemployment peak was in the beginning of 2010. Annual average increased by 200 thousand people that is up to 7 million. (This is 9.6% of the economically active population). According the information from Ministry, in the beginning of 2011 the situation has worsened because of the fact that the companies continued to reduce labor costs. This is a worldwide trend - unemployment continues to grow, despite of the economic situation improves.

Situation with unemployment in Finland was also not very good in 2008-2009. Figure 5 represents Finland and Russian unemployment during 2005-2014. According to Labor Force Survey of Statistics Finland, the number of unemployment persons in April 2008 was 45000 higher than previous year. In 2008, the decline in employment was caused by the global financial crisis. The main victims were employees of the private sector, especially factory workers, farmers, trade, etc. Employees also the public sector, due to the current budget, remained in their places. Moreover, at a time of financial crisis, the size of the bureaucracy continued to grow, although jobs in enterprises declined. Quantitative growth of bureaucracy in Finland has taken place for over ten years, since 2000. What happens is that

the manufacturing sector, the supply budget, weakened and superstructure, living on the budget became more and more powerful. The growth rate was not very noticeable, because the jobs that are lost private sector largely offset by the creation of new jobs in the public sector. However, the peak of unemployment rate was in 2010 – 8,7%, according to Eurostat, compare to 6,2% in 2008. Nowadays situation became worse – 8,9% in October 2014. These dramatic changes caused by previous steps that led to an increase in bureaucracy and the creation of artificial jobs absorb funds that could be used to support production and political crises, related to the situation in Ukraine. The current rise in unemployment is due not only wastage of jobs in the private sector, but also a significant reduction in staff positions in the administrative apparatus and in other areas of the public sector. High unemployment in Finland existed before the recent changes, but it was hidden. Thousands of people took worker places, the existence of which was not necessary, eliminating these jobs will provide the means to support a real business and the subsequent growth of genuine employment. Downturn in the economy of Finland was observed in 2012, and in 2013, and in 2014 the growth rate of close to zero. Thus, Finland, together with Cyprus occupies the worst position among the countries of the euro zone, according to the international agency Standard & Poor's.

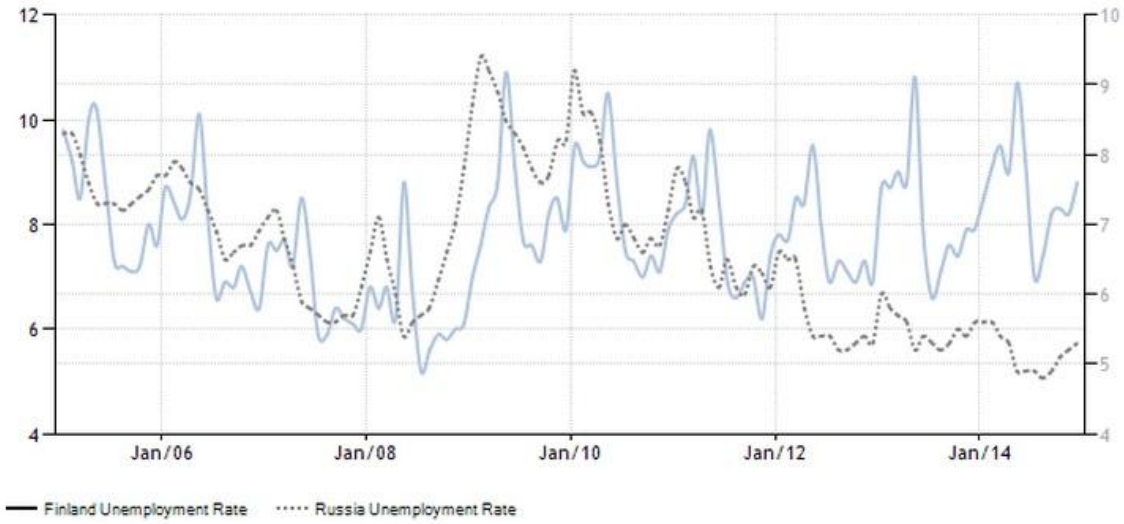

Figure 11. Finland and Russian unemployment during 2005-2014, based on Trading Economics data

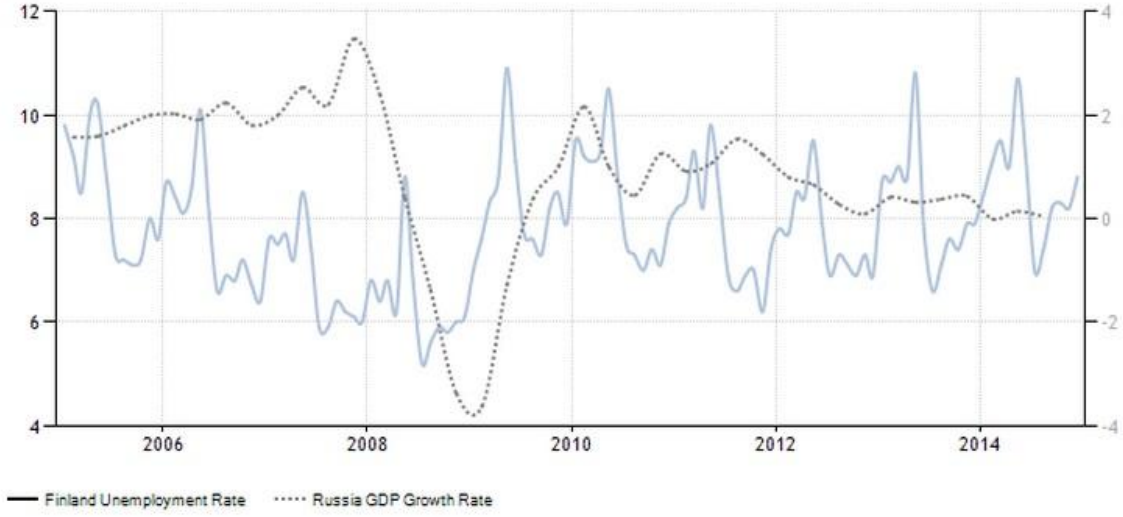

Figure 12. GDP growth In Finland and Russia during 2005-2014, based on Trading Economics data

Figures 11, 12 represent symptoms of the crisis in Russia and Finland. In terms of unemployment there was a high leap in 2009 in Russia as a reaction on economic recession. Later situation become more stabilized as we can see on the chart. Finland was also affected by the global financial crisis in 2009, but, in contrast to Russia, Finland could not recover after 2009, as can be seen from the graph, the unemployment rate in the country was growing leaps and still is staying at the high level. In terms of GDP growth situation in Russia is worse, although more stable than in Finland. Russian economy suffered huge losses due to business interruption, many international companies during the crisis. Situation in Finland was not so dramatic in 2009, however economic situation in the country was not stable over 2009-2014, that negatively affects on both – internal business and foreign investments.

7.3 Crisis 2014-2015

Crisis 2014-2015in Russia is unstable political and economic situation due to low prices on energy resources and economic sanctions because of the conflict in Ukraine. These issues caused weak position of the ruble and increase in inflation, reducing real incomes and reduction of consumer activity. Factors in sum provide risky environment for FDI and foreign companies in Russian market.

According to the Central Bank of Russia, the decline in oil prices and the economic sanctions of the West against Russia caused a weakening of the ruble, which has led to an increase in inflation (Press release of The Central Bank of the Russian Federation). Russian Prime Minister Dmitry Medvedev confirmed that the situation with oil prices and sanctions have caused weakening of the national currency. The fall of oil prices was caused by the excess of supply over demand, which was caused by: slowing of growth in oil demand, the increase in oil and gas production on the domestic market as a result of the US shale gas revolution, the failure of OPEC to cut production (Oil Market Report, 2014). The fall led to a reduction in revenue from energy exports account for about 70% of the volume of Russian exports.

The Russian armed forces' intervention in the events in Crimea caused serious disturbance on Russia's financial markets. On 3 March 2014, the stock exchange value of Russian corporations lost USD 60 billion and there was a serious depreciation in the value of the ruble, even though the central bank raised interest rates by 1.5 percentage points and intervened to support the ruble on the foreign exchange markets (Rautava, 2014). This event gets a response in the international community in the form of economic sanctions. According to Russian News Agency (TASS), United States, European Union, Switzerland, Norway, Canada, Australia, New Zealand, Japan and other countries imposed economic sanctions against Russia because of the Crimea to Russia.

Even were the situation in Crimea to calm down, the uncertainty caused by events so far will cast a long shadow and cost Russia in the form of slower economic developments (Rautava, 2014).

The pace of growth in Russia has faded in recent years, and in 2013 the country's GDP grew a mere 1.3% (Figure 13). The slowing of growth is not due to the trends in energy and other commodity prices, but to deeper problems stemming from the economy's one-sided structure and lack of competition. The slower growth makes it harder to resolve the existing problems and generates increased uncertainty over the future. Such uncertainty is poison to investment and economic growth. There is now a greater probability the Russian economy could drift into a crisis stemming from slow growth and an unimaginative economic policy (Rautava, 2014).

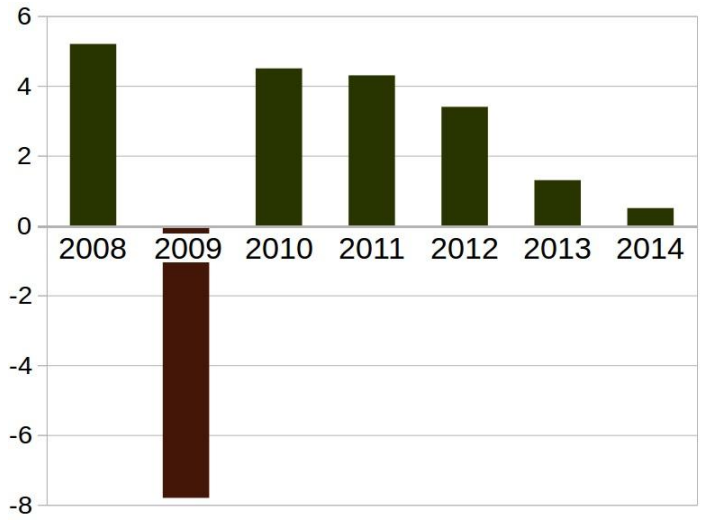

Figure 13. Annual percentage growth rate of GDP of Russia at market prices based on constant local currency (aggregates are based on constant 2005 U.S. dollars. The World Bank data)

The international credit rating agency Moody's announced in January 2015, that it downgraded the credit rating of the Russian government debt by one notch - from Baa2 to Baa3 - to the level of the boundary with the ‘speculative’, and on February 21 from Baa3 to ‘speculative’ level of Ba1. Also investment agency Standard & Poor's downgraded the rating of Russia to the level of BB +, that scale of below investment grade.

According to American business magazine Forbes, it was the maximum monthly inflation in Russia since 1999 - 3.9% in January 2015. Consumer prices have risen in 15% in annual terms, reaching the highest level since 2008 (Raiffeisenbank for RBK report, 2015).

Russian and foreign companies started cutting costs activities. As reported by Vnesheconombank, in January-February 2015 the outflow of capital from Russia amounted to $ 24 billion. According to the Federal Register, in the first half of 2015 the number of bankrupt companies increased by 22%. In March of 2015, GDP declined in annual terms by 3.4% versus a decrease of 1.2% in February. Some experts predict the worsening downturn. Overall, the first quarter of 2015 Russia's GDP fell by 2.2% (Reuters agency report, 2015).

As a one of the consequences of sanctions was that large Russian companies cut off from Western debt markets, which greatly limited their ability to attract funding. There was a threat of non-payment of debts, companies began to turn to the state for support. However,

the funds of the Central Bank of Russia Reserve Fund and the National Welfare Fund (NWF) were $ 450 billion, while the foreign debt of Russian companies is estimated at $ 630 billion (in October 2014) (according to Moody's report about Russian companies debts, 2015).

Vladimir Inozemcev Director of the Research Center of postindustrial society, made analysis of current Russian crisis for RBK (Russian media group). He claims, that the most obvious feature of the crisis in 2015 is the background on which it began. In previous cases, the crisis came to Russian economy at the stage of a sharp rise. In 1997 the country's GDP for the first time increased by 1.4% after a protracted recession (average annual fall in GDP in 1992-1996 reached 9.4%). In the previous five years, in 2008 the average GDP growth rate was 7.5%. In both cases, the indicators of investment activity were quite impressive: in October 1997 the RTS index reached 571.6 points (which he did not return until September 2003), in May 2008, he set a record at the level of 2498 points, which beat the apparently It succeeds in a very long time (Inozemcev, 2015). By contrast, in 2012-2014 the economy shows a steady fall in the rate. 3.4% growth in 2012, 1.3% - in 2013 and 0.6% - in 2014: that was the way of coming into the current crisis, and this means that (unlike former) he is doomed to be much longer (Inozemcev, 2015).

According to Inozemcev, only business can help Russia to overcome the crisis. Crises cut off part of the uncompetitive companies, stimulate the restructuring of the corporate sector, provoking changes in the industrial structure (Inozemcev, 2015). Economist made a comparison between 1998, 2008 crises and current situation. As stated in analysis by Inozemcev, the share of public companies in the GDP was less than 25% on the eve of the 1998 crisis, while the share of state banks in the assets of the banking system - 21%. Having obtained through the devaluation of clear competitive advantage over imports, the Russian business has provided the explosive growth of the economy: its leaders in 1999-2003 were private oil companies, retail, banks, mobile operators, service sector and catering. Nevertheless, by 2008 the share of state sector in the economy exceeded by some estimates, 40%, and in 2013 reached 50% of GDP. Nowadays economic policy of the authorities in many ways led to the destruction of private initiative at the average level, which is especially important during the crisis (Inozemcev, 2015).

Current situation in Russia affects all the economic industries, manufacturers raised their prices because almost all the components are imported. At the same time, cost reduction initiatives have reduced the purchasing power of the population and made Russian Market less attractive for foreign companies.

2014-2015 crisis is not economic crisis like it was before, but created from the outside political, financial slump for Russia. It is very uncertain and hard predictable global conflict of the interests.

Table 4 provides a comparison between the described above crises in Russia.

Table 4. Comparison between crises in Russia

Characteristics of comparison	**Crisis 1988**	**Crisis 2008**	**Crisis 2014**
World oil prices (US dollars per barrel)	7,8	33,73	80
Decline in oil prices (%)	53	68,9	46,2
US dollar exchange rate growth (%)	233	44	87
Reduction of ruble deposits of individuals (%)	-6,5	-21,8	-3,5
The number of trubled banks	245	79	134
Inflation rate	27,6% (85,7% in 1999)	13,3%	11,4%
Slowdown in GDP growth	-2,5%	+5,2%	+0,6%

Figures are adopted from Ivanter & Selyanin analysis for Expert online (2015). Table 4 shows that current crisis is more similar with crisis in 1998 than with crisis 2008. A slowdown in GDP growth in 2014 turned out to be many times more significant than in 2008 and closer to that of 1998. Crisis of 2008 was due to purely economic reasons, and now both played the role of several factors: the aggravated geopolitical situation, the introduction of anti-Russian sanctions (retaliatory sanctions have also had a negative impact on their own economies rather than on the countries against which they were introduced) and growing commodity dependence economy. Similarities between all crises are the fall of the national currency and oil prices. The main distinguishing feature of the 1998 default crisis and current crisis is, that in default caused by incompetent government, which conducted

the unsustainable fiscal policy, and indirectly, by external factors. In 2014, the crisis in Russia was due to causes that came from outside.

8. CHARACTERISTICS OF RUSSIAN MARKET

Russia has a market economy with enormous natural resources, particularly oil and natural gas, and is perceived as a major emerging market economy. In 2011, it was rated the world's 9th largest economy in terms of nominal value and was the 6th largest judged by purchasing power parity. Russia's per capita GDP (USD 17,618) was the highest among BRIC countries. Historically a political heavy weight, Russia is a member of the G8, G20 and of the UN Security Council (KPMG report, 2013).

Russia seems attractive to foreign investors - the rapid growth of the gross domestic product (Figure 14), a large population and a significant increase in purchasing power. But the special and complex business environment has created a reputation of Russian difficult country to do business in. Figure 14 shows the rapid GDP growth in Russia, which even exceeded the world GDP growth before 2009 (before the World economic recession in 2008-2009) and in 2010 – 2012. The attractiveness of the Russian market for investors associated with a large proportion of the middle class, which can be attributed about 27% of the population, and the forecasts for the next 10-15 years will be doubled this figure. Compared with China, there is a middle-class 23% of the population in Brazil - 48%. According to the World Economic Forum, Russia ranked seventh in the world in terms of market. Russia has sufficiently large reserves of recoverable natural resources. According to the oil fields of the Russian Federation ranked sixth, their volume is estimated at 17.8 billion tons and Is a leader of gas resources (48.8 trillion cubic meters). According to official statistics, in 2009 the population increased at a solid pace - about 0.1% per year. As of 1 January 2013 the population of Russia was 143.3 million people. At the age of 25 to 39 years of higher education according to the 2010 have 39% of Russian citizens, which is 3 percentage points above the average for Europe. On the development and effectiveness of infrastructure (communication and transport) of the Russian Federation took 47th place out of 144 possible in the World Economic Forum's World.

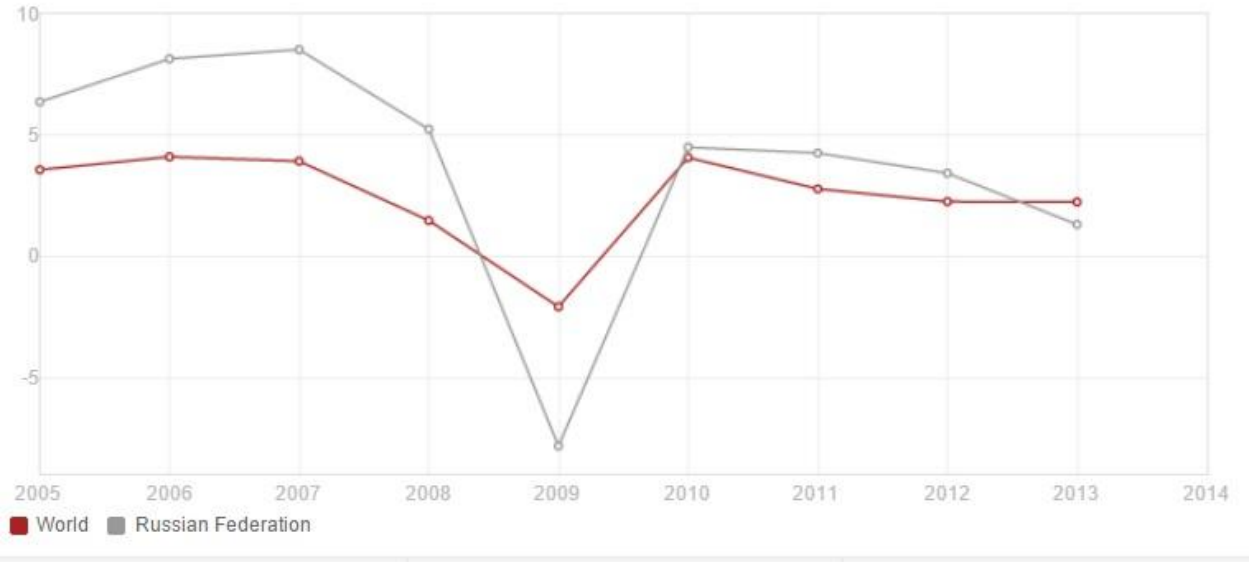

Figure 14. GDP growth (annual %) (Adopted from World Bank data, 2014)

Russia has a commodity oriented growth model, which can cause fluctuations in times of low commodity prices. The other main driver of growth is domestic consumption, partly fuelled by strong credit growth. The final key driver is increased spending on fixed assets (KPMG report, 2013). The key driver to Russia's GDP growth is its vast stock of natural resources. In fact, two-thirds of Russia's stock market is dominated by the extractive industries.1 The abundance of natural resources continues to be Russia's most globally competitive feature. Russia accounts for some 20% of the world's gas reserves, 18% of the world's coal reserves and 5% of the world's oil reserves (KPMG report, 2013).

Another key driver of the Russian economy is the strong domestic demand. From 1998 onwards, the consumer boom in Russia was the result of nearly eight years of economic prosperity and growth in credit facilities (KPMG report, 2013).

However, US Trade Representative (USTR) on the basis of its own analysis estimated the investment climate in Russia in 2013 as unfavorable. American experts believe that the measures taken by the Russian authorities - insufficient. In the present report, the authors argue that foreign entrepreneurs deters investment legislation intricate, high levels of corruption, distrust of the Russian judicial system and weak protection of minority rights. In connection with the conclusions of expert sales office to evaluate the attractiveness Russia for investors from abroad as low, and all attempts of the Russian authorities to increase its - unsuccessful. According to American experts, the Russian authorities are taking insuffi-

cient and ineffective measures to combat corruption. In particular, based on the Presidential Anti-Corruption Council, as well as the adoption of several important amendments to the anti-corruption legislation could not lead to any significant progress in this area.

The Russian government has in recent years seen in the ratio of foreign companies more ambivalence than welcome. Official policy prescribes support of foreign direct investment, but in practice, foreign firms are experiencing incredible difficulties trying to invest in the Russian economy. Russian legislation does not have an established base business encounters many bureaucratic obstacles.

8.1 Corruption in Russia

According to Transparency International (Transparency International is a non-governmental organization that monitors and publicizes corporate and corruption in international development) Corruption index (According to Transparency International, the Corruption Perceptions Index (CPI) ranks countries and territories based on how corrupt their public sector is perceived to be. It is a composite index – a combination of polls – drawing on corruption-related data collected by a variety of reputable institutions) Russia is on 136 rank from 175 countries and got 27 score from 100.

Russia differs from other countries of Western civilization in that it was a natural development for 70 years destroyed by the communist regime interrupted by the successful development of capitalism, the transition to a constitutional monarchy, parliamentary destroyed and an independent judiciary, freedom of the press and destroyed tons. N. However, under the socialist ideological cover preserved imperial tradition preceding tsarist period, borrowing from him, among other things, an inefficient bureaucracy and corruption.

In Russia, corruption has long been not only a kind of norm, but also an integral part of the practice in politics, economy and social life. The most prone to corruption areas in Russia are:

- Customs Services: border crossing prohibited for carriage of goods; return of confiscated goods and currencies; reducing customs duties; the mere existence of undue delay of cargo; unreasonable delay of customs duties;

- Tax authorities: the withholding tax in full; VAT return; "Closing eyes" on tax offenses; failure to control measures; caused by competitors inspection and stop production;
- Law enforcement agencies: excitation and termination of criminal cases, as well as referral for further investigation; lack of legal punishment for offenses of varying severity;
- Bureaucracy: a bribe for issuing certificates, permits, and other documents; establishment of affiliated business firms, accelerating surcharge execution of documents;
- Even the fight against corruption sometimes a cover for the theft of funds allocated for its implementation;
- Educational institutions: the buying and selling of diplomas; Examination results overstatement; admission to the university people with insufficient knowledge.

Corruption increases the cost of business and negatively effects on the competition. In Russia, company must be able to work with corruption issue. Companies can take advantage of several options: work in areas where interaction with corrupt officials seems inevitable, can be transmitted to other companies; or try to eliminate the element of corruption in advance, proposing a deal that does not violate the ethical standards of the company. In addition, companies may wait until the last, joined the project in the late stages, or waive such transactions, which do not allow avoiding corruption. Russian will face corruption strategy of the company, so the firm position is crucial.

8.2 Trade barriers

According to survey conducted by Ministry for Foreign Affairs of Finland in 2009 there are several issues in Russia that negatively affect on the trading between two countries: unpredictable, slow and inconsistent customs procedures, high custom tariffs, difficult procedures (such as special certification and documentation), corruption and bureaucracy.

8.3 Russian competition legislation

Russian competition legislation, better known as antimonopoly legislation, is still in a stage of formation and adaptation to a new economic system. The first modern antimonopoly

legislation was adopted in 1991 but has been significantly amended a number of times since then, most importantly through the enactment of Federal Law No. 135-FZ "On protection of competition" (the Law), which took effect on October 26, 2006. The main objective of Russian antimonopoly legislation is the same as that of EU legislation, which is to ensure fair competition in the goods, services, labor and financial markets by preventing behavior that is incompatible with an undistorted, consumer friendly market. The Federal Antimonopoly Service (FAS) is a state body that is in charge of antimonopoly regulation. Foreign companies doing business in Russia must pay special attention to antimonopoly requirements, since failure to comply with such requirements may result in substantial liability and significant penalties, both commercial (fines, invalidation of transactions and foundation of a company) and personal (administrative and criminal). Russian competition law contains strict requirements and mandatory restrictions that must be observed.

As the Law does not set out specific rules for the establishment of joint ventures, a joint venture is treated as an acquisition of assets, shares or rights by the joint venture company from its founders and/or third parties. In many cases, the notification requirements for the establishment and merger of entities may apply to the establishment of a joint venture.

8.4 Political System

Russian Federation is a democratic federal law state with a republican form of government. Russian political system is still in its infancy. Civil society is in the process of reform. There is a huge increase of the state apparatus in Russia, and as a consequence - bureaucracy. Poor political structuring of society, political parties are weak and do not have a clear social orientation, there are few socio-political organizations and movements, and low level of political culture among population, also destabilization of international relations. These issues provide political instability and could become a problem for international company.

8.5 Taxation system in Russia

Corporate taxation has changed constantly as new legislation has been implemented in the wake of the reforms that began more than ten years ago. Taxpayers have experienced many inconsistencies in tax administration at both federal and regional levels, and to improve the situation, the government launched a comprehensive tax code. Currently, almost all parts

of the new code are in effect, including the general part and the parts on VAT, excises, personal income tax, profits tax from organizations, natural resources exploration tax, property tax from organizations, special taxation of production sharing arrangements, transport tax, gambling tax, special taxation of small and medium-sized businesses and producers of agricultural products, land tax and stamp duty. Customs duty, social contribution and property tax for individuals are currently governed by separate legislative acts. Profits earned by enterprises are taxed at a rate not exceeding 20%, of which 2% is paid to the federal budget and 18% is paid to the regional budgets. Regional legislative authorities are allowed to reduce, for certain categories of taxpayers, the tax payable to their respective budgets by up to four and a half percentage points. In some regions of Russia, the regional portion of profits tax may therefore be lowered to 13.5%.

8.6 Cultural Environment of Russian market

Russia is a multiethnic country with many different cultures. The official religion is Orthodox, however, there are a lot of different confessions - Catholics and Muslims, as well as a huge number of atheists. Majority of population is concentrated in urban areas. Nowadays Russia still has strong family traditions. Number of children in families is rarely more than two.

Long-term relationships between Russia and Finland provide an opportunity for better culture understanding that is one of the components of effective business.

8.7 Government intervention

Since the beginning of the twentieth century with the formation of the USSR, government totally controls the economy that has a significant impact on the mentality of Russian citizens. Since 1990, Russia embarked on the decline in the share of state influence on the economy. At the present stage of development of Russia is a kind of return to the pre-existing practice of total state control, and therefore the value of the share and the private sector in the national economy has been steadily declining. According to the Russian Ministry of Finance, there was only half of the national economy under the control of the state at the beginning of 2000. In 2007 this figure has increased significantly and is more than half. In 2004 Russian government managed main oil companies such as "Sibneft" and "Gazprom". The state-owned business or a majority ownership stake is not the only form

of state intervention in Russian economy. In fact, government controls most of the energy market and disposes of the property at its discretion, it also based policies by the full nationalization of strategic areas such as nuclear energy, defense industry and railways. The existing conditions of total government control of the market development effects on the private property, by providing lack of the concentration of the capital. There is also a widespread association of state and business structures, which leads to monopolization of the state of the market. At the same time increasing the value of the state in the national economy is accompanied with reduction of efficiency of the government, which is unable to provide objective reasons and rational management of the national economy because of bureaucracy, bribery, corruption.

8.8 Technological development in Russia

The volume of innovation coming from Russia into the world community is negligible. Within the country innovation is also poor developed. Mostly it is foreign innovations adapted to Russian market. There are a lot of Russian scientists working abroad because of the lack of resources and opportunities inside the country. However, situation started to change, nowadays government developed many programs for stimulation innovation activities within the country. There are many new techno policies and universities specialized in new technologies and R&D activities. These issues provide an advantage of Russian market as space for companies' R&D with high educated employees.

8.9 PESTEL analysis of Russian market

PESTEL analysis (Figure 15) represents characteristics of Russian market which most affect on the companies' activities. The analysis is based on the chapters above and provides information about the whole country.

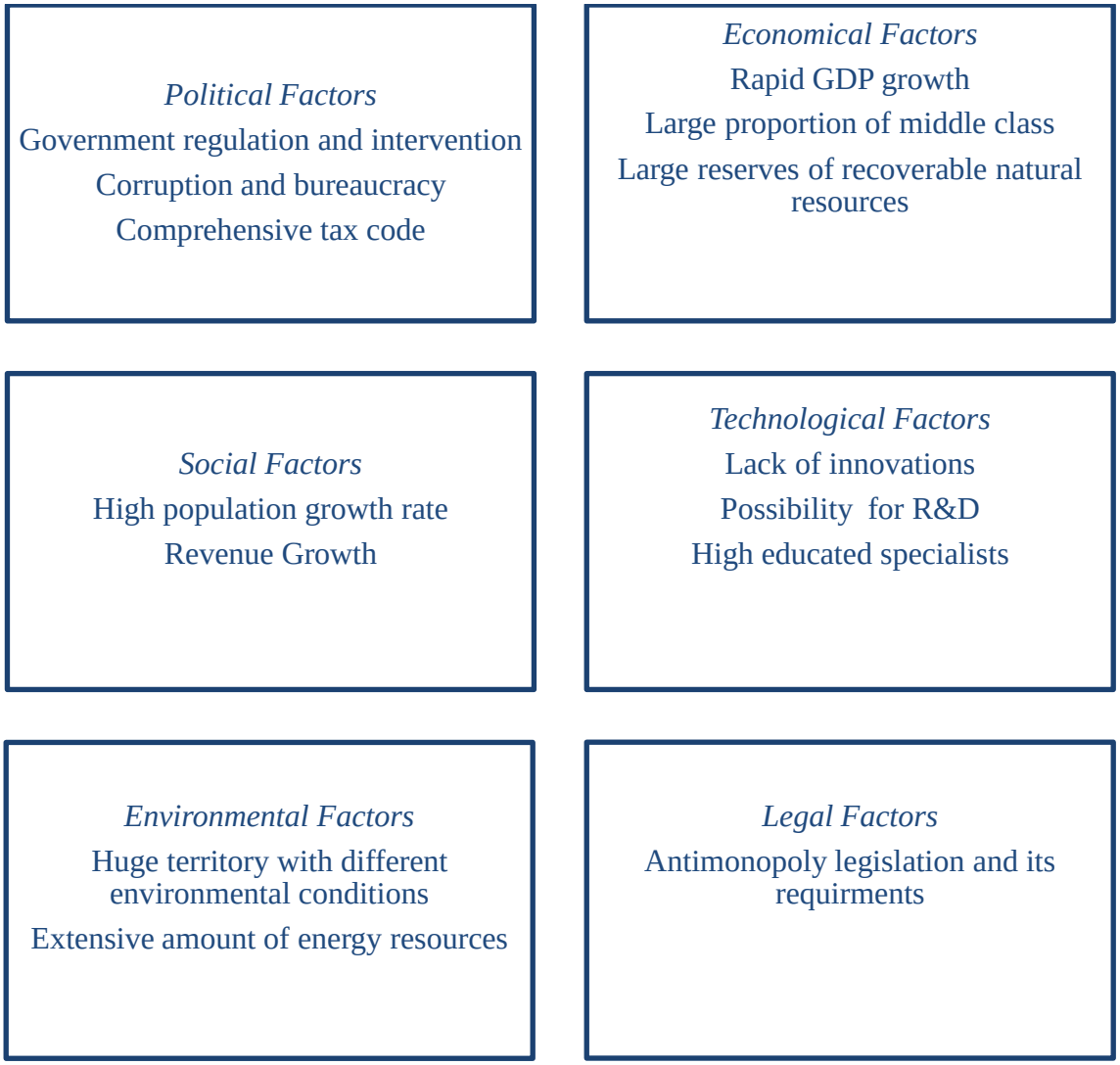

Figure 15. PESTEL analysis of Russian market

8.10 FDI in Russia

Russia's growing consumer market, rising disposable income, expanding middle class, vast resource reserves and highly skilled workforce continue to attract investors from all corners of the world. In 2012, the country's FDI performance relative to other European countries remained roughly the same. However, the large number of jobs created by foreign investment gave Russia the second-highest level of FDI-generated employment in Europe last year (Ernst & Young report, 2013).

Per capita FDI into Russia was, until recently, very disappointing: Russia had since the early 1990s been significantly under-performing with respect to comparable emerging economies as well as the other countries that have emerged from the Soviet Union. FDI into

Russia has grown since 2002 by almost 8.3 times, reaching around EUR 23 billion in 2006, or over 3% of GDP, which is more than three times the corresponding figure for 2002, and is comparable to the FDI share in China (ECFIN Country focus, 2008).

According to Ernst & Young's Shaping Russia's future report (2013), Russia managed to improve the way it's perceived by investors in 2012. Respondents to survey conducted by Ernst & Young rank Russia as the sixth-most attractive country in the world for FDI, and the most attractive in the Commonwealth of Independent States (CIS).

Government efforts to increase transparency and drive modernization have started to yield results. Russia has improved its ranking on several business indices, and accession to the World Trade Organization, as well as other integration efforts, are expected to further improve the investment climate. However, administrative barriers and corruption are still preventing Russia from realizing its full FDI potential. Russia should think about investing its energy-sector revenues in driving these improvements (Ernst & Young report, 2013).

As reported by KPMG (2013), after 2005, FDI inflows grew exponentially, due to investments in newly liberalised sectors such as the power generative industries, the automotive and real estate sectors. After reaching record heights in 2008, the financial crisis led to a collapse in FDI, as the global economy entered into a recession. Since the severe drop in 2009, FDI has recovered partially, reaching USD 45bln in 2012, the fourth highest level ever recorded in Russia's history. Foreign investors remain motivated by the continued strong growth of the consumer market and affordable labour costs, coupled with productivity gains. They also continue to be attracted by high returns in energy and other natural-resource related projects (KPMG report, 2013).

In 2011, Russia led Central and Eastern Europe (CEE) at attracting FDI. Despite that, the number of FDI projects declined by 36% in 2011, down to 128. However, 8,362 new jobs were created, a 4% increase over 2010. Labor-intensive industrial activities increased the average number of jobs created per project to 65 in 2011 from 40 in 2010. Specialists from Ernst & Young have distinguished next top FDI sectors in Russia in 2011 (Figure 16):

- Automotive has been the key sector attracting FDI in Russia over the last five years, with 90 projects and 16,787 jobs created.

- The food sector brought in the second-largest number of FDI projects (86) in Russia. Over the past five years, the industry created employment for 9,958 people.
- Machinery and equipment emerged as the third-largest sector in Russia in terms of FDI projects (62) and the fourth-largest in job creation (3,682 jobs) between 2007 and 2011.
- Russia's business services sector has seen a growth in FDI activity in recent years. It accounted for 9% of the total FDI projects in 2011 (Ernst & Young, 2011).

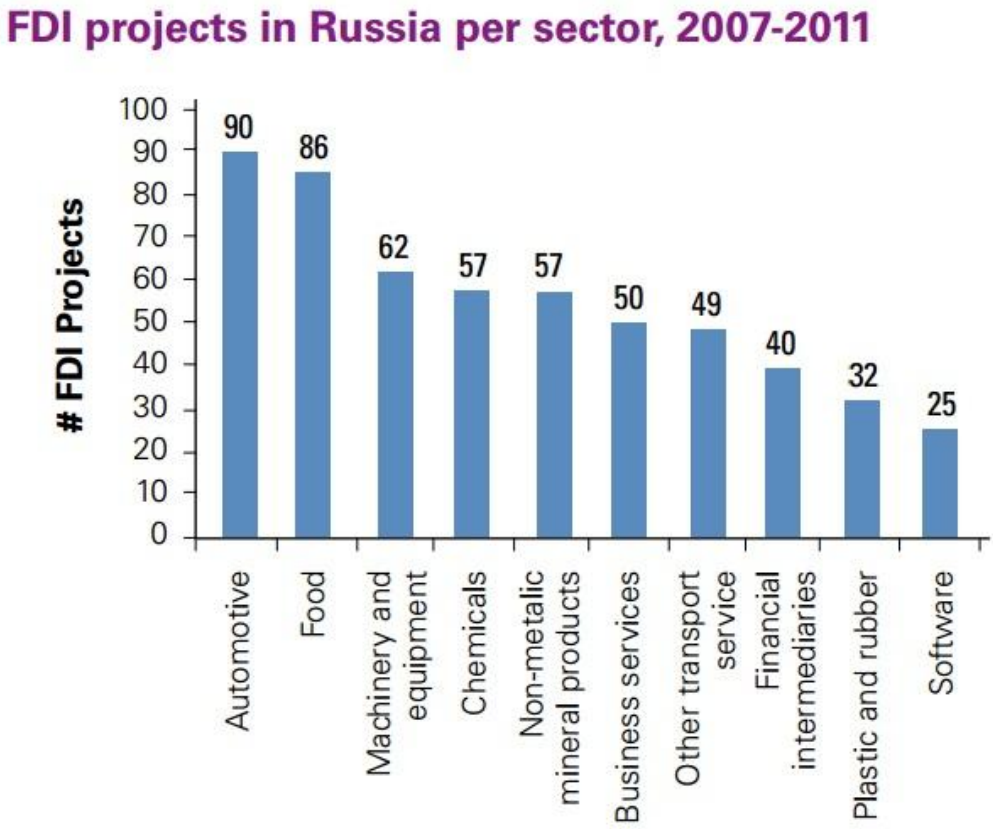

Figure 16. FDI in Russia per sector (E&Y's 2012 Russian attractiveness survey)

Between 2007-2011, the US was a leading investor in Russia with 122 projects, corresponding to 16% of total projects.1 Leading US companies, such as Boeing, Cisco, ExxonMobil, were active in sectors including automotive, IT, food, and oil and gas. The second largest investor was Germany, with 99 projects in a range of sectors including oil and gas, banking and consumer goods (KPMG report, 2013).

According to a KPMG Russia survey, 61% of respondents affirmed that the regional investment climate is improving. This is a positive development and reflects the efforts of the Regions to improve their attractiveness to investors. However, at the same time, res-

pondents acknowledged that improvements are not yet happening at the right pace. Despite improvements, Russia and its regions need to step up their efforts to attract FDI. This will serve to attract capital and knowledge required to modernise. One way of achieving this is by improving 'soft factors' (KPMG report, 2013). KPMG Russia developed a framework, establishing the attractiveness of a region as a combination of hard and soft factors. Hard factors are those which are part of the existing environment and cannot be changed in the short/ medium term (assets, geographical location, resources) and the ability to influence them is very limited. Soft factors are those which a regional government has considerable ability to positively influence in a reasonable period of time (business support, regulator environment, tax incentives) (KPMG report, 2013).

Figure 17 represents dynamics of FDI in Russia (in billion US dollars). Graph is based on Federal State Statistics Service data.

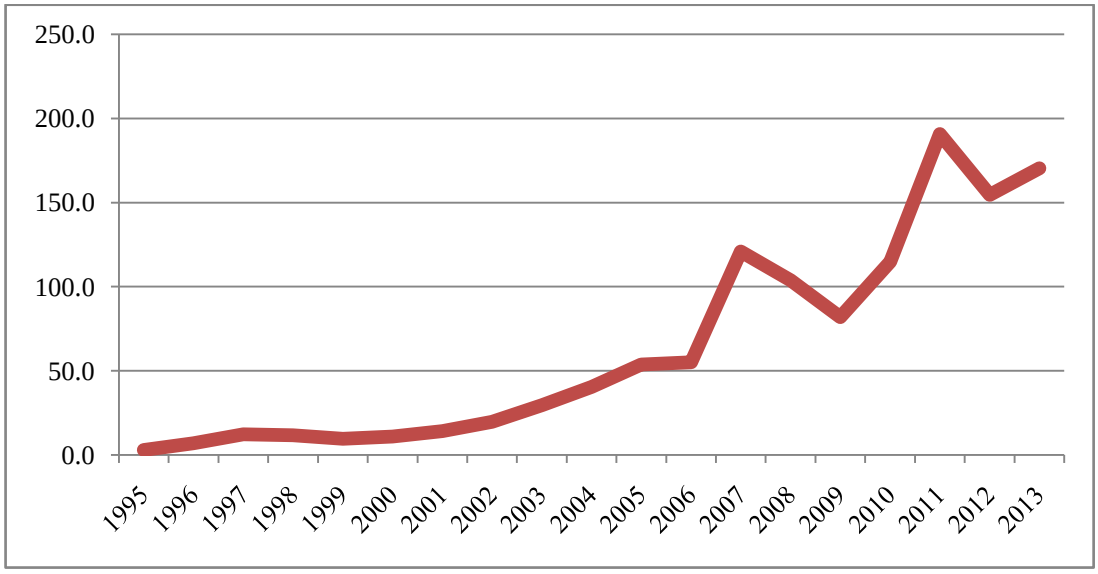

Figure 17. FDI dynamics in Russia (in billion US dollars)

Figure 17 shows the FDI trend to rise, but in the period from 2009 to 2010, and in 2012 was observed reduction in the investments to Russian market.

Based on the on the conducted analysis KPMG developed several recommendations that will improve Russian investment climate:

1. Have a governor who clearly makes attracting FDI the unquestioned priority of his/her tenure.

2. Have a senior team that recognizes when rules are abused and is willing to end such abuse.
3. Make ‘business-orientation’ the key element of recruitment and promotion policies for all staff.
4. Develop a ‘hand-in-hand’ approach with investors to overcome deficiencies in the business environment and focus on delivering results.
5. Willingly engage in pan-regional projects that improve labor productivity.
6. Learn how to differentiate one-self in a level playing field (KPMG report, 2013).

In 2014, foreign direct investment in Russia fell by 70%, to $ 19 billion, suggests a report published January 29 United Nations Conference on Trade and Development (UNCTAD). The reasons for the sharp decline in investor interest in the country study authors called the sanctions against Russia, and the negative prospects for economic growth (RBC Information Systems report, 2015). Another reason for the sharp drop in the volume of foreign direct investment to Russian market has become a significant volume of investments made by Russia in 2013. Then the country was on this indicator in third place in the world, behind the United States and whether NIL China. At the end of 2013 in Russia was invested $ 79 billion. Ukrainian conflict and sanctions against Russia spooked investors from developed countries. The UN estimates that investments in state transition in 2014 decreased by 51% compared with 2013 year. In total, these states were invested $ 45 billion (RBC Information Systems report, 2015).

UNCTAD considers the prospects for growth in foreign direct investment in 2015 as unclear. Among the factors that could adversely affect the market, the drafters of the study called consumer uncertainty, the volatility of the currency markets and geopolitical instability. In addition, the decline in commodity prices is likely to lead to a lack of investor interest in the investment in these assets. On the other hand, the United Nations positively assessed the prospects of development of the market of mergers and acquisitions (RBC Information Systems report (2015), based on the UN Global Investment Trends Monitor).

9. ANALYSIS OF COMPANIES' INTERVIEWS

- **AgustaWestland in 2008 and 2014 cresses**

AgustaWestland is an Italian company, part of a group Finmeccanica. Company was founded in 2001. It is one of the largest participants in the global market of civil and military helicopters. The company offers a unique range of helicopters and solutions in the field of training and technical support to meet the requirements of customers to the target machine characteristics. The main company AgustaWestland in the UK, Poland and the United States, almost 13,000 employees. Finmeccanica Group has a large number of regional offices and industrial sites in key geographical areas - Europe, North and South America, Middle East,Africa, Asia, Australia, China and Russia – and it operates directly in the United Kingdom through Finmeccanica UK and in the United States with Finmeccanica North America.

On 28 January 2015, Finmeccanica Grooup presented its 2015 - 2019 Industrial Plan was to the financial community in London. The Plan is based on a detailed analysis of the competitive positioning and performance of all business sectors and product lines. This analysis has allowed to identify the action to be taken in order to increase profitability and cash generation, as well as to strengthen the capital structure. The results obtained, together with a more effective presence on the international markets with an integrated offer of products and services, will enable Finmeccanica to become a stronger, more efficient A,D&S company, able to consolidate its technological leadership. This plan outlines the features of a new Finmeccanica, a cohesive, dynamic industrial group that creates value for shareholders, customers and other stakeholders.

The Group's strategy is based on a careful analysis of the external context and the competitive positioning in the various business sectors that, together with a detailed assessment of the industrial processes, has enabled a route to be defined involving restructuring and development, and this route has already been launched. Company based its strategy on aerospace, defense and security. The main directions of future company's strategic development are:

- Concentrate activities and investments in R&S on Aerospace, Defense and Security;

- Revising the product portfolio, optimizing dual use technologies and increasing service activities;
- Improving profitability and cash generation;
- Making company's products more competitive, including through more efficient and effective industrial process;
- Adopting integration governance through a new organizational mode;
- Reinforcing the presence on the international markets, operating as a single business (one voice) (Finmeccanica company's official web site).

AgustaWestlands market leadership is supported by a wide range of collaborative programmes with other major international helicopter OEMs and partnerships with leading aerospace and defence companies. This network of alliances broadens the Company's product range, increases its global reach, and creates new business opportunities (AgustaWestland Company Profile 2015). Company operates in domestic markets (UK, Italy, US, Poland) as well as worldwide – France, Republic of South Africa, Turkey, China, India, United Arab Emirates and Russia. AgustaWestland has 10 industrial manufacturing locations in Italy, UK, Poland and USA, regional headquarters across the globe, more than 100 customer support and service centres in 5 continents, 7 supply centres and 4 Training Academies worldwide. The company also operated international partnerships and Joint Ventures worldwide.

AgustaWestland started its operations in Russian in June 2008 with formatting Exclases Holdings Ltd. (BVI Company) - an exclusive distributor for Russia. In 2010, the exhibition HeliRussia between the Russian company JSC Russian Helicopters and AgustaWestland signed an agreement on the establishment of a factory for the production of HeliVert helicopters AW139 (twin-engine helicopter of the new generation). The plant was built from scratch in the suburban Tomilino, and today it is one of the most modern plants of its kind in Russia. The main purpose of this joint venture is to meet the needs of the market in Russia and CIS countries. Issue AW139 helicopters in Russia began in 2012. According to forecasts of a year will be collected 15-20 helicopters. HeliVert plans to cover the growing demand for helicopters AW139 both in the domestic market and in the CIS as a whole. The first AW139, assembled in the territory of Russia flew in December 2012.

Despite of Russia has advanced technologies for the military helicopters, for civil helicopter industry in decline. Cooperation with AgustaWestland is a chance for knowledge and technology transfer for JSC Russian Helicopters (a subsidiary of UIC Oboronprom). For AgustaWestland Russia is a huge perspective market, cooperation with government helps to go through specific challenges (bureaucratic, corruption) and provide a significant benefits for the company such as market access and stable demand.

As stated in Borodelin's report (2013), AugustaWestland has a long-term sales and manufacturing strategy for Russia. In a 2011 interview, Senior Vice-President of the AW Commercial Division said that AW plans to increase their market share by 40% within the next 5-10 years. Helicopters, which the company supplies the Russian market actively exploited in the segments of search and rescue, ambulance, law enforcement, transportation personnel on oil platforms, transport companies and private individuals, and many others. In the future, AW plans to move into the segment of search & rescue operations and drilling platform servicing. In June 2011, AW and Russian Helicopters Holding set up a joint venture (HeliVert) to run a final assembly plan for the civil AW 139 medium twin helicopter. The joint venture plans to assemble 15-20 AW139 annually to meet the growing needs of the civil markets in Russia and CIS countries. The first Russian-built AW139 was rolled out at the HeliVert assembly plant on December 18, 2012 to perform ground testing. Bell Helicopters has sold more than 30 helicopters in Russia. The Russian company, Jet Transfer, is an Independent Bell Helicopters representative company, which began operations in the helicopter market in 2004. Jet Transfer covers not only Russia, but also Ukraine and Kazakhstan (Borudulin, 2013).

In 2012, the company's turnover was 4,243 million Euros, which exceeded the 2011 figures by 7.7%. EBITDA in 2012 was equal to 473 million Euros (for comparison, in 2011 the figure stood at 417 million Euros). The company invests about 12% of its revenues in research and development.

In 2014 AgustaWestland revenues were EUR 4,376 million, EBITA was 543 million and new orders were EUR 4,556. Order backlog was stood at EUR 12,249 million (EUR 11,834 million in 2013), which guarantees enough value to ensure almost 3 years of production. Headcount was 12,850 employees, an decrease of 271 compared to December 31, 2013. The company invested EUR 468 million in R&D, approximately 11% of its revenue

(AgustaWestland Company Profile 2015). Key figures for 2012-2014 period are in Figure 18.

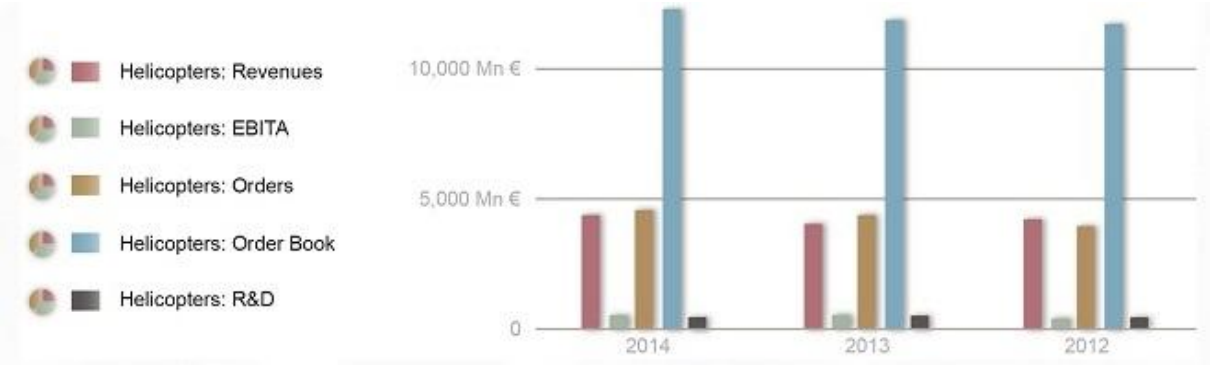

Figure 18. AgustaWestland key figures 2012-2014 (Finmeccanica company official web site)

AgustaWestland's strategy in Russian market is different from the strategies in others countries. Usually company produce helicopter in Italy and deliver ready to use product to the customer. Some components that are responsible for IT and control of the helicopter's system are produced in US. For Russia they delivery only component parts but all the assembly are conducted in Russian factory (HeliVert) at the beginning by Italian engineers than by Russian specialists. As reported by Steen Sorensen from Exclases Holdings Ltd., there were negotiations about a possible joint development of new helicopter recently, but for the moment there is no knowledge or technology transfer from AgustaWestland. According to Steen Sorensen, Russian customers do not trust the goods produced in Russia and this feature could also affect on the development prospects of knowledge transfer.

Performance of Finmeccanica Group was stable in 2008-2009, in 2009 net profit was 718 million Euros (621 million Euros in 2008). Company revenue rose 21 percent to 18.18 billion Euros, just above the estimated 18.05 billion (Thomson Reuters news agency report, 2010). In 2010 there also was stable growth – 6.4% for new orders (from 21099 million Euro in 2009 to 22453 million Euro in 2010), 2.9% growth for the revenue (18176 million Euro in 2009, 18695 million Euro in 2010) (Finmeccanica 2010 Consolidated Financial Statement).

According to Steen Sorensen from Exclases Holdings Ltd., situation in Russian market in 2008-2009 was stable relatively other countries and provide opportunities for AgustaWestland. Russian Market was out of the world economic recession and

Current unstable political and economic situation in Russia affects on company's activity by next points:

- Some clients are in sanction lists and company cannot supply helicopters to them;
- Weak position of ruble reduce company's demand, many clients has canceled their orders;
- Also because of the sanctions banks couldn't provide funding for some customers.

These issues represent the negative impact of the current crisis in Russia on AgustaWestland operations in Russian market. Demand for the company's products has decreased and therefore reduced the company's profit.

In December 2014 Rosneft, Rostec Corporation and Italian group Finmeccanica signed trilateral agreement for strategic partnership. As part of the signed document the parties will establish a joint venture on the basis of plant near Moscow HeliVert - JV holding Russian Helicopters and AgustaWestland (subsidiaries Rostec and Finmeccanica). Rosneft will be the new partner of the Russian-Italian joint venture. At the plant is supposed to organize the production of medium helicopters AW189. According to this agreement Rosneft will be the major client of AW189 helicopters and up to 2025 HeliVert plans to manufacture and supply of Rosneft 160 helicopters totally. Assembling of the helicopters, delivery, after-sales service and training will be carried out in Russia. The project is also planned to provide localization of AW189 in Russia in stages until 2025 (Rosneft company official web site). This agreement performs long-term strategic decision of the company and shows its interest in development relationships with Russian companies and in Russian market.

- **Algeco and world economic recession in 2008**

Algeco is part of Algeco Scotsman, a leading global business services provider, expert in modular space and storage solutions. Algeco was founded in 1955 in Macon (France). The company manages a fleet of more than 335,000 units with operations in 19 countries throughout Europe and North America, making it the world leader in the space rental sector and a company which is the 5th largest player by revenue in the global rental services sector. It is a worldwide group with companies present in more than 25 countries in Europe, Asia, the Middle-East, North and South America. Operating as Williams Scotsman in North America, Algeco in Continental Europe, Elliott in the United Kingdom, Eurobras in

Brazil, Ausco in Australia, and Portacom in New Zealand, the company manages a fleet of more than 310,000 units, with operations in 37 countries including Australia, Austria, Belgium, Brazil, Canada, China, Czech Republic, Finland, France, Germany, Hungary, Italy, Lithuania, Luxembourg, Mexico, Netherlands, New Zealand, Poland, Portugal, Romania, Russia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine, United Arab Emirates, United Kingdom, and United States. This distribution network creates the bases for custom services about turnkey temporary buildings and sustainable modular buildings. Algeco is the inventor of and originator of Modular Construction (Algeco company official web site).

The company Algeco ranks fourth in Europe among all companies doing business in the rental sector of construction and industrial equipment, and first place in Europe among companies specializing in the rental of temporary buildings of modular type. Following the acquisition of Williams Scotsman in November 2007, holding generates from 2013 revenue of 1.7 billion Euros per year, operating a fleet of more than 300,000 units. The company employs consist of 5,200 employees that serve thousands of customers in 37 countries around the world (All-Russian trade online magazine, 2013).

Company started operations in Russian market in 2008 with the opening of offices in Moscow and St. Petersburg. According to Steen Sorensen (General Director of the company in 2008), company mission in Russian market was to improve the conditions for the workers (construction side). Algeco decided to enter the market with a premium price product. Management of the company did a strategic mistake – too optimistic assessment of Russian construction industry. Managers didn’t take into account local characteristics of the industry: most workers come from USSR countries, a lot of illegal workers. Strategy was developed before the world economic recession and decided not to change it. As Steen Sorensen said: “When you are coming to the market with premium price product it is difficult, but with the crisis it is impossible. It was the worst product to sell in worst time.” Competitors were already in the market, they already have a stock of the product, they started to sell their stock on low prices. Because of specific features of the product (containers is very big and hard to store), available stock is very important for the company. In 2008-2009 many construction projects were frozen, and demand on the Algeco’s products were not in demand.

Company's plans were not realistic, they didn't consider specific market characteristic and choose wrong market enter strategy, world financial crisis in 2008-2009 aggravate the situation. After review of the strategy and cost reduction initiatives Algeco overcome difficulties in Russian market. In February 2013 company made an agreement with Target Logistics US Company - provider of solutions for arranging distant objects. This strategic decision brought growth prospects for the company. Russian energy and raw materials sector continue to grow at a very rapid pace, and company's solutions for arranging staff are suitable for extreme climatic conditions will be in great demand (Angele Brucker's interview for Interfax, 2013). Nowadays Algeco has a strong position in Russian market, branch network in 4 cities of Russia (Moscow, St. Petersburg, Kaluga and Nizhny Novgorod), and successful projects such as Peugeot Modular Office in Kaluga (2009), Nevskaya Ratusha Business Neighborhood project in St. Petersburg (2012), project for Russian airline company Transaero (2011), linear facilities construction project Nord Stream (1st Algeco oil-and-gas project).

- **Valio and current unstable situation in Russian market**

Valio is the market leader in all key dairy product groups in Finland with a number of major consumer brands in its portfolio. Valio consumer products are sold in Finland and increasingly also in Russia, Sweden and the Baltic States. The company has subsidiaries in Russia, Sweden, Estonia, Latvia, Lithuania, the USA and China. Valio has grown in its home market of Finland to become the market leader in all dairy product categories (Richards, 2007). Valio company is owned by Finnish milk producers. The 8000 milk producers of Valio cover 85% of Finnish milk Production. As a part of a strategy company sell licenses on functional food technologies and product concepts - such as health-promoting bacterial cultures and lactose-free milk. This is a way for Valio to generate returns on its R&D investments. Through licensing, Valio got access to international markets, at the same time limiting its investments in its own international production facilities (Krogt et al., 2007)

Valio division in Russia was founded in 1994 in St. Petersburg, the main activity of the company - import and promotion of products on the Russian market Valio. Today, Russia - one of the key markets for the Group - 49% of exports of Finnish dairy Valio falls on the Russian Federation. 90% of Valio products made in Finland, however, the Group develops

and Russian production. Valio has its own factory in Russia - branch "Ershovo" in the Moscow region (logistics and distribution center and production line for processed cheese Viola «triangles" and sliced cheese), which meets all the quality standards of the group. (Valio company official web site).

Headquarter of the company is in Helsinki, Finland. From their all the foreign operations and internationalizing process are controlled. Valio has built close contacts with its subsidiaries in different countries for effective business. Valio has a big modern R&D center in Helsinki. At the moment only a few dairy industry companies have the same level of R&D activities. All the R&D activities conducted in Finland, however company get all the data from subsidiaries and based new products development on different customers requirements. There is possibility for local &D activities in terms of specific market requirements and characteristics, but all the decisions made by man office. Also all the major operations controlled and managed by headquarter, subsidiaries are responsible for distribution, marketing and sales operations (Development manager of Valio Russian operations, Myzyching A.)

In 2010 Valio had made foreign direct investment to Ershovo (Moscow region) - build production plant and distribution terminal. All the facilities are owned 100% by Valio. All the materials for production are imported from Finland. It is successfully operated plant that serves a huge part of the Russian dairy products market. Valio company and its products are well known among Russian consumers. In 2003 Valio had a market share for butter of 53% in St Petersburg and 35% in Moscow, with Finnish family favorite, Oltermanni cheese, the value leader in both the Russian metropolises.

According to specialist form Valio, in 2013 company signed a contract with Russian food market company to their coming new production plant. The goal of this contract is organization of delivery, equipments and consultation services with option of franchising and licensing contract. Russian company is carrying out marketing activities and sells the products on Russian market. Russian food market company will be operated by its own risks, however Valio will provide consulting services related to Value Chain development and production technology.

Some of the raw materials were forbidden to import and it was a very difficult period in 2014 because of the sanctions and product embargo from Russian side. (Development

manager of Valio Russian operations, Myzyching A.). The new trading barriers between Russia and European Union do not treat the lactose free products. But there are problems related to distribution and export, that resulted in higher product prices and decrease in profits. Valio is the only supplier of lactose free products on the Russian market. This issue provide additional competitive advantage for the company. (Development manager of Valio Russian operations, Myzyching A. and Deputy Manager of Valio in Russia, Smirnova Elena).

Despite of current difficulties, company considers Russia as a very attractive market for investment. Russian dairy market is rapidly growing, there a lot of new competitors among Russian producers. Valio is trying to focus on its core competencies and save strong market position. Company started deliver new line is HYLA (Hydrolysed Lactose) products, containing lower or zero lactose percentage. There is no analogue on Russian market for the moment. This issue responds to new company strategic focus on healthy products (Deputy Manager of Valio in Russia, Smirnova Elena).

- **Nurminen Logistics' difficulties in 2008-2010 and its strategy for crisis 2014**

Nurminen Logistics is a listed company established in 1886 that offers logistics services. The company provides high-quality railway transports, project transport services, special transports and forwarding and cargo handling services to its customers. The main market areas of Nurminen Logistics are Finland, Russia and its neighboring countries. Nurminen Logistics provides high-quality logistics services, such as railway transports, terminal services, forwarding, special and heavy transports, project logistics and value added services (Nurminen Logistics' company official web site).

Company started its operations in Russian market in 2001. With Finland – Russia as a main destination. Nurminen Logistics provide logistic services in rail freight services and custom clearance services. Company also has operations in Estonia and Lithuania, Belarus Republic.

Company's activity depends on export-import flows between Finland and Russia (Figure 19). Finland and Russia has long-term relationships and stable export-import flows. However, current crisis and European sanctions and Russian embargoes on some Finnish goods dramatically decreased the scale of the trade between two countries. This affected the activities of the company

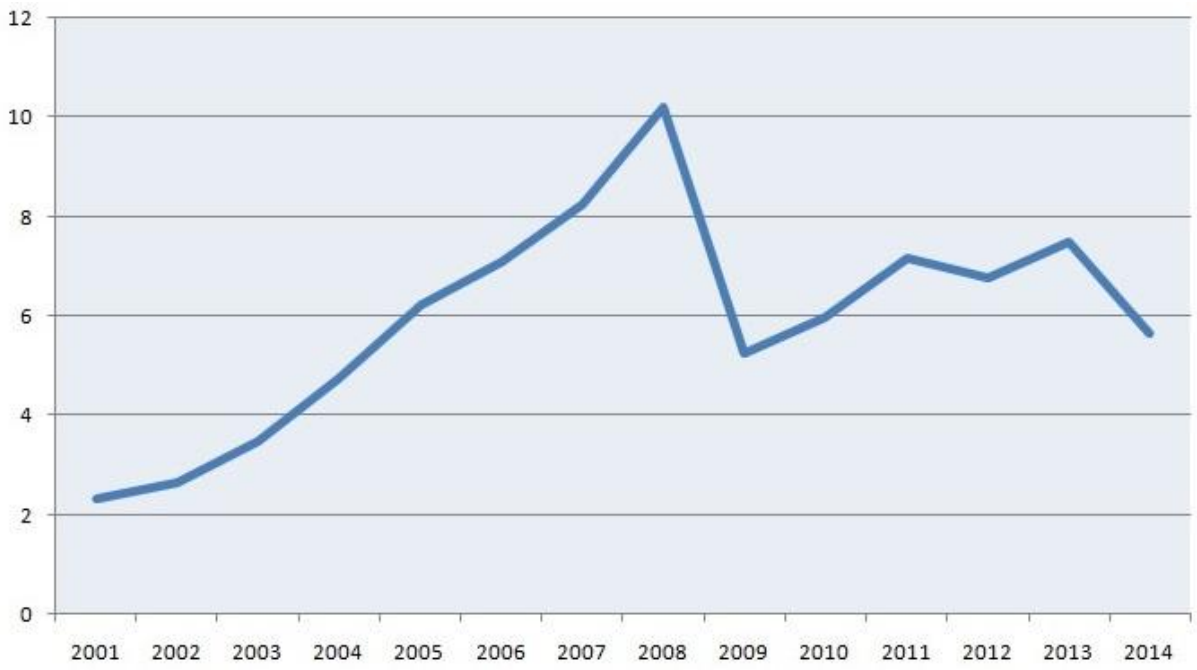

Figure 19. Dynamics of Finland-Russia exports in bill. US Dollars (based on data from the Observatory of Economic Complexity and Statistics Finland

As shown on the Figure 19 there are two distinct drops in the export flow in 2008-2009 and in 2014. First drop is due to the global economic recession. In 2009 export from Finland declined almost on 50%. There was a sudden change for the worse in Finnish economy during November and December 2008. Export volumes declined in all sectors and also import volumes declined strongly in the end of the year. Also company's investments are expected to decline during 2009 (Nurminen Logistics official outlook, 2009). Situation in the market was very uncertain and Nurminen Logistics had suffered. On the long-term the company's goal was to increase its net sales annually by approximately 20% on average, including acquisitions, and to reach an operating profit level of over 7%. The situation of the financial markets may delay achieving of the growth objectives in a short term. The net sales of the operations in year 2009 were much lower than in 2008. (Nurminen Logistics official outlook, 2009).

In 2012 company declined about development strategically important growth market − domestic railway transports in Russia and other CIS countries.

The strategy of Nurminen Logistics is to grow in the developing transport markets of Russia and its neighboring countries both organically and through investments and acquisi-

tions. The company's extensive experience in the Russian logistics market and own modern fleet of rolling stock play a key role in the implementation of this strategy.

In 2013, Nurminen signs a contract with four large Russian companies in the chemical industry and one significant Russian construction industry business for the transport of their products in covered wagons inside Russia and other CIS countries. Nurminen operates approximately 200 covered wagons for these customers with long-term customer contracts (Nurminen Logistics company official web site).

It is clearly seen on the Figure 19 that in 2014 export from Finland to Russia has a decline trend caused by unstable political and economic situation. However, this deterioration brought benefits for Nurminen Logistics. Company increased number of Russian customers, and get additional cost saving from buying Russian equipment, that due to weak position of the ruble become cheaper. According to Tannien Kauko, current General Director of the company, now it is the best time to get more market share and Nurminen Logistics even activated one more department in Russia. Also company has stated new project related to transportation of oversized and heavy cargo in Russia. Nurminen Logistics monitoring the situation, and know which industries are developing, and which are in decline, so they are trying to increase operations with companies from chemical, food and mining industries in Russia. Company started to buy special wagons for special customers to provide more customized service and also to get benefit from fallen wagon prices. Nurminen Logistics has stale relationships with banks in Russia and Finland, so they are able to get credits from bank for purchasing the equipment. Wagons are very solid assets for the bank, life time of 1 wagon can be 27 years, so it is very durable investment for the bank. Well-built connection with RZD allows Nurminen Logistics provide additional opportunities in Russian market (from the interview with General Director of Nurminen Logistics, Tanninen Kauko).

Nurminen Logistic case shows that crises provide not only difficulties for the company but also a source for opportunities and possibilities for new strategic development.

- **Flowrox stable position in 2008-2010**

Flowrox is manufacturer of high-tech valves and pumps designed for use in harsh industrial environments. Headquarted in Lappeenranta, Finland Flowrox Group has subsidiaries in

Linthicum (Maryland USA), Sydney (Australia), Johannesburg (South Africa), Moscow (Russia) and Shanghai (China) (Flowrox company official web site).

Establishment of a branch in Russia is a part of company internationalization strategy. Company continues the process of expanding the network of regional offices in emerging markets. The goal is to get closer to customers, understanding their needs and cooperate productively. In addition, Flowrox paid considerable attention to the expansion of product range and improve the efficiency of after-sales service (Flowrox company official web site).

In 2008 company has only minor cost savings activities, because Russian market was relatively isolated from negative crisis consequences, according to company managing director. Company's products were in strong demand and relationships between Russia and Finland were solid and economically beneficial for both sides.

Current unpredictable environment in Russian market and strained relations between Russia and Europe reduce the company's profits and number of clients. In the beginning of 2015 company announced that they will have cost reduction initiatives due to decline in demand, these initiatives should be temporarily and allow company to stay in the same profit level. Due to weak position of the ruble company's revenue decreased significantly. Flowrox provide high quality Finnish equipment for the Russian clients, who at the moment couldn't afford it. Future company strategy will depend on how fast situation in Russian market will be stabilized.

- **Finnish consultancy company in 2008 and 2014 cresses**

Specialist from Finnish Consultancy Company described company's strategic decisions during economic recession in 2008 and current situation. Company is one of the leading foreign owned business consultancy providers on the Russian market. Firm provides different kind of services: tax advice activities, legal support, outsourcing accounting services, audit, recruitment, outsourced business management, IT solutions, marketing and different training. Company has offices in Helsinki, Moscow, St. Petersburg and other Russian cities. The main business focus is Russian market and CIS countries.

Representative of the Company explained in the interview that in 2004 and before 2008 there was a tremendous economic growth in the Russian market. A lot of companies had

come to the market and a lot would like to enter, so all the consultancy companies didn't need to compete, because there were so many clients. But in 2008 it stopped suddenly. Because of the previous economic upturn salaries level was excessive and all other the business expenses were in quite high level. Therefore companies immediately started to cut fix expenses. First of all Finnish Consultancy Company reviewed and try to negotiate lease agreements. It was hard times, and high degree of uncertainty in the market, so company needed to think how they will keep all the staff and carry out cost cutting activities. They found a prosperous solution. There was a great change in the company's strategy, they decided to stop providing all the printed media marketing and to concentrate only on social media marketing. This strategic solution was very successful for the company. They became a market leader in social media marketing provider in Russia. Company cutting costs and was able to get stronger market position. They continued to provide legal services because of the constant demand for them. According to interviewee, Company had quite good income in law services during the crisis. Thus the scope of the provided services was just changed. In 2010 company continued to keep social media marketing focus. Thanks to crisis they changed strategic focus and came to fruition.

During the current unstable situation in Russia Finnish Consultancy Company has a stable market position and does not perceive the negative effects of the crisis. Furthermore, Russian legislation is changing rapidly. There are major changes in data protection regulations, and other significant changes in the law, that increase in the volume of work for the company. Some companies decided to leave Russian market and Finnish Consultancy Company provides downsizing and they are closing legally business for them. A part of the clients are leaving because their business model just doesn't working. Interviewee has asked many companies about the reason why they are leaving Russian market, is it because of the sanctions or crisis in Ukraine. In the most cases the answer was – because firms' business model just didn't work in Russia, it's nothing to do with sanctions or embargo, their business model initially was wrong. Company representative concluded, this crisis time is good when for a listed company, subsidiary has to report to mother company and now is good time to tell that there is crisis and unsuccessful period for business.

Regarding the weak position of the ruble interviewee explained, that this situation affects many companies, the main problem is that financing is in currency and income is in ruble. Especially in real estate sector, because of all the investments come to Russia in Euro, then

many companies have leasing agreements in Euro and they make income in Euro, but their clients have income in ruble and couldn't afford to pay high cost in Euro, so it caused many problems for the investment company.

Concerning the current situation within the Finnish Consultancy Company, at the moment cost cutting activities are not as effective as in 2008, company had already cut costs, not able to do it anymore, and they really don't need at the moment. Weak position of the ruble is beneficial for the company, because it has all the expanses in ruble and income in currency. Also present rent prices in Moscow and St Petersburg are going down and save extra money for the company. Unstable political and economic situation in Russia, changes in legislation provide strong demand for company's services. However, they have some services, like recruitment, that is needed to be reviewed. Management of the company always consider different focuses of provided services, do they need to keep all the services, o it is possible to change for something more profitable.

Interviewee informed, that company continue to work with current strategy, and doesn't plan any changes in nearest future. He personally thinks that this crisis is just for 1-2 years and Russian market will growing again and investments will come. He also observed that because of high level of uncertainty it is impossible to develop a long-term strategy for Russian market.

- **Alfred Ritter GmbH & Co. KG in Russian market**

Alfred Ritter GmbH & Co. KG is famous German chocolate producer under brand "Ritter Sport". Company was founded in 1912, headquartered in Waldenbuch, Germany. Ritter Sport company is a classic European family business, it is run by the third generation of the Ritter family. Ritter Sport chocolate is sold in 103 countries and company has its offices in these countries with 1200 employees all over the world. Company has a long history during which its products were developed ad became world famous.

All products produced in German factory in Waldenbuch, company permanently improves formulation and provides a strict quality control for its products. Ritter Sport frequently increases its product line by adding new chocolate flavors, which are often unique to each country. Recently, there was voting among the consumers for a new taste of chocolate in Russia, and pike eggs and cake honey cake tastes were among the finalists. Such events make product more popular on local market.

Company opened Russian office in 2000s. The main goal is distribution and promotion of the products. Company has offices in Moscow, and in St. Petersburg. According to Ritter Sport report sales on the Russian market account for 30% of total sales. Ritter Sport supplies its products to all regions of Russia. Russian market is area with great prospects for the company development. However, Russian market has own specifics in customers mentality as well as in geography for the sale of goods, which company's management should take into account.

During 2002-2007 period company produce chocolate in Russian confectionary in Odincovo district (Moscow area). There were different changes in 2007 affected Ritter Sport strategy in Russian market: changing Odincovo confectionary top management (Wrigley company became a new owner of the factory), an increase in the workload of the enterprise by other product brands, rising production costs, so company decided to terminate the contact with Russian manufacturer and import chocolate from German factory. The company's share in the production of chocolate bars in the Russian market in the first half of 2006 was 6.8%, in 2007 - 6.7% (according to Russian Economic News Portal report).

According to Andreas Ronco (company CEO), current crisis in Russia could lead to company losses. Russia considered as largest foreign market. Weak position of the ruble is serious problem for the company (from the interview with Ritter Sport information analyst Savinova Anna).

As Anna Savinova said (information analyst in Ritter Sport, Moscow), chocolate products are not in sanction list, however, due to currency siltuation, there was significant rise in product cost and logistics, which led to a serious increase in market prices of 30-35%. Another reason for Ritter Sport difficulties is the growth prices for raw material - prices for hazelnuts, which is second most important raw material after cocoa for the company. This has a negative effect as extra costs, regarding to Andreas Ronchi (from Andreas Ronchi interview to Russian online economic newspaper Kommersant.ru). To save position on Russian market, company decided to cut the marketing budget and the budget for staff development and canceled SommerFest (annual traditional trip to Germany for all company's employees from all departments).

First half of the 2014 was successful for the company – 22% sales growth, however, this positive dynamics is leveled in the last period due to stop shipments of a number of posi-

tions (Figure 20) (from Ritter Sport annual report). Due to prices increase some clients decided to shift for cheaper chocolate. Company's revenue in 2014 was € 430 million. 60% of revenue brings the German market, the Russian market is the largest foreign market for the company and brings 10% of total revenue. According to Mr. Ronchi, in 2015 the company's revenue could grow, but they are carefully assess the possible financial results (from Andreas Ronchi interview to Russian online economic newspaper Kommersant.ru).

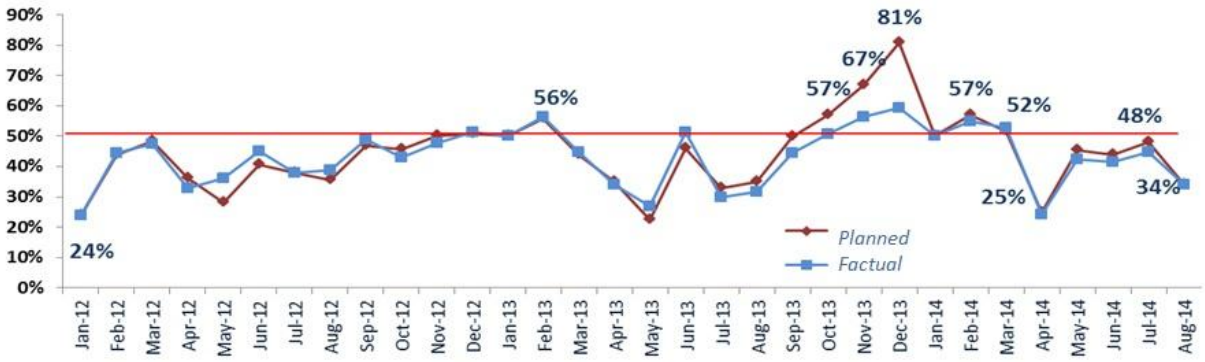

Figure 20. Ritter Sport average annual dynamics of supplies to Russia (adopted from Ritter Sport annual report)

Currently company decided not to change its strategy on Russian market, and continue to follow previous trend - sell products trough variety of supply channels, expand the product line on store shelves and in the consumers' heats (from the interview with Ritter Sport information analyst Savinova Anna).

- **Ford Credit Russia and Russian crisis in 1998**

Ford Motor Credit Company - one of the largest automobile financial services companies in the world. Ford Motor Credit Company is a wholly owned subsidiary of Ford with Bernard Silverstone as company president. Today, the company serves the interests of hundreds of dealerships Ford and helps millions of European citizens to acquire Ford cars on credit, providing affordable and high-quality financial products (loans, insurance and leasing) (Ford Motor Credit company official web site).

Steen Sorensen (1996-1999 Business Development Manager in Ford Credit Russia) mentioned in the interview, that in 1998 everyone in the company was thinking that Ford will stop its activities, however CEO made a decision to continue operations in Russian market. This strategic decision was successful for future company development in Russian market.

Company got a tax breaks at that period, and became a market leader after stabilization of the situation in the country.

Later in 2000s-2010, as Steen Sorensen noticed, the main difficulty was localization of the products. To stay successful in the market company need to make 60% of component parts locally. Ford didn't manage to do it. Korean car manufactures were more successful and gradually replace company. They can produce parts in Russia and reduce the price on provided products. So in this case crisis wasn't the reason of the company's failure, company left the market because of unsuitable business model.

- **General Motors left Russian market in 2015**

General Motors is one of the largest US automobile corporation. Manufacturing established in 35 countries, sales in 192 countries, with headquarter in Detroit, US. Company has a long history and strong market position in many countries.

In Russia company operates as General Motors Russia & CIS with managing director James Bovenzi. By May 2011 in Russia, the company had 154 car dealer brands Chevrolet, most of them are also engaged in selling car brand Opel, and 28 sold Cadillac. GM has taken the second place in sales of cars, selling 159,376 cars of all its brands in Russia in 2010 (from James Bovenzi's interview for Russian news paper Vedomosti, 2011).

General Motors owned car assembly plant in St. Petersburg, in Shushary, opened in November 2008. Total investment in GM production facility is estimated at $ 300 million. General Motors is a partner (which owns 50% of the ordinary shares of the company), AvtoVAZ joint venture - a joint venture GM-AvtoVAZ manufactured SUVs Chevrolet Niva. General Motors Corp. is working with the Kaliningrad JSC Avtotor where the company produced cars under the brand Chevrolet and Cadillac. In November 2008, General Motors launched the plant Avtotor CKD-production of full cycle model Chevrolet Lacetti. Construction and equipping of additional workshops for welding and painting spared about 80 million Euro. The transition to a full cycle of the assembly of Lacetti in Kaliningrad allowed to additional hire 1450 employees. The total amount of investment in GM Avtotor is $ 350 million (Shtanov V., for Vedomosti, 2015).

However in March 2015 General Motors decided to close the production in St. Petersburg in the mid-year, and completely abandoned the sales of Opel cars in Russia since Decem-

ber 2015 (Interfax report, 2015). Company has announced plans to change the business model in Russia. GM will focus on the premium segment of the Russian market with the help of the Cadillac brand and legendary American models of Chevrolet, such as the Corvette, Camaro and Tahoe. Chevrolet minimize its presence in Russia, Opel completely leave the Russian market by the end of December 2015 (General Motors company official media web site). Management explain that due to company's products do not have a sufficient level of localization, and the market situation does not justify the substantial investment in improving localization they decided to change politics on Russian market and stop some operations. General Motors will stop car production in mid-2015 and preserve the plant in St. Petersburg, also the contract with Russian company will be stopped in 2015. Company will only import to Russia premium class cars (premium Chevrolet models, Corvette, Camaro, Cadillac and Tahoe).

In 2014, sales of cars of all brands of GM in Russia fell by 26.4% to 189,484 units. In January-February 2015 - by 74.6% to 8.362 pcs., Says the data of the Association of European Businesses. Due to the devaluation of the ruble GM significantly raised their prices in Russia. The raise of the prices was significant - by 56% for cars Opel, and 52% for the Chevrolet (Shtanov V., for Vedomosti, 2015).

As a result of this decision company will incur the restructuring costs in total $ 600 million. The funds will go to the campaign to promote sales, dealer network transformation, to cancel the contract and to cover the costs related to the reduction of employees. Approximately $ 200 million of the total restructuring costs will be in-kind (General Motors company official media web site).

GM decision will seriously affect Russian car industry. Russian car market will suffer because of partial General Motors withdrawal. Russian government decided to support car industry by providing subsidies for 25 billion rubles. According to the Minister of Industry and Trade Denis Manturov, if the Russian authorities did not do it, the car market would be reduced by 50% (Vozdvizhenskaya for Russian newspaper RG.RU, 2015).

General Motors interpret its plans in Russian market as restructuring due to sales decline, companies has problems with localization of production and import 80% of the components. However, this problem is not new for the company and existed before 2014. So the main reason of leaving Russian market is weak position of the ruble and crisis in Russia.

Other car manufacturer (Ssang Yong) also confirms this conclusion. South Korean producer declared that it will leave Russian market and plans to strengthen supply to Europe and China. Ssang Young has suspended deliveries vehicles to Russia since January 2015. Concern is not going to come back until ruble is not strengthened. In 2013 the Russian car market was the largest for SsangYong, but in 2014 sales fell by 41%. During January and February 2015, sales of SsangYong's cars decreased by 61% (Ria novosti report, 2015).

- **Luxoft closing offices in Russia**

Luxoft is an international company engaged in software development and export of IT services, which employs more than 8,000 people with a headquarter in Zug, Switzerland. Company was founded in 2000 as a subsidiary of IBS (Russian IT company, system integrator). Now it is a part of IBS Group. Luxoft provides a wide range of services related to the software for various platforms and technologies. The company has offices in 16 locations worldwide with development centers in Central and Eastern Europe as well as North America and Asia (Luxoft company official website).

Due to the crisis, the company announced the transfer of 500 employees from Russia and Ukraine in the offices of Romania, Bulgaria, Poland and other Eastern European countries. Because of the events in Ukraine, many company's customers began to get nervous and fears that possible sanctions against Russia will create risks for their business. Same negative opinions expressed company's investors - since the beginning of the year Luxoft shares fell more than 20% (Expert online, 2015).

Future development of company's strategy on Russian market is unclear and depends of the crisis in Russia and world events.

- **Summary of conducted interviews**

Table 5 represents a brief summary of the described above interviews and their analysis.

Table 5. Summary of the interviews analysis

Crisis in Russia	Nature of the crisis	Strategy example	Impact on the company further development (positive/negative)
1998	Collapse of the entire system	**Ford** – continue operations in Russian market. Risky decision but was very successful for the company	Positive impact on company's further development. Company get tax breaks and increase market share
2008	Great Recession due to general cyclical economic development imbalances in international trade and capital flows, as well as overheating of the credit market and it was particularly evident consequence of the mortgage crisis started from financial crisis in US	**Finnish Consultancy Company -** cost cutting initiatives. Change strategy – quit paper based for media marketing services. Successful choice for future company development	Positive impact on company's further development. Company changed strategic focus and get new market opportunities. Continued development in the chosen direction
		Flowrox - minor cost savings initiatives. Crisis didn't affect company's strategy on Russian market	Crisis didn't affect on company's development
		AgustaWestland – company just started to work on Russian market, didn't change initial strategy. Successful relations with Russian companies helped to get strong market position. Joint venture (HeliVert) creation	Positive impact on company's further development. Successful activity launch. Russian market provided new opportunities for the company and stable huge demand
		Algeco – company entered the market with wrong business model initially. Didn't consider characteristic of local market, high level of competition and Algeco's expensive products have led to unsuccessful start in 2008	Negative impact on future company's development. Difficulties to enter the market and get customers
		Nurminen Logistics - problem caused by decline in Finnish export to Russia (economic crisis in Finland). Company is going through difficult times. Decision to develop domestic Russian services	Negative impact on future company's development. Lack of clients and drop in demand on company's services. Huge decrease in profits

2014	Caused by a sharp decline in world energy prices, the sale of which is a significant part of the income budget of Russia, as well as the imposition of economic sanctions against Russia in connection with the events in the Crimea and eastern Ukraine	**Ritter Sport** - decrease in demand caused by high prices because of weak ruble position and higher raw material prices. Cost cutting initiatives, reduction in the marketing budget, but continuing operations on Russian market	Negative impact on future company's development. Loss of customers, a drop in sales and a decrease in the company's profits
		Finnish Consultancy Company - maintaining chosen development strategy. Expansion of number of customers because of the crisis. Revision of company's services	Positive impact on company's further development. Expanding customer base, increase in profits. Additional increase in funds due to the revision of the offered services on the market
		AgustaWestland - problems with demand (some clients in sanction list). New long-term contract with Russian companies (Rosneft and Russian Helicopters)	Negative impact on the sales, decrease in the number of customers, drop in profits. Long-term strategic agreement with Russian companies should bring additional stable income
		Valio - import obstacles due to embargo, increasing competition (new Russian manufacturers of dairy products). New company strategic focus on healthy products	Negative impact on future company's development. Decrease in company's profit, decrease in market share. Possibility to get new customers by providing new line of healthy products
		Nurminen Logistics - development of new services directions – change from EU-Russia to Russian domestic and CIS logistic services, strong relations with RZD (Russian Railway Company)	Positive impact on company's further development. Development of a promising area of services and stable high demand allows to increase company's profits, strong connection with government company strengthening market position
		General Motors - leaving Russian market because of sales decline and weak position of ruble	Negative impact on future company's development. Drop in sales and decrease in profits, loss of customers. Addition costs on restructuring of business model. Loss of big market

		Luxoft - closing offices in Russia and transfer employees to other countries because of loss of customers due to the instability in Russia	Negative impact on future company's development. Decline in profits, falling share prices. Additional cost on transfer of the employees

Table 5 shows how different crises' nature affects on the company's strategy and company's development. World recession in 2008 has affected in all the countries and has negative impact on the companies all over the world. None of the respondent companies decided to leave Russian market. Some got benefits like new clients or development of new services, but mostly all got negative impact such as decrease in sales, drop in profits and necessary loses. Current crisis appears in Russia in a greater extent than in other countries. It is not just an economic recession, but a complicated political, economic, financial crisis, created artificially from the outside of the country. It is hard for company to make a decision in this uncertain situation and hard to analyze possible results of chosen solution.

It is possible to distinguish next common strategies:

- Continue operations on the Russian market (only 2 companies decided to leave);
- Collaboration with Russian State companies (Russian Helicopters, RZD);
- Cost cutting activities (in different scales);
- Adaptations to environment conditions (provide new type of services and increase Russian domestic services).

Presented companies operate in different areas and have various degree of development, number of employees and different history on Russian market. But all of them consider Russia as a big promising region; many of them view Russian market as key or even major area of activities. Mostly all of the respondents are optimistic and believe that current crisis is temporary phenomenon and Russian market will recover. All interviewees believe that collaboration with Russian state companies can help their business and company development. Cost cutting activities considered as a necessary step in crisis times, scale of it depends on company's position, business model and crisis management decisions. Adaptations to environment conditions viewed as changes in company's strategic focus: closing one services/production and development of a new one. One common adaptation is en-

hancement services in Russian domestic market, elaboration of servicers for different regions of the country.

10. DISCUSSION

This chapter provides an answer on the research question by combining all the information and results from previous parts of the study. Discussion section integrates literature review, analysis of secondary data and interview results.

The research question is:

What are successful strategies that foreign companies took during economic recession on the Russian market?

Before answering on this question it is important to clarify, what is successful strategy and how to determine the success. *Success* is the achievement of goals, selected target, is a positive result of something or the public recognition of anything or anyone. In the context of strategy success is achieving the goals, the result of which will increase profits, strengthening market position or will contribute to company's development. It is easy to determine successful strategy for past periods but analysis of current company's strategy is difficult to evaluate. It is possible to define was it successful or not successful strategy for the company in crisis 2008 or 1998, however for crisis 2014-2015 assessment is unclear, because result of chosen strategy could be not so obvious or unknown.

There are following external and internal factors that affect on the company's strategy during economic recession described in this paper:

- Cyclicity of economic development and company's plans;
- Nature of the crisis;
- Specific characteristics of Russian market;
- Russian politics and economic security;
- Proactive risk management and crisis management in the company;
- Management of uncertainty within the company.

Theories of cyclicity of economic development consider crisis as a part of this development. Take into account these concepts company could monitor economic, financial indexes and predict possibility of occurrence of the crisis. Keep an eye on global external envi-

ronment will help company to build successful strategy and help to overcome the period of economic recession.

Crises are different from each other and company should estimate specific crisis characteristics during strategy development. Crises have different reasons, actors, duration and consequences. Economic recession could be in other country but despite of this affect on the company's activities. Sometimes a manifestation of the crisis is hidden and it is not clear, and may appear much later. To be competitive on the market company must recognize nature of the crisis and its specific characteristics.

Place of company operations is also important for strategy during economic recession. Specific characteristics of the region could help company to overcome the crisis, or vice versa to make the consequences even more severe. Russia is attractive market for foreign investors, however there several peculiarities that company should take into account:

- Government regulation and intervention;
- Corruption and bureaucracy;
- Comprehensive tax code;
- Rapid GDP growth;
- Large proportion of middle class;
- Large reserves of recoverable natural resources;
- High population growth rate;
- Revenue Growth;
- Lack of innovations;
- Possibility for R&D;
- High educated specialists;
- Huge territory with different environmental conditions;
- Wealth of energy resources;
- Antimonopoly legislation and its requirements (from PESTEL analysis of the thesis).

All these characteristics of Russian market could provide opportunities / difficulties for strategy development and implementation during the crisis. Foreign company need to adapt its business model for market conditions. During the crisis period inadaptability become

more visible and provide additional difficulties for the company. Many companies use crisis as an excuse for main office, but the main problem of unsuccessful operations is inappropriate business model.

Proactive risk management and crisis management within the company are internal factors that affect strategy during economic recession. Most companies are aware of the crisis situation when it is already occurred and had its effect on the company's business processes and employees. Crisis does not arise instantly; it is a process which is gradually beginning to have an impact on company’s customers, partners, suppliers and employees. Company is needed to be prepared for crisis. One of the first duty of competent leader are to take measures in the early stages of the crisis evaluate current situation correctly and use it to achieve the result. Presence in the company crisis manager who will monitor external environment and develop possible strategies for overcome crises will increase company’s chances to get out from the crisis with minimum losses. In order to build successful strategy and effectively use crisis management tools, company should focus on its competitive advantages and core competencies. Effective utilization of company’s strengths and external opportunities will create solid foundation for future company development.

Management of uncertainty in the company also helps to successfully overcome crisis. Ability of employees to act effectively in an uncertain situation and make decisions fast, allows company get out of the crisis quicker. Sometimes stabile company position has a negative impact on workers, they become non creative and passive. To be successful managers should constantly improve their skills, for self-development and company growth.

After analysis of all the external and internal factors that affected on company’s strategy during economic recession and investigation of the results of conducted interviews the following successful strategies were identified:

- Continue operations on the Russian market (only 2 companies decided to leave);
- Collaboration with Russian State companies (Russian Helicopters, RZD);
- Cost cutting activities (in different scales);
- Adaptations to environment conditions (provide new type of services and increase Russian domestic services).

Almost all respondents claimed that companies will continue operations on Russian market. General Motors decided to leave Russia and make restructuring of business model due to lack of localization that caused drop in sales and vast decrease in profits. However, company had this problems before so the real reason of moving is unstable situation in Russia and weak position of ruble. This conclusion confirms another car manufacturer Ssang Yong. So inadaptability to local environment becomes critical for the company during current crisis.

One of the examples of successful strategy during crisis 2008 on Russian market is decision of Finnish Consultancy Company to change strategic focus to media marketing. This strategy allows entering new market, bringing new clients and increasing profits. As a proof of success of the chosen course company continue to develop this anti-crisis strategy after the crisis. Company became market leader in media marketing in Russia, and started to develop services in Russian regions. During current unstable situation Finnish Consultancy Company continue to develop chosen strategy, monitor uncertain external environment and use its core competencies to benefit from crisis. Nowadays there are new changes in Russian legislation which provide additional work for company's specialists and increase profits. Revision of the offering services allow to save sources for more promising company's activities development. All these arrangements most likely will be successful for future company development, however now it is impossible to analyze results of chosen strategy.

Another example is Nurminen Logistics case. Company suffered in crisis 2008 because of drop in import from Finland to Russia which is a main direction of company's services. During current unstable situation company decided to develop Russian domestic services, they started operations in different regions tailored to the needs of these regions (rail transportation, transportation of oversized and heavy cargo), built solid relations with main railway company (RZD). As a result of these initiatives company get new clients, increase profits and strengthened its market position. Chosen strategy can be considered as a success, but the final outcome is still too early to sum.

11. CONCLUSIONS

Concept of crisis is the subject of many studies and publications in specialized and in journalistic publications. We can hear about the economic crisis everywhere, but not everyone can understand, what does it mean, what is the nature of the crisis, what reasons and possible consequences. Crisis is an undesired, extraordinary, often unexpected and timely limited process with ambivalent development possibilities, it demands immediate decisions and counter measures to control further development positively for the organization (destination) and restrict negative consequences as much as possible (Glaesser, 2006).

The main propose of this study is to show how foreign companies behave during economic recessions in Russia and what are successful strategies that they implement. Thesis consists of theoretical studies and literature review that described concept of crisis and factors that affects on strategy, analysis of secondary data and interview results to support theoretical findings. Following external and internal factors that affect the company's strategy were identified:

- Cyclicity of economic development and company’s plans;
- Nature of the crisis;
- Specific characteristics of Russian market;
- Russian politics and economic security;
- Proactive risk management and crisis management in the company;
- Management of uncertainty within the company.

The impact of each of them was considered and analyzed in current thesis. The most important factors are nature of the crisis, specific characteristic of Russian market and internal capacity of effective management within the company.

Theoretical findings were supplemented by empirical findings. Detailed analysis of Russian market with FDI dynamics has been made. Interviews with representatives of foreign companies were conducted to provide an answer on research question. Chosen methodology provides extensive information on the topic, understanding in-depth the crisis concept, figuring each companies position about the Russian crisis, analysis of current situation in terms of lack of the relevant data.

3 last crises in Russia were considered and analyzed – collapse in 1998, world economic recession in 2008 and crisis 2014-2015. 1998 crisis is seen as collapse of the entire economic system. 2008 crisis recognized as Great Recession due to general cyclical economic development imbalances in international trade and capital flows, as well as overheating of the credit market and it was particularly evident consequence of the mortgage crisis started from financial crisis in US. 2014 crisis considered as unstable situation caused by a sharp decline in world energy prices, the sale of which is a significant part of the income budget of Russia, as well as the imposition of economic sanctions against Russia in connection with the events in the Crimea and eastern Ukraine. It is a political, economic and financial crisis, that is different from others and it was interesting to know how the nature of the crisis affects on company's strategy.

To answer on research question interviews were analyzed and identified successful strategies. Successful strategy in crisis was defined, however for current crisis it is impossible to give a conclusion due to continuance of the event.

Findings of the current study show an effect of the crisis on the company's strategy. It provides information about specific external and internal factors that affects on company's strategy during the crisis. Theoretical findings help to understand complex concept of crisis and its main aspects in context of strategy. Analysis of specific characteristics of Russian market gives a base for assessment of efficiency of chosen strategy. Comparison between Russian cresses and companies behaviors in these periods shows how different strategy because of the nature of the crisis. Results of the thesis could be used as a guideline for foreign companies in Russian market during the crisis period.

There are several limitations restricted the study:

- Controversial and unreliable information about current situation;
- Difficulties in finding information about companies' strategies during 1998 collapse;
- Information about companies' strategies is often confidential, especially about future decisions;
- Specific nature of the current crisis (political component) provides obstacles for analysis.

Limitations could be grouped as related to company type and related to information about crisis type. First group restrict empirical results of the thesis, second – theoretical findings.

The study is related to strategic management in the context of crisis and provides a significant contribution to this topic, however also due to limitations there are several suggestions for future researches. Research and analysis of current crisis situation in Russia and its affect on companies' strategies is not completed because of continuity of the crisis. It will be interesting to analyze the same companies after recession and evaluate their strategies. Attractiveness of Russian market after current crisis is also important topic. Dynamics of FDI and key indexes will show complete picture of crisis, provide data for analysis nature of this recession and will help to make a better comparison between different Russian crises. Because of lack of relevant information about current crisis and a lot of controversial data it is hard to estimate the value of political aspect of the current crisis, so it could be a good topic for future researchers.

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APPENDICES

APPENDIX 1: Interview questions (English version)

1. Please introduce yourself (for recording).
2. How did you first time get in touch with Russia? How did your professional career develop afterwards in relation to Russian operations?
3. Please tell about your current position and your role. (e.g. how long in the company and specifically at the Russian market etc)
4. What is the overall goal of Russian office of the company?
5. How the economic recession of 2008-2009 affected your company and in particular Russian operations? Was Russian market anyhow different from the global picture? If yes, how?
6. Were there any cost-saving activities like closing offices (in Russia and other countries) or reducing staff and closing ongoing projects?
7. What kind of key strategic decisions were made in that period helped to overcome the consequences of downturn in Russia (2008-2009)?
8. Has company strategy at the Russian market changed after crisis 2010? How?
9. Does your company today experience the effect of sanctions on your Russian operations (Are any of your Russian operations/customers currently among the sanctions' list?)
10. What is the effect of the present currency situation (weak value of the ruble)?
11. Do you see commonalities and/or differences between situation on 2008/09 and now? What are they?
12. What is the future strategy of the company? (of course it is hard to forecast now, but, may be you can name some key long-term strategic decisions)
13. Do you think Russian market is attractive for investments?
14. What can force you to leave Russia?
15. What is your general impression of current unstable situation in Russia?

APPENDIX 2: Interview questions (Russian version)

1. Пожалуйста, представьтесь и расскажите о вашей текущей позиции в компании, как давно Вы работаете в _____ компании?
2. Какая основная цель Российского подразделения компании?
3. Можете ли Вы назвать свою компанию инновационной?
4. Проводите ли Вы какие-либо разработки новых продуктов, исследования новых технологий в России? Если да, то расскажите, пожалуйста, сократился ли объем данных операций в 2008-2010 годах? И какова ситуация сейчас?
5. Как повлиял мировой кризис 2008-2009 на операции компании в России? Отличался ли для компании Российский рынок от Европы и США в этот период? Если да, то как?
6. Проводились ли какие-либо мероприятия по оптимизации/сокращению издержек (в России и других странах) сокращение/закрытие офисов/представительств или сокращение персонала и закрытие текущих проектов?
7. Какие основные стратегические решения были приняты для преодоления последствий кризиса 2008-2009 в России?
8. Изменилась ли стратегия компании для Российского рынка в 2010? Если да, то как?
9. Влияют ли санкции на деятельность компании на Российском рынке? Есть ли какие-либо продукты/операции компании в списке санкций?
10. Как влияет текущая ситуация на валютном рынке на деятельность компании (слабые позиции рубля)?
11. Видите ли Вы сходства и/или различия между ситуацией в 2008/09 и сейчас? Какие они?
12. Не могли бы Вы поделиться планами компании на 2015 год?
13. Какой Вы видите будущую стратегию компании?
14. Как Вы считаете, Российский рынок привлекателен для инвестиций?
15. Что, на Ваш взгляд, может заставить компанию покинуть Российский рынок?
16. Каково ваше общее впечатление от нынешней нестабильной ситуации в России?