

# Peculiarities of Crisis Management of Russian

## Peculiaridades de la gestión rusa de la crisis

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#### ABSTRACT:

The article views the issues of international system of production, a large role in which belongs to transnational companies. They are a large economic power that determines the future of most countries. Globalization of economic connections caused substantial changes in the system of modern methods and means of international management. Determination of the role and place of Russia in international division of labor becomes very topical. Adaptation of Russian TNC to market changes and their capability to survive in the conditions of crisis largely depends on the existing model of management and further development of anti-crisis management in the global scale.

**Keywords:** globalization of economy, corporate management, crisis management, international division of labor, transnational corporations.

#### RESUMEN:

El artículo contempla las cuestiones del sistema internacional de producción, un gran papel en el que pertenecen las empresas transnacionales. Son un gran poder económico que determina el futuro de la mayoría de los países. La mundialización de las conexiones económicas causó cambios sustanciales en el sistema de métodos y medios modernos de gestión interna. La determinación del papel y el lugar de Rusia en la división internacional del trabajo se vuelve muy tónica. La adaptación del CNC ruso a los cambios en el mercado y su capacidad para sobrevivir en las condiciones de crisis depende en gran medida del modelo de gestión existente y del desarrollo ulterior de la gestión en la escala mundial.

**Palabras clave:** globalización de la economía, administración corporativa, gestión de crisis, división internacional del trabajo, empresas transnacionales.

## 1. Introduction

A natural process of international development is globalization, which is a result of aggravation of international competition on the formation of polarity of the world. Its main tendency is transformation of production structures of transnational character into the global ones.

Under the conditions of growing openness of economy and interdependence of national economies, a new type of international financial relations is formed and the role of transnational corporations grows, which are key members of international economic relations. They are the main driving forces of development of the global economy.

In such conditions, the managers of the leading corporations of the world, which function in the conditions of economic instability, face more complex tasks that could be solved only with complex analysis of geopolitical and economic tendencies.

Actuality of the selected topic is related to growing role of transnational corporations in the global economy. TNC are a regulator of global economic relations. A quick process of internationalization of production led to their leadership in the global markets.

Modern competition leads to inevitable necessity for corporations to strive to become leaders in the world market or become the strongest in their competitive niche, as well as do everything possible to eliminate danger from rivals. A large role here belongs to division of property by international mergers and acquisitions.

Formation of a strategic union with rivals for the purpose of mobilization of efforts of all partners offers the search for new ways of development of business – especially, in the sphere of financing of R&D works, development of the process of internal investing, and search for external sources of capital attraction. However, the possibility to stay in the market niche is related to the search for internal reserves and strengthening of managerial activity by complex economic structures that have to work in the situation of amplitude fluctuations of the market.

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## **2. Materials and methods**

### **2.1. Object of the research**

The object of the research is the global economy which is currently in the global financial crisis. Such state of affairs leads to determination of these conditions' influencing the effectiveness of transnational companies' activity.

Sustainability to crisis phenomena in the national and international economy is ensured due to the use of advantages of the global scale of activity of economic subjects, which is realized in transnational corporations.

Sustainability of TNC is long-term achievement of the stable result of activity and lack of large fluctuations of the main indicators of the company's work. International commercial operations raise sustainability of a corporation. The mechanism of this action consists in covering the expenses of corporate's branches in certain countries by profit of the branches in other countries (Trifonova, 2013).

Also, another method of increase of sustainability of TNC's functioning is diversification of production within the company. As a result of diversification, subsidiary companies are less negatively influenced by market fluctuations. This is related to the branches' being located in different countries, where the influence of crisis could be smaller.

### **2.2. Qualitative research**

Integrity of quantitative and qualitative analysis is realized with the help of study of the role of Russian TNC's in the global economy and determining the main tendencies of their development by statistical research. Study of top-priority processes of Russian economy in the in the conditions of competitive struggle includes the element of qualitative analysis. Analysis of factual distribution of power in the international division of labor is a basis for determining the tendencies of the global economy development.

## **2.3. Qualitative research**

Qualitative research is based on analysis of statistical material that characterizes the role and place of the Russian TNC in the global economy. The data shows instable processes of investing into the Russian TNC, which is related to the global economic fluctuations.

Thus, in 2006 the total inflow of portfolio investments into the Russian economy constituted \$30 billion.

By the end of 2011, this indicator grew by 2 times, constituting \$ 53 billion. Russian transnational companies are presented by such spheres and car building, oil production, chemical and food industry, pharmaceutical industry, and trade.

However, under the influence of various factors of economic and geopolitical character the situation changed.

According to the Central Bank of Russia, the inflow of direct foreign investments into the Russian economy reduced, constituting \$ 4.8 billion.

In 2013, circa \$ 69 billion were invested into Russia, and in 2014 this indicators dropped to \$ 22 billion.

For comparison, the investments indicators in 2009 constituted \$ 36.6 billion. The level of direct foreign investments is at the low level, which could be compared to the level of 2006.

Direct foreign investments into Russia dropped by 92% in 2015

## **2.4. Methodological approach**

The article uses theoretical and methodological approaches to study of the specifics of functioning of transnational corporations in the conditions of the global financial crisis. Analytical studies are used for finding the causes that lies in the basis of the studied phenomenon. Statistical analysis is a basis of the evidence base.

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# **3. Results**

## **3.1. Characteristics of the modern crisis management**

New elements of activity regulation are constantly formed in the modern world. Management of large corporate business is connected to difficulties introduced by changing economic conditions.

In the developed countries, which economies have sustainable bases of large capital functioning, the activity on risk management and crisis management is actively implemented. Crisis management became very popular in the spheres of informatization, telecommunications, logistics, and others, where the orientation at the resources flows is very high.

In Russia, crisis management and risk management are not well-developed. Risk management is usually limited by insurance, and crisis management is brought down to supporting financial independence.

Speaking of the basic provisions of crisis management, it is possible to distinguish its following mechanisms:

- provision of readiness to unfavorable influence;
- development of a complex of measures for reduction of negative consequences of the crisis situation.

The basis for crisis management is provision of continuity of enterprise's activity. It should determine the personnel's actions during influence of negative factors and minimize

consequences of such influences. The main purpose of such policy is preservation of stability and financial sustainability of the company. In certain cases, when losses cannot be avoided, the goal is reduction of their scale. Determining the reserves for supporting stability is one of the management tasks.

Crisis management supposes various stages:

- general analysis of the company from the position of aptitude to risks;
- determining the optimal organizational and structural form of the company that includes a certain number of business items;
- description of the main functions and processes of activity;
- evaluation of possible risks for the company on the whole and each item in particular;
- determining possible losses and failures in the company's work.

The plan of continuous actions supposes calculation and purchase of necessary resources, conduct of tests of continuity plan, and training of personnel. It should be developed for each separate business item. The result of the plan is coordination of actions within the company and combination of authorities of various links of the same project. Such plan also supposes the necessity for interaction with external intermediaries (state, law enforcement bodies, customers, rivals, investors, etc.). Its effectiveness could be ensured only by covering the whole specter of risks.

### **3.2. Peculiarities of the Russian management in crisis**

The Russian model of management is formed, based on the modern concept of management, which has the following peculiarities:

1. Company's success is based on the capability to adapt to emerging changes under the influence of various factors of market system transformation. However, the necessity for rational economy is not always taken into account.
2. Organization is viewed as a system that is open for factors of external influence.
3. Consideration of the situational approach in management allows building the management and making decisions depending on the specific situation.
4. The process approach is used in the system of business structures management.

At present, management in Russia develops according to the following directions:

- the role of state in economic processes;
- combination of strategic, tactical, and operative management, based on evaluation of the real basis of material, labor, and financial resources;
- change of external environment and correction of goals and tasks of the company;
- search for new methods of management, increase of qualification of the manager who's capable to adapt the organization to changing conditions;
- detailed analysis of alternative variants of development for the purpose of optimal decision;
- combination of centralization and democratic elements of management, involvement of employees into enterprise management;
- increase of educational and professional level of employees; provision of the possibility to realize their potential for satisfaction of material and social interests;
- application of innovational methods of management, wide use of the global information networks;

However, there are problem spots in the system of management of Russian companies. These drawbacks of the practice of the Russian corporate management are obvious during crisis situations. They include:

- certain formalization of the practice of management, lack of efficiency of measures, large level

of bureaucratization that brings the possible effect down to the minimum;

- underdevelopment of the existing system of risk management, which could be a result of lack of sufficient experience;
- lack of personnel that possesses sufficient professional skills;
- modern world constantly destroys the existing stereotypes and sets new tasks before the international business, which could be only solved with creative and innovational approaches.

The theory and practice of corporate management are in the process of constant search for new optimal ways of solving the growing problems created by development of the global economy (Trifonova, 2013).

The Russian TNC face negative consequences of the global crisis. Not all spheres of the Russian economy have the potential that allows implementing the principles of crisis management.

### **3.3. Actual problems of crisis management in Russia**

The necessity for intensification of production and growth of specters of threats to economic, food, financial, and information security led to Russian companies being obliged to increase reliability of the corporation's work, continuity of products' supply, and minimization of financial losses. This forms a certain image and business reputation of the company in the conditions of tough competition of the modern market.

In the modern world, the most important thing is not the use of resource possibilities of a rich country but the problems of creation of added value by means of effective factors of resources use. The global national companies can form sustainable production of added value, for they have the possibility and experience of using leading methodologies of crisis management.

In Russia, such companies belong to resource spheres, and their high international competitiveness is related to natural rent. The Russian TNC from the FEC are competitive due to natural rent, but their effectiveness is insufficient - especially in comparison to the similar Western partners. Underrun in the technological, investment, and innovational aspects influences financial results of the companies' activity (Alekberova, 2016).

The national companies with large export potential include the state-controlled Gazprom and Rosneft, highly competitive Rostekh and Rosatom. Large metallurgical TNC in the iron industry are Evrazholding, Severstal, Novolipetsky metallurgical plant, Magnitogorsky metallurgical plant, Matalloinvest, and Mechel, in non-ferrous industry – Russian Aluminum, Norilsk Nickel, and Ural mining and metallurgical company.

The Russian transnational business is presented by 500 largest Russian companies. Their revenue exceeded 77% of Russia's GDP in 2014. They employ more than 7.5 million people.

Ranking of the largest Russian TNC:

- world-largest gas producing company Gazprom (capitalization as of year-end 2015 - \$ 44.3 billion);
- Rosneft (capitalization - \$37.3 billion);
- the leader of the Russian banking sector Sberbank (capitalization - \$30 billion);
- Lukoil, Novatek, Norilsk Nickel, Surgutneftegaz, Magnit, VTB, and Gazprom Neft.

However, the cost of the leading Russian companies reduced by 6.7% (to \$402.7 billion). Such reduction is low – especially, in view of negative macro-economic tendencies and depreciation of ruble, However, it brings certain thoughts about the structure of the Russian economy.

As of 2015, the annual ranking of the largest world companies Fortune Global 500 included five Russian companies.

**Table 1.** Ranking of largest Russian companies

Rank	Company	Capitalization (\$ billion)
1	Gazprom	44.3
2	Rosneft	37.3
3	Sberbank	30
4	Lukoil	
5	Novatek	

<b>Company name</b>	<b>Place in the list, 2014</b>	<b>Place in the list, 2015</b>
Gazprom	17	26
Lukoil	43	43
Rosneft	46	51
Sberbank	186	177
VTB	443	404

The companies of the Russian raw materials sector suffered large losses, which is related to decrease of oil prices and the Western sanctions. Only a few Russian TNC were able to overcome the global crisis.

Reduction of oil prices led to reduction among the largest companies of Russia of the share of oil and gas companies and metallurgical sphere. The share of telecommunication segment also reduced. At the same time, the companies and the financial sector and representatives of the food industry strengthened their positions in the crisis (Kirichenko, 2015).

However, at present, the structure of the global economy is formed under the influence of the fifth technological mode, the core of which is electronics and information technologies, which is insufficiently developed in Russia.

Technological development is necessary for effective functioning of economy of developing and developed countries. However, the block of developing countries, which include the Russia's economy, is often incapable to perform innovations and effectively use the modern technologies.

Large Russian companies have a potential for increase of export, including of high-tech goods and services. This requires large-scale investments into radical renovation of the production base on the basis of technologies of the fifth and sixth technological modes. However, Russia's positions in this direction are weak.

In 2012, export of high-tech goods from the RF, which constituted only \$5.44 billion, accounted for 8 % of export of final goods. The volume of high-tech export of such countries as the USA, Japan, and France reached \$120 billion, Germany — \$179 billion, and China - \$457 billion, which constitutes 20 - 30 % of the total volume of export of final products of these countries.

The Russian companies face the task of increase of competitiveness. The main tasks of management are training of specialists for new specialties and creation of institutional structures for new technologies. It is necessary to implement corrections into the technological process and allocate sufficient means for formation of adequate time of labor potential.

However, crisis and the situation in the world markets make a lot of companies reduce salaries, which is still one of the measures of anti-crisis management. A very unpopular measure of social benefits reduction is still used. The number of companies that fire employees grows.

Formation of the Russian model of corporate management is a top-priority task. However, corporate management for Russia is an innovation, and the modern Russian model of corporate management is in the process of formation.

Having a small potential of competitiveness, Russia constantly faces various risks in the process of international integration. These risks include reduction of the country's sovereignty, dependence of the country's income from demand for natural resources and foreign partners' investments, and outflow of human capital from the country (Prangishvili, 2015).

## 4. Discussion

The most debatable issues that require further analysis are the basic principles of the Russian model of management. They include the following principles:

- determining the role of state regulation in economy and its influence on activities of transnational companies. Special attention should be paid to the role of strategic management in the general policy of TNC and their interconnection. Such policy should allow combining business interests and the concept of socio-economic development of the country;
  - optimal combination of traditional and innovational method of management;
  - combination of centralization of power in Russian companies and the top-managers' capability to react to the situation that changes quickly. Difficulties may arise due to unreadiness of corporations' higher management for decentralization of management and lack of sufficient number of middle-class managers who conform to the following requirements;
  - combination of long-term forecasting, based on priorities of socio-economic development of the country with indicative regulation, peculiar for market economy;
  - a small role is assigned to improvement of the applied methods of motivation and management of personnel. Recently, the problem of formation of HR potential of professional managers who can manage separate organizations and the country's economy on the whole in the unstable conditions became very urgent. The reason for such state of affairs is ineffective system of motivation.
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## 5. Conclusions

Formation of the Russian model of management that is capable to adapt the companies' activity in the conditions of crisis situations acquires special importance now. The state of economy does not allow for full realization of all principles of effective regulation. At the same time, it gives a significant push to search for new ways of anti-crisis management.

Actuality of crisis management in the conditions of the Russian TNC's activity is predetermined by:

- gradual integration of the Russian economy into the global economy;
- formation in Russia of the network of large TNC that influence the national economy;
- management of financial flows in Russia becomes a part of the financial globalization;
- development of foreign entrepreneurship in Russia is characterized by Russian companies' dependence on direct foreign investments;
- formation of large TNC requires creation of a flexible apparatus of international management and the use of progressive tools of financial management;
- development of crisis management supposes not only management of financial flows but optimization of the use of internal reserves of corporations;
- search for modern ways of anti-crisis management of large companies, which will lead to effective transformation of the whole national economy.

Complexity of formation of the Russian model of management is related to the necessity for consideration of the existing situation in the Russian economy in crisis. Elimination of the negative situation requires protection of the system of production and realization of goods and services from bureaucracy, corruption, and criminal, demonopolization of economy, creation of adequate system of regulation of prices and tariffs, quick development of regions' economy, etc.

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