

# UTREDNING

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## Management in the High North

### Young researchers' contribution

Collection of essays

Volume 2

Edited by:

Anatoli Bourmistrov

Elena Dybtsyna

Nadezda Nazarova

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Nord universitet

Utredning nr. 9

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Photo front page: from the left – Elena Zhurova (Adviser), Evgenii Aleksandrov (Research fellow);  
from the right – Anatoli Bourmistrov (Professor, PhD), Natalia Andreassen (Researcher),  
Antonina Tsvetkova (Research fellow).

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## CONTENTS

FOREWORD .....	iii
FACTORS FACILITATING INTERNATIONALIZATION OF ENTREPRENEURIAL ORGANIZATIONS IN NORTHERN NORWAY: THE MEDIATING ROLE OF R&D <i>by Oxana Bulanova</i> .....	1
FROM THE CLASSICAL TO THE PERFECT UNIVERSITY: BUSINESS INCUBATOR AS DRIVER OF UNIVERSITIES' INNOVATION POLICY <i>by Alexander Ermakov</i> .....	27
BUSINESS STRATEGY APPROACH OF RUSSIAN AND NORWEGIAN OIL COMPANIES UNDER LOW OIL PRICES <i>by Alena Khabarova</i> .....	44
CSR IN THE SYSTEM OF SOCIAL PROTECTION OF EMPLOYED POPULATION IN THE HIGH NORTH OF RUSSIA <i>by Diana Khaibullova</i> .....	64
THE INFLUENCE OF BUREAUCRACY ON THE PROCESS OF DECISION-MAKING IN THE ORGANIZATION <i>by Dmitrii Samokhin</i> .....	80
DESTINATION BRANDING IN A RUSSIAN REGION IMAGE CONTEXT: THE CASE OF THE ARKHANGELSK OBLAST <i>by Yulia Verina</i> .....	99
THE THREE TYPES OF PERCEPTION OF CORPORATE SOCIAL RESPONSIBILITY: THE CASE OF HIGH NORTH OF NORWAY <i>by Uliana Yakusheva</i> .....	115
PROGRAMME BUDGETING ADOPTION IN RUSSIA: INSTITUTIONAL LOGICS AND INSTITUTIONAL WORK REFLECTIONS <i>by Evgenii Aleksandrov</i> .....	136
DO WAGES REALLY MATTER? EMPLOYMENT ISSUES IN THE HIGH NORTH OF RUSSIA <i>by Marina Giltman</i> .....	153
BACK TO THE FUTURE: NATIONAL STRATEGY IN CONTEMPORARY RUSSIA <i>by Igor Khodachek and Anna Mironova</i> .....	171
REGULATORY CHALLENGES FOR THE RUSSIAN HIGH NORTH DURING THE CURRENT ECONOMIC CRISIS <i>by Pavel Loukitchev</i> .....	189
STATE SUPPORT FOR INVESTMENTS IN RUSSIA AND NORWAY <i>by Diana Suyuchbakieva</i> .....	199

SOCIAL HOUSING AS AN INSTRUMENT OF STATE HOUSING POLICY IN NORWAY AND RUSSIA *by Anna Ugriumova* .....215

REFORMING UKRAINIAN LOCAL BUDGETING NORMS: INSTITUTIONAL PERSPECTIVE *by Veronika Vakulenko*.....231

## FOREWORD

This second volume of the *Young Researchers' Contribution Series* contains contributions from scholars (Master- and PhD levels, and faculty) who are participating in the international educational project 'Cooperation in Training of Young Researchers in the Field of Governance in the Public Sector (EduGov)' (2015-2016). The UTFORSK Partnership Programme, administrated by the Norwegian Centre for International Cooperation in Education (SIU, Norway), funds this project. This programme supports project cooperation between higher education institutions in Norway and their counterparts in Brazil, China, India, Japan, Russia and South Africa. UTFORSK also aims to enhance the quality of international cooperation in education by encouraging links to research cooperation and work life. To address this call, the EduGov project connects the Research Council of Norway's project 'Local government budgeting reforms in Russia (BUDRUS)' and existing research cooperation between Norway and Russia with developing research competences at Master- and PhD level. EduGov links BUDRUS's on-going research – on the impact of changes in the budgeting practices on different dimensions of governance – to education activities at Master- and PhD levels and extends it by reflecting upon multidisciplinary and multitheoretical research approaches to governance and their implications for the private and public sectors in the High North context. This collection of essays also includes papers of students, who participated in international educational project "Arctic Bridge: Cooperation on PhD Education and Research Training in the field of Management in Extractive Industries in the High North" financed by SIU.

As part of the EduGov project, and in order to contribute to research-based education, the PhD course 'Governance in the High North: Implications for Arctic private and public sector' was organized in 2015, and Master students had the opportunity to collect data in the public/private sector for their master thesis works in spring 2016. The PhD course concentrated on the multidisciplinary approach to governance and how to reflect upon it in the different contexts, focusing on the particular 'level' of governance associated with a type of organization (including, for example, public governance, global governance, and corporate governance). The course was open to international scholars from various fields (business studies, economics, public administration, political science, etc.), wishing to carry out research on topics associated with governance in the public and private sectors in the context of the High North and in general. Their essays represent the first group of contributors. In addition, faculty from Russian institutions contributing to the implementation of the course were invited to submit their essays in order to strengthen knowledge-sharing between partner higher education institutions. Another group of contributors is the Russian Master students, who collected empirical data during their last semester to finalize their master thesis works. Their meetings in the public bodies and companies and research seminars helped them to develop a strong link between the application and acquirement of research and practical knowledge. Their papers represent the comparative analysis of their research topics in connection with the public/private sector, in both Norway and Russia.

Essays were grouped into two sections, each related to similar issues. First part focuses on the perspectives and challenges dedicated to the issues of governance in general at the level of the

organization. Oxana Bulanova analyses the relationship between research and development activities and the internationalization intent of small and medium enterprises in Northern Norway, while Alexander Ermakov discusses the drivers of transition to the 'perfect' university's innovation policy. Alena Khabarova focuses on an investigation of the oil companies' strategies in both Norway and Russia, in terms of low oil prices. Diana Khaibullova studies corporate social responsibility in the system of social protection of employees in the High North, and Dmitrii Samokhin illustrates the influence of the bureaucratic model of organizational control on the activities of an enterprise's managers. Yulia Verina describes territory-branding strategies for increasing the attractiveness of destinations. Finally, Uliana Yakusheva presents the current issues of relationships between the corporate social responsibility activities of oil and gas companies and value creation in the High North regions.

The second part comprises essays dedicated especially to governance issues in the public sector, at both regional and national levels. Evgenii Aleksandrov focuses on public sector budgeting as a fundamental tool of governance, taking one municipality as his example. Marina Giltman considers the impact of the labour markets' locations on their outcomes at the regional level in the High North. Igor Khodachek and Anna Mironova provide an interesting discussion about the emerging system of strategic planning and how it re-evaluates and employs the Soviet planning legacy, while accommodating Western ideas. Pavel Lukichev illustrates the adaptation of businesses to the impact of national government during crisis, while, from a comparative perspective, Diana Suyuchbakieva studies how High North regions within one country deal with the region's investment attractiveness. Anna Ugriumova's paper deals with identifying factors that influenced the formation of modern state social housing policies. In the final paper of this section, Veronika Vakulenko considers an overview of international approaches and the role of institutions in building national governance systems, using the example of local government budgeting reforms.

We hope that the diversity of the papers presented in this volume will provide readers with interesting descriptions and illustrations of a variety of research topics connected to issues of governance and their implications for the private and public sector in the context of the High North and in general. Moreover, we believe that this volume in itself is a useful instrument for scholars to communicate their research projects and to reach out to authorities, enterprises and other scholars.

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## FACTORS FACILITATING INTERNATIONALIZATION OF ENTREPRENEURIAL ORGANIZATIONS IN NORTHERN NORWAY: THE MEDIATING ROLE OF R&D

### **Abstract**

The paper analyses the relationship between the human capital, marketing capability, research and development activities (R&D) and internationalization intent of small and medium enterprises (SMEs) from Northern Norway.

Structural equation modelling (SEM) was employed with observed and latent variables. The dataset used is a survey of entrepreneurial organizations in Northern Norway (2011). The variables included are education, skills development, sales, marketing and customer relationship and R&D activity. Internationalization intent was measured by asking the respondents to choose whether their intent in the short term was directed towards growing in the local, national or international market.

Results strongly support the role of R&D activities as a mediator between human capital and marketing capabilities and internationalization intent. This underlines the importance of innovation in organizations seeking internationalization. Implications for practice and points for future research are presented.

**Keywords:** internationalization; innovation; R&D; marketing; SEM

## **Introduction**

The modern world has been facing rapid internationalization. The reasons for this include recognizing new opportunities for trading through better transportation facilities, the development of supporting IT technologies and internet solutions. The business environment has been shifting towards a more open and broader exchange of goods and services.

More organizations have been seeking international markets, and the process is certainly going to continue. While previous studies have discussed mature domestic enterprises entering the international markets, more recent studies have researched 'born global' organizations (Chandler, 1986; Knight, 1996). Small and medium-sized enterprises, which constitute the backbone of every modern economy, are also entering the international arena and need to be aware of foreign market opportunities (Baronchelli and Cassia, 2014). However, exporting among small and medium enterprises (SMEs) has not received the same attention in the research literature (Ren et al., 2015). Firms that are active internationally grow faster than those operating domestically; they become larger and are more productive (Andersson et al., 2004; Brambilla et al., 2012).

Traditional researchers have been implementing a model of stage theory for international activities, where an organization first grows domestically, then, after gaining some experience and size, it moves towards international markets. However, this may not fully explain the internationalization of small and medium firms. Another stream of literature concentrates on the 'born global' organizations, where internationalization seems to be a less complicated and risky process with lower barriers, cheaper transportation and communication (Andersson et al., 2004).

Internationalization is broadening the market and opening new horizons for organizations. An increasing number of enterprises choose to internationalize early in their life cycles (Zahra et al., 2000). However, there are also drawbacks to internationalization that organizations take into consideration, for example, higher costs than local producers because of the unfamiliarity with the international environment (Zaheer, 1995).

Today, almost any firm can decide to enter the international market and offer its goods and services abroad. This issue is especially relevant for those organizations operating in remote and sparsely populated territories. These organizations imply an increasing need to focus on seeking out customers not only locally but also nationally and internationally.

To maintain a hold in the global competition, organizations intending to internationalize need to possess competitive advantages. Firms located in developed economies with high labour costs experience constant pressure from lower-cost manufacturers in developing countries (Veglio and Zucchella, 2015). Thus, one source of competitive advantage becomes investing in innovative solutions, research and development (R&D) activities and active investigation of the customers' demands and competitors through marketing activities. Marketing activities require expertise and are skill-intensive. However, varying levels of skills may be needed locally vis-à-vis international trade.

Based on the above discussion, this paper has two main research objectives: firstly, to test empirically the relationship between the capabilities of the organization and the decision of the firm to stay in a local (domestic market) or to internationalize, and secondly, to investigate the position of R&D in this relationship. The study examines crucial factors, influencing the choice of whether to internationalize or not.

The paper proceeds as follows. First, I present a theoretical rationale, derive the hypothesis and introduce the model for empirical testing. This is followed by a presentation of the empirical data and mathematical methods utilized to investigate the relationships in the theoretical model. Then the analysis and results of the paper are presented, followed by conclusions and implications.

### **Theoretical framework**

This study focuses on small and medium-sized firms from Northern Norway and seeks to examine the relationships between human capital, marketing capabilities, R&D and internationalization. The rationale for choosing these factors in examining the internationalization of SMEs from Northern Norway is as follows. Firstly, a larger number of organizations face the challenges of globalization. The organizational learning literature argues that an organization's competitiveness is dependent on the presence of certain capabilities such as R&D and innovation (Selnes and Sallis, 2003). Moreover, marketing activities contribute to the highest profit (Tsai & Eisingerich, 2010).

Researchers point out that we know little about the relationships between these concepts and the interactions among them (Ren et al., 2015). An integration of several theoretical approaches is needed to explore this issue.

#### *Human capital, marketing and internationalization*

Human capital theory views the employees of the organization as a stock of unique resources and capabilities. The composition of skills and education differs among companies. To sustain these advantages and develop them further, organizations often promote further education, courses and skills' development. People and the organizational context are determinants of successful innovation (Zien and Buckler, 1997). Relevant education and skills' development provide the basis that employees 'can' (have enough knowledge and experience) innovate (Prajogo and Ahmed, 2006).

Prior research indicates the extent to which marketing capability affects the internationalization strategies of organizations (Kotabe and Helsen, 2004). Firms act based on their market knowledge, and marketing capability is an integral component of success in the internationalization efforts of firms from emerging markets (Tsai and Eisingerich, 2010). As sources of further learning and development, firms use marketing tools (Ren et al., 2015). Such marketing efforts help firms to obtain vital information on customers, their competitors and the market situation (Shah, Rust et al., 2006). Higher levels of market-oriented activity in the firms' export markets are associated with higher levels of export success (Cadogan, Cui et al., 2006). Ren et al. (2015) argue that marketing capability increases the chances of firms' internationalization and R&D efforts. Marketing is difficult as the distance between producers and customers increases. The company's specific advantages

may not be as relevant for international customers as for local ones (Rugman and Verbeke, 2007). As a result, more effort needs to be expended by the producers to develop a more efficient production process as well as competitive advantages (Cerrato, 2009). To summarize, firms are affected by the actions of customers and competitors, and a high level of marketing capability may give firms a better tool for innovation (Ren et al., 2015).

*Enablers, R&D and internationalization*

Innovation is playing a key role in internationalization. There is a significant relationship between innovation and R&D activities (Harryson, 1997). In the example of Italian firms, Cerrato (2009) hypothesized and confirmed that there is a positive relationship between the innovations at firm level (R&D) and the global orientation of the organization. At the same time, Prajogo and Ahmed (2006) tested the relationship between the innovation stimulus factors and capacity factors of innovation management. An approach to integrating their findings is proposed in this paper in the following model (see Fig. 1):

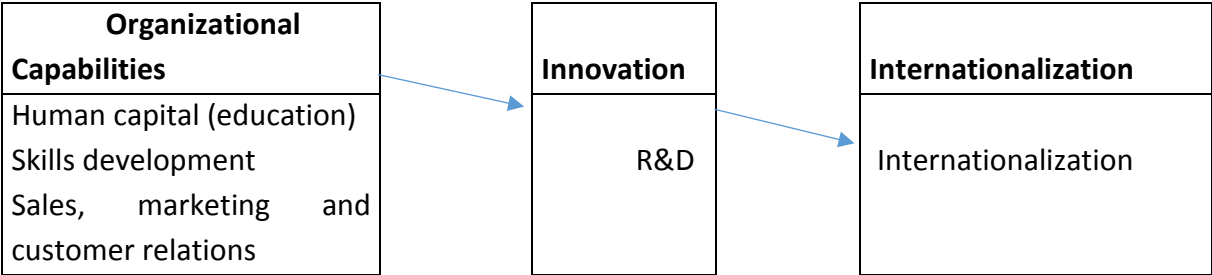


Fig. 1 Theoretical model of internationalization ambitions in entrepreneurial firms.

A key predictor of actual internationalization is the entrepreneurs’ internationalization intent. Entrepreneurs decide whether their organization should internationalize or not. The entrepreneurs’ expectations regarding the outcomes of internationalization influence their willingness. The subjective motivation of entrepreneurs is therefore important as it can explain actual internationalization. Since the entrepreneurs’ intent to internationalization is important for actual internationalization, identification of the key concepts that contribute to the formation of their intent is equally important. With reference to the literature, we consider that innovation plays a significant role in forming the internationalization intent. That is, an entrepreneur’s intent to internationalize depends on the amount of – and the ability to perform – R&D activity in the organization (Cerrato, 2009).

**Data and Methods**

*Context/Sample*

Northern Norway consists of three counties (Nordland, Finnmark, Troms) ; although it represents 35% of Norway’s territory, only 9% of the country’s population lives there.

Norway is constantly scoring highly in the Worldwide Governance Indicators (The World bank Group, 2015). However, there seems to be a discrepancy between the performance of start-ups in the northern regions and those elsewhere in Norway. Vast territories, harsh natural conditions and

remoteness from the transportation hubs make it difficult to access the capital for the start-up phase, as well as to market the products efficiently. Most high-growth oriented firms tend to start in the most populated regions of the country (Vázquez and Garcia, 2009). In smaller and remote regions, where the population density is lower, this number is also lower.

These factors make the production of goods and services expensive and lead the companies in this region to constantly search for solutions to optimize production, marketing and R&D activities.

## **Data**

The data used in this study are extracted from the survey of entrepreneurial organizations in Northern Norway held in 2011. To be eligible to participate in this survey, the organization should have satisfied the following criteria. It should have been established for profit, should have reached a minimum of 1 million in sales in 2010 and represent one of the thirteen main industries. Of 554 respondents, the managers of 499 companies provided full information for the present study.

## **Method**

This study utilizes structural equation modelling as a method of analysis of the proposed model (see Fig. 4 in the Appendix).

Structural equation modelling (SEM) is a popular statistical technique for testing theory in economic disciplines. However, its entry in entrepreneurship research is relatively recent. Nevertheless, SEM is one of the techniques that entrepreneurship scholars find particularly important for the future development of this field (Dean et al., 2007). As a method of analysis, SEM is capable of measuring the underlying latent constructs and assessing the paths of the hypothesized relationships between the constructs (Klem, 2000). There are two main advantages in SEM: firstly, it allows for the estimation of independent multiple regression equations simultaneously, and, secondly, it has the ability to include the latent variables into the analysis, while accounting for measurement errors in the estimation process (Hair et al., 1998).

## **Measures**

The variables and descriptive statistics are presented in Tables 1 and 2 in the Appendix.

### *Dependent variable*

The dependent variable, internationalization intent (Q28r), concerns the question of whether the organization is willing to be biggest in the a) local, b) national or c) international market in the next two to three years. Having stated the question, referring to the future time reduces the problem with the causality of the relationship between independent and dependent variables in the model.

### *Independent variables*

In terms of independent variables, human capital variables, marketing capability and R&D activity/capability are used.

*Human capital* variables are measured as the percentage of employees with certificated and vocational education and the percentage of employees with university degrees.

*Skills development.* The respondents were asked to estimate what proportion of the company's revenue was spent on employees' skills' development in 2010.

*Marketing capability* is measured as the percentage of employees who work in sales, marketing and customer relations.

*Latent variables* are not directly observed (measured in the survey) but formed from other variables that are directly measurable (Bollen, 1989). There is one latent variable in this study – R&D activity/degree of R&D involvement, which is built upon three indicators. The respondents were asked to answer whether their organization: a) conducted its own R&D in 2010 (Q22r), b) purchased R&D services in 2010 and/or c) participated in R&D cooperation projects in 2010. Confirmatory factor analysis (CFA) has loaded all three questions on one component with all communalities over 0.5 and Cronbach Alpha .758. Q22r, Q23r and Q24r are therefore reflective variables: the change in them reflects the change in the latent construct R&D capacity (Coltman et al., 2008).

#### *Control variables*

*Firm size* is measured by the number of employees in the organization in 2010. The rationale behind including this variable as a control variable is that previous studies stated that organizations need to achieve a critical mass in their size before internationalization may take place (Johanson and Vahlne, 1977).

*Previous internationalization experience* is measured as a binary variable (yes/no). The respondents were asked to state whether they had already obtained some income from foreign markets.

*Direct (domestic) competition* was measured as a binary variable (yes/no). The respondents were asked to state whether they had a direct competitor within one driving hour from their organization.

#### **Analyses and results**

Both categorical (binary, ordinal) and continuous variables are included in the model. The data from the real world may not be normally distributed. Therefore, according to the recommendations of Muthén and Muthén (2010), I use maximum likelihood estimator with robust standard errors (MLR) due to ordinal variables being not normally distributed. There are not too many factors in the model, and the number of observations is satisfactory (N=499).

For the robustness check, I also run a standard procedure of ordinal regressions in Statistical analysis software package (SPSS) to confirm the mediating effect of the R&D in the model and to access goodness of the model fit.

The results of SEM confirm the proposed model; however, not all the relationships are statistically significant (see Fig. 5 in the Appendix for the diagram of significant paths).

Of control variables, the size of the organization (measured in number of employees in 2010) (Q10) does not affect the internationalization intent, and thus the size of the firm does not seem to predict the internationalization intent of the organization. This means that the sample probably consists of

organizations that follow the stage model of internationalization as well as ‘born global’. However, those organizations that have at least one direct local competitor (within one hour of driving) (Q30r) are negatively associated with internationalization. In addition, there is a negative relationship between having a local competitor and R&D.

Organizations that already have income from international markets (Q34r) have stronger internationalization intent than newcomers do. There is a probability that these organizations are more actively exporting through independent agencies, outsourcing marketing functions and even working towards establishing a foreign production facility (when the headquarters are located in Northern Norway but the production factory is situated in a lower-cost land). This research was not able to distinguish between these reasons and thus opens an avenue for further research.

Overall organization capabilities are significantly related to R&D, except the variable of having certificated and vocational education. While having a larger proportion of employees with higher education and having higher expenditure on employees’ skills’ development are positively related to R&D, the higher expenditure on sales, marketing and customer relations leads to lower R&D. R&D plays a mediating role between the organization’s capabilities and internationalization.

Similar results have been obtained by performing a two-step ordinal regression in SPSS. The first model considered the relationship between the capabilities and the internationalization, regardless of R&D (Fig. 2).

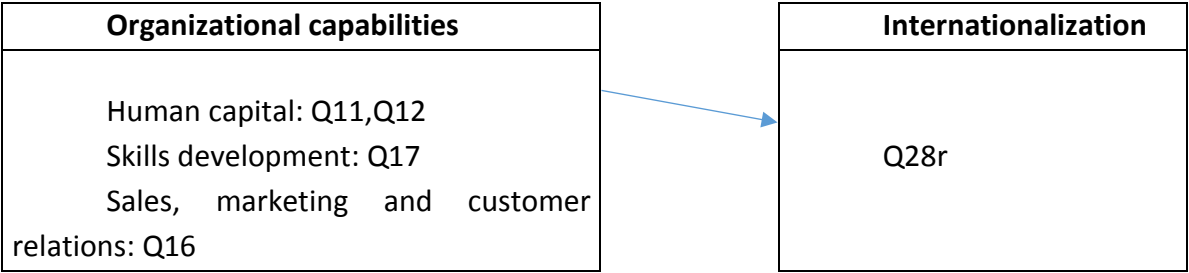
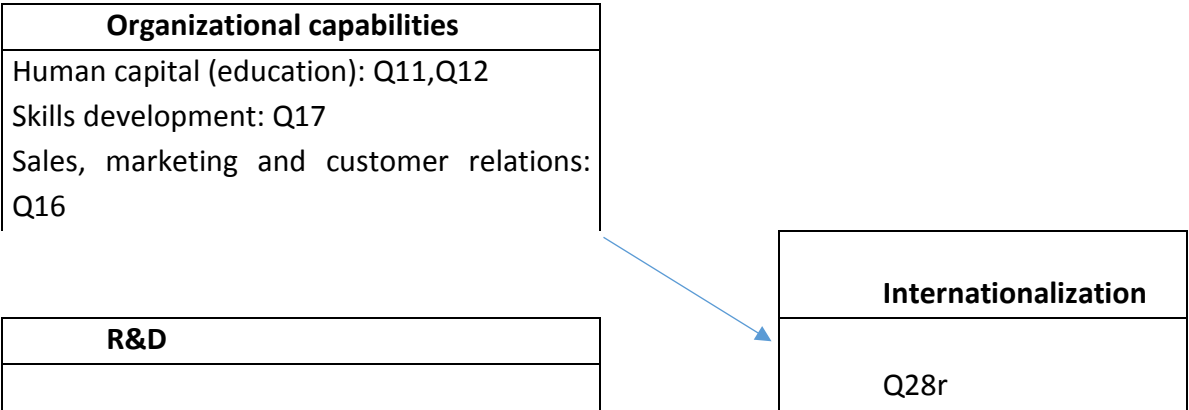


Fig. 2 Step one in the establishment of relationships (SPSS).

The statistically significant Chi-square 27.086,  $p < .001$  and goodness of fit  $p > .478$  (Pearson) suggest that the model fits very well. Pseudo  $R^2$  (e.g. Nagelkerke=6.4%) indicates that the variables explain a relatively small proportion of the variation between entrepreneurs.

In step two an R&D variable has been added to the regression (see Fig. 3).



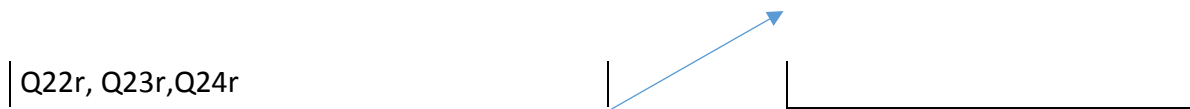


Fig. 3 Step two in the establishment of relationships (SPSS)

As was expected, it has reduced the significance of the competencies' variables, while the variable R&D remains highly significant. The overall fit of the model is very good with statistically significant Chi-square 152.735,  $p < .0005$  and goodness of fit  $p > .712$  (Pearson). Pseudo  $R^2$  (e.g. Nagelkerke=31.9%) indicates that with addition of R&D management variable the explanatory power of the model has risen by  $31.9\% - 6.4\% = 25.5\%$

As in the SEM model, the variable Q11 (proportion of employees with certificated and vocational education) is not statistically significant in the model.

### Conclusions and implications

This paper contributes to the debate on the importance of innovation activities for those organizations seeking internationalization. In this paper, an integrated model of factors influencing the internationalization of entrepreneurial organizations from Northern Norway is tested. The model supported the positive influence of higher education and skills' development on internationalization. The results confirm the mediating role of R&D between the organizational capabilities and internationalization intent of the entrepreneurs.

A higher proportion of employees with higher education and an increase in employees' skills lead to higher involvement in R&D activities for the organization and, as a result, higher internationalization intent. However, a higher proportion of employees working with sales, marketing and customer relations is negatively associated with R&D activities. One of the explanations for that may be that sales, marketing and customer relations represent the firms' special advantages, which are often oriented towards local customers and thus are not so useful in terms of internationalization (Cerrato, 2009).

The results are not able to support or disprove the stage model and the born global model of internationalization of the organization. Rather, they illustrate that internationalization appears in different stages of organizations' development, independent of the critical mass (size) achieved by the organization at that stage.

Several implications can be derived. For policy makers, it would be useful to contribute to further enhancing the incentives for SMEs to increase their R&D efforts with an internationalization component. Managers and entrepreneurs of SMEs should recognize the importance and include R&D activities in their everyday goals in order to internationalize. Achieving critical mass is not always necessary, and it is useful to think 'born global'. Universities should offer innovation and internationalization components in the entrepreneurship education of students, in order to obtain a holistic view of today's economic world.

The results of this paper should be treated carefully. Several limitations are acknowledged here. The data used for the analysis are of a cross-sectional nature and thus casual relationships can be



ambiguous. The results of the study cannot be generalized to all entrepreneurial organizations and only represent the organizations located in Northern Norway.

In this paper, I could not define whether organizations rely on the individual foreign country or provide their products and services broadly worldwide. Future research can investigate this issue more closely.

Future research can help to deepen the knowledge of how entrepreneurial organizations are obtaining and utilizing their competitive advantage in international markets.

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**Appendix**

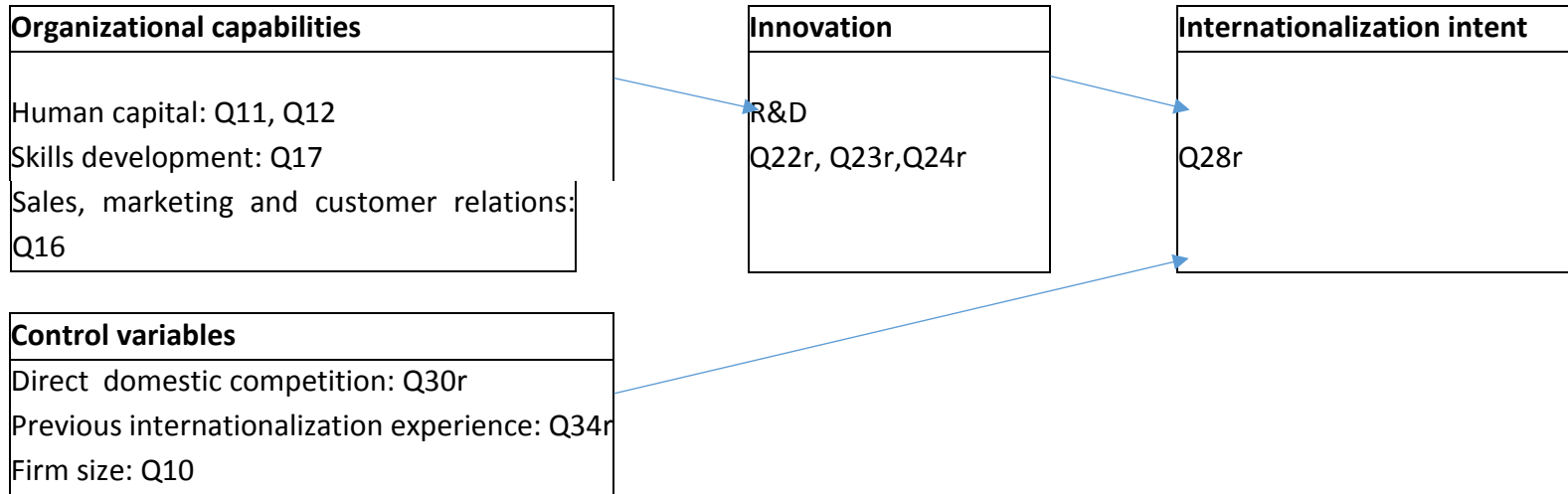


Fig. 4 Model for testing in SEM.

Variable	Indicator	Statement in survey	Variable type
<i>Independent variables</i>			
Percentage of employees with certificate & vocational education	Q11	What percentage of the employees have a certificate or other vocational education?	Continuous
Percentage of employees with university degree	Q12	What percentage of the employees have a university degree?	Continuous
Sales, marketing and customer relations	Q16	What percentage of the employees work with sales, marketing and customer relations (% share)?	Continuous
Skills development	Q17	Estimate what proportion of the company's revenue was spent on employees' skills development in 2010?	Categorical (Likert scale)
R&D activity ( <i>latent variable</i> )	Q22r	Did your company conduct its own R&D in 2010?	Categorical/Binary
	Q23r	Did your company purchase R&D services in 2010?	Categorical/Binary
	Q24r	Did your company participate in R&D cooperation projects in 2010?	Categorical/Binary
<i>Control variables</i>			
Previous internationalization experience	Q34r	Does your company have income from foreign markets?	Categorical/Binary
Firm size in 2010	Q10	How many employees did the company have in 2010?	Continuous

Direct competition (domestic)	Q30r	Do you have at least one direct competitor in your region (less than one hour's drive)?	Categorical/Binary
<i>Dependent variable</i>			
Internationalization intent	Q28r	What is the company's main ambition for the next 2-3 years?	Categorical/Ordinal

Table 1 Variables in the SEM and their respective survey indicators.

Table 2 Descriptive statistics (mean and standard deviation) for the variables (SPSS)

<b>Descriptive Statistics</b>									
	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Q11	499	0	100	42,26	37,815	,297	,109	-1,391	,218
Q12 Higher education	499	0	100	38,25	38,360	,601	,109	-1,235	,218
Q16	499	0	100	40,75	39,961	,550	,109	-1,390	,218
Q17	499	0	6	2,61	1,532	,662	,109	-,506	,218
Q22r R&D	499	,00	1,00	,3186	,46642	,781	,109	-1,396	,218
Q23r	499	,00	1,00	,1944	,39613	1,549	,109	,402	,218
Q24r	499	,00	1,00	,2685	,44364	1,048	,109	-,906	,218
Q34r Prev. Intern. Exper.	499	,00	1,00	,2365	,42534	1,244	,109	-,454	,218
Q30r Direct competition	499	,00	1,00	,7475	,43489	-1,143	,109	-,697	,218
Q10 Size	499	0	5005	28,62	229,118	20,740	,109	449,466	,218
Q28r Internationalization	499	1,00	3,00	1,4870	,73176	1,141	,109	-,201	,218
Valid N (listwise)	499								

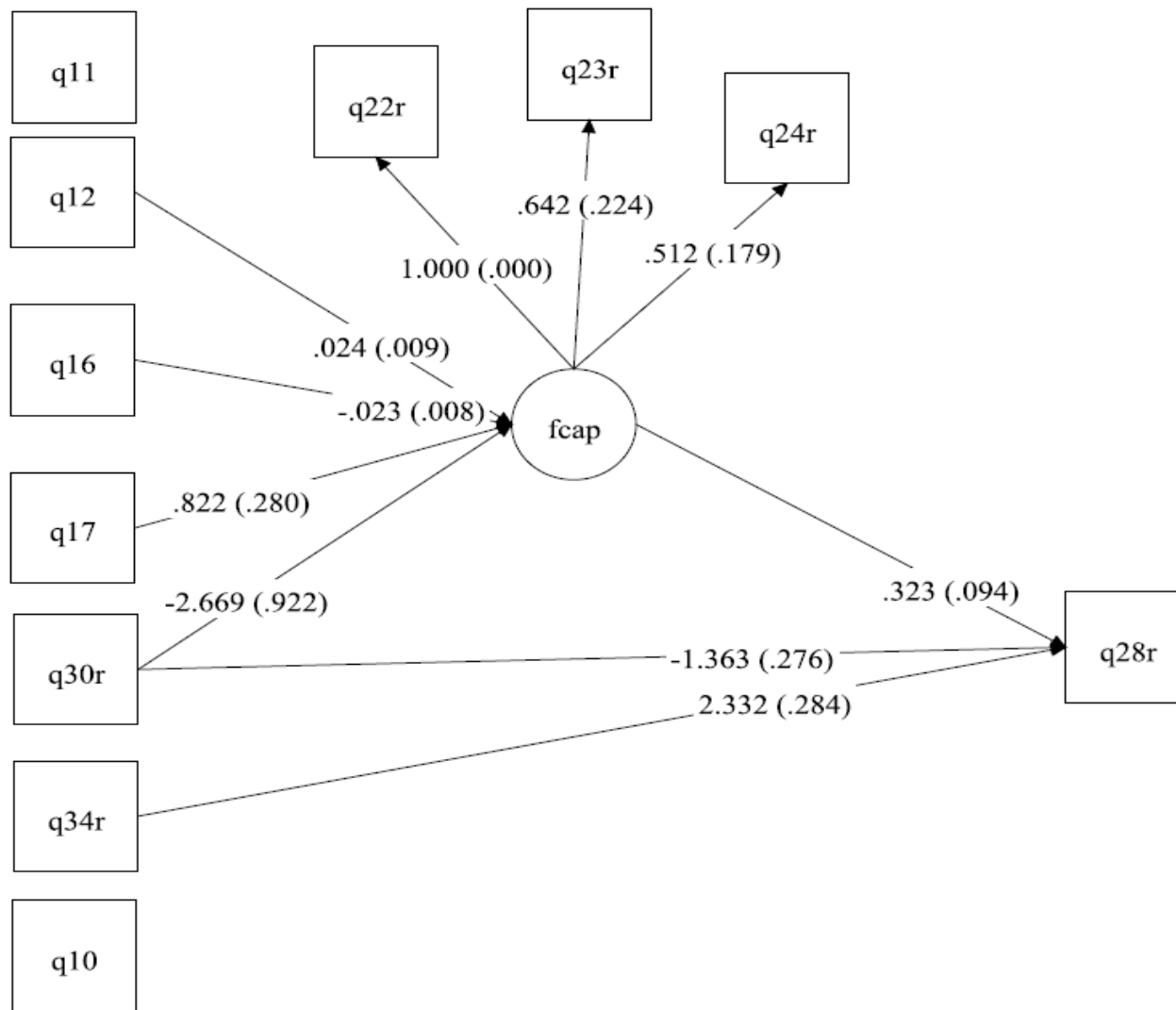


Fig. Final model with significant paths only (Mplus diagram output).



### **Analyse steps (Mplus):**

#### **SPSS (INPUT raw data):**

SELECT IF (Q34 GT 0). Har din bedrift inntekter fra utenlandske markeder?

SELECT IF (Q30 GT 0). Har du minst en direkte konkurrent i din region (mindre enn 1 times reisetid)?

Select if (Q28 GT 0). Hva er bedriftens viktigste ambisjon for de neste 2-3 årene?

SELECT if (Q22 GT 0). Har din bedrift gjennomført forsknings og eller utviklingsarbeid i egen regi i 2010?

SELECT if (Q23 GT 0). Har din bedrift kjøpt forsknings eller utviklingstjenester i 2010?

SELECT if (Q24 GT 0). Har din bedrift deltatt i Forsknings og utviklings samarbeidsprosjekter i 2010?

SELECT if (Q29 GT 0). Hvor møter bedriften hardest konkurranse om kundene?

RECODE Q28 (1=1) (2=1)(3=2)(4=3)(5=3) into Q28r.

RECODE Q34 (1=1)(2=0) into Q34r.

RECODE Q30 (1=1)(2=0) into Q30r.

RECODE Q34 (1=2)(2=1) into Q34snu.

RECODE Q22 (1=1)(2=0) into Q22r.

RECODE Q23 (1=1)(2=0) into Q23r.

RECODE Q24 (1=1)(2=0) into Q24r.

### **Convert to Stata – convert Stata - Mplus**

#### **INPUT INSTRUCTIONS (MPLUS)**

Data:

File is c:\Oxana\inno.dat ;

Variable:

Names are

ORGNR Q1 Q2 Q3 Q4 Q5 Q6 Q7 Q8 Q9 Q10 Q11 Q12 Q13 Q14 Q15 Q16 Q17 Q18  
Q18a Q18b Q18c Q18d Q18e Q19 Q19a Q19b Q19c Q20 Q20a Q20b Q20c Q20d  
Q21 Q21a Q21b Q21c Q21d Q22 Q23 Q24 Q25 Q26aa Q26ab Q26ac Q26ad Q26ba  
Q26bb Q26bc Q26bd Q26ca Q26cb Q26cc Q26cd Q26da Q26db Q26dc Q26dd  
Q26ea Q26eb Q26ec Q26ed Q26fa Q26fb Q26fc Q26fd Q26ga Q26gb Q26gc  
Q26gd Q26ha Q26hb Q26hc Q26hd Q26ia Q26ib Q26ic Q26id Q26ja Q26jb  
Q26jc Q26jd Q26ka Q26kb Q26kc Q26kd Q26la Q26lb Q26lc Q26ld Q26ma  
Q26mb Q26mc Q26md Q27 Q27a Q27b Q27c Q27d Q27e Q27f Q27g Q27h Q27i  
Q27j Q27k Q28 Q29 Q30 Q31 Q31a Q31b Q32 Q32a Q33 Q33a Q33b Q34 Q28r  
Q34r Q30r Q34snu Q22r Q23r Q24r capacity;

Missing are all (-9999) ;

USEVARIABLES ARE Q11 Q12 Q16 Q17 Q22r Q23r Q24r Q28r Q34r Q30r Q10;

CATEGORICAL ARE Q22r Q23r Q24r Q28r;

MODEL: Fcap by Q22r Q23r Q24r;

Fcap on Q16 Q17 Q11 Q12 Q30r;

Q28r on Fcap Q11 Q12 Q16 Q17;

Q28r on Q34r Q30r Q10;

Analysis:

estimator =mlr;

Output:

Tech10;

\*\*\* WARNING

Data set contains cases with missing on x-variables. These cases were not included in the analysis.

Number of cases with missing on x-variables: 11 1 WARNING(S) FOUND IN THE INPUT INSTRUCTIONS

**OUTPUT: SUMMARY OF DATA**

Number of missing data patterns 1

COVARIANCE COVERAGE OF DATA

Minimum covariance coverage value 0.100

UNIVARIATE PROPORTIONS AND COUNTS FOR CATEGORICAL VARIABLES

Q22R

Category 1 0.681 340.000

Category 2 0.319 159.000

Q23R

Category 1 0.806 402.000

Category 2 0.194 97.000

Q24R

Category 1 0.731 365.000

Category 2 0.269 134.000

Q28R

Category 1 0.655 327.000

Category 2 0.202 101.000

Category 3 0.142 71.000

THE MODEL ESTIMATION TERMINATED NORMALLY

MODEL FIT INFORMATION

Number of Free Parameters 21

Loglikelihood

H0 Value -961.079

H0 Scaling Correction Factor 0.9765

for MLR

Information Criteria

Akaike (AIC) 1964.159  
 Bayesian (BIC) 2052.624  
 Sample-Size Adjusted BIC 1985.969  
 ( $n^* = (n + 2) / 24$ )

MODEL RESULTS

		Two-Tailed			
		Estimate	S.E.	Est./S.E.	P-Value
FCAP	BY				
	Q22R	1.000	0.000	999.000	999.000
	Q23R	0.642	0.224	2.870	0.004
	Q24R	0.512	0.179	2.865	0.004
		Estimate	S.E.	Est./S.E.	P-Value
FCAP	ON				
	Q16	-0.023	0.008	-2.811	0.005
	Q17	0.822	0.280	2.937	0.003
	Q11	-0.007	0.006	-1.082	0.279
	Q12	0.024	0.009	2.868	0.004
	Q30R	-2.669	0.922	-2.895	0.004
		Estimate	S.E.	Est./S.E.	P-Value
Q28R	ON				
FCAP		0.323	0.094	3.437	0.001
		Estimate	S.E.	Est./S.E.	P-Value
Q28R	ON				
	Q11	0.003	0.003	0.903	0.367
	Q12	0.004	0.003	1.153	0.249
	Q16	0.004	0.003	1.134	0.257
	Q17	-0.167	0.095	-1.759	0.079
	Q34R	2.332	0.284	8.220	0.000
	Q30R	-1.363	0.276	-4.933	0.000
	Q10	0.000	0.000	-0.154	0.877

Thresholds

Q22R\$1	2.249	0.841	2.674	0.008
Q23R\$1	2.921	0.543	5.374	0.000
Q24R\$1	1.759	0.360	4.890	0.000
Q28R\$1	0.451	0.345	1.307	0.191
Q28R\$2	2.515	0.370	6.792	0.000

Residual Variances

FCAP	15.688	8.163	1.922	0.055
------	--------	-------	-------	-------

LOGISTIC REGRESSION ODDS RATIO RESULTS

Q28R ON  
FCAP 1.381

Q28R ON  
Q11 1.003  
Q12 1.004  
Q16 1.004  
Q17 0.846  
Q34R 10.294  
Q30R 0.256  
Q10 1.000

QUALITY OF NUMERICAL RESULTS

Condition Number for the Information Matrix 0.144E-06  
(ratio of smallest to largest eigenvalue)

**General analysis (Input):**

Analysis:

Type= basic;

Plot:

Type is plot1;

**SUMMARY OF ANALYSIS (Output)**

Number of groups 1  
Number of observations 499  
Number of dependent variables 4  
Number of independent variables 7  
Number of continuous latent variables 1

Observed dependent variables

Binary and ordered categorical (ordinal)

Q22R Q23R Q24R Q28R

Observed independent variables

Q11 Q12 Q16 Q17 Q34R Q30R  
Q10

Continuous latent variables

FCAP

Estimator WLSMV

Maximum number of iterations 1000

Convergence criterion 0.500D-04  
 Maximum number of steepest descent iterations 20  
 Maximum number of iterations for H1 2000  
 Convergence criterion for H1 0.100D-03  
 Parameterization DELTA

Input data file(s)  
 c:\Oxana\inno.dat

Input data format FREE

#### SUMMARY OF DATA

Number of missing data patterns 1

#### SUMMARY OF MISSING DATA PATTERNS

MISSING DATA PATTERNS (x = not missing)

1  
 Q22R x  
 Q23R x  
 Q24R x  
 Q28R x

#### MISSING DATA PATTERN FREQUENCIES

Pattern Frequency

1 499

#### COVARIANCE COVERAGE OF DATA

Minimum covariance coverage value 0.100

#### PROPORTION OF DATA PRESENT

	Covariance Coverage			
	Q22R	Q23R	Q24R	Q28R
Q22R	1.000			
Q23R	1.000	1.000		
Q24R	1.000	1.000	1.000	
Q28R	1.000	1.000	1.000	1.000

UNIVARIATE PROPORTIONS AND COUNTS FOR CATEGORICAL VARIABLES

Q22R

Category 1 0.681 340.000

Category 2 0.319 159.000

Q23R

Category 1 0.806 402.000

Category 2 0.194 97.000

Q24R

Category 1 0.731 365.000

Category 2 0.269 134.000

Q28R

Category 1 0.655 327.000

Category 2 0.202 101.000

Category 3 0.142 71.000

RESULTS FOR BASIC ANALYSIS

ESTIMATED SAMPLE STATISTICS

MEANS/INTERCEPTS/THRESHOLDS

	Q22R\$1	Q23R\$1	Q24R\$1	Q28R\$1	Q28R\$2
1	0.699	1.197	0.718	0.296	1.250

SLOPES

	Q11	Q12	Q16	Q17	Q34R
Q22R	-0.001	0.005	-0.005	0.215	0.571
Q23R	-0.001	0.005	-0.004	0.136	0.676
Q24R	-0.003	0.006	-0.004	0.086	0.692
Q28R	0.001	0.006	-0.002	0.033	1.382

SLOPES

	Q30R	Q10
Q22R	-0.686	0.000
Q23R	-0.331	0.000
Q24R	-0.446	0.000
Q28R	-0.979	0.000

CORRELATION MATRIX (WITH VARIANCES ON THE DIAGONAL)

Q22R	Q23R	Q24R	Q28R
_____	_____	_____	_____

Q22R			
Q23R	0.753		
Q24R	0.642	0.678	
Q28R	0.579	0.404	0.448

STANDARD ERRORS FOR ESTIMATED SAMPLE STATISTICS

S.E. FOR MEANS/INTERCEPTS/THRESHOLDS

	Q22R\$1	Q23R\$1	Q24R\$1	Q28R\$1	Q28R\$2
1	0.191	0.219	0.192	0.188	0.202

S.E. FOR SLOPES

	Q11	Q12	Q16	Q17	Q34R
Q22R	0.002	0.002	0.002	0.045	0.144
Q23R	0.002	0.002	0.002	0.048	0.147
Q24R	0.002	0.002	0.002	0.046	0.142
Q28R	0.002	0.002	0.002	0.040	0.134

S.E. FOR SLOPES

	Q30R	Q10
Q22R	0.143	0.000
Q23R	0.148	0.000
Q24R	0.139	0.000
Q28R	0.134	0.000

S.E. FOR CORRELATION MATRIX (WITH VARIANCES ON THE DIAGONAL)

	Q22R	Q23R	Q24R	Q28R
Q22R				
Q23R	0.049			
Q24R	0.058	0.057		
Q28R	0.058	0.071	0.067	

## Robustness check (SPSS- Ordinal regression)

Step 1: Competences – Internationalization intent model (excluding control variables)

### PLUM - Ordinal Regression

Case Processing Summary			
		N	Marginal Percentage
Q28r	1,00	327	65,5%
	2,00	101	20,2%
	3,00	71	14,2%
Q17	0	6	1,2%
	Less than 1 %	142	28,5%
	1 - 2 %	126	25,3%
	2 - 4 %	94	18,8%
	4 - 8 %	59	11,8%
	8 - 15 %	42	8,4%
	More than 15 %	30	6,0%
Valid		499	100,0%
Missing		0	
Total		499	

Model Fitting Information				
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	803,350			
Final	776,264	27,086	9	,001
Link function: Logit.				

Goodness-of-Fit			
	Chi-Square	Df	Sig.
Pearson	810,593	809	,478
Deviance	731,276	809	,976
Link function: Logit.			

Pseudo R-Square	
Cox and Snell	,053
Nagelkerke	,064
McFadden	,031
Link function: Logit.	

Parameter Estimates								
		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Thresh old	[Q28r = 1,00]	,057	,422	,018	1	,893	-,770	,883
	[Q28r = 2,00]	1,259	,427	8,696	1	,003	,422	2,095
Locatio n	Q11	-,001	,003	,294	1	,588	-,006	,004
	Q12	,009	,003	11,389	1	,001	,004	,014
	Q16	-,006	,002	6,731	1	,009	-,011	-,002
	[Q17=0]	-,984	,969	1,031	1	,310	-2,882	,915
	[Q17=1]	-,760	,403	3,555	1	,059	-1,550	,030



[Q17=2]	-,771	,409	3,556	1	,059	-1,571	,030
[Q17=3]	-,609	,411	2,201	1	,138	-1,415	,196
[Q17=4]	-,439	,440	,998	1	,318	-1,301	,423
[Q17=5]	-,416	,462	,810	1	,368	-1,322	,490
[Q17=6]	0 <sup>a</sup>	.	.	0	.	.	.

Link function: Logit.

a. This parameter is set to zero because it is redundant.

## Step 2: Adding R&D to the model to check the mediation

Case Processing Summary			
		N	Marginal Percentage
Q28r	1,00	327	65,5%
	2,00	101	20,2%
	3,00	71	14,2%
Q17	0	6	1,2%
	Less than 1 %	142	28,5%
	1 - 2 %	126	25,3%
	2 - 4 %	94	18,8%
	4 - 8 %	59	11,8%
	8 - 15 %	42	8,4%
	More than 15 %	30	6,0%
R&D	,00	292	58,5%
	,33	86	17,2%
	,67	59	11,8%
	1,00	62	12,4%
Valid		499	100,0%
Missing		0	
Total		499	

Model Fitting Information				
Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	843,945			
Final	691,210	152,735	12	,000

Link function: Logit.

Goodness-of-Fit			
	Chi-Square	df	Sig.
Pearson	842,222	866	,712
Deviance	670,203	866	1,000

Link function: Logit.

Pseudo R-Square	
Cox and Snell	,264
Nagelkerke	,319
McFadden	,174

Link function: Logit.

Parameter Estimates
---------------------

		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Threshold	[Q28r = 1,00]	-,917	,492	3,469	1	,063	-1,881	,048
	[Q28r = 2,00]	,589	,489	1,454	1	,228	-,369	1,548
Location	Q11	,001	,003	,146	1	,702	-,004	,007
	Q12	,004	,003	1,785	1	,182	-,002	,009
	Q16	-,001	,003	,052	1	,820	-,006	,005
	[Q17=0]	,184	1,125	,027	1	,870	-2,022	2,389
	[Q17=1]	,330	,444	,551	1	,458	-,541	1,200
	[Q17=2]	-,058	,445	,017	1	,897	-,931	,815
	[Q17=3]	-,189	,442	,183	1	,668	-1,055	,676
	[Q17=4]	,194	,475	,167	1	,683	-,736	1,124
	[Q17=5]	,168	,499	,113	1	,737	-,811	1,146
	[Q17=6]	0 <sup>a</sup>	.	.	0	.	.	.
	[R&D=,00]	-2,932	,317	85,688	1	<b>,000</b>	-3,552	-2,311
	[R&D=,33]	-1,256	,322	15,187	1	<b>,000</b>	-1,888	-,624
	[R&D=,67]	-,395	,338	1,359	1	,244	-1,058	,269
[R&D=1,00]	0 <sup>a</sup>	.	.	0	.	.	.	
Link function: Logit.								
a. This parameter is set to zero because it is redundant.								

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## FROM THE CLASSICAL TO THE PERFECT UNIVERSITY<sup>1</sup>: BUSINESS INCUBATOR AS DRIVER OF UNIVERSITIES' INNOVATION POLICY

### Abstract

Arctic exploration implies a need for technological equipment that forms the *raison d'être* for the universities as the driving force of technological modernization. The modern system of higher education in the Russian Federation requires a shift from the model of the classical teaching university to the model of the modern university. Making the shift is a difficult step, including the fact that transformation drivers are not explicitly defined. Russian universities' attempt at blind imitation of innovative structures without functional transformation has created problems of simulation of innovation and conceptual disaster. The article describes the current university activity and selects one of the drivers of transition to the concept of innovation or entrepreneurship (both of these concepts are included in the notion of 'perfect') universities. It also presents an analysis of the existing Tyumen State University business incubator according to the criteria proposed by researchers at Karolinska University. Some conclusions can be used in determining the innovation policy of the Arctic university sector.

**Key words:** perfect university; university transformation driver; business incubator.

---

<sup>1</sup> To set the frame of a brighter future, which relies on endeavour, by the term "perfect university" we mean the set of research, innovation and entrepreneurship universities

## Introduction

Arctic exploration implies a need for technological equipment that forms the *raison d'être* for the universities as the driving force of technological modernization. One of the problems is that the universities focus on education; therefore, technological projects are outsourced. A common practice is to provide small businesses with help from the university, which offers support by a special structure – a business incubator (BI). Another reason for studying this issue in Russia is a change in the system of higher education, which leads to a change in the hierarchy of universities. The gap between the leading economies in the global index of innovation is also a reason for the change in the Ministry of Education and Science Policy of the Russian Federation in the field of university education. Those universities that will be able to make the transition to a new model of the 'perfect' university will gain an advantage; therefore, there is a need to focus on the drivers, that will be the driving force behind the transition to a new university model.

Business incubators in various spheres of university activity have been studied by many researchers. In preparation for this article, the experience of Russian and foreign scientists was taken into consideration. Therefore, it was important to take into account a multi-level analysis of Karolinska Institute's incubation systems (Baraldi and Ingemansson Havensvid, 2015), the framework of incubator best practices (Bergek and Norrman, 2008), European business incubators (Aerts et al., 2007) and numerous articles by Russian researchers. However, in a number of the articles it is difficult to find a real analysis of the existing incubators in Russia's universities, which are undergoing transformation in an effort to get into the pool of the most successful universities in the country and to enter the international market. In addition, it does not take into account the prevailing conceptual disaster when a business incubator understands a different structure, without distinguishing it from a student business incubator (Chepyuk, 2014) or science department of the university. To address existing gaps, the article attempts to justify, in terms of the processes of higher education transformation, the need to understand the functional structure of the business incubator, as it is considered as one of the drivers of university conversion (Gafurov, 2015). As an example of the driver in article it is considered the business incubator of Tyumen State University (TSU), a member of the project of increasing competitiveness of the Russian higher education institutions "5-100".

'Perfect university' is a term that defines the institution that corresponds to the concept of entrepreneurship, research or innovation. In addition, it means the process of technology transfer and the creation of technology start-ups. Several sources refer to the beautiful university, for example, in terms of a rejection of the traditional store of knowledge of the high school, as understood by Tim Goral (Goral, 2014). However, there is also the global trend of the world's leading universities. Nevertheless, in this paper, into this notion we put the following meaning: no matter what concept of the university is considered, but far more important is that state (Ministry of the Russian Federation of Education and Science) requires a transition from a classical university to the modern (innovative, research or entrepreneurship), or 'perfect' university.

Thus, the main topical issue is to search for drivers of the considered transformations, methods and forms of transition to new models of university activity, 'from the classical to the perfect university'. That is why the research question is *"how can business incubators facilitate innovation policy in universities?"*

## **Method**

The methodology of the presented work was the analysis of the literature of Russian researchers in All-Russia Certification Commission (All-Russia list of peer-reviewed journals) articles, which include the highest-quality peer-reviewed journals and famous world experts' articles from *Scopus* journals. To prepare for the theoretical part, an interview with the head of the Centre for Technology Transfer of Tyumen State University and the head of the TSU department of research grants and contracts was used. By itself, the case of TSU is substantial to me, since I am an employee of the business incubator, and all the issues addressed in the article are doubly relevant to me.

In addition, during the preparation for the theoretical part, use was made of the answers of the small innovative enterprises' leaders and managers of universities in the correspondence interviews in the period from November to December 2015, the review of the views of the specialized 'science' and 'innovation' working groups, formed to prepare for the strategic session of Tyumen State University from February to November 2015. In preparing the materials about business incubators, the method of monitoring the work of departments, which are actually working, as well as a literature review, was used. The selection of the heads of small enterprises was carried out based on research representatives from different companies in terms of turnover. Answers to the questioned topics are shown in Table 2.

## **Background of the research**

Despite the fact that the policy of innovative development of the Russian Federation was declared a few years ago, the course of radical reform in the higher education system took place a little later – in 2013 with the introduction of the new law on education. However, it is not the only regulator of a system – the development of grant funding of research and innovation and the emergence of new competition from the Russian Ministry of Education changes the system of universities' financing of research and innovation activities. The shift away from the classic Soviet university towards modern models is happening now. There were already 29 national research universities (this status is assigned for 10 years), which in theory are research-type universities. The "5 Top 100" programme is gathering pace; its members (that now number 21) are by definition innovative or entrepreneurial universities. Also currently, the set of basic universities is being formed, each created by the merger of at least two universities (up to 40-50 universities). Thus, new locomotives of modern Russian higher education are being identified, whereas universities not included in this list, will take the role of colleges – universities without

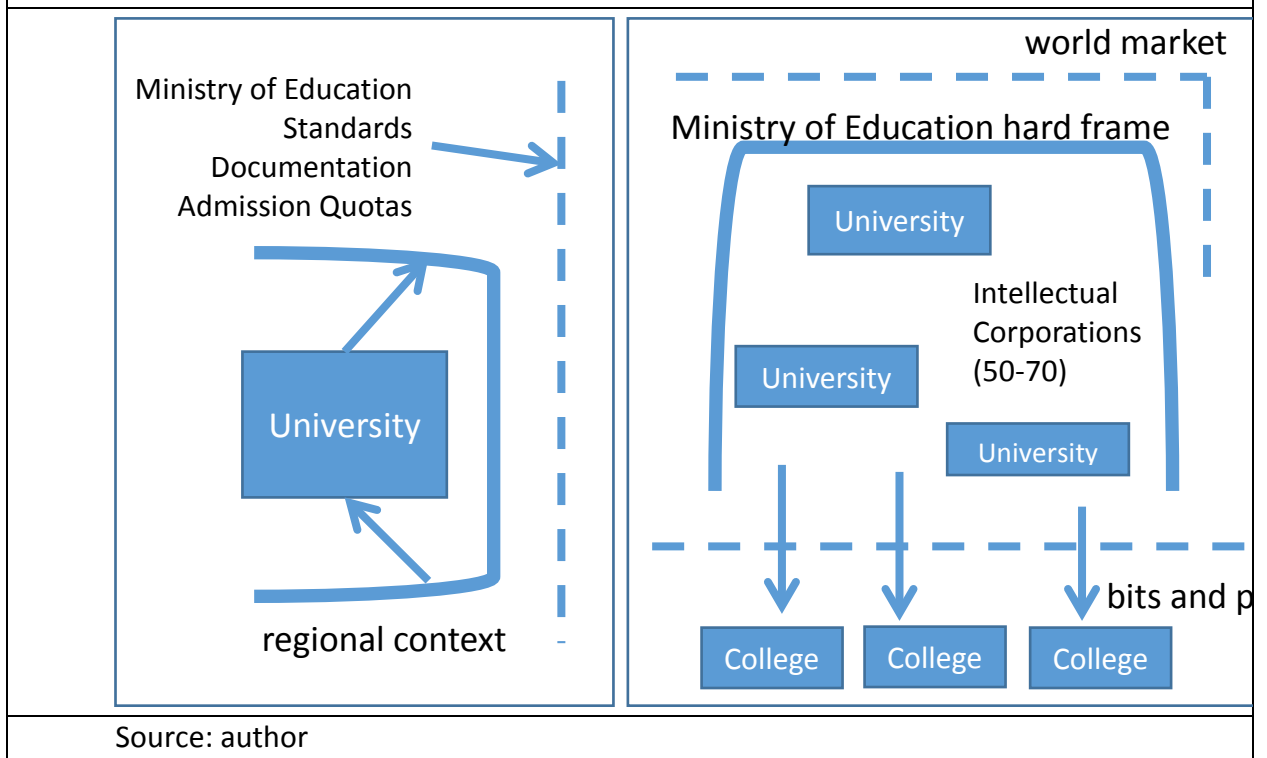
master's and postgraduate programmes, laboratories or world-class research, concentrating mostly on educational activities. Thus, there is a clear challenge to the university: the absence of change will plunge it into the abyss; at the same time, the changes in themselves do not guarantee a bright future but at least allow it to compete. To set the frame of a brighter future, which relies on endeavour, by the term 'perfect university' we mean the set of research-, innovation-, entrepreneurship- and supporting universities.

What is the goal of conversion? Modern processes of change of quantity (by considerable reduction at the expense of 'inefficient' higher education institutions proceeding from a quantitative assessment by monitoring from the Ministry of Education and Science) higher education institutions set new tasks for regional universities. A few of them hit in a conditional top of 'basic higher education institutions' (conditional top-50), which get large support from the state, can won megagrants with industrial partners and carry out high-quality training of students in the most prospective directions. Participation in the "5 in 100" program, whose purpose is the preparation of higher education institutions to a level, which allows them to enter into the top 100 higher education institutions of the world according to ratings (the World University Rankings, QS University Rankings, Academic Ranking of World Universities) is optimum. Another option – a long and labour-consuming way on top<sup>2</sup> (or at least attempt 'to stick' to a top of 'basic higher education institutions') due to transformations by own forces (Fig. 1). Therefore, we will start by considering the theoretical aspect of the formation of the 'perfect' higher education institution.

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<sup>2</sup> There are 4 option ways for university: '5 top 100' program, or leading universities; 'basic higher education institutions' program. Or regional leaders; Modernization by own forces; To be a college without scientific grants, PhD programs and so on

Fig. 1 Two frames of universities: from classical type to modern intellectual corporations.



## Theory

### University innovative activities: a review of practices

Almost all the works relating to the organization and management of innovation in universities talk about research universities. For example, Etzkowitz and Leydesdorff (2000) consider the entrepreneurial university (which generates innovations) as the next stage in the development of a research university. Their problems lie in how to get the results of research innovative technologies, how to encourage researchers to go on fixing what is called research outputs to what is called research impact. In later works, Etzkowitz (2013) analyses the evolution of the entrepreneurial university and comes to the conclusion that “As universities become entrepreneurial, tension arises between this new role and that of teaching and research as it has between research and teaching. Nevertheless, the university coheres as each of these new missions has fed back into and enhanced previous tasks.”

What is the problem of a research university in terms of innovative environment and society? As a rule, the scientific result is thought as final, this result is fixed in intellectual work in the form of the publication, not innovations on market, and its application is only planned without real implementation. Eventually, these results (with the proviso that they are positive) are still evolving and transforming technology; quality improvers are available, but, firstly, the way on the market may take much more time, and secondly, other persons and elsewhere may develop this way. Of course, a scientific result is enough, but the reality is that society, the state, the organization, in the era of global competition requires not only scientific knowledge per se but

the results of the application of this knowledge to solve essential problems and provide competitive advantage.

In Russia the system of research represents the scheme Publications-Money-Publications, which means that the publications are considered as a way to obtain funding for new publications. It still continues to function substantially. The problem is not that it is an inefficient scheme, it seems likely that the basic science, using the following scheme, at least, not in its simplified version, is quite reasonable to develop. The problem is that the division of sciences into basic and applied is very tentative. Liechtenstein somehow reminded us of the warning of L. Pasteur that there have never existed and never will be any 'applied sciences'; there are only applications of sciences (very useful!) (Liechtenstein, 1986). In other words, the only question is the horizon of knowledge application, and, of course, it is unwise to refuse to support research that may be implemented in 10, 20, 50 or more years. The problem is that the model does not stimulate the process of research results' implementation, all results will be successfully postponed in 10, 20, 50, etc. years, except perhaps the most obvious.

The essential difference between the definition of innovation by Penfield (as the efforts to overcome the distance between research output and research impact) and that of a number of others (for example, what is given in the Federal Law "About Science and State Scientific and Technical Policy"), is the lack of the necessary conditions for the commercialization and representation of the final product on the market as it significantly reduces the essence of innovation. After all, the result can be expressed in social or political changes, which will not bring any profit to the author but will qualitatively improve the entire system (Penfield et al., 2014).

In such understanding, innovative activity is not a synonym of business activity, though Clark and Smirnov (2011) notice that for many years the adjectives 'innovative' and 'entrepreneurial' were used as synonyms, with small distinctions in connotations. For their work, they chooses 'entrepreneurial'. Innovation activity may not be entrepreneurial, and entrepreneurship may not be innovative. The essence, however, is that the most effective activity is born in the zone of their intersection. An entrepreneurial mindset amidst scientific knowledge acts as a catalyst for their transformation into innovation.

As for Russia, in general, innovation is directly identified with commerce (i.e. revenue-generation), and 'innovative' gets the same negative connotation as 'entrepreneurial'. This has probably played a role in the approach to the assessment of innovations, which measures only the amount of money earned, i.e. if you sell – therefore you are an innovator, regardless of what you sell and to whom.

Briefly summarizing the above, the development of innovation in the university requires three components: a research university (world-class research teams); an innovation-oriented environment (corporate culture of the organization, services, innovative climate); an innovation-oriented internal environment (motivation, understanding of the innovative activities).

According to Clark and Smirnov, these components can be assigned to the minimum necessary elements (a strengthened steering core; an enhanced development periphery; a discretionary funding base; stimulated academic heartland; an integrated entrepreneurial culture).



There are a number of principles or restrictions, which should adhere to the discussion of all the proposed ideas and innovations for the development of a classical university: "adaptability to global change" – all new developments should initially contain flexible system mechanisms to respond to global challenges in higher education; "redistribution and transformation" – this should start from the currently available financial resources and not discuss the creation of new structures but the transformation of those currently in existence; "control and management" – the implementation of all innovations must be basically controlled and controllable by the management of the university.

Universities and other higher education institutions are the most important source of new scientific knowledge – both technical and business. Technological innovation cannot appear out of nowhere or as a byproduct of traditional business. Innovative technological entrepreneurship rests, as international experience shows, on the key elements of the whole system – the university or rather potential inventors and innovators, while they are still university students.

As in most cases scientists are not prepared to deal with the commercialization of their research results (inventions) without having the entrepreneurial spirit and business skills, this highlights the special role of business teams willing to cooperate with scientists through the establishment of micro and small business organizations, initially focused on business development. In the study of factors, the emergence of small innovative enterprises (SIE) should be evaluated not only on the scientific potential of the university but also on the presence of a positive entrepreneurial field (the entrepreneurial potential of students, forming a multidisciplinary team of business and developed business networks), as well as on the incubation of SIE formed at the university.

The current realization in the Russian university environment is the prevailing conceptual disaster, which is associated with a lack of proper innovation practice, coupled with the need at some point for the creation of a full range of innovative infrastructure. Thus, the problem is that the structure was created and forced to engage in new activities without changing the research and innovation process in general. Rather the functional moved inherited from the previous model of the university or was formed as a response to the challenges of the main stakeholder (the Ministry of Education of the Russian Federation). Therefore, it is now important to harmonize the functional and structural elements of the innovation infrastructure among universities, avoiding management mistakes, i.e. trying to solve the problem by creating a new structure (which again will produce the same problem).

#### Business incubator unit as an object of university innovation infrastructure

Suppose that it is necessary to begin from the earliest stages of the innovation process and look at the structure that functions at this stage – a business incubator. First of all, define the functionality of the element based on the analysis of literature and comparisons with the practical: experience obtained in the framework of monitoring the work of the Business Incubator of Tyumen State University, Tyumen Regional Business Incubator Business Incubator "Druzhba" (Tomsk), Business Incubator "Ingria" (St. Petersburg), and other business incubators in Russia and abroad.

In accordance with Prokhorova and Chepyuk (2014), business incubators are an integral part of the innovation infrastructure, the development of which is determined by order of the Government of the Russian Federation dated 8<sup>th</sup> December 2011 № 2227-r "On the strategy of innovative development of the Russian Federation for the period till 2020". The tasks of business incubators of higher education include the identification of stakeholders and the ability to create their business; the development of entrepreneurial competencies among the young people of the university; assisting in the generation and commercialization of innovations; fostering working teams. The article "Business incubation at the university as a key condition of the formation of small innovative entrepreneurship in the regions" (Grebyonkina and Ivanov, 2012) states that literature highlights three main roles of universities associated with the creation of new technology-oriented companies. The first is educational; the second is the establishment of new high-tech companies based on university studies and R&D, university spin-off companies and incubators; the third is interaction with the high-tech companies (clusters, industrial parks, and so on) and the development of network space. In their article, Danish researchers, Bøllingtoft and Ulhøi (2005), consider the development of network space; they talk about the network business incubators and state that the "ability to connect up to strategically important clusters of networks is a critical managerial skill. Such networks can give entrepreneurial actors the necessary legitimacy, skills, and resources needed when launching a new venture".

The main aim of the incubator is to create successful businesses that have the potential for the creation of jobs, the economic development of the region to enable it to profit from new technologies and the strengthening of regional and national economies. According to the definition of the Association of UK business incubators represented by Prokhorova, incubation is a unique and highly flexible combination of business processes, infrastructure, and personnel designed to create favourable conditions for the development and cultivation of new enterprises through the provision of support at the early stages of development and formation. By the term 'incubation', they mean the joint efforts of developers and managers, aiming to create a company (legal entity), which owns the necessary assets (infrastructures and accompanying documentation, industrial, technological and human capacity) and resources (financial and material) required for the production and sale of products (services) on the basis of the existing development. Thus, business incubation in the university today should be understood as the creation of an environment conducive to the creation and development of small innovative enterprises, ready for effective functioning in the market when in the university incubator and after emerging from it.

According to Khokhlov (2015), the essence of the incubator is to provide certain services to residents to create the finished product or the company:

**Infrastructure.** The incubator provides space for comfortable operation, as well as secretarial and communication services. Depending on requirements, certain additional facilities (laboratories) may be granted.

**Business services.** They consist of the creation of a business plan, creating mathematical models for forecasting, marketing and legal analysis.

Financing. The incubator finds investors to finance the idea and produces the necessary documentation to obtain the grants. It also provides accounting services.

Team Building. The incubator provides staffing services to find or prepare the necessary personnel. Through these services, a corporate culture is created at an early stage.

Branding and post-incubation services. The incubators can provide assistance in creating a brand for the future of the product. Often, after the creation of the product, the resident may remain to stay in the business incubator and continue to improve established product.

Lomakin (2011) believes that similar steps to those of Khokhlov should be carried out for an evaluation of the business incubator (external or internal audit).

In a sense, the existence of conceptual disaster affects the articles of Russian authors. Thus, in their discussions, Gamidullaeva (2013), Duplenko (2013), Kovalenko and Smirnov (2013) and Lomakin (2011) often confuse the functions of business incubators, technology parks with other innovative infrastructure facilities of the university.

Too often, the authors identify the concepts of a business incubator and a student business incubator as equal. Thus Chepyuk (2014) discusses student business incubators, saying that "The creation of a student business incubator is a necessary and logical result of the transformation of the classical university into the entrepreneurial". In addition, despite the obviousness and simplicity of the idea, creating structures similar to those of the student business incubator is a complex practical task. On the one hand, the student business incubator should generate an innovative climate, encourage the competitiveness and creativity of students, and, on the other, it should create effective business processes for beginner (start-up) companies, i.e. solving the professional complex practical problems of business management. In addition, we cannot ignore the international experience.

The fact that there is a large number of studies analysing the activity of business incubators is the reason that it is possible to establish the basic activities that business incubator provides. The conceptual frame of BI operation is set in the research of Sarfraz Mian (Mian, 1996b, 1996a, 1997). "BIs of all generations offer similar support services, tenants in older generation BIs make less use of the BI's service portfolio," says Johan Bruneel (Bruneel et al., 2012). In their work, Chan and Lau (2005) consider the specific incubators of technological parks, and one of the key findings is that "The benefits required by technology founders at different stages of development are varied and therefore, the general merits that are claimed by incubators as useful to technology start-ups are debatable". Grebyonkina and Ivanov (2012) made an analysis of the available information on the functioning of some foreign universities' innovation infrastructure (MIT, USA; University of Cambridge, UK; University of Twente, The Netherlands; Aalto University, Finland). This allowed them to identify nine major activities of its member structure (sequence of directions does not determine the level of significance), which are presented in Fig. 2.

Fig. 2 Major activities of business incubators.
Training theory and practice of business students, teachers, and entrepreneurs themselves.
Scientific research in the field of entrepreneurship and students' involvement in it.
Providing consulting services to entrepreneurs and coaching for start-ups (student business teams).
The development of business networks and communities.
The development of innovation infrastructure, including research parks, business incubators, technology transfer centres, business centres, etc.).
The organization of conferences, competitions of business plans, classroom activities, and so on.
Policy formation of the university focused on the development of entrepreneurship.
Strengthening the entrepreneurial spirit and the development of culture.
Interaction with business, government and venture capital industry.
Source: author

Researchers at Karolinska University conducted a study and identified key components that determine the incubation process (Baraldi and Ingemansson Havenvid, 2015). The first component is the place. The co-working place and space allow organizing good logistics among startups. The same principle serves as a catalyst in the development of co-workings inside business incubators. The second component is time. Being in the business incubator can reduce the time to market. In addition, usually the time spent in the business incubator is limited (it is generally accepted that there will be a yield from the companies in the incubator after three to five years). The other five components are sources, resources, control and governance, activities/services and outcomes (Table 1).

	Single incubatees (the project)	Organizational level (the incubator)	Institutional and inter-organizational level
<b>Place</b>	Co-location	Facilities, campus/park	Global, national, regional
<b>Time</b>	Short-term, milestones	Exit/graduation rules, learning, 3 generations	Long-term, path-dependence
<b>Sources</b>	Entrepreneurs, scientists/inventors, owners, financiers	Scouting & selection. University Vs open, science, ideas Vs people. Specialist Vs generalist	Several incubators and universities. Transnational networks
<b>Resources</b>	Ideas, knowledge, IPRs, team, experience, equipment, relationships (univ. linkages), finance	Physical space, expertise, management, reputation, legitimacy, relationships (to various stakeholders), resource transfer	Multiple technologies and supply chains, distributed competences, central network nodes
<b>Control/governance</b>	Incubator, founders, financiers (public, VC), potential customers, development partners	Private, public, mixed. Profit Vs no-profit. Influence/monitor incubatees. Powerful stakeholders	Distributed across several stakeholders. Several actors in the network try to control
<b>Activities/services</b>	Learning, business & technology development, networking, selling	Selection, space rental, business support, counseling and coaching, financing, mediation & networking	Development, production and use of technologies. In-licensing, company acquisitions, regulations, standardization
<b>Outcomes (values created)</b>	Obtaining funds and IPR protection, recruitments, growth, sustainability, termination	Occupancy, graduation (exit), revenues/funds, financial position	Innovations, economic development, job creation, profit/losses to established organizations

Source: Baraldi and Ingemansson Havenvid (2015)

### Empirical part

Trying to understand what is happening in terms of the Russian classical university requires full consideration. Based on Table 1, within the framework of this study, interviews took place with managers of small companies as well as with university managers working with innovation. The results are reflected in Table 2.

	The project level	The incubator level	Institutional level
<b>Place</b>	The majority of successful projects are located outside the university. On campus, there are projects that can be considered as permanently lagging. Companies choose their board members.	Core organizations and facilities inside TSU. No idea screening, financing. Providing services for patenting.	Selection of projects only at the university, does not integrate projects from abroad. Technology transfer depends on the companies.
<b>Time</b>	Reporting on request. Frequency depends on government regulatory agencies.	The residence time of the incubator is not limited.	Most of the companies are providing services. As companies often operate without relying on patents, time to

			market is not restricted.
<b>Sources</b>	Ideas: scientists and employees of TSU.  Funds: personal contributions of owners.	The only criterion for selection is the presence of the idea.  Availability of money and other funds are not necessary.	Turns out financing through federal funds on a grant basis. The limitation is the attractiveness of the idea (scientific or commercial).
<b>Resources</b>	The head of the company is often a TSU scientist. Expert research carried out at the university, personal manager communications define the relationship with the industry.	There is office space, but there are no laboratories. There is patent examination but no financial assistance to projects, no pool of experts and control over the interaction of SIEs with the industry.	Research on a regional scale. TSU - a symbol of quality at the regional level. Technology platforms are the only registers, where investors are not represented.
<b>Control/ Governance</b>	66% of the company belongs to the owners, and 34% to the university. The university does not require substantial activity reports. The company is usually owner-managed, rather than having a project manager.	The head of the company acts as a scientist, ownership by the incubator is formal. There is no exit strategy.	No adequate venture, large companies do not make any claims to the project.
<b>Activities/ Services</b>	The project has access to unique and expensive equipment of the university through the centres of collective use.	Working with projects only at the development stage. Do not decide on the strategy of companies. Support through the provision of access to the equipment, including the projects of other universities.	Large companies are reluctant to invest in outsourcing of technological projects. This is particularly evident during the financial crisis (2008, 2015).

<b>Outcomes (value created)</b>	2 projects supported by federal funds. 2 projects at the prototype level. 3 projects have a marketable product. On average one project per year is closed.	There are 30 projects. Aggregate turnover - 30 million rubles per year.	About 2.5 people working in the company. The most successful project attracted venture investment of 2 million rubles. All 30 companies are licensed by the results of intellectual activity of scientists TSU. None of the companies has been sold.
Source: author			

The problematic position of the university is that in fact things are still not called by their names. At the project level, work is done to implement the indicators advanced in the development programmes, not the actual work on the development of the project. It is worth noting that there is no choice regarding the commercialization of the project. It is significant that none of the projects has approached crowdfunding. Since work on the project is carried out as usual to public sector and not private sector principles, the result is also a familiar product to the public sector – the data for a variety of reports. There are a few exceptions: companies headed by people with the methodology of the private sector and the business competencies needed for successful operations and development projects, but this does not change the general picture.

At the level of the incubator, exactly the same thing is happening that comes out at the project level: since no projects at the level are real business projects, and attitude on the part of the university management is not as for real business projects, but as for student initiatives. Services, provided to projects are more formal rather than based on real demand. At the institutional level, there is a request for scientific research, which is not supported by interest from the large companies, who do not need research, and finished projects. These do not exist; as in the previous levels, we do not have a mechanism to help projects reach the stage of commercial demand.

**Discussion**

The constructed model seems interesting from the point of view that it is considering the projection of the innovation process from the point of view of different levels. Moreover, it is based on a survey of participants in the innovation process, the management of the university, business and government and scientists (innovators). Let us consider the resulting attempts to justify the business incubator (as a combination of TSU innovative structures) and try to

understand the aspects of the business incubator, which are able to perform the role of drivers of university change.

Place: At the project level, there is a discrepancy, in that successful companies are almost never represented at the university, while parasite companies are constantly located on the campus, but did not bring the university real good. Thus, public opinion is that the university is not successful in commercialization cases. In addition, students are cut off from successful companies. When it comes to the criteria for 'time', the main problem is the absence of a period, which would have activated the project and not allowed it to remain permanently in the development stage. Given the fact that the money from federal grants is only available to young companies (under two years), I believe that it is advisable to introduce a two-year period, after which the question should be raised regarding the situation of the company as a resident of the business incubator.

Criterion sources: difficulties arise from the lack of a real selection of projects, which in turn is determined by a small number of ideas. That is, the most promising solution is the actualization of business generation through the student business incubator, which correlates with the ideas in the Russian article on this subject (Chepyuk, 2014). At the resource level, positioning the university and its development requires a brand, which we have now identified as regional. Another important anchor is the fact that the university projects are not represented in the networks of innovative development but only in the Federal Register, where there are no experts and investors. In general, the lack of an adequate external examination is an important limitation and requires attention. Incidentally, all the universities of project "5-100" have external supervisory boards composed of world-renowned scientists, who could act as experts for innovative projects.

Almost all respondents agreed that the practice of innovation takes place without venture capital investors. There is a problem on the control/governance level: the head of the company acts as a scientist, not as a project manager, he is not interested in leaving the company and is not contemplating such a strategy. As a scientist, he is more interested in the development of the scientific component of the project, and the commercial part, in the best case, is thought about last.

At the server level, the company provides all the necessary assistance, including access to university equipment on a preferential basis. However, the big companies do not trust universities to develop technologies. This is largely due to the inability of universities to develop the product, rather than the technology. In addition, the financial crisis affects the business initiative to make high-risk investments.

The last level of the table appears to be rather controversial. The fact is that the TSU Business Incubator can be considered statistically as well-functioning, both in the number of projects, and in the introduction of technology into products and bringing them to market. On the other hand, the aggregate turnover of the companies is very low, as is the average salary of their employees. Thus, the company cannot significantly influence the formation of a climate of innovation in the university.



The result of the submitted work is a description of the theoretical framework for the activities of the university to build the driver of the process of transformation into a perfect university. The main conclusion is that the entrepreneurial university (which generates innovations), as the next stage in the development of a research university, lies on the route to changing the classical university to the perfect university. The entrepreneurial mindset amidst scientific knowledge acts as a catalyst for the transformation into an innovative university. The entry point to the innovation is the entrepreneur. Thus, the role of the specialized structure – the business incubator – and a description of its functionality are presented.

Reflecting on Fig. 2, we conclude that the business incubator is largely responsible not for the services but for establishing and maintaining an environment conducive to innovation. Nonetheless, the innovative environment in question is not considered in the model, which is presented in Table 2. It is very likely that it is difficult to describe the existence or absence of an innovative environment, as well as represent some gradation of the environment. However, in this case, the result of the existence of a productive innovation environment will be concluded as the level of commercialization of projects required to make the private sector pay attention to them.

## **Conclusion**

As we can see from the example of the TSU case analysis, according to the criteria set out in the work of researchers at Karolinska University, there are significant gaps in the structure of the work. Certain shortcomings show the areas that need to be developed for the business incubator of the university to fulfil its role as a driver; we have identified these based on literary analysis. Changing the higher education model and the university hierarchy creates requirements for the implementation of innovation speed and thus forms an innovative environment. At the same time, we see that a time limit for projects is not currently used. The decision is application of a projects' time spent limit in innovations' support and development profile structures in university. An institutional drawback is the lack of innovation platforms (such as innovation development networks in India or the United States).

In this case, it is determined that the incubator of university innovation may determine policy regarding whether the incubator concept will fit the business (and not be a formal structure). The student business incubator may provide many business incubator services. This establishes contact between students and innovative companies, which is important for the formation of the perfect university.

This work aims to overcome, although not directly to solve, the identified problems and forms the basis of understanding for further studies. The next step to be presented is the analysis of the functions of Russian and non-Russian business incubators and a comparison of functions, in order to understand the similarities and differences in their activities.

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## **BUSINESS STRATEGY APPROACH OF RUSSIAN AND NORWEGIAN OIL COMPANIES UNDER LOW OIL PRICES**

### **Abstract**

Since the oil industry is very competitive and plays a significant role in the world market, the drop in oil prices has caused companies working in the industry to face challenging tasks and identify the necessity to adapt to the new market conditions. This paper focuses on the investigation of the oil companies' strategies in terms of low oil prices. Within this work, a comparative study of the strategies of Norwegian Statoil ASA and Russian Gazprom Neft is presented. The paper is motivated by the recent developments in the world oil market, as well as by other studies in the oil and strategic management spheres, in particular by the theoretical framework presenting the strategy as a process consisting of three main parts: formation, implementation and reformulation. The basis of the work includes literature studies and interviews with employees related to the strategic management processes in the investigated companies. The paper explores the strategies of Norwegian and Russian oil companies in accordance with a strategy process theoretical framework and outlines the key features of the companies' business approaches under low oil prices. Finally, this work presents the way in which the strategic decisions are implemented in the investigated companies.

**Keywords:** drop in oil prices; strategy; strategy process; strategic decisions; oil companies

## Introduction

Business strategy attracts the attention of many researchers all over the world (Kiechel, 2010). According to Markides (1999) there are different strategies behind all successful companies. Every company has enough possibilities to develop its own strategy using such instruments as analysis, tests, mistakes, and even luck and intuition. Markides (1999) considers that how the strategy was created is of little importance; it is matter of understanding the logic of successful strategies. In studies connected to the business strategy sphere, research mainly focuses on the instruments that aim to provide the growth of the company's competitiveness. For example, in her study, Asla (2015) pays attention to the particular competitive strategies. Mirani (2009) also investigates some examples of this phenomenon. However, in my opinion, the dilemma is this: what kind of strategy seems to be competitive under uncertain market conditions and what strategic decisions should the company take in this case?

Kalpič (2002) states that strategy is a word with a rather uncertain meaning; generally, however, it can be connected with long-term planning, a complex and organized system of aims and goals, and a chosen method of creating strong relations between external environment, internal resources and means. Exploring the strategies of the companies operating in the oil industry has always been of interest to business. Aubert and Frigstad (2007) write that the oil industry has become extremely competitive and being a successful company in oil industry depends on many factors such as sufficient capital for large investments, the opportunity to use new and leading technologies, and clear understanding of which strategic goals are the most important for the company and how these goals can be achieved. Due to the drop in oil prices, there are now new possibilities to investigate the sphere related to the strategies of oil companies. In her research related to the competitive strategies, Asla (2015) notices that the rapid fall in the oil prices sector in 2014 was a surprise for oil companies and has led to increased cost levels, transformed into cost and efficiency pressure on the oil companies all over the world. It seems to me to be very important to investigate this fresh topic connected to the strategies that oil companies apply to adapt to new conditions because the situation in the market is still unpredictable and it is not known exactly how it will develop.

Mirani (2009) states that, since oil is one of the most significant resources in the world, it is very important for oil companies to choose an appropriate strategy for their business, because it is the basis of their production activity and successful performance. In my opinion, it is not so straightforward to identify what kind of strategy can be regarded as the best in terms of unstable conditions in the market, due to the fact that each company is unique and has its own strategic features. Hence, some researchers are interested in the analysis of the particular strategy related to a particular company, discussing its future possibilities for growth. For example, Aubert and Frigstad (2007) provide complex strategic analysis related to Statoil. From my point of view, a comparative study of strategy approaches related to different companies can provide the researcher with a wide view of the problem, outlining the trends that are similar or dissimilar in the companies' strategies. I consider that such information may help the researcher to discuss which practices can be regarded as efficient in an unstable situation in the market with respect to several companies. That is why my paper covers not only the topic of business strategy

approach under low oil prices but also investigates the strategies related to companies based in different countries.

This paper focuses mainly on an investigation of the strategies of two big energy companies: Norwegian company, Statoil ASA, and Russian company, Gazprom Neft. The energy sector plays a key role in both the Russian and Norwegian economies. It is known that Russia and Norway are powerful exporters of oil and gas on the world market. Grinblat and Volkova (2007) argue that Norway is interested in its continuous growth as a stable and major supplier of energy, while Russia, in terms of its massive reserve base and exploration opportunities, has transformed from a reliable oil and gas supplier to one of the key world energy players. Hence, Russian and Norwegian oil companies are pursuing the goals of capturing more market share and increasing their competitiveness (Grinblat and Volkova, 2007).

According to the interview conducted with Alexander Dukov, CEO of Gazprom Neft PJSC (retrieved from: <http://www.gazprom-neft.ru/press-center/lib/1110228/>), most of the world's oil companies started to work on decreasing their costs and increasing the level of business efficiency in terms of fallen oil prices. Some of the companies decided to make certain changes in their strategic plans, while others decided to keep working on their present strategies. Therefore, it seems very interesting to me to explore the strategies of two big players on the world oil market, such as Gazprom Neft and Statoil ASA, especially now, when market conditions are so unpredictable. *The aim of my research is to describe the strategic framework of the companies in terms of low oil prices on the market and to analyse the practical instruments that companies use to achieve their strategic goals.* Within this paper, I will analyse the existing strategy programme documentation, practical companies' mechanisms and their current results.

The problem statement of this research is related to the fact that *the situation in the world oil market related to fallen oil prices makes some energy companies choose whether there is a necessity for them to reformulate their present strategy or to adapt it to new conditions.* To study and describe this phenomenon, I decided to investigate the strategies of two oil companies, Norwegian Statoil ASA and Russian Gazprom Neft, and to discover what their strategies are, due to the situation in the world oil market. To manage this task, it is crucial to analyse how Statoil ASA and Gazprom Neft define strategic decisions in their reports and how these decisions are implemented in practice. The research question of my paper can be formulated as: *How are the strategic decisions implemented in Russian and Norwegian oil companies?*

In order to take a deep look into the problem of the research, I chose strategy process theory as a theoretical basis of the paper. This theory, suggested by Brane Kalpič in 2002, focuses on the main aspects related to the strategy: strategy formation, strategy implementation and strategy reformulation. The investigation of existing companies' strategies in accordance with this theory provides me with opportunity to make my analysis more efficient, concrete, and well-structured. As a supportive theory, I chose the norm system and the action system theory (Bergevärn et al., 1995), which can help me to investigate the strategic framework of the company and its practical instruments aimed to achieve its strategic goals.

I suggest the following work structure. Within the first step, I am going to analyse the existing strategy programme documentation of two companies, highlighting the main goals of each. This strategic framework of the companies provides me with an understanding of how each company identifies its strategy in its documents and which results are the most significant for the company from a long-term perspective. After analysing the existing strategy programme documentation, I will analyse the companies' practical mechanisms and their current results. This can show how strategic decisions defined in companies' reports are implemented in practice. Finally, it is a question of interest for me to discover whether there is any impact on the companies' strategies from the states of the two countries. Norwegian Statoil ASA is a state-owned company, while Gazprom Neft is a subsidiary of the Russian Gazprom company. About 50% of Gazprom's share capital is owned by the Russian state, so Gazprom Neft, as a subsidiary of Gazprom, is also related to the state.

Since I am interested in a comparison of the strategies of Statoil ASA and those of Gazprom Neft, the findings in my research can provide me with the opportunity to identify the difference in strategies of two big oil companies. Moreover, this comparative analysis can reveal some of the Norwegian company's practices that can be useful for the Russian company and vice versa.

### **Theoretical frame of references**

This section presents appropriate literature, which is important in my paper for understanding and clarifying the problem statement. In addition, the different points of view, connected to the strategy theory and explored in this section, provide a theoretical background, which may help me to interpret the findings. It also can help the readers to understand the results of this paper and the assumptions, which are at the core of the research.

The word 'strategy' has many meanings, given by different researchers all over the world. Chandler (1962) states that strategy can be presented as a set of the central long-term goals and objectives of the company and the implementation of courses of action to achieve these goals. Porter (1986) considers that the strategy should be based on market competition to provide the company with the opportunities to win this competition. He states that such a type of competitive strategy is a broad method for successful business performance, defining its goals and policies for their achievement. Finally, Mintzberg (1994) suggests that the strategy relates to the '5 Ps', which are: plan, play, pattern, position and perspective. He establishes a whole strategic planning theory and notes that strategic planning is not related to the process of strategy creation; it is about the programming of a strategy which has already been created.

#### *The strategy process theory*

For this study, 'strategy' is defined as a set of goals, which the company seeks to accomplish from a long-term perspective, and the actions (strategic decisions) of the company, which aim to achieve these goals. Kalpič (2002) notes that the strategy management process includes many steps, but, if we take look at the strategy life cycle, we can discover that it is an integration of conceptual and pragmatic knowledge (p. 3).



Fig. 1 The strategy process (Brane Kalpič, 2002, p. 3).

Fig. 1 represents a brief description of the strategy process, which consists of three main steps: strategy formation, strategy implementation and strategy reformulation. According to Kalpič (2002), the first part of the strategy's life cycle is strategy formation. This step includes several activities such as the creation of company's mission, recognition of core resources, carrying out external and internal analysis and the identification of new competencies that are required for successful company performance. In other words, strategy formation is the process by which the company defines the most suitable courses of action to accomplish its goals. In practice, the company usually uses corporate strategy documentation or just a strategic plan to fix the future results, which are the most important to achieve.

Strategy implementation has numerous definitions but, generally, according to Wheelen and Hunger (2004), strategy implementation includes the activities within an organization to manage the completion of a strategic plan and to achieve the company's goals. The strategy-implementation step can be presented as a sum of the operations conducted by the company to obtain outcomes, which can provide the accomplishment of the strategic plan from a future perspective. Kalpič (2002) states that this step also includes such operations as strategy elaboration, strategy promotion and strategy execution.

The strategy reformulation part includes a review of the present strategy and can be based on the process of evaluating the present strategy's effectiveness in achieving the company's objectives. Evaluation and control allow the company to identify which goals have been achieved and to make all necessary changes in a strategic plan.

This strategy process framework (Kalpič, 2002) seems relevant to this paper because it covers areas of future investigation. In exploring the strategy process of two big oil companies, it is necessary to identify the company's existing strategy programme in terms of uncertain conditions in the market and strategic decisions, which the company uses to obtain its goals. Thus, in terms of my research, I will analyse the strategies of Statoil ASA and Gazprom Neft, including their present strategic plans and their activities to achieve their goals in the environment of fallen oil prices on the world market.

#### *The norm system and the action system theory*

To understand the way in which the company's strategy can be explored, it is necessary to identify the components that play the most significant role in the strategy process. Bergevärn et al. (1995) suggest such approaches as the norm system and the action system. They discuss the



relations between norms, and action systems and their environment. According to Bergevärn et al. (1995), the action system contains the instrumental activities of the company. It functions within particular companies, and it can easily define separate but interconnected operations. The norm system relates to the institutional environment of the action system and can be described as the development of regulations and requirements, to which individual companies must conform.

In terms of my paper, the strategy of the company can also be presented in the form of norms and action systems. Within my work, the norm system consists of the strategic framework of an oil company, which is defined in the company's reports and normative documentation. It consists of strategic plans with goals, which the company seeks to achieve in the future. The action system comprises the strategic activities of the company. Within an oil company, operations in terms of the action system can be related to different spheres of the company's activities, for example, exploration activities, production activities, investment strategy, etc. Bergevärn et al. (1995) state that the strategy norms are supposed to direct the strategic action. On the other hand, the strategy action is aimed to achieve the goals established in the strategic plan (the strategy norm system).

Bergevärn et al. (1995) note that interaction between these two systems can also be a part of an organizational learning process. Bergevärn et al. (1995), citing Levitt and March (1988), suggest that there are two main types of learning: learning from one's own experience and learning from the experience of others. Bergevärn et al. (1995) argue that the norm system is able to learn from the experience of others, i.e. from experiences in the system's environment and/or in the action system. The same opportunities concerning the diversity of learning forms can be applied in the action system. To sum up the previous arguments the strategy process can be presented as a model described by Fig. 2.

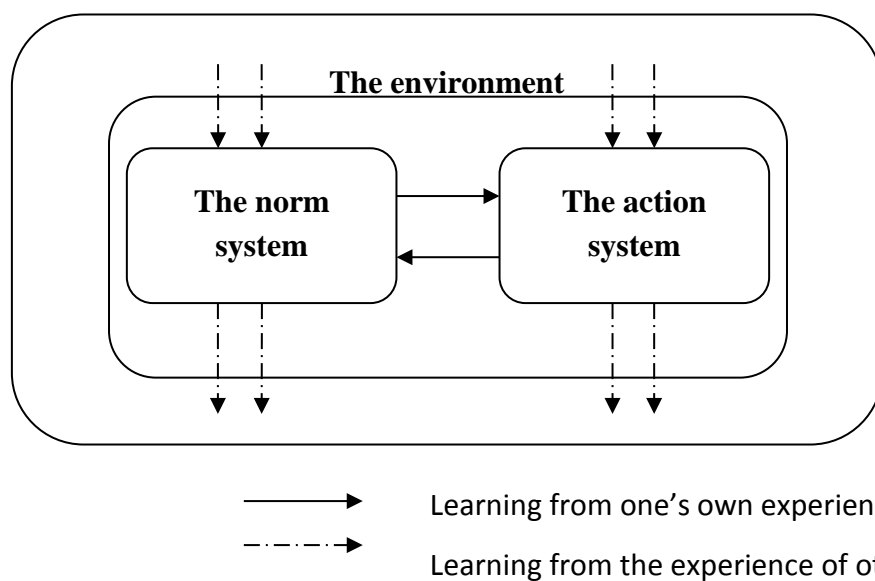


Fig. 2 An illustration of possible relations within norm and action systems (Bergevärn et al., 1995, p. 29).

This paper focuses on the analysis of interaction between the norm system and the action system of the strategy process within the oil company. The norm system of the company, represented as a strategic plan, influences the action system of the company, including the operations and activities implemented by the company to accomplish its strategic goals. In addition, the comparison of the strategies of two big international companies like Statoil ASA and Gazprom Neft provides opportunities for learning from the experience of others, as both companies operate in the oil industry and are state-owned, as are many other companies. Moreover, in terms of the oil price crisis in the world market, this type of comparative analysis can be very useful because international experience may suggest different strategic solutions for each company.

### **Method section**

This section describes the ways in which the data in the paper is collected and used methodologically. It provides a brief description of the philosophy of science, including the main philosophical assumptions behind the process of carrying out research; in addition, it identifies and explains the research design applied in this paper, as well as the methods of data collection.

It is crucial to have a clear understanding of the methodology and the philosophy of science, which plays an important role in gaining new scientific knowledge or in examining the existing knowledge. According to Spirkin (1983), methodology can be regarded as a system of publicly accepted regulations and principles of intellectual and practical activity and can be represented as a particular aim of perception. There are two main different philosophical assumptions related to the development of methodology for performing research: ontology and epistemology (Easterby-Smith et al., 2012). Ontology can be described as a “philosophical assumption about the nature of reality”. Epistemology concerns the “most appropriate ways of inquiring into the nature of the world” (Easterby-Smith et al., 2012, p.17).

As the basis of the research, I apply the approach of relativist ontology. Easterby-Smith et al. (2012, p.19) state that, in this case, there are many ‘truths’, depending on the observer’s point of view. With respect to this method, I consider that different observers have different opinions about the strategy that should be applied by the company; in addition, different companies may have different opinions about this question. Since I am going to use several sources of information, including interviews with the employees of the investigated companies, can be different opinions about which strategy can be considered to be the most successful under low oil prices, due to differences in the perception and consideration of the respondents.

Concerning epistemology, I adopt an approach of social constructionism, which is also in agreement with the relativist ontology approach. The key features of social constructionism suggest seeing the world with respect to people, their thoughts and opinions. It is also expected that research can increase the common understanding of the situation (Easterby-Smith et al., 2012). In the case of this paper, the social constructionist approach allows me to gain a better understanding of the oil companies’ strategies in terms of unfavourable conditions in the industry. In this paper, I apply such social factors as the interviewees’ thoughts and opinions that may influence the research. Social constructionism also emphasizes the significance of

understanding people's experiences. Since the paper focuses on two big oil companies, two strategies were explored, and respondents connected to different companies were interviewed to identify similarities and differences in the strategic behaviour of their companies and their abilities to adapt to new market conditions.

### *Research design*

To find a solution to the problem or to answer a research question, it is crucial to gather essential and accurate information, to make an analysis and to present it in the proper way (Booth et al., 2008). The research design explains the ways of data collection including applied methods and techniques, further data analysis and interpretation. The research design always depends on the research aim and problem. There are three major types of design: exploratory, descriptive and causal (Easterby-Smith et al., 2012). The choice of the type of design that should be applied to the research depends on how much information is already known about the question (Burns and Bush, 2000).

Exploratory research provides an opportunity to explore the problem in a new perspective, to ask questions, to discover new insights and to understand what is going on, regarding the phenomena (Robson, 2002). Descriptive research is aimed to create a comprehensible image of the phenomena before the start of the data collection process. This type of research is able to provide the answers about who, what, where, etc. (Burns and Bush, 2000). A causal design can be applied to the research when there is a necessity to clarify variables' relationships. Such types of relationships can only be investigated through experiments (Easterby-Smith et al., 2012).

The aim of this paper is to describe the strategies of two oil companies in terms of fallen oil prices. For this qualitative paper, I apply a descriptive research design. Within this paper, this type of design allows me to study information concerning the current status of the companies' strategies. I do not intend to investigate *why* the particular strategy was applied by the company, but I focus on *what* kind of strategy the company chooses under low oil prices and what strategic decisions are taken. The descriptive research design allows me to investigate 'what is going on' in both companies, with respect to the present conditions in the world oil market, and to use this type of data for my comparative analysis.

### *Data collection*

Qualitative research has been chosen for this paper to find the answer to the research question. To collect data for the paper, both primary and secondary data sources are used. Secondary data is the most important data within the research because it provides information related to the strategies of Statoil ASA and Gazprom Neft. According to Easterby-Smith et al. (2012), secondary data can be presented as "research information that already exists in the form of publications or other electronic media, which is collected by the researcher" (Easterby-Smith et al., 2012, p. 345).

Several literature sources of secondary data are used in this paper:

- *Companies' annual reports.* Statoil ASA and Gazprom Neft's annual reports provide some sort of company-specific information related to the companies' strategies; they also offer the opportunity to understand the companies' positions in relation to current trends in the

oil industry in terms of the oil price crisis. They also include important information about companies' future plans;

- *Companies' websites.* The websites of Statoil ASA and Gazprom Neft contain specific information on the companies' strategic decisions, presentations, latest news related to the companies, as well as their aims and the current results of their strategies' implementation;
- *Quarterly results.* Such sources give detailed information about the companies' financial results and their performance. In terms of the present situation in the oil market, financial results show how low oil prices affect the companies' income levels.
- *Newspapers and articles.* This type of secondary data sources allows background information and news about the companies' activities, operations and events in relation to performance to be obtained. In addition, articles related to both Russian and international sources help a comparison to be made, based on different points of view on the companies and their activities.
- *Former research papers.* Analysis of existing research papers relevant to the research question in this paper gives the opportunity to investigate those issues related to strategic management in the oil industry that attracted the attention of researchers, which aspects were covered in previous papers and what results and answers were found.

Secondary data are the basis of this research, so it is essential to choose the sources of information properly. Statements and information given by the companies are considered as the highest quality sources (Easterby-Smith et al., 2012). Since the key sources in this research include annual reports of both companies and their official statements related to the strategy, it can be stated that the secondary data sources within this paper consist of high quality information which is correct and quite appropriate.

Secondary data collection in the research covers the main aspects of the strategy process related to the theoretical framework. It is crucial to discover the main strategic goals of Gazprom Neft and Statoil ASA, to study the key aspects of their current strategic plans and to explore which projects and activities seem the most significant for the companies to accomplish their strategic plans in terms of the uncertain conditions in the world oil market.

Primary data sources are used in this paper as a supportive instrument in the data collection process. Primary data can be characterized as "new information that is collected directly by the researcher" (Easterby-Smith et al., 2012, p. 344). Primary data collection in terms of this research gives an opportunity to discover new insights and information from people working for the companies, whose strategies are under investigation.

Primary data within this paper is collected through several in-depth interviews with employees from Statoil ASA and Gazprom Neft, who are related to the strategic management processes in the companies. This type of interviewing is used as an effective way to ask participants about their personal feelings, points of view, and experiences (Mack et al., 2005). This technique helps to recognize how employees from both oil companies evaluate the companies' performance in terms of the unstable situation in the oil market, what their prognoses about future of the oil market are, and how they evaluate the strategy process in their companies.

In other words, after the gathering of secondary data and its analysis, it seems very interesting to me to obtain some comments on the explored facts and questions from people working at the companies. This type of primary data collection gives an opportunity to gain fresh and professional feedback on the companies' strategies.

### **Empirical part**

This part describes findings related to the research. These results are based on both secondary and primary data collection. This section will describe the existing strategies of the investigated oil companies and introduce the main instruments that the companies use within these strategies in terms of the present uncertain conditions in the world oil market. In addition, the findings provide the opportunity to identify whether there is any impact on the companies' strategies from the governments of Norway and Russia.

Since the company defines its main goals and creates its strategic plan, in terms of the strategy life cycle process, it is crucial to investigate the existing strategies of Gazprom Neft and Statoil ASA. To collect this type of data, the annual reports and established strategic documentation of the companies were analysed. To manage the accomplishment of a strategic plan and to achieve the company's goals, both Gazprom Neft and Statoil ASA use a set of activities. These operations, applied by the companies, will provide the research with additional information about the companies' strategies in terms of the oil price crisis.

#### *Gazprom Neft case*

Gazprom Neft fixes its strategy in the document that describes the 2025 corporate development strategy of the company. This document was approved in 2013 by the board of directors as the key one related to the strategic development of Gazprom Neft. It emphasizes the main goals that the company is seeking to achieve for every segment of its business by 2020. It also notes that the company is going to improve these future-achieved results until 2025. Among business segments included in the strategic plan, it is crucial to note the following:

- Hydrocarbon production;
- Refining;
- Sales of petroleum products.

The aims of the company are clear and specific and relate to each of these spheres. They refer to the concrete numbers that the company is seeking to achieve by 2025. For example, the central objective in the company's production sphere is to reach 100 million toe of hydrocarbon production per year, while one of the aims for the refining sphere is to increase refining depth by up to 95% in Russia. All goals of Gazprom Neft established in the strategic plan take into account the changing and uncertain conditions in the world oil industry and aim to increase the company's production level.

Even in terms of the fallen oil prices, Gazprom Neft is focused on gaining more market share, so all its strategic instruments are aimed at providing an increase in production volumes. According to the annual results of the company, in 2015 Gazprom Neft achieved 79.7 million tons of oil

equivalent, that is 20.3% more than in 2014. Refining reached 43 million tons, and sales in the segment of petroleum products were 25.7 million tons. There are several key company projects that can be regarded as important strategic decisions, applied by Gazprom Neft to accomplish its main goals. Among these projects, it is crucial to emphasize the following:

- Completed installation of the Arctic Gate terminal, allowing oil to be transported from the new fields;
- Further development of the Prirazlomnoye oilfield, which is the first and only field situated on the Russian Arctic Shelf;
- Preparation for the start of the Messoyakha oilfields;
- Development of the Novoportovskoye oilfield, which is one of the most profitable projects from a future perspective;
- Wide-scale plant modernization programme, which will increase technological efficiency.

Thus, Gazprom Neft uses instruments that aim to increase its production level. Moreover, the company's investment programme for 2016 suggests that investment operations will be about 362 billion rubles, which is more than the amount of investment in 2015. According to the strategic framework for Gazprom Neft's long-term development, the peak of the company's investment operations will be in relation to 2016–2017, due to commissioning of the most important exploration and production projects: the Novoportovskoye and Messoyakha fields.

The strategy of Gazprom Neft acts in accordance with the Energy Strategy of Russia for the period up to 2030, established by the Russian state in 2009. The main directions of future energy development, suggested by the Russian state, include several aspects:

- changes in the structure and scale of energy production;
- creating a competitive market environment;
- a shift to the path of innovations;
- integration into the global energy system.

The strategic goals of Gazprom Neft, for example the growth in production and refining depth, as well as the company's activities, for example plant modernization, show that the strategy of Gazprom Neft is created with great respect for the energy strategy recommended by the State of Russia. Thus, it seems that the state has an impact on the company's strategic performance, especially due to the fact that Gazprom Neft is a subsidiary of the state-owned company, Gazprom.

The results of Gazprom Neft in 2015 prove that the company continues to follow its major strategic development orientations, even in spite of the difficult macroeconomic conditions. However, many experts deliberate whether it is rational for the company to continue to increase production volumes and invest in expensive projects in the conditions of low market oil prices. In answer to these questions, Aleksander Dyukov, the CEO of Gazprom Neft, said that the company has been working for 20 years, since its establishment, to increase production in order to maintain the company's growth. Moreover, the continued development of such large projects as Novoportovskoye and Messoyakhs koye is extremely important for the company, even in terms

of the oil price crisis, because these fields contain enormous reserves of oil that will also allow the company to achieve its main goal: 100 million toe of hydrocarbon production per year.

Due to the crisis in the market, there have been some changes in the investment strategy of the company, but, as noted above, the company did not cut its investment programme. Investment streams were just slightly redirected and aimed to develop the most important projects. The main issue is that, in the near future, the company will reach the peak of its investment activities, while the oil prices are still low. Due to the political sanctions applied on Russia by European countries, Gazprom Neft has some difficulties in accessing loans from European banks; however, the company now has more partners from China, so Asian credit organizations are ready to help the company in the case of an urgent situation.

There are no serious changes in Gazprom Neft's development strategy, and the company is achieving its main goals, established before the market crisis, but there are changes in the approach to the management of strategic planning in the company. In other words, the low oil price has made the company start a modernization of the process of the annual strategic planning cycle. Gazprom Neft's new approach to strategic planning is described by Fig. 3.

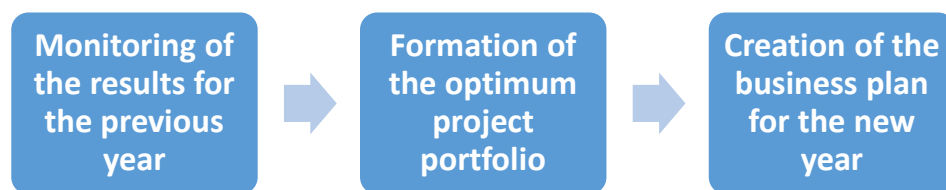


Fig. 3 The process of the annual strategic planning cycle of Gazprom Neft.

The first phase of the cycle is related to the evaluation of the company's results for the past year. In relation to this, there is also an analysis to evaluate how the achieved results influence the accomplishment of Gazprom Neft's long-term goals. The second step includes the definition of the company's guidelines for the formation of a business plan; there is monitoring of existing projects and the company prioritizes key projects and those that can be delayed in terms of the market situation. In other words, during the first half of the year, the company focuses on long-term planning and opportunities for the accomplishment of the strategic plan. Then, the company defines a standard investment plan for the current year. This annual review of the internal and external environments allows the company to make rapid adjustments to the course to achieve its goals in terms of the oil price crisis.

#### *Statoil ASA case*

Statoil ASA's corporate strategy is described in the annual report of the company. Statoil emphasizes that it is working on the growth of its value by means of disciplined investments and tactical financial management. It is also important for the company to carry out secure and trustworthy operations with minimal damage to society and the environment. The strategy of Statoil is based on four main trends:

- Expand Statoil's Norwegian continental shelf position;
- Increase material and advantageous positions in international performance;

- Provide concentrated activities in mid- and downstream spheres;
- Develop alternative and renewable energy sources for the future.

Moreover, Statoil notes that the development and deployment of the new technological solutions are at the base of its strategy and are necessary for the company's successful performance.

The State of Norway is also promoting technological development in the petroleum industry. The government has established a technology strategy initiative OG21 – Oil and Gas in the 21<sup>st</sup> century. OG21 inspires oil companies, universities, research centres, supportive industries and governmental bodies to work all together, to develop and implement a national petroleum technology strategy for Norway. Moreover, Norway's Minister for Petroleum and Energy states that technology and innovation are key drivers behind successful development of the petroleum industry in Norway (PetroMagasinet, 2015). Since Statoil is a state-owned company, we can see that the state's ideas and initiatives provide active support to the company's strategy in a positive way.

Statoil ASA performs its activities, dividing each trend, established in the strategy, into several segments and works within each of these segments. The main segments are:

- Exploration;
- Development;
- Production.

Thus, in practice, the company's strategic decisions in relation to the aim of expanding Statoil's Norwegian Continental Shelf position are divided into these three groups. In terms of the exploration group, Statoil participates in exploration wells (21wells for 2015). Within the development sphere, the company is mainly working on the plan for the development of the Johan Sverdrup oilfield, which is one of the most significant projects on the Norwegian Continental Shelf. In terms of the production sphere, Statoil started its production from several oilfields in 2015, for example Valemon, Gullfaks South Oil and others.

In respect of the company's international position, the aim is also divided into these three spheres. Statoil is interested in preserving its market share in international business. To provide concentrated activities in mid- and downstream spheres, Statoil is concerned with competitively processing and transporting its oil and gas production to premium markets, providing high value realization. In 2015 in the processing of alternative and renewable energy sources, which is also strategically important for the company's development, Statoil established an innovative business sphere, called New Energy Solutions. The aim of this sphere is to develop and generate low carbon energy when and where it seems appropriate. As was previously stated, it is crucial for Statoil ASA to act in accordance with the main sustainability concepts. Outside achieving its main established strategic goals, the company also focuses on technology development. It seeks new solutions, not only to reduce the company's operating costs in relation to the production and exploration spheres but also to decrease its emissions and negative impact on the environment.



Statoil ASA also notes that the uncertain situation in the world oil market cannot make the company change the main principles that are at the core of its business. To adapt to the market situation, the company is working on improving its business efficiency. In 2015 the company's profit decreased by almost a quarter in comparison with the 2014 results. Hence, this loss of revenue impacts company performance, forcing Statoil ASA to reduce its costs, personnel and investments. The company believes that a strict prioritization among the current projects, as well as a comprehensive programme to improve business efficiency will enable the organization to improve its financial performance in the long term.

In the present conditions, the company is actively reducing its costs, including through the dismissal of staff; in addition to previous layoffs, the company plans to make another employees redundant by the end of 2016. Anders Opedal, director of the production company department, emphasizes that the company is very sorry to dismiss people, but it is necessary to improve business performance and enhance the company's competitiveness. The freezing of a number of projects on the Norwegian Continental Shelf is also a necessary instrument for the company to adapt to market conditions. For example, the start of production on the Aasta Hansteen and Mariner platforms was delayed for almost a year and is now scheduled for the second half of 2018. Moreover, the company is forced to decrease the amount of the investment, even in the major projects, for example, the development of the Johan Sverdrup field, which is one of the five largest oilfields on the shelf.

Erik Gonder, one of Statoil's investor relations officers, notes that macro issues are one of the factors that are obviously impacting any decision on the company's side. However, at the same time, Statoil has been in the industry since 1972; it has seen ups and down in the oil price and it has also, at the same time, taken major investment decisions. Short-term movements in the oil/gas prices cannot be what steers the company. What Statoil ASA has focused on since 2013 (when the company started to see the implications of more oil coming onto the market through the ramp-up of US shale), is making operations more efficient and bringing about large savings in the new investment projects that Statoil is working on. The company has been able to make 50% savings on the Barents project, Johan Castberg. It has benefitted from the downturn in the supplier industry and now it is starting to see a positive development in its own costs. Statoil is focusing on the actions it can take in order to reduce breakeven levels for projects, as it needs to stay competitive at all times, even in a 'low for longer' perspective. It is crucial to mention that all these steps are also related to the state's expectations of industry development, since the State of Norway is interested in cutting costs in the petroleum industry to make it more competitive. Norway's Minister for Petroleum and Energy proves the fact that the drop in oil prices has just intensified industry efforts that were made before the crisis (PetroMagasinet, 2015).

Thus, at the moment, Statoil ASA is concerned with the most successful projects for future production growth, among which, perhaps, Johan Sverdrup seems the most important. The Johan Sverdrup field contains from 1.7 to 3 billion barrels of oil. It is considered to be the largest oil project on the Norwegian Continental Shelf for the last few decades. According to the field

development plan, the production process, which will allow Statoil to gain more resources to keep its market share, will start in 2019.

Statoil ASA pays great attention to projects in the Barents Sea, where the company is cooperating with its foreign partners from around the world. This area is a very good development prospect, but the main issue for Statoil ASA, as well as for the whole Kingdom of Norway, is the need to attract new investors in this field of activity in terms of low market prices.

#### *Comparative subsection*

Comparing the business strategy approaches of both companies, it can be seen, first of all, that Gazprom Neft and Statoil ASA use three different ways to present their strategies to the stakeholders. To describe its strategy, Gazprom Neft emphasizes concrete numbers and the results that the company aims to achieve, from a long-term perspective. This quantitative information creates defined strategic goals that are different for each sphere of the company's business activities and are aimed to provide production growth. Such an approach to presenting the strategy shows that the company clearly identifies all competencies that are necessary for its competitiveness.

Statoil ASA introduces its corporate strategy by describing the main streams at the basis of its business. The company does not present to its stakeholders the concrete numbers or results that Statoil is seeking to achieve. It also notes that it is important for the company to not only provide growth but also to perform its business activities in a sustainable way. It is an obvious fact that such an approach to carrying out business in accordance with fair and sustainable principles creates a positive image of Statoil ASA, which can attract not only more consumers but also more partners and investors to the company's activities.

The comparison of the decisions that the investigated companies apply, as a result of the fallen oil price, to achieve their strategic goals shows that Gazprom Neft is focused on production growth and continues working on its large projects. There are also a few factors that influence the company's activities:

- Since Russia's economy is dependent on the oil industry, the government uses some measures to attract additional financial revenue to the budget in terms of the oil price crisis. These instruments have increased the tax burden on oil companies.
- Sanctions applied to Russia restrict some of the company's opportunities in relation to international cooperation, for example in the bank credit sphere.

However, in spite of these negative factors, the company's performance in 2015 was quite successful. Hence, we can suggest that the strategic decisions implemented by the company in the last year were effective and correct.

As in the case of Gazprom Neft, Statoil ASA is focused on the main and the most profitable projects to develop. In addition, to increasing its competitiveness in the market, the company is continuously working on the development of new technological solutions that seem to be one of the most significant factors providing the company with new opportunities to improve its

business efficiency. The principles of doing business in a sustainable way are also very important in all the company's activities.

The empirical results provide an opportunity to make a comparison of how the strategic decisions are implemented in Gazprom Neft and Statoil ASA. In relation to the Russian company, it can be seen that strategic decisions are being implemented to achieve the concrete quantitative goals that are established in the strategy documentation and related to the company's production growth. Thus, the company implements instruments that are able to manage this task, such as the development of new and large fields to produce more oil, the modernization of plants to improve production efficiency, the application of new technologies to increase the production level from existing oilfields.

Statoil ASA emphasizes the main aspects of its strategy without giving any sort of quantitative information about its strategic goals. Statoil divides every 'qualitative' strategic goal into several business spheres. Thus, the strategic decisions of the company are being implemented within each business area. It is also crucial to note that all strategic decisions implemented by the company act in accordance with its high level of respect for sustainability concepts.

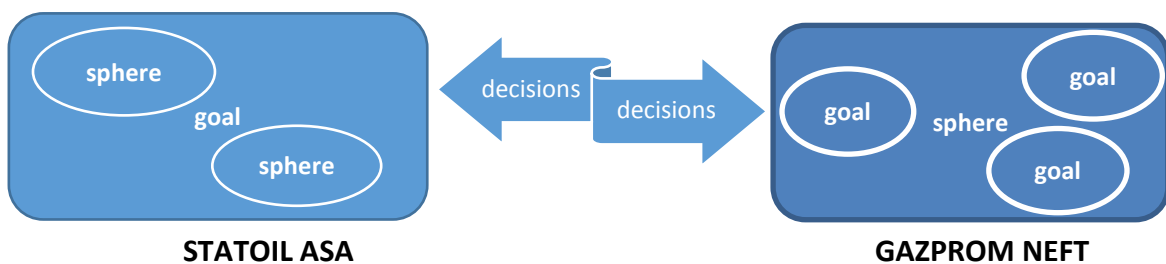


Fig. 4 The ways in which strategic decisions are implemented in Statoil ASA and Gazprom Neft.

The findings also allow the role of the state in the investigated companies' strategies to be evaluated. Since Statoil ASA is a state-owned company and Gazprom Neft is a subsidiary of the state-owned company, Gazprom, we can see that the states of Norway and Russia set the main paths that are at the core of the companies' strategies. Both companies create their strategic plans and set their main goals with great respect for the energy strategies suggested by the governments of the two countries. No one can deny that the state has an impact on the strategy of a state-owned company.

Thus, all findings are relevant to the research topic and provide necessary information about the strategies of Gazprom Neft and Statoil ASA oil, in terms of the drop in oil prices on the world market. Since strategy life cycle process theory is at the core of this paper, the findings correlate with this theoretical framework and provide me with an opportunity to make an analysis of the empirical results.

### Analysis and conclusion

This section provides analysis of the empirical findings in relation to the paper. This analysis allows me to learn more about the problem statement, as well as to take a close look at the

research question, with respect to the theoretical frame references that are at the core of the research.

#### *The strategy process theory contribution*

Empirical findings related to the business strategy approaches of Statoil ASA and Gazprom Neft under low oil prices show that the strategies of both companies are developed in accordance with the strategy process framework (Kalpič, 2002).

Within the first step of the strategy life cycle, that is the *strategy formation part*, Statoil ASA and Gazprom Neft define the goals that are the most important for them in terms of low oil prices. Gazprom Neft sets concrete numbers and results that the company aims to achieve in the long term. Statoil ASA introduces its main goals, by describing the principal qualitative streams that are at the basis of its business. Hence, the strategy formation step plays a significant part in the strategies of both investigated companies because it includes the process of identifying required new competencies and establishing the main aims for remaining a successful company in terms of the oil price crisis.

The *strategy implementation step* is also an important part of Gazprom Neft and Statoil ASA's strategies. The strategy implementation process consists of the company's activities to accomplish the goals that were set in the strategy formation step (Kalpič, 2002). Empirical findings show that both investigated companies apply concrete strategic instruments to achieve their goals under low market oil prices. Gazprom Neft is interested in production growth in relation to each of its business spheres, so the company is focused on the development of key and large projects. These projects need a large amount of investment and, in the coming years, the company's investment peak will not be opportune, due to the low oil prices. However, Gazprom Neft achieved very good results in 2015 in its business performance. This proves that the strategic decisions, which the company is making, can be regarded as quite successful instruments and can provide the company with more possibilities for accomplishing its strategic plan.

Statoil ASA describes its operations in relation to the *strategy implementation process* in a more detailed way than it represents its strategic goals. The company gives clear and concrete information in the annual report in respect of what actions have been already taken and what decisions are going to be implemented soon. These actions within each of the strategy trends are divided into several spheres such as exploration, production and development aspects. Such an approach to implementing the company's decisions allows Statoil ASA to make its operations more specific and goal-oriented for each sphere of its business. Moreover, in the report, Statoil ASA describes its activities in a very logical and clear way. This writing style provides stakeholders with a good perception and understanding of the information on the company's strategic decisions. The principles of doing business in a sustainable way are also very important in all the company's activities.

The *Strategy reformulation part* is not covered in this paper due to the fact that this step can be investigated when the company evaluates its present strategy and makes some amendments to it after the two previous steps. Anyway, one day *strategy reformulation* will also be a part of

Gazprom Neft and Statoil ASA's strategies, for example, when the companies achieve their present goals and set new ones. In the cases of Gazprom Neft and Statoil ASA's strategies under low oil prices, the strategy reformulation step can be investigated in further research.

Thus, the strategy life cycle process suggested by Brane Kalpič in 2002 correlates with the existing strategies that the investigated companies, Gazprom Neft and Statoil ASA, apply as a result of the oil price crisis on the world market. The strategy process theoretical framework allows me not only to explore the main parts of the present companies' strategies but also to continue my research from a future perspective, with respect to the strategy reformulation step.

#### *The norm system and the action system theory contribution*

The investigation of Gazprom Neft and Statoil ASA's present strategies from the perspective of the norm system and the action system theory (Bergevärn et al., 1995) allows me to take a close look at the interaction between the strategic framework of an oil company and the strategic activities of the company under low oil prices.

Norm systems of the companies' strategies can be presented as Gazprom Neft and Statoil ASA's strategic plans with established goals that it is necessary to achieve in the future. I have already discussed the strategic goals of both companies and found that Gazprom Neft fixes its goals in the report in a quantitative way, while Statoil ASA presents the goals in qualitative way.

Action system contains the strategic activities of the company and is directed by the norm system. In the cases of Gazprom Neft and Statoil ASA strategies, both companies emphasize that low oil prices on the world market influence companies activities in a strong way but Gazprom Neft and Statoil ASA are both focused on the companies' growth so all their activities are related to gaining of their strategic goals. Hence, I can conclude that the norm systems of investigated companies influence their action systems.

The action system of each investigated company adapts to the new market conditions characterized by low oil prices and provides the company with an opportunity to react to changes in a flexible way. In the case of Gazprom Neft, there is a modernization of the system of the annual strategic planning cycle process. Thus, the company continues to work towards the accomplishment of its strategic goals (the norm system) and has the advantage of improving its business efficiency, with new instruments of doing business applied within its action system in terms of oil market uncertainty.

Statoil ASA also made some changes in its strategic decision-making process in relation to the action system, due to the oil price crisis. Firstly, the loss of revenues caused the company to work at reducing its costs. To manage this task, the company had to make a number of its employees redundant and to cut its investment programme. On the other hand, Statoil is focused on improving its business efficiency by using new technological solutions that are able to greatly reduce production costs. The company adapts to the market situation by prioritizing the most profitable and significant projects to develop and delaying some less important projects.

Thus, within this paper, the norm system and the action system theory allow me to investigate the strategies of the companies, Gazprom Neft and Statoil ASA, from two perspectives:

theoretical (fixed in companies' documentation) and practical. This approach explores two interconnected sides of the companies' business strategy approaches under low oil prices.

### *Conclusion*

The results of analysis show that there are two different approaches for the company to take in order to set goals and implement strategic decisions to achieve these goals under uncertain market conditions. Gazprom Neft's approach, which is to implement its decisions, can be regarded as accurate and strict, due to the fact that the company's goals are concrete and 'quantitative'. The method of strategic decision implementation provided by Statoil ASA seems to me more flexible and capable of reacting to changes in the market because the goals of the company are more 'qualitative' than 'quantitative'.

The analysis of the empirical results provides an opportunity to answer the research questions concerning how strategic decisions are implemented in Gazprom Neft and Statoil ASA. The strategic decisions of the Russian company are implemented to achieve the concrete quantitative goals in each business sphere that are aimed to provide the company's production growth. The strategic decisions of the Norwegian company are implemented within each strategy subtheme in accordance with a high level of respect for sustainability concepts (see Fig. 4). It is also evident that, since both investigated companies are related to their states, the companies' strategies are based on the main streams promoted by the Russian government (in the case of Gazprom Neft) and by the Norwegian government (in the case of Statoil ASA).

Thus, this paper explores the strategies of two big oil companies in terms of their adaptation process to the uncertain market conditions. The theoretical basis of the paper includes two theories related to the research topic: the strategy process theory and the norm system and the action system theory. Empirical findings related to the work allowed me to make an analysis, investigating the business strategy practices implemented by two large oil companies under low oil price conditions. The practical implications of this research are that it can provide other companies with some fresh instruments to adapt to changing and unpredictable conditions on the market in two different ways. It suggests new approaches to strategic planning practices or activities for cost-saving and business efficiency improvements in the process of decision-making. All in all, this research explores the experience of two large, successful oil companies based in different countries; but nobody can argue that any company has its own opportunity to choose the method of decision-implementation, which seems the most appropriate for the business.

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## CSR IN THE SYSTEM OF SOCIAL PROTECTION OF EMPLOYED POPULATION IN THE HIGH NORTH OF RUSSIA

### **Abstract**

In recent years, the development of social responsibility attracts the particular interest among the researchers due to the increased tensions in the social-labour relations connected with the violation of the rights of employees by employers. This paper focuses on CSR in the High North of Russia as the mechanism of regulation of socio-economic relations. Practical application of the social responsibility at the enterprise level and the maintenance of the balance between economic interests of the employer and the employee is still a complicated task for the most Russian enterprises. Within this research a case of OJSC Surgutneftegas is presented. The basis of the work includes literature studies, labour legislation and annual reports review related to the social and economic activities in the investigated company. The paper explores how employers provide social protection of employees in terms of work specifics in the North of Russia.

**Key words:** corporate social responsibility; social protection; social-labour relations; corporate social policy; High North of Russia



## Introduction

One of the most significant trends in modern business development is the growing interest in corporate social responsibility (CSR). Nowadays CSR is a subject of interest among researchers and business representatives. More and more companies all over the world are choosing to modify their strategic goal and also to add social and environmental issues into their business targets (Klitcuk and Kovaleva, 2014).

Today it is almost impossible to discuss CSR without reference to the stakeholders of companies. There is a growing awareness that business must have a certain responsibility to the community and needs to manage its relationship with the wider society beyond its shareholders (Henderson et al., 2009). The quality of relations that a company has with its employees or other stakeholders such as customers, investors, suppliers, public and governmental officials, activists and communities is crucial to its success (Aras and Growther, 2014; Henderson et al., 2009).

In its publication, *Making Good Business Sense*, the World Business Council for Sustainable Development used the following definition of CSR: "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" (Holme and Watts, 2000, p. 8). Therefore, a business' social responsibility is an indicator of its social maturity.

One of the main dimensions of the modern CSR concept is the development of socio-economic relations (or social and labour relations). CSR is one of the fundamental elements of the mechanism of social protection of the working population in the system of social and labour and socio-economic relations. The role of CSR in the regulation of social and labour relations is the development of personnel, health protection and the creation of safe working conditions, and the implementation of social (corporate) programmes for employees and their family members (Goncharov, 2006).

Despite various studies in the field of CSR, the issue of social protection of the employed population in the High North of Russia is still rather undeveloped. Based on the foregoing, I find the following research question to be the most appropriate for disclosing the topic of my research: *How are employees socially protected in terms of CSR in the High North of Russia?*

The question of social protection of the working population in the High North of Russia is of particular interest. There are a few reasons, which justify such a choice. Firstly, there are specific labour regulations in these regions; secondly, climate and environmental conditions make it difficult to attract people to work in the northern territories; thirdly, it is necessary to attract shift workers to work in remote areas of the High North. Since the 1960s, the federal government has used a special (additional) tool of institutional regulation of employment to compensate for the unfavourable living conditions and to involve employees in these territories – Chapter 50 of the Labour Code of the Russian Federation. It is also connected with the practical implementation of the statutory rules and norms in the complex institutional labour regulation in the Russian North, which is aimed at the protection of the working population.

Social responsibility aims to harmonize the interests of employees, employers and local authorities based on social dialogue between them. Giltman (2016) claims that there are peculiarities of employment in the High North of Russia due to the limited labour demand and a more flexible labour supply in the labour markets of these territories, in comparison with other regions. Furthermore, the rigid institutional regulation of employment in the northern regions leads to a rise in the costs of hiring and firing, which reduces labour demand.

Because the real enforcement of labour legislation (federal or regional) is carried out at the level of the actual organization, it is important to study CSR at the level of a particular enterprise. In this paper, I will focus on a case study of the socially responsible company, OJSC Surgutneftegas, which operates in the High North of Russia. OJSC Surgutneftegas is the largest private petroleum company in Russia. According to its annual report (2015), Surgutneftegas is in the third place in oil production in Russia (12%), after Rosneft (35%) and Lukoil (16%). Despite being a private company, Surgutneftegas is considered to be a company with a high degree of social and environmental responsibility.

The focus of the study is a specific industry – the oil and gas sector, which is strategically important for Russia, since the well-being of all citizens depends largely on the level of its development. Oil and gas enterprises are expected to be very assiduous and conscientious in providing information about their CSR practices to different groups of stakeholders. Environmental and social issues have always been on the agenda of the biggest Russian oil and gas companies (Zhurova, 2015). Therefore, oil and gas companies are actively using CSR reporting in the field of the social protection of workers and the social support of local communities, in which they operate.

Khanty-Mansiiskiy Autonomous Okrug-Ugra, where Surgutneftegas operates, is a strategic region of Russia because of the oil and gas industry and because it is one of the regions in Russia with a high level of social investment per worker.

In order to study the research question in depth, the following structure of the paper has been chosen. Further on, I discuss the relevant theoretical framework. This is followed by a focus on the research methodology and instruments for data collection. The empirical results of my research are presented next, and the final section is devoted to the discussion and major conclusions of the research.

### **Theoretical frame of reference**

This section is devoted to the theoretical foundation of the research. I will explain what underlies my research interest from the theoretical point of view, defining the core theory within the field of study.

#### *Defining CSR*

World society expects business to be responsible and change its value system, the core idea of which is not only the economic interests but also social justice and ecological safety. Citing Carroll, Klitcuk and Kovaleva (2014) state that “the history of CSR goes back to the Industrial

Revolution, which changed companies' awareness of interdependence between improvement of employees' working conditions and increase in labor productivity". However, the concept itself started being actively used in the 1950s and since that time it has been actively developing, moving from the more conceptual to a more practical perspective.

Despite the fact that CSR is not a new concept and its popularity is currently growing, defining it is not that easy. "What CSR actually means to different companies and corporations varies by industry, national and corporate culture as well as with individual business objectives" (Johnsen and Stokvik, 2014, p. 10). Therefore, definitions of the CSR concept may differ, depending on the role that the organization is supposed to play in society. According to Carroll (1991), "The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time".

In this paper CSR is defined as the integration of social and environmental concerns in business operations and the relationships with stakeholders, a description which has been used in previous studies (Fifka and Pobizhan, 2014).

#### *Stakeholder theory framework*

The conceptual framework of CSR that I found the most suitable for disclosing the research question is 'stakeholder theory', investigated by Freeman in his book *Strategic Management: A Stakeholder Approach* (1984) (Johnsen and Stokvik, 2014). In relation to my study, stakeholder theory contributes to explaining the phenomenon of CSR in terms of social and labour relations. Stakeholder theory looks at the relationships between an organization and its internal and external environment. It also focuses on how these connections influence business activities and which stakeholders they consider.

A stakeholder is defined as "any group or individual who can affect or is affected by the achievement of an organization's purpose" (Freeman, 1984, p. 52) or "any person, institute(s) or group(s) that would benefit or experience negative consequence as a result of the company's operation" (from a lecture on sustainability accounting 3<sup>rd</sup> February 2015). An organization identifies groups of stakeholders in accordance with the company's future interests and manages the relationship with its stakeholders in such a way to consider these interests (Freeman, 1984; Branco and Rodrigues, 2007; Zhurova, 2015).

The theory argues that all persons or groups participating in the activity of the organization do so in order to fulfill their interests and gain benefits. However, the theory goes beyond the statement that "an organization has stakeholders that influence the organization's decisions". An organization is described as an entity, through which different participants achieve their numerous and not necessarily coinciding goals and purposes (Zhurova, 2015).

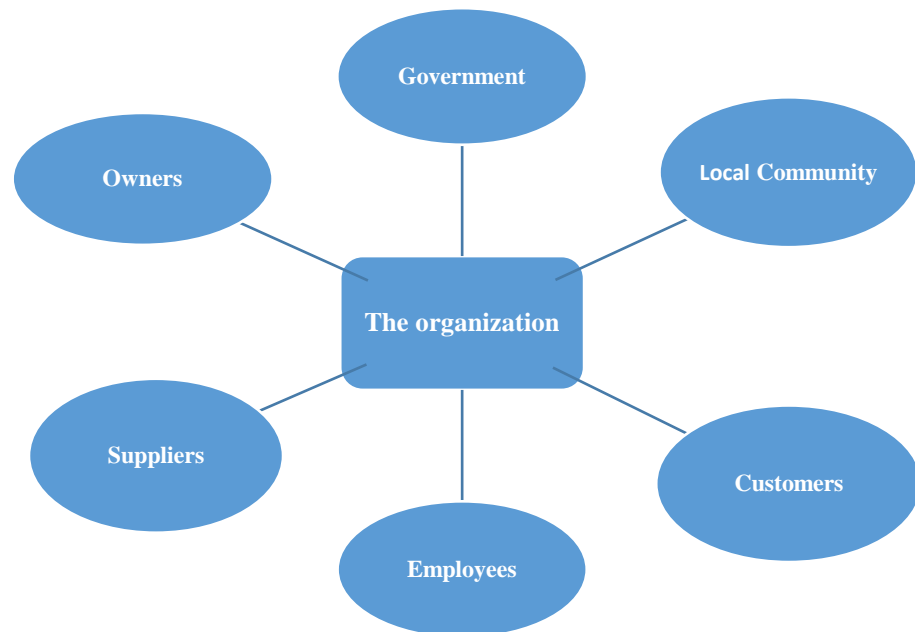


Fig.1 A stakeholder model of the corporation (Freeman, 1984).

Therefore, the main CSR actors are employees, employers and society. The state also plays an important role as there are laws and norms in the field of social and labour relations that regulate the relations between the main labour market players (employees and employers). Employees constitute one of the most important primary stakeholders in an organization as they directly contribute to the success of the company (Bauman and Skitka, 2012).

Zhurova (2015) assumes that the subject of relations with stakeholders is quite a controversial topic for oil and gas companies as they interpret the term ‘stakeholder’ slightly differently. Thus, “The stakeholder approach helps to explore the ‘user’ perspective, to define the user-oriented groups of society and understand the relation between the organization and these groups” (Zhurova, 2015, p. 36).

#### *CSR in the system of social and labour relations*

Since the focus of the paper is CSR as the main element of social and labour relations and the social protection of the employed population, it is important to consider three main labour market institutions which regulate labour relations in Russia: employment protection legislation (EPL), active labour policy and minimum wages. The level of enforcement of EPL in Russia, which is presented by the Labour Code (LC), is considered to be very high, while the level of law enforcement in general tends to be low (Gimpelson et al., 2009).

The issue of institutional regulation of CSR in the High North of Russia is still rather undeveloped. A significant research gap still exists. Later I address the sub-questions: “What are the main features of labour regulation in the High North of Russia? What social guarantees does the company provide to its employees (case study of OJSC Surgutneftegas)? Are all the workers socially protected in terms of employment in the High North of Russia?” The results of my research will help to clarify the specifics of CSR in the sphere of social-labour relations in the High North of Russia.

I consider the chosen stakeholder theory conceptual framework to be the most appropriate in terms of the research, as it can be most successfully implemented for the analysis of CSR activities in the field of social protection of the employed population.

## **Method section**

This chapter, which provides information concerning the methodological framework of the research, is essentially important in terms of defining the right way to conduct the study, in response to the research question.

### *Research philosophy/design*

Since every research paper aims to develop new knowledge, it is important to learn and choose the research philosophy. The research philosophy defines the essential issues concerning the nature of research. In this research, the *relativism ontology* position is used, since it is supposed that there are many 'truths' and "Facts depend on the viewpoint of the observer" (Easterby-Smith et al., 2015, p. 50). Thus, it covers the philosophy of the topic, as there are many approaches to studying CSR and its application in an organization's management.

Aiming at a contribution to the expansion of the CSR concept, and new insights, the philosophy underlying the research is *social constructionism*, which considers the researcher as a part of the study and applies his/her experience while conducting the research (Easterby-Smith et al., 2015, p. 53). It also matches the relativism ontology approach.

The research design is concerned with how to organize the research activity, including data collection, in ways that are most likely to achieve the research aims (Easterby-Smith et al., 2015, p. 67). In order to answer the research question in a more accurate and exact way, a descriptive research design was used. A qualitative study is selected as the most appropriate way to explore how labour market institutions in the High North of Russia shape CSR actions in the company.

### *Data collection*

Since the research has a more descriptive nature, I aimed to discover the peculiarities of CSR in the High North of Russia, while studying the case of OJSC Surgutneftegas using secondary data. I focused on obtaining qualitative data, as I consider it more appropriate for studying such a complex phenomenon as CSR. Due to the fact that I do not have an opportunity to use primary data, such as interviews, the research is based on secondary data usage. Thus, secondary data is an important resource for my research, as it is the most efficient source of information for studying large-scale and geographically-dispersed phenomena (Saunders et al., 2007).

In this research paper, almost all the main types of secondary data were used, including written documents, such as the organization's databases (personnel and production), corporate website, CSR reports, journals and newspapers of the studied company, and mass media data on the company's CSR performance: the results of government censuses of employment, wages, labour market trends, etc.

The following types of secondary data were found relevant to the topic:

1. *Annual reports of the studied company.* This type of secondary data is the most important for further empiric analysis. Such reports disclose the necessary data on personnel movement, production figures, wages, social benefits and payments in the last three years. Social (sustainability) reports from 2013 to 2015 disclose information about the social and environmental aspects that matter most to the key stakeholders and are important to the company itself.
2. *Official website of the studied company.* This gives the overall picture of the company, its activity and values.
3. *Labour legislation and state statistical reporting.* This provides data on minimum and average wages and also on norms and laws that regulate labour relations.
4. *Books, articles, former research papers.* This type of secondary data helps to obtain information about the nature of CSR; the analysis of existing research papers gives an explanation of the relevance of the investigated topic.

At the beginning of the study, secondary data were used to obtain a general understanding of the investigated topic and to assess the development of scientific knowledge and practical operations in terms of the chosen area. Later on, the case of Surgutneftegas was studied based on its official website, its annual and social reports and mass media data, which gave a more detailed description of CSR practice in this company and helped in further analysis.

### **Empirical results**

The following chapter presents the results of my study of the state regulation of social and labour relations in the High North of Russia and CSR practice in the oil and gas company, OJSC Surgutneftegas. The empirical research was based on a study of the company's annual reports, official website, mass media data, etc.

#### *Social-labour relations' regulation in the High North of Russia*

In order to study the effectiveness of CSR implementation, it is necessary to analyse the implementation of three major labour market institutions: employment protection legislation (Labour Code of the Russian Federation), active labour market policy (Employment Promotion programme) and minimum wage. The institute of employment protection legislation (EPL) in the High North is regulated federally and presented by Chapter 50 of the LC (peculiarities for the High North): regional coefficient (1.15-2 for the High North regions), special terms for women (36 working hours per week with the same wage), additional annual leave (paid), etc. The Labour Code sets higher state guarantees and compensations for workers employed in the High North of Russia.

The two other institutions are regional. According to the recommendations of the ILO (International Labour Organization), the social protection index of employed people in Russia is the minimum wage, which determines the level below which an employer cannot pay for a full-time working day. As for Khanty-Mansiiskiy Autonomous Okrug-Ugra, the minimum wage in the region has consistently exceeded that of Russia since 2007 (see Appendix 1). Since September 2007, the Russian regions have received an opportunity to set regional minimum wages (RMW)

based on negotiations between trade unions, employers, and local governments. This reform radically changed the system of minimum wages increasing the role of collective bargaining at the regional level. The existing legislation gives the regions substantial freedom to decide on the form of tripartite agreement, the size of RMW and the coverage of different groups of employees (Lukianova, 2016).

Kaitz index shows the ration of minimum and average wages. In order to assess the degree of minimum wages regulation in the region, we have calculated this index (see Appendix 2). According to the data, we see that the ratio of minimum and average wages in the Khanty-Mansiyskiy AO-Ugra is higher than it of Russia. Since 2007 Kaitz index has begun to level off, and since 2010 this index has exceed this of Russia. This proves that minimum wages institute is more efficient in KhMAO than in the whole of Russia.

The region has also signed a number of agreements that protect the interests of the working population. The active labour market policy aims to promote employment in the region and an improvement in working conditions. Such stringent labour legislation can be explained by the severe climate conditions for those working and living in the region, and thus there is a need to involve workers in the northern regions. However, such regulation tightens the CSR implementation in the system of social-labour relations in the High North of Russia, in comparison with other regions. Next, we will try to evaluate the rigidity of the current system of the social protection of workers in the High North of Russia by the employer, by means of the case of OJSC Surgutneftegas.

#### *CSR reporting*

One of the CSR indicators in the company is its social (sustainability) report. OJSC Surgutneftegas discloses and represents its social responsibility performance on the corporate website: [www.surgutneftegas.ru](http://www.surgutneftegas.ru). The company provides information about CSR both on its web-site and in standalone reports. Reports are published in English and Russian. Thus, Surgutneftegas must be seen as being aware of having international stakeholders, as it also provides extensive information in English.

Surgutneftegas uses a report on the triple bottom line that includes data on its economic, environmental and social performance. In spite of the fact that Surgutneftegas does not publish a sustainability report with GRI Standard (Global Reporting Initiative) as the top Russian state-owned companies do (Gazprom and Rosneft); it has a high level of social responsibility. The report is referred to the investors of the company.

The company also publishes information about its activity in its weekly electronic and printed corporate publication “Neft Priobya”, to which everyone has access on the company's website in the section “Press Centre” (available only in Russian). “Neft Priobya” highlights the important events, not only inside the company but also in the city (Surgut) and the region (KhMAO), and it covers not only the performance of the company but also the achievements of the employees.

#### *Areas of CSR*

The company realizes its social policy in key areas: employees' health improvement, working safety, regional development promotion, sport development, support for retired employees, charity and sponsorship. The main instrument for regulating social-labour relations in OJSC Surgutneftegas is collective agreement, which has a strong focus not only on the implementation of the common objectives of the enterprise but also on the social protection of its employees.

#### 1. Internal social policy – employees in focus

In line with obeying the rules of the Labour Code of the Russian Federation, Surgutneftegas organizes different kinds of additional initiatives in their HR policies, including the improvement of working conditions, education and supplementary possibilities for employees.

The main focus of the observed policies is as follows:

##### 1) Work training and opportunities for development

One of the additional opportunities offered by the company to their employees is the ability to develop and study at their workplace. Creating all the necessary conditions for high work performance, Surgutneftegas regularly provides training for both office employees and workers, organized in their own corporate training centres, as well as at the best Russian and foreign educational organizations. Taking into account the specifics of the oil and gas industry, workers have to be examined every year.

Their goal of their personnel development strategy is to attract and retain talented employees. Surgutneftegas provides a wide range of social support for its employees: comfortable and safe working conditions, opportunities for health improvement, pension provision, material support for pensioners, etc.

##### 2) Working safety

Working safety is the major area of the company's activity. Providing safe working conditions, the company follows the international standard guidelines and has the certificate of conformity to OHSAS 18001:2007 standard.

The employees, who predominately work in the manufacturing or production fields, are provided with working coveralls, which include clothes, shoes, glasses and helmets if necessary. Employees are also compulsorily provided with safety information in the form of brochures, instructions or courses. In addition, the company constantly monitors safety characteristics, especially in terms of injuries and accidents during the production process.

##### 3) Medicine, insurance and other additional possibilities

Treating employees as significant assets, Surgutneftegas offers them other supplementary opportunities. These include voluntary health insurance, annual medical examinations to prevent diseases, health resort treatment, corporate events and gifts for holidays or important personal dates, etc. The company proposes health treatment, not only for employees but also for employees' families, in its own health complexes: health centre "Kedrovoy Log" (Surgut), health resorts "Lermontovo" and "Neftyanik Sibiry" and health resort for children "Yuniy Neftyanik" (Krasnodar region), health resort "Priozyerny" and recreation centre "Mechta" in Leningradskaya



Oblast. Every year employees of the company and their family members, and also pensioners of the company, are allowed to improve their health in more than 56 centres in a variety of places in Russia. Surgutneftegas pays special attention to its pensioners and veterans, providing them with financial help, medical treatment and payment for medicine and other benefits.

OJSC Surgutneftegas also contributes to the development of sport and the promotion of healthy lifestyles by involving all their employees and their families in sport and giving them the opportunity to attend sports centres.

Since October 2012, OJSC Surgutneftegas has had a corporate pension programme, "Partnership". Today 1082 of the company's employees use the programme.

These examples illustrate that Surgutneftegas treats its personnel as an important asset and is ready to invest significant time and financial resources in their development.

## 2. External social policies – helping local communities

Surgutneftegas donates financial support to different NGOs; the company is involved in local community life through the implementation of various social programmes; these are in the areas of childhood and youth support, housing infrastructure support, cultural and historical significance, sponsorship of local cultural and educational organizations, sport and physical activities' organization, support for socially important research, etc. Surgutneftegas offers support to multi-child families and people with disabilities, orphanages, and senior citizens, in terms of its "Zabota" project (English: "Care").

### *Social protection of employees*

Surgutneftegas has sufficient financial resources to ensure the social protection of its employees. Despite the difficult economic situation of the reporting year, OJSC Surgutneftegas has not reduced the quality of the employees' social-labour benefits, guarantees and compensations. Thus, OJSC Surgutneftegas is a company with a high degree of social responsibility.

The main company's figures are significantly higher than the average for the KhMAO region: labour productivity in OJSC Surgutneftegas is several times higher than the figure for the whole of KhMAO. Thus, we can conclude that OJSC Surgutneftegas has the financial capacity to provide a higher level of social responsibility, which is reflected in the provision of social benefits, guarantees and compensation to its employees.

Personnel movement is represented in the table in Appendix 2. According to the table, we can conclude that there is a high staff turnover, especially for shift workers (in 2015 the number decreased by 2.5%) in the company. The number of laid-off shift workers in 2015 year exceeded the amount of new shift employees almost in three times that year.

### **Concluding discussion**

The following section presents the main findings and conclusions derived during my study, which are matched to the existing theoretical framework concerning the researched phenomena.

One of the most important issues of corporate social responsibility is the ability to harmonize the economic interests of the employee and the employer. CSR policy aims to achieve this balance of interests. It is obvious that employees prefer socially responsible employers in order to obtain a guarantee of employment protection that includes level of real wages, employment package, career opportunities, etc.

In this paper, CSR is analysed by studying the stakeholder relations between the main labour market players (employees and employers) in the High North of Russia, for whom there are specific (additional) labour regulations laid down by the federal government.

Government regulation has a significant impact on the development of the Corporate Social Responsibility (CSR) Institute and the effectiveness of its functioning in Russia. There are peculiarities for CSR implementation in the High North of Russia, in terms of employee-employer relations. These peculiarities are represented by the labour market institutions in the High North regions: employment protection legislation (Chapter 50), active labour market policy and statutory minimum wages.

The analysis allows conclusions to be drawn regarding the influence of labour legislation on CSR regulation and implementation in the High North of Russia. The case of the oil and gas company Surgutneftegas helped to discover the real enforcement of such legislation by the employer, using its non-financial and internal reporting.

The case of OJSC Surgutneftegas has shown that the ability to provide employees with social guarantees and benefits depends on the financial capacity of the company. Based on the case of the country's leading oil and gas company, we have proved that the real enforcement of CSR is determined by a number of objective reasons, such as the economic situation in the company and the possibility of solving the social problems of its personnel that require large economic costs. Subjective limitations are associated primarily with the understanding by the employer of the role of the employees in its business.

The formation of a CSR framework, along with its legislative strengthening and regulation, occurs at the federal and regional levels, but its enforcement is actually implemented at the level of the organization, in the actual workplace. Thus, if the provision of guarantees is too expensive for the employer, it leads to the infringement of the interests of the employees in the organization. Consequently, a violation of this balance is reflected by all the actors.

An assessment of the rigidity of the current system of social protection of workers by the employers, shown in the example of OJSC Surgutneftegas, concluded that there are some risks of providing social guarantees to employees, which, as we see, depend on the financial capacity of the company and its human resources. Based on the analysis of the labour resources of OJSC Surgutneftegas, we see a high turnover of shift workers. This may be connected with the reduction in oil production, with improvements in production technology, or the need to involve workers in other types of work in new oil fields. Therefore, shift workers are not sufficiently protected. Regional government and companies should pay more attention to this category of workers.

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**Surgutneftegas disclosure:**

[www.surgutneftegas.ru](http://www.surgutneftegas.ru)

Surgutneftegas annual reports (2015, 2014, 2013)

Surgutneftegas environmental reports (2015, 2014, 2013)

## Appendix 1

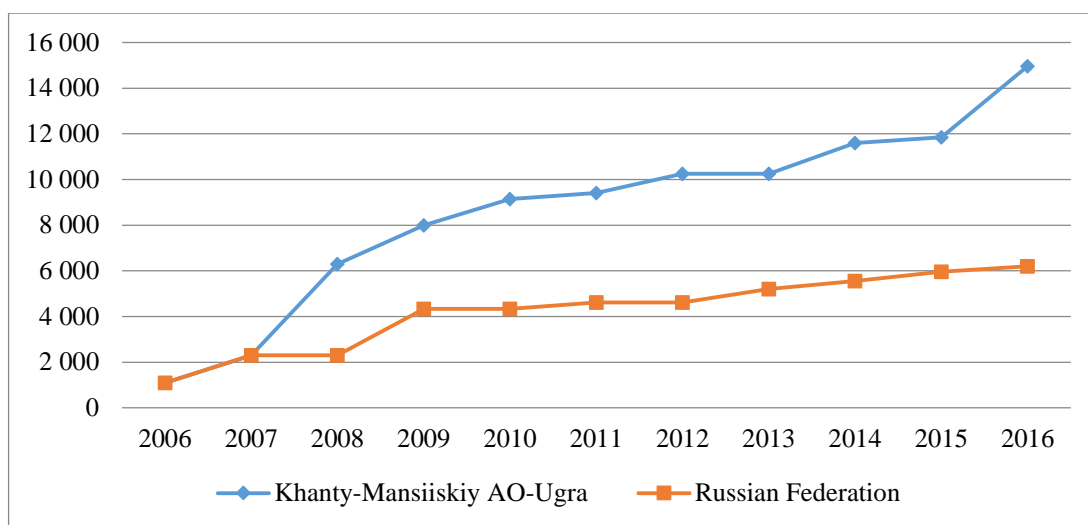


Fig. 1. The dynamics of the minimum wage for 2006-2016 years, rub.

## Appendix 2

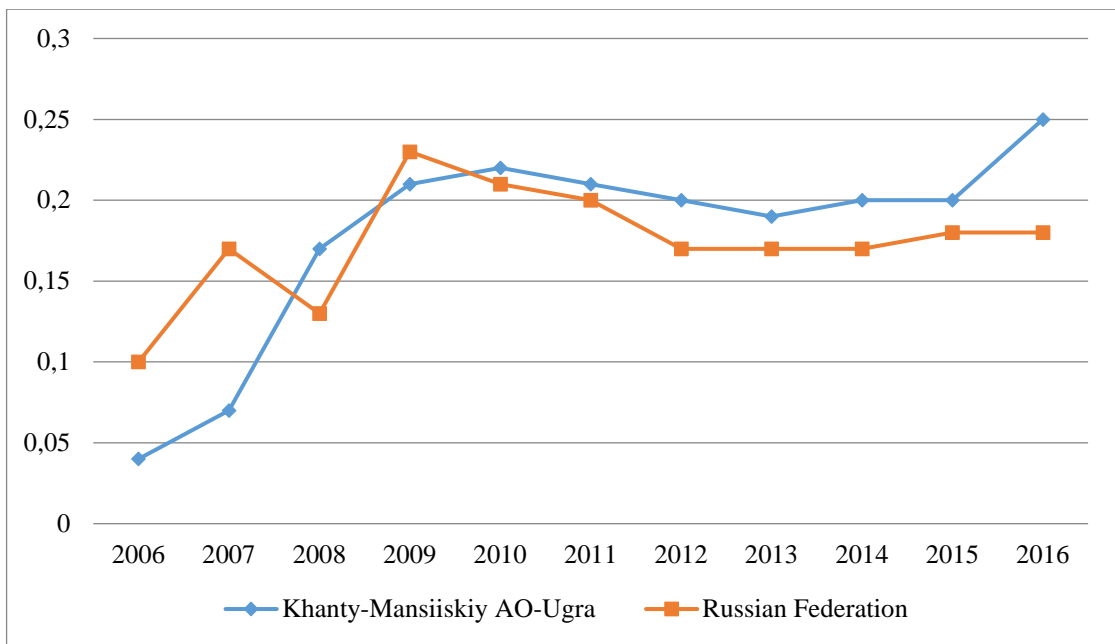


Fig. 2. The dynamics of Kaitz index in Khanty-Mansiyskiy AO and Russian Federation in 2006-2016 years

### Appendix 3

Table 1 Personnel movement, people

Indicators	2013	2014	2015	Variation 2013/2014,%	Variation 2014/2015,%
Average number of personnel,  total	4569	4528	4508	- 0.9	- 0.44
including: - full-time workers - shift workers	3921 648	3880 648	3876 632	- 1.05 0	- 0.1 - 2.5
new employees  total shift-workers	477 60	487 62	385 13	+2.1 +3.3	-20.9 -79.03
laid-off workers  total shift-workers	544 68	527 58	401 34	-3.13 -14.7	- 23.9 - 41.4

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## THE INFLUENCE OF BUREAUCRACY ON THE PROCESS OF DECISION-MAKING IN THE ORGANIZATION

### **Abstract**

This article examines the impact of bureaucracy on the process of organizational decision-making in the concept of prescriptive theory. The influence of the bureaucratic model of organizational control on the activities of managers of industrial enterprises is illustrated. This is considered as a descriptive part of the model of decision-making and contains a background for further research in this direction.

**Key words:** Organization; decision-making; bureaucracy



## Introduction

The concept of the bureaucratic organization was proposed for the first time by the German sociologist, Max Weber (2009). He believed that the purely bureaucratic type of administrative organization is able to reach the highest degree of efficiency and, in this sense, is the most rational of all known forms of exercising power over people. Weber identified that the main characteristics of bureaucracy include: a fixed division of labour, a hierarchy of positions and authority, administration based on written documents and adhering to general rules, thorough and expert training of personnel, and full-time commitment to official activities. Characteristics of bureaucratic organizations have been used in the creation of the concept of rational organizational systems (Scott, 2003), where these characteristics made it possible to quickly and effectively achieve organizational goals. Walton (2005) highlights some structural variables in Weber's model of bureaucracy control, such as differentiation, standardization, decentralization and formalization.

One of the important problems in organizational theory is that of rational decision-making employees, who should correspond to the goals of the organization. Research in the field of organizational decision-making originates from the works of Herbert A. Simon in the study of organizational behaviour and decision-making processes that he described in Simon (2013) and March and Simon (1993). Simon proposed the concept of bounded rationality, in which man accepts that satisfactory, that is, relatively good, is the best solution. James March (1972) and his colleagues studied the characteristics of decision-making in organizations, which led to the development of the famous model of organizational choice in the form of the 'Garbage Can Model', which describes the process of managerial decision-making in conditions of high uncertainty. Shapira (2002) determined the characteristics of organizational decision-making, which are distinct from the type of individual choice-based decision-making. In the literature, the term 'decision-making' is interpreted as a single act of final selection, the approval of one of the possible options. However, decision-making in organizations is only the completion of a complex multi-step process, known as the development of management decision-making (Asaul et al., 2007; Kirchler and Schrott, 2009).

The last decade of work in the field of decision-making has examined the concept of naturalistic decision-making theory. Naturalistic decision theory tries to understand how people actually make decisions in real-world contexts (Klein, 2008). In the framework of the theory, questions were also raised about the problems of decision-making organizations (Lipshitz et al., 2006). Some of the issues raised in naturalistic decision-making have continued in alternative theories of decision-making in the works of authors who have researched decisions in organizations (Connolly and Koput, 1997; Beach and Connolly, 2005; Beach, 2009).

Today, the concept of the bureaucratic model of control in the organization, with all its shortcomings, remains the most widespread model. The idea of this article is to raise the question of the influence of bureaucratic characteristics on the process of acceptance of decisions in the organization and, moreover, to answer the question: *How does bureaucratic control influence the organizational decision-making process in a formal organization?*

## Theoretical approach

One of the concepts of the perspective on organizations that was proposed by Scott (2003) is the definition of an organization as a rational system. This definition points to the existence of two structural features of organizations. Firstly, organizations are collectivities oriented to the pursuit of relatively specific goals. To achieve the goals, the activities and interactions of all participants are coordinated. Secondly, organizations are collectivities that exhibit a relatively high degree of formalization. The cooperation between participants is 'conscious' and 'deliberate'; the structure of relations can be 'deliberately constructed and reconstructed'.

In accordance with these features, Scott (2003) suggested a definition for 'organization' from the perspective of a rational system: "Organizations are collectivities oriented to the pursuit of relatively specific goals and exhibiting relatively highly formalized social structures". He also noted that the formalization in rational systems makes behaviour more predictable by standardizing and regulating and makes explicit and visible the structure of relationships among a set of roles. The concept of control in rational systems using the formalization of relations (rules, standards, hierarchy of authority) in the organization is also called the *theory of bureaucracy*.

The classic concept of bureaucracy is usually associated with the work of the German scholar, Max Weber. He focused on the growth of rationality in the West, studying differences between legal, religious, political and economic systems, as well as administrative structures, in different cultures and historical periods. According to Kostenko (2011), in exploring the administrative structures, Weber identified three types of authority: traditional authority (based on a belief in the sanctity of traditions and the legitimacy of the status of authorities); rational-legal authority (based on a belief in the 'legality' of the models or normative rules and the rights of those who came to power in their system to give orders); and charismatic authority (based on a respect for righteousness, heroism or the exemplary qualities of a particular person, as well as normative orders emanating from this person). However, the dominant form of all organizational systems, according to Weber, is the rational-legal type of authority and its organizational form is *bureaucracy*.

Weber (2009) suggested the definition of bureaucracy as a particular type of administrative structure in an organization, developed in association with a rational-legal mode of authority. The model of bureaucratic control is described as a simple list of administrative characteristics: a fixed division of labour among participants; a hierarchy of offices; a set of general rules that govern performance; a separation of personal from official property and rights; the selection of personnel on the basis of technical qualifications; employment viewed as a career by participants. According to Scott (2003), Weber's model considers the organization as a system of power, in which the leader exercises control over and through a hierarchy of officials, who both receive and give orders.

### *The bureaucratic control in organizations*

To understand the nature of control in organizations, one should refer to the definition of Tannenbaum (1968), that control is any process in which a person or group of persons or

organization of persons determines, that is, institutionally affects, the behaviour of another person, group, or organization. The control over the participants in the bureaucratic organization is based on the structure of describing the power relationship between the superordinate and the subordinate. According to Emerson (1962), the power of superordinates is based on their ability to sanction others to provide or withhold rewards and penalties. Scott (2003) noted that rational system theory emphasizes the importance of formal structures in the functioning of organizations.

Weber (2009) highlighted the importance, which the subdivision of responsibilities has for administrative organizations and focused on a structure of differentiated responsibilities. The characteristics of bureaucracy as a fixed division of labour, a hierarchy of positions and authority, rules and written documents was the starting point for a theory of organization to understand the internal characteristics of organizations such as differentiation, decentralization, standardization, integration and coordination. For example, theories of structural functionalism relate formal structures and their situational antecedents to aspects of functioning, including adaptation, goal attainment, integration, and latency. Structural contingency theory and comparative organization analysis, on the other hand, address relationships between formal structures and situational variables. Walton (2005) highlights some structural variables in Weber's model of bureaucracy control such as differentiation, standardization, decentralization and formalization.

Blau (1970) studied aspects of differentiation, defining it as "the number of structural components that are formally distinguished" that divide members into positions, ranks or subunits that have a number of positive points. The limitation of activity through specialization heightens performance outcomes and improves control over activities. Specialization generates expertise and increases the responsibility of experts, narrowing managers' spans of control and increasing the number of managerial levels. Levels of positions and subunits enhance homogeneity, which increases activities within levels and subunits, heightening the performance and control of those activities. Hierarchical structures of positions improve coordination by restricting free-flowing communication within components.

Decentralization is defined as the distribution of the authority to make decisions affecting an organization (Pugh et al., 1968). This correlates with the ideas of Weber about levels of authority in the organization formed by the positions in the organization. Mintzberg (2004) considers centralization and decentralization in the context of making decisions in the organization. Centralization occurs when all the rights for decision-making are concentrated in one point of the organization in the hands of one person, while decentralization exists where the right to make decisions belongs to many people. Highly centralized systems of decision-making, according to Scott (2003), are typical for large organizations with a bureaucratic model of organizational structures. Walton (2005) noted that, in more decentralized organizations, decision-making authority is distributed among more positions throughout the hierarchy. As differentiation proceeds in organizations, the responsibilities and authority for particular activities become distributed among an increasing number of positions, hierarchical levels and subunits.

Standardization defines the extent of the uniform coverage and application of operating procedures, rules and regulations in organizations. Rules, regulations and procedures accumulate in organizations, as activities become more specialized and differentiated; thus standardized rules and procedures provide guides for members in performing and coordinating differentiated and interdependent activities. Hirst and Humphreys (2015) noted that standardization removed the dependence on individual workers' skills and led to deskilling and reduced labour costs; it also meant that work could be switched between locations and even between organizations.

Scott (2003) defined formalization as the extent to which roles and relationships are specified independently of the personal characteristics of the occupants of positions. Formalization of relations in the company becomes a substitute for personal supervision and direct control of activities. Formalization contributes to the development of impersonal control mechanisms in the organization, such as written communications, written selection criteria and written performance records. In addition, as Walton (2005) indeed notes, designing impersonal mechanisms that provide indirect control has been described as management's primary function.

#### *Criticism of bureaucracy*

The Weberian theory of ideal bureaucracy was subjected to strong criticism from the scientific community. According to Demartini (2014), authors like Crozier, DiMaggio and Powell, Selznick, and Mises argued that the principles of bureaucracy contain the seeds of its dysfunctional effects. As they noted, the definition of bureaucracy used by Weber refers to an ideal type and therefore is loosely linked to real organizations. Bureaucracy has some vicious circles, such as the centralization of decision-making and the development of parallel power relationships, and the dysfunctional effects that follow such as the slowness, the ponderousness, the routine, the complication of procedures and the maladapted responses of the bureaucratic organization to the needs, which they should satisfy. Also criticized vertical hierarchy of authority in organizations, as Godwyn (2011) noted, that adversely affects the effectiveness of coordination between departments.

Another shortcoming of bureaucracy is the loss of the gains from cooperation. March and Simon (1993) argue that bureaucracy is vulnerable to subgoal optimization, which occurs when participants strive to achieve narrow functional goals at the expense of the organization's overarching goals. Conflict among the departments in an organization arises from the following factors: the existence of a 'felt need for joint decision-making', differences in goals, and differences in perceptions of reality. Different organizational units may perceive different ends as justified. Organizational units may view their function as being more significant than that of other units, justifiably believing they should have a larger share of resources. Differences in goals may be a function of the size of the unit, particularly when it is reflected in the existence of a greater number of departments, resulting in a larger number of differentiated goals. All of this, as noted by Adler and Borys (1996), gives a negative assessment of formalization's effects on employees; the bureaucratic form of organization stifles creativity, fosters dissatisfaction, and demotivates employees. The bureaucratic model of organization management has also been subjected to criticism in terms of the implementation of innovations and the manufacture of a

new product (Hlavacek and Thompson, 1973). Perrow (1986) criticizes bureaucratic control for some reasons: it is unadaptive; it stifles the humanity of employees, it centralizes power in society and legitimates or disguises that centralization.

Centralization of power in bureaucratic organizations has a strong influence on the efficiency of companies; Govindarajan (1986) notes this in the business units of large companies. One of the main aspects is the centralization of decision-making when all decision managers need to be agreed by the supervisor in the structural hierarchy of the organization and its headquarters.

#### *The decision-making process in the organization*

The decision-making process is important in the everyday management activity in the different levels of organizations; it can help to ensure the best results and outcomes for an organization. Simon (1960) claimed that management activity, in fact, consists of decision-making: employees collect and process information and transfer it further; managers make decisions (from the top down). The decision-making process plays an important role in achieving business success; that was studied by Nicholas (1989) in the research of successful projects. According to Akdere (2011), it is very important that the decision-making process should be integrated in an organization; this can help managers to more effectively identify problems and solve them.

In the literature studying the theory of decision-making, the discussion unfolds primarily in three categories; Holton and Naquin (2005) highlighted: normative (or prescriptive), behavioural, or naturalistic (or descriptive) theory. *Normative* or prescriptive decision theory presents ideal models of decision-making processes that are believed to lead to optimal decisions. Normative theories assume that decision makers strive to do what is best, while providing the optimal payoff (maximum benefits or minimal loss) for themselves or their organization. Klein et al. (1993) writes that normative theories do not tell us how people actually make decisions, but they provide formal methods for reaching optimal solutions. Beach and Connolly (2005) also noted that prescriptive theory almost always focuses on choices among options and seldom focuses on either diagnosis or implementation. *Behavioural* decision theory began as the study of the degree to which unaided human decision-making conforms to the processes and outputs of prescriptive decision theory (Beach and Connolly, 2005). This concept is based on *Administrative Behavior* by Simon (2013), who emphasizes that human behaviour in the organization is limited to the position the manager occupies in the organization. This means that decision-making in organizations is strongly influenced by the structures and regulations of the organization and by decision-makers. *Naturalistic* decision theory attempts to understand how people actually make decisions in real-world contexts (Klein, 2008). For example, in organizations, rarely are decisions made under ideal conditions, when a person or group is fully focused on the task and when there are absolutely clear goals. Typically, once there are several goals and objectives, organizations also have to make decisions in conditions of uncertainty. Over the last decade, interest in the theory of naturalistic decision-making has steadily increased. The progress of naturalistic decision-making was studied by Lipshitz et al. (2001).

The first attempt to look specifically at decision-making in organizations is associated with the works of Herbert Simon (1955; 1957) and March and Simon (1993). They conceptualized decision

makers as boundedly rational, in contrast to the Olympian rational economist assumed by classical decision theory. Further, they situated decision makers within organizational contexts, exploring the incentive structures and social norms that shape expectations and behaviours (Velupillai, 2010; Lipshitz et al., 2006).

The process of decision-making involves selecting the alternative that will bring maximum benefits to the organization. Therefore, the decision must be rational, which, in turn, requires the bureaucratic model of organization noted by Weber (2009). A rational decision can be regarded as selecting the best from all possible alternatives, extracting maximum benefit at minimum cost for an organization. However, rational decision-making is not only the choice of alternatives; it is a process that consists of several stages. The model for an individual decision-making process was suggested by Beach and Mitchell (1978) and includes a series of distinct stages: problem recognition; evaluation of task; strategy selection; information processing; strategy implementation and choice.

In organizations, the decision arises as an organizational response of individuals or social groups to emerging issues. As noted by Beach and Connolly (2005), a distinctive feature of the decision-making process in organizations is that decisions seldom happen through the process of the intellectual work of one individual; most often the whole group takes part in this process. Although organization members also work in general social spaces that allow them to adjust easily to communications and to cooperate for the accomplishment of common goals, without such mutual understanding there would be no organization at all; decision-making is not a simple process. The characteristics of decision-making in the organization have been studied by March (1996). Kirchler and Schrott (2003) characterizes decision-making in the organization in the context of descriptive models of decision-making: to avoid decisions; to avoid the uncertainty; to find decisions for specific problems; organizations learn from their experience. The decision in organization is only the completion of a complex multi-stage process. This process is called the development of management decisions. Asaul et al. (2007) identify three main stages: Recognition of the need for the decision, Development of the decision and Implementation of the decision. According to Kirchler and Schrott (2003), there are a few more detailed stages of the decision-making process in the organization: Identification of situation when it is necessary to make the decision; Analysis of situation; Designation of the goals; Search of alternatives; Assessment of alternatives; Decision-making; Implementation of the decision; Decision assessment.

Formal organizations build the structure thus to control the decision-making process in organizations. There are a large number of prescriptive decision-making methods; how organizations control the decision-making process was studied by Sutcliffe and McNamara (2001). He researched the extent to which decision makers use a prescribed decision practice for consequential decisions and the factors that influence its use. The decision makers are more likely to use prescribed decision criteria for important decisions. In addition, decision makers in larger departments are also more likely to adhere to prescribed practices.

## **Methodology**

### *Description of the business case*

The research was conducted in the business unit of a large Russian manufacturing company, specializing in the production of alcoholic beverages. The company's main goal is to produce the highest quality distillery products, which are sold in more than 50 countries. Regarding alcoholic beverage production, following the strategic interests of the company, seven spirit-production plants are located in major Russian federal districts. The key activity of the business unit is the production of high quality alcoholic beverages. The business unit produces 55 types of alcoholic drinks: vodka, balsam, sweet and bitter alcoholic beverages, liqueurs and gins. The company provides almost stable employment for about 300 people and has the following directorates: Manufacturing, Finance, Commerce, Technical, Retail and Security. The business unit has a director, who is subordinate to the heads of directorates. The directorates have departments and subdivisions. The main task of the business units in the company is to ensure the volume of production, as planned by head office, and to ensure the planned sale of manufactured products and to do it within the budget. The task of managers is to ensure the fulfilment of the management objectives.

### *Research method*

The first thing studied was the scale of the organization and, to determine the type of organization, the structure was analysed by official information from the Internet site of the company. The site presents the business structure, the number of business units, strategy and purpose. It presents the corporate structure and hierarchy, the senior managers of the company, and the board of directors. Official information sources include financial reports, financial information for investors and press releases of corporate events and news.

Research is based on carrying out questioning and interviewing of managers of the company in different departments. The questionnaire was constructed on the basis of the prescriptive decision-making stages (15 stages) and the main variables characteristic of all formal organizations (differentiation, standardization, decentralization and formalization). However, after holding meetings with heads of departments, to test the questionnaire, it became clear that simple transfer of stages and bureaucratic factors would most likely be unclear to managers. Therefore the questionnaire was processed and presented in the form of specific cases clear to managers of the company. The case is the production of new alcoholic products; see Appendix A. After the second meeting, the questionnaire was tested by the heads of departments and a questionnaire survey of managers was conducted.

The interview was not rigidly structured and was held in the form of a conversation. If, instead of answering the question, the manager began to describe a different problem or situation, this response was also accepted. Managers cited many examples of the work they faced which caused certain negative consequences for the company. Also some questions were discussed with the managers during lunch in the company's cafeteria. Some information about managerial decisions in the business unit was taken from internal formal documents (orders, regulations); this information was available on the internal corporate website, which is freely accessed by all

managers of the company. To determine the structure of subordination in the company, the enterprise guide of the internal information system was also used; the guide contained information about the manager and the senior managers.

To research some statistics on the alcohol market in Russia and worldwide, as well as articles and studies on the topic of the alcohol market, the information news portal RBC Information Systems ([www.rbc.ru](http://www.rbc.ru)) was used, as well as the Federal Service for Alcohol Market Regulation ([www.fsrar.ru](http://www.fsrar.ru)). This information was required for the analysis and comparison of some external events in the alcohol market and the operations of the state regulator, with events described by the managers in their interviews.

#### *Data collection*

The survey was carried out among managers of departments (Table 1). Microsoft Excel software was used to process the data obtained in the questionnaires. A table was formed in Excel, which was filled with all the generated intermediate data and the final summary table, in which the overall result of all answers was calculated. For easier understanding, the bureaucratic variables, differentiation, standardization, decentralization and formalization, were coded as: Differentiation – Organizational structure; Standardization – Standardization of working processes; Decentralization – Centralized control; Formalization – Existing written regulations, rules, regulations. The impact was assessed as: 1 – low; 2 – moderate; 3 – high. Stages of the decision-making process were numbered from 1 to 8. The name field in the questionnaire determined the gender characteristics of the respondents.

Interviews were conducted with the managers of all departments of the organization, both men and women. The business unit consists of six departments: manufacturing, finance, commerce, technical, security and retail. All interviews were coded according to name of department and number of interviewees and gender, for example – the first interview with a female manager from the manufacturing department is encoded as MD1\_f; see Table 2. Every mention of a problem that was voiced by the manager received one point and if the manager mentioned this problem repeatedly, the points were summed up to increase the weight of the problem for this manager.

The interviews were conducted in the workplace as personal meetings. On average, each interview lasted 60 minutes. After the interview, based on the notebook, notes of the interviews were recorded in Microsoft Word.

Additional data used for the study are listed in Table 3.

#### **Empirical part**

During the interviews, many of the managers pointed to the fact that the bureaucracy of the organization greatly affects managerial decision-making. Among the signs of bureaucracy in the organization they observed were: bureaucracy, double subordination, long-matching of issues, limitation of decisions, excess of reports, internal collaboration, indifferent attitude, and bad communications. The results of the analysis of the interviews are presented in Table 4.



The managers of the business units noted several important issues, which are difficult to solve because a lot of the bureaucratization of processes comes from headquarters. Most often, bureaucracy was noted by directors, heads of departments and some managers from commercial and financial departments. An interesting fact is that bureaucracy was not noted by foremen in any of its manifestations.

The most frequently identified bureaucracy was in the context of: limitations of decision-making and long matching of issues. These issues were associated with excessive formalization of their activities by headquarters.

The main negative effect of bureaucracy, pointed out by all the interviewed directors of departments, was the limitations of decision-making. It is possible to provide the clearest quotes:

Citation 1 - *“In trading activities, the speed of decision-making is very important because the market is changing, changing requirements and conditions.”*

Citation 2 - *“Many questions depend on senior managers – it's all financial issues or staff list. For example, the issue of additional staff, such as cleaners, should be coordinated with the CEO.”*

Citation 3 - *“The coordination of issues in projects concerning development can be delayed for up to one to two months. Moreover, the issues should be coordinated with a lot of the managers of departments at headquarters.”*

Citation 4 - *“In recent years the company has greatly expanded bureaucracy and bureaucratic tools. This is blocking the quick resolution of problems and challenges inside the business units.”*

According to the process of decision-making in organizations, the influence of bureaucratic variables is distributed according to Table 5. This ratio was obtained by interviewing the heads of several departments of the manufacturing department of the enterprise.

For a visual presentation of the obtained results, we can construct a graph (Fig. 1), which shows the influence of factors on the decision-making process regarding the release of the new alcoholic beverage.

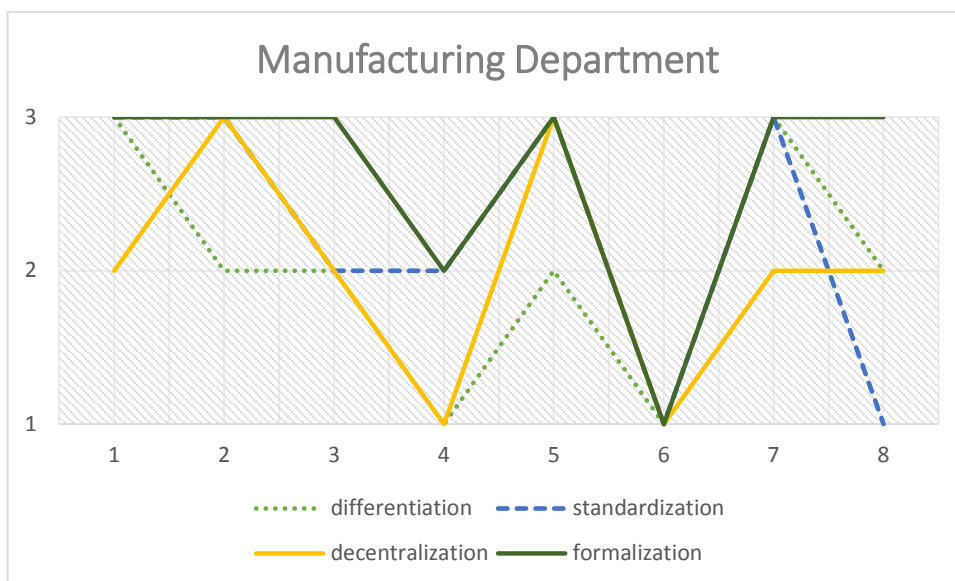


Fig. 1 The influence of factors on process.

## Discussion

The obtained results of the study clearly demonstrate the influence of bureaucracy on the decision-making process of managers in the organization. For a more detailed description of the bureaucracy, we are using variables which were described by Walton (2005): differentiation, standardization, decentralization, formalization. In sum, these variables allow us to estimate how the bureaucratic control system affects the decision-making process in the organization.

The concept of rational organization of the bureaucracy should contribute to rational decision-making, which must match the organizational goals of the whole company, not the interests of individuals. This is clearly expressed in the results of the analysis of interviews with managers when they complained about the problems associated with restrictions in their decision-making. These issues were especially on the minds of the managers of the commercial department, most of whom are men.

*Identification of the situation in which is it necessary to make the decision.* The influence of bureaucracy at this stage is related to the organizational structure; it affects the information flow and the partial lack of communication between departments in the organization.

*Analysis of situation.* The influence of bureaucracy is reflected in the fact that you also need to establish communication in the current organizational structure to obtain all the information necessary for making management decisions.

*Designation of the goals.* The stage at which less influence the bureaucracy because the goals of the organization is clear. However, sometimes there is dysfunction: when senior managers do not clearly define goals, middle managers lose their prospect of achieving the goals.

*Search for alternatives.* This is also less prone to the influence of bureaucracy, so the implementation of this stage is associated with creativity and creativity in the group. This process is most interesting, and managers have more freedom and no external control.

*Assessment of alternatives.* In the process of development, management decisions are also very strongly influenced by bureaucratic aspects. At this stage, there is no influence of managers from headquarters but, in this case, a very pronounced relationship within the organization and among its departments. During the development of this phase, managers often meet with opposition from other departments of the company. Here, in an interview, the managers noted that this is due to inadequate organizational structure, poor communication with and support from colleagues in allied departments.

*Decision-making.* Despite the fact that many managers associate bureaucracy with headquarters, it is nevertheless interesting to note that the results of the analysis of the questionnaires, where the case considered was the process of manufacturing a new product, at stage 6 the influence of bureaucratic variables was the lowest, although the decision in this case directly depends on the brand manager at headquarters.

*Implementation of the decision.* The biggest influence on the decision-making process occurs at stage 7 – implementation of the decision. At this stage, all departments and services of the

enterprise are involved, along with all the mechanisms of bureaucratic control. In this case, it allows the control of the behaviour of all participants in the process and will accurately direct activity to achieve the organizational goals. This step is the most important business unit of the company; more attention was paid to it in the interviews. In the implementation of this phase were the most frequently cited problems with communications – inside business units and across the divisions of headquarters.

*Decision assessment.* This is not particularly susceptible to the influence of bureaucracy; rather, it is based on one of the output control mechanisms described by Ouchi and Maguire (1975); this control has the greatest impact on managers who are required to prepare reports, such as those in the commercial department.

Characteristically, these issues were mostly pointed out by the male employees; to women, more relevant were the issues of cooperation between the departments of the organization.

It should also be noted that male managers more often have problems with communication in the organization; almost every male manager mentioned this in interview. For female managers, the problem is internal collaboration.

## **Conclusions**

This study seeks to evaluate the impact of the bureaucratic concepts of Weber (2009) on the process of organizational decision-making in the context of a formal organization. The study described an impact of bureaucracy on the decision-making process in a business unit of diversified holding. The methodology that was applied for the study can be modified and used to create a more accurate method of studying the influence of bureaucracy on the decision-making process in the organization. In future works results may be used in the development of monitoring and control mechanisms for decision-making in the organization.

However, this study was conducted within a single organization; so the validity of the data is limited. If we increase input data, it is possible that results will vary from those shown. In addition, the results can influence the data obtained in other industries.

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## Appendix A

\_\_\_\_\_  
(Name)

### Questionnaire

#### Influence of organizational factors on development stages of management decision

#### Case – “Development of new type of product in JSC A”

Factor	Stages							
	1	2	3	4	5	6	7	8
Organizational structure								
Standardization of working processes								
Centralized control								
Existing written regulations, rules								

It is necessary to estimate the influence of internal factors such as: organizational structure, standardization of working processes, centralized control and written regulations, rules on the course of the process of solution development on the release of new products in “JSC A”. The assessment is carried out on the example of a case new product development.

*Factor impact on the decision-making stage:*

- 1 – low
- 2 – moderate
- 3 – highly

### Decision-making stages:

1. Identification of the situation, in which it is necessary to make the decision: The enterprise obtains information that the brand manager has sent an inquiry regarding the development of a new type of product for the enterprise.
2. Analysis of situation: After receiving a request for production, it is necessary to collect all the information on the new product; to request information concerning the new product from other divisions; to analyse state standard, recipe, etc.; to estimate opportunities for production of the product (resources, technical capabilities) and also conditions which can interfere with product output.
3. Designation of the goals: It is necessary to create a specification for new product development and to approve it as the order of the CEO. It is also necessary to organize the working group (the laboratory chief, production engineer, laboratory specialists and quality engineer). The group has to define the criteria for the release of the new product, make an action plan and bring information to ranking officers.
4. Search of alternatives: At this stage, laboratory specialists develop options for recipe and prototypes of the product. The food safety group carries out the analysis of the ingredients. The chemical engineer and the production engineer make calculations of the ingredients and prepare trial blends. In case of need, new ingredients are ordered in the warehouse on demand.
5. Assessment of alternatives: The laboratory chief provides members of the tasting commission with intermediate samples to try. Taking into account notes from the experts, the sample is improved and is estimating the sample.
6. Decision-making: After a positive assessment of the product in "JSC A", a trial sample goes to the brand manager of the managing company. Then the brand manager sends a response regarding the positive or negative decision on product output or its completion.
7. Implementation of the decision: The director of production sends recipe for drawing up the calculation to accounts department. The recipe and the technology instruction pass the approval of the CEO and the director of production. Technical specialists carry out a technology project evaluation and prepare a request to the managing company for the acquisition of new equipment (if it is required). After the approval of budgets, technical services carry out modernization of the equipment. Approval of the purchase of the completing materials for the production of the product is obtained. A plan is prepared for the release of the new product.
8. Decision assessment: An analysis of the facts regarding sales of the new product is carried out. Feedback is gathered from buyers and final consumers. On the basis of the data obtained, a decision is made on the future of the product.



## Appendix B

**Table 1 Number of completed questionnaires.**

Department	The number of questionnaires
Manufacturing Department	4
Finance Department	1
Commerce Department	1
Technical Department	-
Security Department	1
Retail Department	-

**Table 2 Number of interviews.**

Department	Managers				Interviews	Gender	
	Male	Female	Male	Female		Male	Female
Manufacturing Department	MD1_f	MD2_f	MD3_f	-	3	-	3
Finance Department	FD1_m	FD2_f	-	-	2	1	1
Commerce Department	CD1_m	CD2_m	CD3_m	CD4_m	4	4	-
Technical Department	TD1_m	TD2_m	TD3_m	TD4_m	4	4	-
Security Department	SD1_m	SD2_m	-	-	2	2	-
Retail Department	RD1_f	RD2_f	-	-	2	-	2

**Table 3 Observations and other data,**

Description	Number
Meetings	5
Email	10
Informal communications	4
Internal documents	5
Internet portals	2
Website	2

**Table 4 Results of the interviews.**

Interviews	Gender	Bureaucracy	Structure	Long matching of issues	Limitation of decisions	Output control (reports)	Collaboration	Communications	Planning
MD1_f	F						1		3
MD2_f	F						1		2
MD3_f	F		2				2		1
FD1_m	M	1	2	1				1	
FD2_f	F	1		2			1		

CD1_m	M	1				2		2	
CD2_m	M	1	2	2	1			1	1
CD3_m	M		1	2				1	
CD4_m	M	1	1	1	1	2			
TD1_m	M								
TD2_m	M	1	1					1	
TD3_m	M								
TD4_m	M				1				
SD1_m	M	2	1			1			
SD2_m	M			1		1			
RD1_f	F	1		1	1				
RD2_f	F		1	1	1				

**Table 5 The influence of bureaucratic variables.**

Factor	Stages							
	1	2	3	4	5	6	7	8
<b>Differentiation</b>	high	moderate	moderate	low	moderate	low	high	moderate
<b>Standardization</b>	high	high	moderate	moderate	high	low	high	low
<b>Decentralization</b>	moderate	high	moderate	low	high	low	moderate	moderate
<b>Formalization</b>	high	high	high	moderate	high	low	high	high

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## DESTINATION BRANDING IN A RUSSIAN REGION IMAGE CONTEXT: THE CASE OF THE ARKHANGELSK OBLAST

### **Abstract**

This working paper is written as part of the PhD course “Governance in the High North: implications for Arctic private and public sector”. The aim of the paper is to describe the branding process in the Arkhangelsk region. In this case the author considers the concepts of territory branding strategies. The sample of the Arkhangelsk oblast representing the Russian Arctic region shows us the available dimensions for creating a positive, favourable regional image in the High North. The analysis of the situation is based on secondary data.

**Key words:** destination branding; image; territory branding strategies; Russian regions; Russia Arctic; Arkhangelsk oblast

## **Introduction**

Ensuring the growth of investment activity in the region is possible only on the basis of a complete, well-formed system of attracting investments in the Russian Federation and targeted actions to increase investment attractiveness (Voevodina, 2012; Bylavko, 2010; Allakyliev, 2000). Formation of the brand and a positive image of the region need to enhance the existing capacity (Herstein, 2012).

Branding is a powerful weapon in the marketing armoury of contemporary destination managers confronted by increasing competition, product parity and substitutability. Every country claims a unique culture and heritage. The need for destinations to portray a unique identity is more critical than ever; indeed, it has become the basis for survival within a globally competitive marketplace. While in the past this process characterized only developed countries, today, many emerging and also developing countries allocate significant budgets in order to create a more positive and attractive image.

In marketing terms, brands differentiate products and represent a promise of value – they incite beliefs, evoke emotions and prompt behaviours. Brands have social, emotional and identity value to users: they have personality and enhance the perceived utility, desirability and quality of a product. When consumers make brand choices about products – including destinations – they are making lifestyle statements, since they are buying not only into an image but also into an emotional relationship.

Today, many practitioners and researchers work on the issues of increasing branding destinations. Despite the surge in interest among academics, research on place branding still remains a complicated and somewhat confused construct (Fan, 2006). The target audience is diverse: tourists, citizens, government, media and investors. Government allocates a large amount of money to create a more positive and attractive image. The existing territory branding strategies by Gardner and Levy (1955), Gilmore (2001), Anholt (2002), Morgan et al. (2011), and Herstein (2012) do not reflect all the aspects, which can carry the branding area and they do not all offer ways to create and maintain a positive image of the territory. Therefore, we should continue to research this topic, especially when we are talking about a country like Russia, where, in terms of space, one of its regions alone is comparable with the entire state of Western Europe. The European High North of Russia is the most interesting, because it is unique in different ways: geographical, climatic, economic, political, social, etc. The Arkhangelsk region is unique because it has a number of important advantages – a well-developed engineering cluster, advantageous geographical location, proximity to the biggest consumer markets in Russia and Europe, rich natural resources, unique natural, cultural and historical attractions – as a condition for the development of tourism (Strategy of socio-economic development of the Arkhangelsk region, 2008).

At the same time, the region is not widely seen in domestic and international markets (Strategy of socio-economic development of the Arkhangelsk region, 2008), which indicates the absence of efficient and effective branding of the region. As one of Russia's northern regions (The list of regions of the High North and areas equivalent to the High North of the USSR, 1983), the

Arkhangelsk region needs to attract investment to the region to eliminate a number of existing problems, such as: the poor industrial development; the lack of development of infrastructure; the low level of business activity and business development; the low level of quality of life. Studying the phenomenon of branding by means of the example of the northern region of Russia can be interesting both for the authorities of the northern regions of the world, as well as for researchers dealing with this issue.

The aim of the paper is to describe the branding process in the Arkhangelsk region. To achieve this purpose, we seek to answer the following research question: “How can the Government of the Arkhangelsk oblast improve the regional branding?” The paper is structured as follows: the first paragraph presents the theoretical framework for the study; after that we offer a few words about methodology and methods. The third section allows the reader to learn about the Arkhangelsk region and its government policy in the field of investments and tourism. Finally, the discussion and conclusions are presented.

## **Theoretical framework**

### *Definition of destination branding*

A destination brand is probably best described as the essence of the destination from the perspective of potential visitors (Caldwell and Freire, 2004), but it should also be recognizable to residents. Ideally, these two perspectives should collaborate and thereby reinforce each other.

The overriding aim is to create a competitive identity, which enables the destination to stand out above its competitors. It is the essence of the destination, as seen by potential visitors, that provides it with its competitive identity. A sense of purpose is the destination’s brand essence that endows it with a unique identity, which differentiates it from everywhere else and thereby enables it to stand out from its competitors in competing for the attention of potential visitors (Hankinson, 2001).

Significantly, unlike consumer goods, a destination inherits its brand. With some limited exceptions (e.g. Las Vegas, Dubai), a destination cannot manufacture or dramatically alter its topography, culture or heritage. It cannot re-invent itself overnight in the way that a manufacturer, such as Coca Cola, can invent a new product line. It therefore has to identify its assets, build on them and promote them in a way that differentiates it from all other destinations. It can of course add new products – such as theme parks or hiking trails – that might enhance its appeal and enable it to attract new markets. However, these are unlikely to alter the fundamental character of the destination, at least in the short to medium term.

Destinations therefore need to identify their most potent areas of appeal, seek the essence that makes them different and attractive to visitors, and consistently promote this essence through all marketing communications and behaviour. Over time this will help the destination gain a consistent reputation, based on these brand values (Rantisi and Leslie, 2006).

A consistently projected brand will also provide a coherent ‘story’ about the destination that will equip it to better withstand shocks that might temporarily reduce its appeal in the eyes of the

world, such as terrorist incidents, conflict, economic recession, or unpopular leadership (Florek and Conejo, 2007). While it is hard to counteract a negative reputation that has been deeply embedded over time, a strong destination brand can present an alternative and positive perspective, which can begin to change a country's image. The stronger a destination brand is, the better the destination will be able to withstand such shocks and emerge from crises more quickly. Ideally of course, there should be a greater predominance of positive external factors influencing perceptions of the destination than negative (Brayshaw, 1995).

Destination branding is a process used to develop a unique identity that differs from all competitive destinations (Hopper, 2003).

Destination branding aims to combine all things associated with the place or country and unite them collaborate into one brand identity. The destination brand consists of the product and services associated with the destination, the agriculture, sports activities, arts, technology, celebrities, attractions, etc. that originate from the destination or country (Daskou et al., 2004). The aim of combining these elements is to capture the essence of the destination, in a unified manner, to provide the consumers with a positive understanding of what this destination is or wants to be in order for the audience to gain a positive impression of the destination and a wish to visit or support the destination by purchasing its products (Kotler and Gertner, 2002).

The marketers must keep in mind that the consumers are looking for destinations that are holistic and match their specific needs and wants. The winners are those destinations with a head and a heart that are unique and set to match the needs of the target audience (Rantisi and Leslie, 2006). Furthermore, when developing a destination image, it is vital to maintain objectivity. This may seem easily done; however, most destinations' identities are developed by people who were born, raised, schooled, and possibly trained in that particular country, and therefore objectivity is not a given.

A well-received destination brand identity can help shape a country's economic, cultural and political destiny. Destination marketing attempts to create jobs and economic growth with an overall benefit to the country's economy (Hall, 2002).

The use of branding helps the region to enhance its image in the eyes of both local residents and investors (Rodionova and Gromova, 2011). This regional policy should be directed at achieving the following main objectives:

- attraction of investments;
- support of tourism, i.e. the transformation of the region into an attractive area to be visited.

So destination branding is the task of compiling all the elements that have an impact on the destination and causing them to coexist within one overall destination brand identity, which, hopefully for the marketers, will lead to a positive destination image. A positive destination brand encourages inward investments, which, if properly managed, can create a renewed sense of purpose and identity for the inhabitants of the destination (Pride et al., 2005).

### *Models of territory-branding strategies*

In the past, a country's, city's, or region's main assets were the products created in its environs; products bearing "Made in Japan" (cars, cameras, and consumer electronics), "Made in France" (wines, perfume, and clothing), or "Made in Italy" (furniture, shoes, and sports cars) labels are commonly regarded as high quality, due to the reputation of these countries as first-rate manufacturers and exporters. Nowadays, the assets are the country, city, or region itself. Accordingly, governments, municipalities, and regional councils invest great effort in creating a real, competitive advantage over other countries, cities, and regions. They promote their superiority in terms of tourism and location (to attract factories, companies, and talented people) and to find markets for their exports.

In the past, marketers and predominantly advertisers used to brand a country by inventing catchy slogans such as "Spain – Everything under the Sun", "Flanders – Europe's Best Business Location", and "Scotland – Silicon Glen", or by using visual images or symbols such as the Eiffel Tower for France, Big Ben for England, Red Square for Russia, the Statue of Liberty for the United States, and the Christ the Redeemer statue for Brazil.

Over the years, marketers have succeeded in creating a mixture of country-marketing tools in order to brand nations for the long term rather than for the short term.

1) One of the first country-marketing models was based on Gardner and Levy's (1955) definition that any product brand has two dimensions of attributes: tangible and intangible characteristics. Just as they choose any other product, consumers (tourists) also choose countries on the basis of attributes such as climate, scenery, amenities, and culture. Country branding, therefore, can be characterized as having two dimensions: 1) representational (attributes linked to the individual's means of self-expression, analogous to intangible characteristics) and 2) functional (utilitarian aspects of the destinations – sun, reefs, sky, culture, and so on, analogous to tangible characteristics).

2) On the basis of Gardner and Levy's definition, Gilmore (2001) created the positioning diamond model, which has four essential factors that need to be considered for any country-branding process: 1) macrotrends (socio-economic trends, political and legal status, emerging industries, population trends, and cultural and lifestyle trends), 2) target audiences (stakeholders), 3) competitors (similar countries, in the eyes of tourists), and 4) core competencies (the physical and human assets of the country).

3) Another well-known model is the hexagon of competitive identity model developed by Anholt (2002), which combines six channels or areas of activity that countries generally undertake: 1) tourism promotion, 2) exported products and services, 3) regional government policy decisions, 4) the way the country solicits inward investment, 5) cultural activities and achievements, and 6) the people of the country themselves.

4) Another more updated model, which is based on Anholt's model, is Morgan et al.'s (2011) "virtuous circle of creative country reputation", which contains six elements: 1) country tone (its ambience, the attitude of its people, its heritage, and narratives), 2) traditions (the collective

authenticity), 3) tolerance (social responsibility, ethical practice, and sustainable ways of living), 4) talent (the characteristics of the human capital), 5) transformability (adopting advanced ways of living), and 6) testimonies (the reputation of the country based on stories).

5) According to the "country-region-city" matrix positioning model proposed by Herstein (2012), the main criteria on which the stakeholders choose destinations are: 1) the geography of the country, region, city, and 2) the existence of ethnic nationalities. In accordance with the presence or absence of geographic and ethnic diversity, the strategy of positioning and the promotion of destinations are determined.

For the study of the Arkhangelsk region the latter model is better suited to us, but it takes into account only two directions for analysis and does not consider the specifics 1) of the North and 2) the policy authority for the regional administration. At the same time, we should pay attention to the administrative division of Russia, in which one region can be compared to the whole area of a European country. For example, the Arkhangelsk region is compared with France and Spain in this way. Therefore, in our study we will try to reveal these two aspects.

### **Methodology and methods**

To approach the purpose, we should look at different perspectives on the situation in the region and use the various types of information. In order to achieve the objectives of the study and answer the research question, we describe in the empirical part 1) what the Government of the Arkhangelsk oblast is doing to develop destination branding (in matters of investment attractiveness, support of tourism) and 2) which of the described strategies is best suited to a research case.

To do this, we: 1) defined the specific features of the northern territories, using statistical data to better understand the context in which we operate; 2) chose the Arkhangelsk oblast as an example because it is a controversial area, in which the problems of and the prospects for development are closely linked. The shortcomings negatively impact on the economy and the welfare of the citizens in the area. The important advantages should be used to overcome the disadvantages to create a competitive economy and social sphere in the area; 3) analysed policy documents in the field of investment and the development of a tourist destination as a priority for the development of the region in accordance with the main strategic document of the region. To build the branding of the region, there are important investments and a choice of points that need to be focused on. One such development point is the tourism industry of the Arkhangelsk oblast.

The main data collection method is documentary analysis. The data used in this paper are drawn from the following: official publications of the Russian State Statistical Agency (Goskomstat) and its territorial departments; federal, regional and local legislation; information and reports from the official websites of ratings agencies (RA Expert RA, Support of Russia); information and reports from the official websites of regional governments. These kinds of resources give us the objective information regarding the situation in the Arkhangelsk oblast. We use the complex of different data to draw the whole picture.



## **The case of the Arkhangelsk oblast as a northern region**

The Arkhangelsk Oblast, which includes Nenets Autonomous Okrug, borders Kirov Oblast, Vologda Oblast, the Republic of Karelia, the Komi Republic, and the White, Pechora, Barents and Kara seas. Cape Fligely in Franz Josef Land (the northernmost point of Russia, Europe and Eurasia) and Cape Zhelaniya in Novaya Zemlya (the easternmost point of Europe) are both located within Arkhangelsk Oblast.

The Arkhangelsk region has an area of 587 400 km<sup>2</sup>. Consequently, from a geographical perspective, the Arkhangelsk region relates to heterogeneous geography.

As the Arkhangelsk region has a large area but no advantages in terms of cultural atmosphere, its branding strategy is to make the region brand equal to the city brand.

If we look at the whole Russian North, we can highlight the common features of the socio-economic development, the most important of which are the following (Voronina, 2016):

1. The reduction of the population, including the economically active, in relation to migration outflow;
2. The high level of unemployment by the standards of the International Labour Organization, particularly among young people and women;
3. A low degree of diversification of the economy in the northern regions, associated with an insignificant share of the manufacturing sector in the structure of gross value added;
4. The high proportion of indigenous peoples and their low level of labour activity;
5. The prevalence of mining in the structure of the economies of most of the northern regions, in connection with what is determined by the raw material orientation mezonegion;
6. The high proportion of the population living in single-industry towns;
7. The lack of transport infrastructure;
8. The rate of growth of gross regional product per capita of the northern regions is characterized by lagging behind the national average;
9. The growth rate of investment in fixed assets is below the national average;
10. The purchasing power is lower than the average in Russia;
11. A significant environmental impact on the environment, two to three times higher than the national average;
12. The high degree of subsidized regions of the Russian North.

### *Business image of the Arkhangelsk oblast*

The image of the region is an integral characteristic, which affects the appearance of interest in the region in general and the adoption of a potential investor's decisions about the choice of placement among the available investment alternatives. The image of the region is determined: based on the past (stereotypes) and the present (the media), via direct contact (tourism, work, social and public life), and through a specific message from the relevant government authorities, agencies (press releases, ratings).

Every year dozens of institutions compare regions and rank. Maybe individually they do not describe the whole picture of what is happening, but together they allow us to understand how the region looks today, compared to other regions of the country.

An example of the evaluation of the business image of the region on a private level is its investment attractiveness. It is an attractive image in the first place that makes potential investors pay attention to the region. Although the image itself is not a sufficient condition for investment attractiveness, the words and images must be economic factors. However, it is also true that economic conditions may not work in a negative or neutral image.

In describing the investment attractiveness of the Arkhangelsk oblast, the majority of experts compare the region with the Murmansk oblast, when it comes to the transport sector and the manufacturing and mining industries, and with the Republic of Karelia, in the case of tourism. Position of the above-mentioned regions seems to be stronger comparing with the Arkhangelsk oblast in those ways.

During the period from 2009 to 2013, most of the area occupied the middle or last positions in the rankings of social well-being, investment attractiveness, effectiveness of public authorities, and quality of life in the regions.

For example, in 2013 the Arkhangelsk oblast held the following positions:

83 (out of 83) – rating of the social health regions (Civil Society Development Foundation)

64 (out of 82) – rating of the quality of life in the regions, based on objective indicators (RIA Rating)

73 (out of 83) – rating of the effectiveness of the authorities (Agency for Political and Economic Communications)

65 (out of 83) – rating level of information transparency of the Governor (National Monitoring Service)

3B1 (Reduced potential – moderate risk) – rating of the region's investment grade (rating agency Expert RA)

IC4 (average investment appeal – the first level) – rating of the investment attractiveness of the Russian regions (National Rating Agency)

If we talk about the appearance of the Arkhangelsk oblast in the years 2009-2013 in the media segment of the federal mass media of Russia (*Russian Newspaper, Vedomosti, Kommersant*), as well as in Europe and the US (*The Times, The Independent, The Economist, Business Week*), the area is not one of the most frequently mentioned; in foreign publications it is extremely rare for anything to be written about the area, and none of the articles are devoted to economic issues. Moreover, in all of the analysed materials, the Arkhangelsk oblast is not determined by a clear positioning in the region and the competitive advantages are not highlighted.

In general, the news flow of the Arkhangelsk oblast is dominated by negative information, which is associated with the traditional national media attention to the event-driven nature of the negative and the lack of information coming from the field, representing a negative image of the region in the eyes of the public and potential investors.

### *The image of the Arkhangelsk oblast as a tourist region*

In the Arkhangelsk oblast there are all the possibilities for the development of both domestic and inbound tourism, which can play an important role in the rehabilitation of its economy and preserving the environment, provide employment, create conditions for the preservation of traditional occupations and ways of life of the indigenous population, i.e. directly contribute to the achievement of sustainable development in this region of Russia and the increase of its investment attractiveness.

The Arkhangelsk oblast as an Arctic region is very promising due to the global development of tourism: it is a rich and diverse natural environment, rich in historical and natural monuments, and its exotic natural beauty, originality and unconventionality may well offer strong competition to the consumer's habitual recreational use of the southern regions.

According to the statistical reports provided to the municipalities, in 2013 the Arkhangelsk oblast received 377 465 tourists. The increase compared to the same period in 2012 amounted to about 15%. The most visited areas are: Arkhangelsk - 28%, Primorsky District - 17%, Ustyansky district - 10.5%, Belsky District - 7%, Kargopol District - 5%, Onega District - 3.5%, Pinezhsky District - 3.5%, Novodvinsk - 3%, other areas - 22.5%.

The Arkhangelsk oblast offers a number of tours of various kinds, of interest to tourists from different regions of the Russian Federation: Saint-Petersburg, Moscow, Vologda, Yaroslavl, Kostroma and Smolensk. The number of foreign tourists is 4-5% of the total placed in The most commonly visited area in the Arkhangelsk oblast is visited by tourists from Finland, Sweden, Norway and Germany

### **Discussion**

To create an attractive, positive image of the region, the government of the Arkhangelsk oblast uses destination-branding mechanisms and implements the following strategies, engaging in two ways: 1) the creation of a favourable environment for investments and 2) the development of domestic tourism in the Arkhangelsk oblast.

We will examine these two areas to show whether the authorities take into account the specificity of the north when selecting destinations to attract investment to the region and the development of the tourism industry. What methods are used for this purpose? Can these actions to bind to any existing strategy to create the region's branding and how can these actions help to improve the region's branding?

#### *Creating a favourable environment for the development of investments*

In the formation of a favourable environment for investments, the government of the Arkhangelsk oblast sets the following goal: to improve the regional investment climate, the inflow of direct investment in productive activities in the region and to achieve sustainable socio-economic development at the expense of an effective investment policy. To achieve this goal, the government will perform the following tasks:

1) the creation of favourable conditions for attracting foreign direct investment in the Arkhangelsk oblast.

This requires the legal regulation of investment activity in the region to be improved; the development of strategic, conceptual documents in the sphere of development of territories; the creation of favourable conditions for attracting investments (the innovation strategy of the Arkhangelsk oblast); the creation of a favourable administrative environment for investments (the principle of 'one window', a database of investment projects and investment platforms)

2) the promotion of the investment potential of the Arkhangelsk oblast

This requires the formation and promotion of an investment-attractive image of the region (congress and exhibition events, publications in foreign media); the creation, administration, maintenance and updating of information on the Internet resources at the regional level in the field of investment activities; the organization of regional competitions in the field of investment activity and investment attractiveness

3) the development of public-private partnerships

This requires the formation of an investment activity infrastructure; the development of financial mechanisms for attracting investment and innovative projects; the provision of regional institutions to facilitate investment and attract investors; facilitating the implementation of the programme of "Shipbuilding innovative territorial cluster" of the Arkhangelsk oblast

#### *The development of domestic tourism in the Arkhangelsk oblast*

With the development of domestic tourism in the Arkhangelsk oblast, the government sets the following goal: to create conditions for the formation and development of a competitive tourist and recreational complex in the territory that meets the touristic needs of Russian and foreign citizens. To achieve this goal, the government will perform the following tasks:

1) increase the use of the tourism potential of the Arkhangelsk oblast and increase the contribution of tourism in the gross regional product of the region

This requires the competitive co-financing of activities in the municipalities, aimed at the creation of new tourism products and to attract investment in tourism; support for the Agency for Tourism and International Cooperation in the region; the creation and maintenance of a registry of voluntary subjects of the tourist industry in the Arkhangelsk oblast

2) promote the tourism products of the Arkhangelsk oblast in both the domestic market of the Russian Federation and the global tourist market

This requires the establishment and maintenance of a state budgetary institution of the Arkhangelsk oblast "Tourist Information Centre of the Arkhangelsk oblast" (the promotion of the region in the Russian and international tourist markets; the organization of tourist events in Russia and abroad; the promotion of the tourist portal of the Arkhangelsk oblast in the Russian and foreign search systems; the preparation and publication of informational advertising materials about the tourism potential of the Arkhangelsk oblast in printed or electronic form (printed publications, videos, mobile apps, placing information about the tourist and recreational potential of the region in the media); the creation of a regional corporate style for the promotion

of tourism potential to the tourist market (including logo, colours, fonts, slogan); the organization of the participation of the Arkhangelsk oblast in tourist exhibitions and fairs

3) increasing the diversity and quality of tourism services in the Arkhangelsk oblast and improving the availability and quality of educational services in the field of tourism and hospitality

The existing models of the choice to create a branding strategy do not describe the whole situation, which takes place in the Arkhangelsk oblast. We can say that all the actions that are indicated in the policy documents are important for the development of the region, but they may in part be used to build and improve the branding of the region, as the specifics of the North are hardly taken into account.

## **Conclusion**

After describing the territory-branding strategies in the section "Theoretical framework", we can say that these country-branding models are very limited in their abilities to cope with different kinds of country positioning and especially lack the ability to cope with the integral connection that exists between a country, a city, and a region within the country or surrounding a specific city, in a comprehensive country-branding process.

The matrix strategy "country-region-city" reflects a new approach for marketers involved in country branding. This matrix enables marketers to rebrand a country such that it is more attractive for different types of stakeholders. This new matrix shows that the combination of a country's geography and the population-nationality mix should be taken into account when dealing with country branding. A significant drawback of this model, in our opinion, is the fact that it does not place restrictions concerning the area and features of the North. Taking into account the northern context in Russian territorial division of the region, and taking into account, for example, the size of the Arkhangelsk oblast, approximately equal to such countries as France and Spain, we have imposed the Herstein model on the Arkhangelsk region, highlighting the level of the region, the level of the municipality and the level of the administrative centre of the municipality, taking into account the specifics of the North. Therefore, none of the proposed strategies are appropriate to describe the mechanism for promoting the image of the Arkhangelsk oblast.

Since each country has, on the one hand, its own uniqueness and strengths, and on the other hand, its own weaknesses, it is impossible to ensure that, at the end of the rebranding process, each country will achieve the same results in terms of equity. Therefore, it is essential to assess each country's potential in terms of national, regional, and local assets (tangible and intangible). Countries characterized by more tangible and intangible national assets are more likely to successfully brand themselves, as opposed to those that have only tangible and intangible regional or local assets.

After discussion, we can say that there is not a unified branding strategy in the Arkhangelsk oblast. The government is trying to use the branding mechanisms in the implementation of individual measures in the regional long-term target programmes, in particular in areas such as:

1) the creation of a favourable environment for investments and 2) the development of domestic tourism in the Arkhangelsk oblast.

After evaluation of the internal and external image of the Arkhangelsk oblast, we can say that it requires adjustment. The improvement is seen in the area of the development and promotion of the branding area and also in the joint efforts of all actors: regional governors, commercial and public organizations, the media, educational institutions, science and culture, and all the inhabitants of the region, to create and maintain a positive image of the region with the Northern features, which in turn will affect the views and intentions of different groups of consumers regarding the region as a territory of residence, temporary residence or business.

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## Appendix I

### *The Arkhangelsk oblast: geography and nationality*

Arkhangelsk Oblast is located on the East European Plain, and most of it represents a forested hilly landscape. The northeastern part belongs to the Timan Ridge, a highland mostly situated east of the oblast. Nenets Autonomous Okrug is essentially a flat tundra (Bolshezemelskaya Tundra), with several hill chains like Pay-Khoy Ridge (website: Great Soviet Encyclopedia). The Arctic islands, including Novaya Zemlya and Franz Joseph Land, are mountainous with glaciers and eternally snow-covered. This region has a genetically distinct population of polar bears associated with the Barents Sea area (Hogan, 2008).

The population of the Arkhangelsk region consists of 1 227 626 people (2014).

Ethnic composition is as follows (2014):

Russians – 95.6%

Ukrainians – 1.4%

Nenets – 0.6%

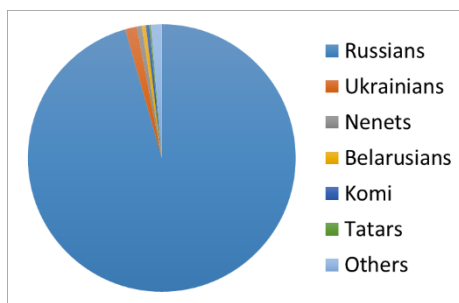
Belarusians – 0.5%

Komi – 0.4%

Tatars – 0.2%

Others – 1.3%

A notable subgroup of the Russian population are the Pomors, who reside along the White Sea coast and in the valleys of major rivers, speak Pomor dialects and are in fact the descendants of the Novgorod population, who colonized the Russian North in the 12<sup>th</sup> to 13<sup>th</sup> centuries. In the 2002 census, approximately 6 500 residents of the Arkhangelsk oblast indicated their ethnicity as Pomors.



The majority of the population belongs to the Russian ethnic group; hence the Arkhangelsk region has uniform nationality.

## Appendix II

### *The dynamics of socio-economic indicators of regional tourism development (2009-2013 years)*

The number of tourists served - about 60 thousand people (2009), in 2012 - 93.5 thousand served tourists. In 2008, the region was visited by 386.5 thousand people, in 2009 - 286 thousand tourists in 2010 - 322 000, in 2011 - 325 000. In the Arkhangelsk oblast there is at state protection - 1971 a monument of architecture, history and culture, including 561 - federal, 1410 - regional significance. Thus, the growth of inbound tourist traffic is 21%; the increase in tourist services sold 2.5 times; the increase in tax revenues from the tourism industry in the budgets of all levels by 4.5 times; it created about 800 new jobs. In Arkhangelsk oblast, there has been a positive trend in the development of tourism. Over the past four years, the number of tourism enterprises has increased by 45%.

In 2013, 1 717 tourists visited the Arkhangelsk oblast in foreign cruise ships. Based on the reported data, it is important to note that the municipalities have different options for providing services in the field of winter recreation, far ahead of the figures for incoming tourism. For example, the Ustyansky area receives 80% of its tourists in winter due to the sports complex "Malinovka" and the ski resort. The same pattern is observed in the Pinega district, thanks to the tourist complex "Golubino", and in the city of Novodvinsk, with its recreation centre "Mechka." In Arkhangelsk, the number of tourists increased from 30% in the winter to 36% in the summer. Primorsky district has a consistently high numbers of tourists. In summer this is the result of tourists wishing to visit the most famous sights of the area of the Solovetsky Islands and in the winter due to people visiting the tourist complex "Small Korely". The Kargopol area receives four times more tourists in the summer than in the winter. In 2013 in the whole of the region there were 206 collective accommodation facilities, of which, 97 were hotels, 11 sanatoriums, 69 guest houses, and 29 tourist centres. It is interesting that the sanatorium of the Arkhangelsk oblast showed 100% a year-round visited and the average occupancy of hotels is 50-60%. The number of rooms is 4 452 and the number of beds, 9 345. In 2013, nine new facilities were commissioned, including five guest houses (in the Konosha, Shenkursk and Ustyansky areas), two cafes (in the Onega district and the city of Onega), one hotel in Nyandoma and a tourist information centre in Arkhangelsk. New tourist routes began operation in the territory of Krasnoborsky, Lenskii, Leshukonskgo, Konosha and Kargopol districts. Eighteen municipalities have their own specific programmes with different levels of funding. According to the municipalities, for 2013, the volume of paid services provided by tourist industry enterprises, including accommodation facilities, amounted to 1 935 million rubles, with tax deductions amounting to 184 million rubles. Funds of 109 million rubles have been directed for the development of material and technical facilities.

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## THE THREE TYPES OF PERCEPTION OF CORPORATE SOCIAL RESPONSIBILITY: THE CASE OF HIGH NORTH OF NORWAY

### **Abstract**

This paper is a part of the PhD course “Governance in the High North: implications for Arctic private and public sector”. The data supports the assumption that corporations contribute to the development of the social sphere of the High North of Norway. The CSR activities of large international companies are considered to identify drivers of CSR. The findings could be used by private, as well as public, companies to design CSR strategy.

The studies of Corporate Social Responsibility (CSR) mostly cover a discussion about relations between CSR and corporate benefits. However, corporations tell in the annual reports that they also cover social issues and create value for the region through CSR-events. The study joins the existing debates on how corporations treat CSR. The purpose of the paper is to investigate the corporate attitude to CSR. The CSR-activities of the oil and gas industry in the High North of Norway from 1993 to 2013 were used for analysis. A new type of corporate perception of CSR was found.

**Key words:** Corporate Social Responsibility; High North of Norway; oil and gas companies.

## Introduction

Life is not possible without companies, which supply food, clothes, household goods and others commodities. However, companies may also create additional value for the community or they may harm the ecosystem. Some companies apply the principles of Corporate Social Responsibility (CSR), which was mentioned by Bowen (1953) as part of business ethics. Since 1953, many studies have been published about the corporate perception of CSR. The two points of view in respect of CSR are defined in the literature.

The first approach suggests that CSR is used to earn more profit. Friedman stated that “The social responsibility of business is to increase its profits” (Friedman, 1970). The ‘profit-maximization’ business goal is called a classic model (Jacoby, 1973; Meznar et al., 1992). The researchers of CSR from a classic perspective are divided into two types of studies: 1) the relationship between CSR and corporate financial performance, the effectiveness of CSR (Michael, 2003; Lioui and Sharma, 2012; Wahba, 2008) and 2) the relationship between CSR and consumers, branding and market place (DesJardins, 1998; Hilson and Murck, 2000; Greening and Turban, 2000). Environmentally-responsible companies have more market advantages than other companies (Bhattacharya and Sen, 2004; Wahba, 2008; Gadeikienė and Banytė, 2015) and use CSR in order to gain access to natural resources (Jenkins, 2004). The adherents to the classic point of view of the business role object to the idea that firms can solve social problems and conduct philanthropic activity to develop the region (Levitt, 1958; Friedman, 1970). In this sense, CSR is seen as a strategy to legitimate corporate activity by creating value for such stakeholders as customers, stockholders, and mass media.

Another group of scientists developed the notion that the corporation adds social value by adopting CSR. Meznar et al. (1992) called this point of view the “value added interpretation”. This point of view suggests that CSR is a tool to contribute to sustainable development (OECD, 2001; Hediger, 2010; Shen et al., 2013). Hamann and Acutt (2003) called CSR “a link to sustainable development” (Hamann and Acutt, 2003, p. 255). Aloisi de Larderel (2009) described the business as the “primary engine of the economic growth”, the “generator of wealth” and “needed to alleviate poverty” (Aloisi de Larderel, 2009, p. 279). Hediger (2010) used mathematical analysis to prove that CSR leads to sustainability. According to the ‘value added interpretation’ point of view, business creates extra social effects for the region by participating in charity events, sponsoring the healthcare system, and building social infrastructure. The corporation is interested in good social welfare and a favourable environment in the region. The health of workers and the infrastructure in the region have a direct influence on quality of work and corporate success. The corporation may care about the future of the region because it ensures the future for this company. In this case, CSR is a philanthropic corporate activity, aimed at building a favourable environment for locals.

Thus, there are two main drivers of CSR: the strategic tool and the community welfare generator. However, most business studies focus on the investigation of CSR as a strategic tool or economic or jurisdiction drivers of CSR (Rondinelli and Berry, 2000; Jenkins, 2004). However, the corporation may be interested in CSR because it leads to positive social externalities. But most

researchers do not provide empirical evidence to confirm the idea that corporations may also use CSR to improve quality of life. This study contributes to the existing debate about drivers of CSR. The research question is: *What do corporations want to achieve by CSR?* In particular, the aim of the study is to investigate the reason for CSR by analysing their CSR behaviour. The focus has been on what corporations have done in respect of CSR, based on an analysis of CSR activities. If a company wants to achieve competitive advantages, the link between CSR actions and the benefits for the company will be clearly identified. Such CSR activities will be targeted at customers and employees.

The case for study is the CSR of oil and gas companies in the High North of Norway. These were focused on because the oil and gas industry mostly consists of big companies, which have the financial capacity and resources to conduct social programmes. Oil and gas companies also have great experience of CSR (Tilt and Symes, 1999). This allows an analysis of social activity in the long term. Boasson (2009) mentioned that oil and gas companies use “many standardised CSR instruments...and their tangible form makes them more amenable to research” (Boasson, 2009, p. 314). Furthermore, the High North has limited sources of economic growth. The development of the region depends on mining companies (Yakusheva, 2012). Statoil, Eni Norge AS, and DONG E&P AS have been operating in the High North of Norway for a long period and have launched/are launching oil production in the Alve, Goliat, Marulk, Norne, Skarv, Skuld, Snøvit and Urd fields. The corporations follow a CSR policy and this may contribute to the social development of the High North of Norway. Their similarity makes them appropriate for a case study. Nevertheless, these companies represent different types of organizations with headquarters in different countries (Norway, Italy and Denmark). The data about corporate social and environmental initiatives has been collected from 1993 to 2013. Local newspapers, official information on web pages and annual reports are the main sources of corporations’ social activities.

### **Theoretical framework: contribution to the theory**

Some of the research into CSR covers the reasons for CSR or mentions that CSR companies lead to sustainable development. The studies of Carroll, Zadek, Porter and Kramer contribute to the understanding of the reasons for initiating CSR. Carroll (1991) marked out four kinds of responsibility: economic, legal, ethical, philanthropic. Economic and legal responsibilities are essential conditions for corporate existence. Profit and efficiency mean that the company has the resources for business development. Ethical and philanthropic responsibilities are a part of corporate voluntary initiatives to meet society’s expectations and increase the quality of life in the community (Carroll, 1991). Later, Zadek (2004), Porter and Kramer (2006) defined the types of CSR. Zadek (2004) identified five stages of CSR based on how a company addresses social issues. The corporation may choose between a defensive strategy to refuse social obligation and a civil stage to respond to social issues. The other three stages of CSR constitute the evolution from defensive strategy to civil stage (Zadek, 2004).

Porter and Kramer (2006) considered the motives of publishing sustainability reports and found a link between social issues and the content of sustainability reports. The analysis of the 250 reports of multinational corporations in 2005 shows the main reason for publishing sustainability

reports was to repeat other companies' practice. Moreover, the data in the reports was not well structured. The corporations told about their social policy in general but did not provide enough proof. Porter and Kramer (2006) noticed that "What these reports leave out is often as telling us what they include" (Porter and Kramer, 2006, p. 3). The main four motives for CSR are moral obligation, sustainability, licence to operate and reputation. The reasons 'moral obligation' and 'sustainability' are similar to the civil stage of Zadek's classification. In this case, the corporation uses 'responsive CSR' (Porter and Kramer, 2006, p. 3). The corporation behaves as a good citizen: involved in creating welfare, implementing ecological harm reduction programmes, and supporting education and science. The essentials for conducting social and environmental programmes are resources and financial facilities. 'Responsive CSR' focuses on the response to social issues. 'Strategic CSR' is driven by a 'licence to operate' and 'reputation' reasons. Porter and Kramer (2006) developed a notion about the main principle of 'strategic CSR': "It is about choosing a unique position – doing things differently from competitors in the way that lowers cost or better serves a particular set of customer needs" (Porter and Kramer, 2006, p. 10). 'Strategic CSR' connects the company goals with social voluntary programmes because the impact and corporate benefits are clearly defined. However, 'strategic CSR' leads to increasing innovation in the company (Bocquet et al., 2013).

Jha and Cox (2015) considered that CSR has an 'altruistic inclusion', and they studied non-monetary drivers of CSR. The findings support the assumption that the "firm headquartered in a high social capital country has greater CSR" (Jha and Cox, 2015, p. 267). The drivers of CSR are altruism, social capital and democratic political values (Jha and Cox, 2015).

The study continues the discussion of the reasons for CSR, based on investigation of corporate CSR behaviour. Most studies identified two drivers of CSR. The first is as a strategic or marketing tool and the other is social welfare creation. However, most of these studies are theoretical assumptions and do not provide valuable evidence about how companies have treated CSR in the last 20 years. Further, the analysis of the reports of oil & gas companies and social media cover this issue.

## **Case description**

### *DONG E&P Norge AS*

DONG E&P Norge AS has operated as a subsidiary of DONG Energy AS in Norway since 2001. The mother company, DONG Energy AS, is located in Denmark. The company, DONG E & P Norge AS, was set up as a result of the merger with the Norwegian company, Pelican. The head office is located in Stavanger. In 2012 the company opened an office in Tromsø, Norway. On 1<sup>st</sup> July 2014, the number of employees was 110. The company has a share in the Alve and Marulk fields (in the Norwegian Sea). The company tells about its interest in the development of oil and gas resources in the High North of Norway with the main focus on the following areas: safe development of resources and minimization of the risk of emergency situations in the workplace, in particular oil

spills and leaks of hazardous substances. The company adopted standards IASB, ISO 9001, ISO14001, and GRI.

#### *Eni Norge AS*

“Eni Norge AS is a Norwegian subsidiary of the Italian integrated energy group Eni S.p.A.” (Eni S.p.A, official web page, 2015). The company was set up in 1965 as a result of merger Norsk Agip with Fortum in 2002 and was renamed Eni Norge AS in 2003. In 2008 the company opened an office in Hammerfest, employing 60 people.

The company has a share in production of the Norne, Skuld and Urd fields and is an operator in the Murulk and Goliat fields. Eni Norge AS has positioned itself as a socially responsible company and a contributor to the development of the High North of Norway.

#### *Statoil ASA*

Statoil (Den norske stats oljeselskap AS) has operated in Norway since 1972. In 2001, Statoil ASA became a public limited company, whose largest shareholder is the Norwegian government. The head office is located in Stavanger. Statoil states that it focuses on safety and sustainable development. The company adopted standards IASB, ISO 9001, ISO14001, GRI and others. Statoil has a share in production in the Goliat, Murulk and Skarv fields and is an operator in the Alve, Norne, Skuld, Snøvit and Urd fields.

Statoil ASA has a policy of corporate social responsibility and gives priority to work with CSR partners and suppliers.

### **Methodology**

#### *Research methods*

The research is qualitative and based on a multiple case study. This method is used to describe the CSR across and within cases. The multiple case method helps to understand the corporate behaviour within different companies and to compare them with one another. The observations of all three companies help to build the valid pattern of drivers for CSR. Statoil, Eni Norge AS and DONG E&P AS claim that they have an interest in developing the High North of Norway by conducting CSR actions. However, the actual reasons are not clear. They may have financial interests or an interest in the sustainable development of regions.

#### *Data collection*

The study is based on an analysis of secondary data. There are no differences in source of data (interview or secondary data) because only the fact of conducting CSR-activity was investigated. The data was collected from annual and sustainability reports (Appendix I), the official corporate publications and articles in Norwegian periodicals (Appendix II) about DONG E&P Norge AS, Eni Norge AS and Statoil ASA. The annual and sustainability reports are freely accessed on corporation webpages. However, the corporations could hide some social activities. To make clear the pattern of social and corporate activity, local periodicals were used. The database ATEKST provides electronic versions of the majority of local periodicals. The keywords were the

names of the organizations. Articles in Norwegian periodicals have passed an editorial review that prevents the publication of false information. Also, the accuracy of the information was verified by checking the official websites of the events in which the company has participated and those of other involved organizations, as well as interviews with participants in some events.

The result of data-searching depends on the definition of the term 'CSR' used and the features of CSR. Buchholz (2002) spotted the characteristics of CSR:

Its purpose is not only to generate profit;

It is targeted to solve social problems, including those posed by this company;

The shareholders are not only stakeholders;

The corporate impact is wider than market deals;

The corporation should take into account not just economic targets but also human values.

In this research CSR means an activity of law-abiding companies in any territorial entity, aimed to reduce environmental damage, to provide social benefits for citizens, which lead to improving the quality of life and the development of this territorial entity (Yakusheva, 2015). It is critical to note that complying with the law is not a corporate social initiative because enterprises have to adhere to the law and regulations.

Rondinelli and Berry (2000) analysed 35 companies and developed a list of corporate activities, which could contribute to the sustainable development of the region and could be considered as CSR actions. The activities are divided into five groups: "(1) enhanced regulatory compliance to reduce the corporations' negative environmental impacts of hazardous emissions in communities in which they are located; (2) adoption of pollution prevention and clean manufacturing practices that prevent pollution before it occurs; (3) redesign of products and processes to achieve more beneficial environmental impacts for customers and communities; (4) materials reduction, recycling and re-use; and (5) resource conservation" (Rondinelli and Berry, 2000, p. 78). However, these activities only cover the ecological footprint and omit the community activities.

Data about the following activities were collected:

- oil spills, as well as transport accidents, fire, injuries or deaths, defective production, etc.;
- conducting or investing in social events for the community (not for the corporation) such as skiing competitions, celebrating Christmas, etc.;
- investing in and constructing new technology (in conjunction with universities or when the new technology is available to others);
- investing in or constructing social infrastructure;
- installation of equipment that consumes less energy and leads to a reduction in emissions to the environment;
- participation of employees in social and environmental initiatives.



The search period is from 1993 to 2013. The large time frame allows us to consider CSR-activity during the whole period of oil & gas production in the High North of Norway.

#### *Data analysis*

In sum, 89 reports and 114 805 articles and notes were analysed (Appendix I). Most (nearly 80%) of articles and notes in periodicals were short and covered debates about policy or company plans. These articles and notes were not relevant to the research. The aim was to find actual CSR-events. If the company focuses on creating sustainable development, the CSR-events will be conducted regularly. The corporations' benefits from such activity would be hard to evaluate, but the sphere of CSR-activity will be the 'community'. If the corporation wants to gain self-benefit, the CSR-activity will be poorly presented or focus on customers/employees. The research results are summarized in a comparative table. All CSR-events were classified into six types: sponsoring cultural and sport events (festivals, marathons, competitions), building (or sponsoring) social infrastructure, contribution to education and science (investing in science research or the creation of new technology), environment (leading to mitigating harm), financial support of people and improving the working environment for employees. The number of each type of CSR-event was calculated and the time frame of conducted CSR was defined. Porter and Kramer's (2006) classification of CSR was applied to describe corporate CSR behaviour and to answer the research question.

#### **Empirical analysis**

The results of the research (Table 1) show that Statoil ASA is actively involved in the creation of a favourable social environment in the High North of Norway. The company conducts a vast variety of CSR-activities with a focus on different stakeholders. Statoil ASA demands that suppliers are corporately socially responsible. The corporation spreads the practice of CSR within the industry. Statoil reviews the CSR policy of potential suppliers and customers. It is one of the criteria for selecting a new supplier. Also, the time frame of Statoil's CSR-activity covers longer periods than the time frames of the other two companies. DONG E&P Norge AS conducted only one CSR-activity. The company has not participated actively in the social life of the High North of Norway. Eni Norge AS takes its place between DONG E&P Norge AS and Statoil ASA.

The target group of stakeholders, for all companies, is the community, but Statoil ASA has an aim to develop local business. It states its corporate interest in economic growth. The large number of philanthropic Statoil CSR-events shows that the corporation aims to create favourable living conditions for locals.

Table 1 Comparison of found CSR-activity.

Criteria		Companies		
		DONG E&P Norge AS	Eni Norge AS	Statoil ASA
Type of CSR-activity	Sponsoring cultural and sport events	1	11	24

	Building social infrastructure		1	5
	Contribution to education and science		7	48
	Environment		8	33
	Financial support of people		2	2
	Improving working environment for employees			18
Target group of stakeholders	community, employees	partners, community, employees		community, employees, local suppliers, partners, governments
Time frame when company conducts CSR	not defined	2005-2013		1996-2013

Applying Porter and Kramer's classification, Statoil ASA has become a good citizen and followed the strategy of responsive CSR. Porter and Kramer noted that such initiatives "create goodwill and improve relations with local governments and other important constituters" (Porter and Kramer, 2006, p. 7). But then the corporation conducts more than a few social programmes leading to increasing welfare. DONG E&P Norge AS chooses strategic CSR, which strengthens the company's competitiveness. This allows it to gain access to local resources and reduce social pressure.

All three companies provide a lot of information about their interests in the Arctic, in particular in the High North of Norway. However, in their reports, the corporations do not provide enough evidence of their contribution to the development of the Arctic region. Nevertheless, there is much evidence in the press that Eni Norge AS and Statoil ASA conduct social programmes. Thus, in this case, corporations do not state this on their official web pages, but they do conduct social actions. Is it new corporate behaviour regarding CSR? With "shy" CSR, corporations are not seeking to gain self-benefits, and the main focus is on solving social issues.

It is hard to calculate the future profit from all CSR-activities. Corporations which take a long-term perspective on activity in the region initiate more social projects. Eni Norge AS and Statoil ASA confirm the idea that corporations use CSR because they are interested in the further development of the region. This means that they perceive CSR as a welfare generator and want to create a favourable environment for further operation in the region.

## **Discussion and limitations**

The research supports the notion that there are few drivers for CSR. Corporations are motivated by their own benefits. The strategy of DONG E&P Norge AS was to obtain access to the market and a licence to operate. The number of CSR initiatives was scanty. This shows a lack of corporate interest in the further development of the region, and the assumption that companies use strategic CSR is confirmed. Attention is taken by the CSR-activity of Eni Norge AS and Statoil ASA. The number of social and environmental initiatives shows their interest in developing the region and generating social welfare. The existence of 'responsive CSR' (Porter and Kramer, 2006) and ethical and philanthropic responsibilities (Carroll, 1991) are proved by the empirical evidence. The corporations respond to current social issues in the region and improve the quality of life. This guarantees that corporations will have enough employees and customers in the future. The corporation provides the opportunity to operate in the region in the future. Thus, the reason for 'responsive CSR' is the sustainable development of the region.

The new corporate behaviour is marked out: the phenomenon of corporations performing CSR-activities but not broadcasting them is occurring. Meznar et al. (1992) suggested that the corporation may adopt an "accommodative/broad enterprise strategy" to "perceiving themselves as answerable to society at large for the way their operations are conducted" (Meznar et al., 1992, p. 61). Such behaviour is called 'shy CSR'. The corporation has conducted a lot of social programmes but does not mention these on the web page or in reports. 'Shy CSR' is similar to 'responsive CSR', but the difference is that the corporation is not responding to social pressure.

There are two limitations of the research. The first is that the data represent the author's interpretation of corporate attention on CSR. The investigation of other companies would make the research more valid and reliable. The second is that not all CSR-activities were found. The number of found facts on CSR depends on the criteria applied to the search. There is a risk that a few social actions are not presented in the social media and web pages.

## **Conclusion**

The study investigates the corporate perception of CSR. The empirical evidence shows that corporations may engage in CSR for altruistic reasons. Corporations have three perceptions of CSR: 'strategic CSR' is used when the corporation focuses on self-interests. For example, the corporation has to conduct CSR to survive and operate in the region. 'Responsive CSR' is applied when corporations are interested in the sustainable development of the region. Corporate citizenship leads to improving the quality of life in the community. Most social initiatives are voluntary and philanthropic, but this is only the case when the company aims to operate in the long run. The final corporate behaviour is 'shy CSR'. The existence of 'responsive CSR' and 'shy CSR' confirms the assumption that CSR leads to generating a favourable living environment.

There are two directions for further studies. The first is to research the phenomenon of 'shy CSR' and the second is to analyse other oil and gas companies in the High North of Norway to make the research more valid and reliable.

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## Appendix I

Table 1 Reports publishing data about companies.

Name of company	Sustainability reports			Annual reports or annual report on form 20-F 2001		
	Period	Number	Link	Period	Number	Link
DONG E&P Norge AS	2005-2013	9	<a href="http://www.dongenergy.com/en/sustainability/behind-our-work/reporting">http://www.dongenergy.com/en/sustainability/behind-our-work/reporting</a>	2002-2013	12	<a href="http://www.dongenergy.com/en/investors/financial-reports/annual-reports">http://www.dongenergy.com/en/investors/financial-reports/annual-reports</a>
Eni Norge AS	2006-2010	7	<a href="http://www.eni.com/en_IT/sustainability/reporting-system/report-archive/reports-archive.shtml">http://www.eni.com/en_IT/sustainability/reporting-system/report-archive/reports-archive.shtml</a>	2001-2013	13	<a href="http://www.eni.com/en_IT/documentation/documentation.page?type=bilrap&amp;home_2010_en_tab=header_tools">http://www.eni.com/en_IT/documentation/documentation.page?type=bilrap&amp;home_2010_en_tab=header_tools</a>
	2001-2013	13	<a href="http://www.eni.com/en_IT/documentation/documentation.page?type=bilrap&amp;home_2010_en_tab=header_tools">http://www.eni.com/en_IT/documentation/documentation.page?type=bilrap&amp;home_2010_en_tab=header_tools</a>	2010-2013	4	<a href="http://www.eni.com/en_IT/sustainability/reporting-system/report-archive/reports-archive.shtml">http://www.eni.com/en_IT/sustainability/reporting-system/report-archive/reports-archive.shtml</a>
Statoil ASA	2001-2013	13	<a href="http://www.statoil.com/en/EnvironmentSociety/Sustainability/Pages/SustainabilityReporting.aspx">http://www.statoil.com/en/EnvironmentSociety/Sustainability/Pages/SustainabilityReporting.aspx</a>	1996-2013	18	<a href="http://www.statoil.com/en/InvestorCentre/AnnualReport/Pages/default.aspx">http://www.statoil.com/en/InvestorCentre/AnnualReport/Pages/default.aspx</a>



## Appendix II

Table 1 Periodicals publishing data about companies.

Name used for searching	Number of articles	Name of periodicals
DONG E&P Norge AS	32	<i>Dagens Næringsliv, Stavanger Aftenblad, Nordlys4, NTBtekst, Altaposten, Finnmark Dagblad, Finnmarken, Helgeland Arbeiderblad, Romsdals Budstikke, Strilen, Troms Folkeblad, iTromsø</i>
Eni Norge AS	2 277	<i>Stavanger Aftenblad, Nordlys, Dagens Næringsliv, Finnmark Dagblad, Altaposten, NTBtekst, Aftenposten, Harstad Tidende, Adresseavisen, Økonomisk Rapport, Teknisk Ukeblad, Rogalands Avis, Brønnøysunds Avis, Klassekampen, Bergens Tidende, Finnmarken, Finnmarksposten, Nationen, Agderposten, iTromsø, Dagsavisen, Fremover, Troms Folkeblad, VG, Tidens Krav, Trønder-Avisa, Automatisering, Budstikka, Hammerfestingen, Helgeland Arbeiderblad</i>
Statoil ASA	112 576	<i>Dagens Næringsliv, Aftenposten, NTBtekst, Stavanger Aftenblad, Bergens Tidende, Adresseavisen, Nordlys, Dagbladet, VG, Klassekampen, Dagsavisen, Teknisk Ukeblad, Harstad Tidende, Fædrelandsvennen, Telemarksavisa, Rogalands Avis, Økonomisk Rapport, Agderposten, Trønder-Avisa, Nationen, Sunnmørsposten, Ukeavisen Ledelse,</i>  <i>Romerikes Blad, Romsdals Budstikke, Bergensavisen, Budstikka, Finnmark Dagblad, Tidens Krav, VestNytt, Brønnøysunds Avis</i>

### Appendix III

#### *DONG E&P Norge AS*

DONG E & P Norge AS is the main sponsor of the sporting event “Midnight Sun Marathon” in Tromsø.

#### *Eni Norge AS.*

Data about the social activity of Eni Norge AS in chronological order (Table 1).

Table 1 Social policy of Eni Norge AS in the High North of Norway.

Norland		
In 2003 invested in construction of the park “Trollfjell Geopark” (Meisdal, 2003).	In 2012 invested 1 mln. NOK for aqua park and cultural centre in Sandnessjøen (Helgeland Arbeiderblad, 2012).	In 2013 Eni Norge, together with Statoil, Shell, DNV and Norwegian Hull Club, invested 10 mln. NOK in project SARiNOR (Search And Rescue in the High North) (Avisa Nordland, 2013).
Troms		
In 2006 financed HiTø for 5 mln. NOK to master program in oil industry (Bladet Tromsø, 2006).	In 2008 sponsored jazz festival “Barentsjazz” in Tromsø (Eni Norge AS, 2014).	In March 2008 - sponsored the musician 100 000 NOK to record music on a CD-ROM (Matland, 2013).
From 2008 to present time sponsoring music festival “Insomnia” in Tromsø (Insomnia Festival, 2014).		
Finmark		
From 2005 to present time sponsoring film festival “The Nordkapp Film Festival” (Nordkapp Film Festival, 2014).	From 2007 to present time one of the sponsors of the fund “Barentshavkonferanser”, which is financing the “Barents Sea Conference” and “Industry Political Conference”, and exhibition “Barents Sea Exhibition” (Barents Sea Conference, 2014).	From 2008 to present time sponsoring festival “Varangerfestivalen” (Varangerfestivalen, 2014).
From 2008 to present time sponsoring international festival	In 2008 financed 750 000 NOK for the restoration of the monument	In 2008 invested 1.8 mln. NOK in the construction of the educational and training centre “Nordkapp

“The Sørøya Deep Sea Fishing Festival” (Eni Norge AS, 2014).	“Meridianstøtten” in Hammerfest (Nielsen, 2008).	Maritime Simulator Training Centre” (Dallawara, 2008).
Since 2008 collaborating with “EnergiCampus Nord” to train employees for oil and gas industry (EnergiCampus Nord, 2014).	Since 2009 financing the Reindeer Racing World Cup (The Reindeer Racing World Cup, 2014).	In 2010 was a main sponsor of “Ingøyfestivalen” (Ingøyfestivalen, 2014).
In 2010-2011, together with Norut Alta in Finmark, conducted research about spin-off effects from Goliat (Eni Norge AS, 2014).	In 2012 had a contract of 4 mln. NOK with Norwegian painters to create the pictures for the office in Hammerfest (Eni Norge AS, 2014).	In 2013 cleaned the windows of local houses which were dirty because of company training. Eni Norge hired the cleaning company to clean 80-100 houses (Nordlys, 2013).
In 2013, together with Hammerfest Kulturskole og Arktisk Kultursenter, organized an Italian week in Hammerfest (Greiner, 2013).	In 2013 provided the apartments for employees in Hammerfest (Jørstad, 2013b).	In 2013 bought 25 violins for fourth-grade students at a school in Reindalen in Hammerfest (Herstrøm, 2013).
In 2013 sponsored the competition for the Best Gingerbread House “Pepperkakebyen” in Hammerfest (Finnmark Dagblad, 2013b).		

In addition to social programmes, the company is involved in environmental activities. Environmental events could not be geographically divided, as the ecosystem of the region is closely linked with the ecosystems surrounding the region. Environmental corporate activities aim to reduce the harmful effects on the region, where there is extraction of minerals, as well as in the surrounding regions. Eni Norge AS conducted the following environmental activities:

- In 2005 the company became a member of a project, processing CO<sub>2</sub> to decrease emissions (Bøe, 2005);
- In December 2007 the research project "Biodiversity Arctic Seas" began. The aim is to collect data about the ecosystem of the Barents Sea near the Goliat field. Akvaplan-niva signed a contract costing 13.8 million NOK in 2008. The company will collect data about the marine ecosystem during and after the Goliat production; : The collected information will allow decisions to be made and the scientific community to enrich the knowledge of the biological world in the Arctic (Arctic Seas Biodiversity, 2014; Bladet Tromsø, 2006);

- In 2008 and 2012 the company participated in oil-spills trainings with local fishermen (Oljevern.no, 2014; Beate, 2012);
- Within the “Clean Sea” project, Eni Norge AS, together with Saab Seaeye Tecnomare, tested an underwater robot (AUV) near Hammerfest. The robot’s task is to collect samples of water and other substances for pollution control and environmental monitoring of the marine environment (Lara, 2013; Jørstad, 2013a);
- A rope, constructed from a mixture of steel and polyester rope and covered by dyneema, has been developed to work in harsh environments (Hammerfestingen, 2013).

In 2012, Eni Norge created a web page with information about oil spills in the Goliat oil field. The total number of people involved in the emergency response group is about 1000. However, the company is going to use a gas turbine, which will lead to an increase in CO<sub>2</sub> emissions. In general, according to experts, the company spent about 80-100 million NOK to reduce the risk of accidents in the Goliat oil field and to prepare for oil spills. The company also complies with the ISO 14001 standard, EITI-prinsippene. The company also signed contracts with six colleges in Kirkenes and Hammerfest and equipped classrooms with the appropriate equipment for distance learning in Hasvik and Måløy.

#### *Statoil ASA*

Data about the social activity of Statoil ASA in chronological order (Table 2).

Table 2 Social policy of Statoil ASA in the High North of Norway.

Norland	Troms	Finmark
On 2012-2013 Statoil conducted research into the ecosystem in Lofoten/Vesterålen	From 2008 to present time sponsoring music festival “Insomnia” in Tromsø (Insomnia Festival, 2014).	From 2005 to present time sponsoring film festival “The Nordkapp Film Festival”.
	In cooperation with SERPENT, conducted research programme into marine environment in Nordland VII zone (Statoil ASA, annual report, 2010).	“Norut NIBR Finnmark and the Finnmark University College are carrying out a follow-up study on the development of the Snøhvit project” (Statoil ASA Sustainable report, 2005, p. 37).
In 2013 Eni Norge, together with Statoil, Shell, DNV and Norwegian Hull Club, invested 10 mln. NOK in project SARiNOR (Search And Rescue in the High North).		From 2007 to present time one of the sponsors of the fund “Barentshavkonferanser”, which is financing the “Barents Sea Conference”, the “Industry Political Conference”, and the exhibition “Barents Sea Exhibition”.

		From 2008 to present time sponsoring festival "Varangerfestivalen".
		From 2008 collaborating with "EnergiCampus Nord" to train employees for oil and gas industry.
		"Carried out an extensive oil spill protection exercise on Sørøya in West Finnmark in northern Norway, together with Eni and Lundin, NOFO (Norsk oljevernforening for operatørselskap) and a local task force" (Statoil ASA, official web page).

The company is involved in many research projects. Now Statoil is participating in the Arctic Response Technology Joint Industry Programme, whose focus is to "build on existing research and improve the technologies and methodologies applying to Arctic oil spill response" (Statoil ASA Sustainability report 2013, p. 7). Another example of ecosystem research is Goliat. Together with Eni Norge, Statoil has established: centres with equipment to collect oil spills; vessels; and an agreement with a fishing company to use their facilities in the case of an oil spill. Additionally, the company conducted a few oil-spill simulation trainings where Statoil's employees took part, together with fishermen. Statoil has a wide oil spill prevention strategy, which includes risk assessment, centres with equipment to collect spilled oil and employee training. "We annually spend in excess of NOK 200 million, or more than NOK 12 000 per employee, on HSE training with the aim of building awareness and expertise. Training is a question both of mindset and skillset" (Statoil ASA Sustainability report 2001, p. 32).

The corporation conducts environmentally-friendly programmes in places where it operates: "Bacteria were used to increase oil recovery from our Norne field in the Norwegian Sea...allowed us to upgrade reserves in Norne without increased use of chemicals" (Statoil ASA Sustainability report, 2002, p. 27).

The following programmes have been conducted:

- Providing employees with home PCs to develop skills. The number of participants in Norway is 10 300 (Statoil ASA Annual report and accounts, 1999, p. 17);
- Developing safety technology. Hipps is an integrity pressure protection system (Statoil ASA Annual report and accounts, 1999, p. 19);
- Conducting training in HSE for 9 000 people (Statoil ASA Annual report and accounts, 1999, p. 42);

- Since 1999, has conducted an annual award: the chief executive's HSE prize for employees, suppliers or those related to company groups;
- To increase safety, bought new crane equipment to train crane drivers and deck crew (Statoil ASA Annual report and accounts, 2000, p. 35);
- Since 1985 has trained employees in programmes for future leaders. Has its own Statoil School of Business (Statoil ASA Annual report and accounts, 2000, p. 37);
- Analyses the behaviour of its suppliers (Statoil ASA Annual report and accounts, 2000, p. 39);
- Participation in the following: Energy Biodiversity Initiative (EBI), Conservation International, the Nature Conservancy, the Smithsonian Institution, the World Conservation Union, Fauna and Flora International, Conservation of Clean Air and Water in Europe (Statoil ASA Annual report and accounts report, 2002, p. 44) (Statoil ASA Sustainable report, 2003, p. 23), (Statoil ASA Sustainable report, 2004, p. 39), (Statoil ASA Sustainable report, 2005, pp. 46-49);
- Using technology in Snøhvit, which leads to emission reduction (Statoil ASA Sustainable report, 2002, p. 32);
- "Through its USD 10 million investment in the World Bank's prototype carbon fund (PCF), it is involved in roughly 30 projects which will yield substantial emission reductions." (Statoil ASA Annual report and accounts report, 2003, p. 42);
- Using a special line for emergency calls and helicopter service to quickly respond to an emergency on the platform (Statoil ASA Sustainable report, 2005, p. 22);
- "EPCON cleaning technology has been installed on Heidrun, Snorre A and Norne" (Statoil ASA Sustainable report, 2005, p. 50);
- Investing in renewable energy, in particular in the Kval Sound, Hammerfest (Statoil ASA Sustainable report, 2006, p. 33);
- In 2006 conducted a study in the Norwegian Sea and Barents Sea about fish, crabs and other animals. "This work has shown that drilling causes only limited disturbance to the seabed soil close to the wellhead" (Statoil ASA Sustainable report, 2006, p. 41);
- With its partner, the Norwegian Institute for Nature Research, conducted research into seabirds (Statoil ASA Sustainable report, 2006, p. 42);
- Designed a new 4D seabed seismic monitoring system and used through tubing rotary drilling (TTRD), which reduces cost and harm (Statoil ASA Annual report on Form 20-F 2009, p. 26);
- Since 2008 "We have a general arrangement with DnB NOR whereby DnB NOR makes available to each of our employees personal consumer loans of up to NOK 300,000. The employees pay the 'norm interest rate', which is variable and set by the Norwegian State, and we pay the difference between the norm interest rate and the then-current market interest rate" (Statoil ASA Annual report on Form 20-F 2008, p. 103);
- Sponsored ARCTOS Arctic Research Programme (SAARP) to study marine ecology (Statoil ASA Annual report, 2011);

- “Statoil supports the establishment of Newton energy rooms, where the pupils learn through practical assignments and exercises. The focus is energetic lessons about wind, water, electricity, power, coal and oil. The room has more equipment than the schools are normally able to acquire themselves, and it is staffed by teachers with expertise in science subjects...In 2011, approximately NOK 28 million was channelled through these programmes.” (Statoil ASA official web page, 2015) ;
- “In the university sector, we support study places in PhD programmes and we also fully fund SVALEX – an annual research expedition to Svalbard for select PhD students. The goal is to inspire young people to learn and discover that mathematics, science and technology provide the basis for solving many of the most exciting and important challenges we face, both in Statoil and as a global community.” (Statoil ASA Sustainable report, 2012, p. 25) ;
- “Statoil supports industry incubators in northern Norway, financially and through involvement in local activities. The goal is to help create the foundation for local business, recruitment and development. One example is the LUNN programme, established by Statoil and Innovation Norway to develop the local supplier industry in northern Norway to be able to deliver to the oil and gas industry. More than 40 local companies participate in the programme, which entails HSE inspections, mentoring and classroom courses.” (Statoil ASA Sustainable report, 2013, p. 24) ;
- “Statoil maintained long-term collaboration agreements with nine academic institutions in Norway as well as with strategically important universities internationally...In Norway, Statoil sponsors the FIRST LEGO League, Teach First Norway and many of Norway's science centres as part of the Heroes of Tomorrow programme and STEM (science, technology, engineering, mathematics) strategy. We sponsor a new Newton room at the Norwegian Oil Museum in Stavanger and through the agreement with Nordland County several new Statoil ENGIA Newton rooms opened in Nordland in 2013. We provide support to universities, including study places in PhD programmes.” (Statoil ASA Sustainable report, 2013, p. 25) ;
- Sponsoring Barents 2020 project to conduct research into the Barents Sea (DNV GL, 2016).

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## PROGRAMME BUDGETING ADOPTION IN RUSSIA: INSTITUTIONAL LOGICS AND INSTITUTIONAL WORK REFLECTIONS

### **Abstract**

The essay is developed as a part of the PhD course “Governance in the High North: implications for Arctic private and public sector”. While the essay does not cover the High North, it raises some issues of public sector governance, with institutional theory reflections, in the context of Russia. More precisely, the study focuses on public sector budgeting as a fundamental tool of governance (Anessi-Pessina et al., 2016).

The essay represents the conceptual paper as part of a work in progress devoted to the adoption of programme budgeting in Russia. More precisely, the introduction and theoretical considerations for the paper’s development are presented. The essay starts by identifying the broad problem of marginalization and under-theorization of public sector budgeting in the accounting literature. Hereafter, we propose how to fill this gap using the theoretical lenses of institutional logics (Thornton, Ocasio, & Lounsbury, 2012) and institutional work (Lawrence, Suddaby, & Leca, 2011). In the last section, we offer some methodological reflections regarding the employment of these theoretical lenses to study the Russian case of public sector budgeting reform, particularly the adoption of programme budgeting.

**Key words:** public sector budgeting; Russia; NPM; reform; institutional logics; institutional work; municipality



## Introduction

This paper focuses on budgeting practice during the reform process, principally the adoption of programme budgeting in the Russian public sector.

The past three decades have shown a growing trend among countries to have stronger performance orientation in public financial management (Budding & Grossi, 2015). This can generally be linked with such trends as New Public Management (NPM) and New Public Financial Management (NPFM) in the public sector reform agenda (Hood, 1991, 1995; Olson, Guthrie, & Humphrey, 1998; Olson, Humphrey, & Guthrie, 2001). Extensive contributions to these discussions, in the sense of public sector accounting, have been made (see Caperchione & Lapsley, 2011; Jones & Lüder, 2003; Jorge, 2008; Lande & Scheid, 2006). Focusing on accounting, scholars have studied variations of NPM reforms' implementation in different countries' settings (Christiaens & Van Peteghem, 2007; Pollitt, 2001; Pollitt & Bouckaert, 2011), where different results have been achieved.

However, it seems that budgeting, as separate from accounting and standalone topic, has so far played a rather marginal role in the public management and accounting research, at least in Europe (Anessi-Pessina, Barbera, Sicilia, & Steccolini, 2016). In line with accounting, public sector budgeting as an essential tool of governance has been witnessed as reforming in terms of techniques used and functions of budgeting. Being affected by the NPM agenda, the introduction of performance budgeting (PB) is among the most prominent reforms on the public sector agenda (Budding & Grossi, 2015). Nevertheless, few studies have approached public budgeting theoretically, rather describing its changes in a normative and technical way (for example see Budding & Grossi, 2015; Diamond, 2003; Likierman, 2003; OECD, 2007, 2008; OECD, 2013). Those few usually saw budgeting as a component of a wider public sector reform agenda, focusing on changes affecting the budgeting process rather than on the internal organizational dynamics of change related to budgeting (Anessi-Pessina, et al., 2016). Internal organizational dynamics can be characterized as the practice of budgeting where different actors (politicians, public managers, accountants, economists) are involved in the production and use of budgeting information.

Therefore, to date, empirical research about the relationship between reform and internal organizational budgeting dynamics is limited. This is the general motivation for our paper's interest in studying budgeting practices during the reform process. More precisely, our aim is to explore: *how is reforming of the public budgeting technique affected by (and, in turn, affects) its internal organizational dynamics?* This paper focuses on budgeting practice during the reform process, mainly the adoption of programme budgeting in the Russian public sector.

The point of our departure is that the reform of public budgeting can be seen as the institutionalization process of the new technique (Greenwood, Oliver, Suddaby, & Sahlin-Andersson, 2008). In this regard, we employ recent developments in new-institutional theory, mainly the concepts of institutional logics (Thornton, et al., 2012) and institutional work (Lawrence, et al., 2011). From these two perspectives, public sector budgeting is not just a technique but a 'space' that can shape actors' cognition and their actions, as well as being a

mediator between different actors, knowledge bases and discourses (Gerdin, Messner, & Mouritsen, 2014). In this sense, public budgeting is affected by (and, in turn, affects) actors and becomes a medium among divergent visions, logics, values, and rationales. It offers a common language and field where interactions and intersections are at play, showing the multifacetedness of budgeting, which is usually uncovered (Anessi-Pessina, et al., 2016).

Our empirical analysis will be based on the Russian case of the reform of public sector budgeting. More precisely, we study one municipality case of programme budgeting<sup>3</sup> (PB) adoption and use during 2014-2016, drawing on documentary analysis, 17 semi-structured interviews, and short-term observations.

While empirical studies regarding budgeting in Russia remain limited<sup>4</sup>, accounting studies show that Russian complexity and context matter. Starting from 2004, Russia has joined the 'crusade' of the NPM-like reformations, introducing and implementing accrual accounting and later programme budgeting. Focusing on public sector accounting, prior empirical studies in the context of Russia have revealed (see Antipova & Bourmistrov, 2013; Timoshenko, 2008; Timoshenko & Adhikari, 2009) that Western experience influenced the thinking of Russian central decision-makers. However, reform itself was exercised in a rigid top-down manner to obtain international legitimacy for Russia as a modern state. In practice, this reformation of accounting systems led to decoupling and contradictions with the Russian accounting tradition, presenting more rhetoric than real changes. Therefore, as a rigid and complex country, Russia represents a provocative context for investigation from a research perspective. This may give the ability to better understand the ways in which NPM-ideas are 'localized' in different socio-economic, cultural and political contexts, as well as providing additional insights into the comparative research discussion, where context matters (van Helden & Uddin).

Therefore, our expected contribution is threefold. Firstly, we will add new knowledge about Russian PB practices in terms of future comparative research. Secondly, by studying budgeting practices during the reform process, we contribute to the recent calls to study the internal organizational dynamics of change related to budgeting (Anessi-Pessina, et al., 2016). Thirdly, by employing institutional logics and work lenses for the theorization of budgeting reform, we will contribute to the recent calls to turn more attention to the micro-dynamics behind macro-level processes (Thornton, et al., 2012), as well as look empirically at how these two institutional streams can "be agreed" (Zilber, 2013).

The remainder of this essay is structured as follows. First, the theoretical frame of reference is presented. Secondly, the qualitative method and research setting are described.

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<sup>3</sup> At the current time, 'program budgeting' (as it is officially called in the legislature documents) has become obligatory for all government levels in Russia (federal, regional and local/municipal). However, there is some confusion in terms of what the new budgeting technique represents in Russia and how to name it. The IMF (2014) defined strong performance orientation in Russian budgeting, but called it programme-based budgeting. According to Diamond (2003), the borders between budgeting techniques are quite blurred. A recent study by Khodachek & Timoshenko (2015) revealed that Russian public sector budgeting legislation represents a sort of 'hybrid' model where ideologies of NPM, Public Governance and Traditional Public Administration co-exist.

<sup>4</sup> Budgeting practices were partly studied (see Timoshenko, 2008), but these studies are based on data before 2006.

## Theoretical frame of reference

During the last decade, new-institutional theory (Dimaggio & Powell, 1983; Meyer & Rowan, 1977) has become one of the leading theoretical lenses for explaining public sector accounting change in the accounting literature (see for example Adhikari & Mellemvik, 2011; Carpenter & Feroz, 2001; Goddard, 2010; Jacobs, 2012). However, as was previously mentioned, limited attention was paid to public sector budgeting studies and theorizing on budgeting change (Anessi-Pessina, et al., 2016).

Different theories may be used to examine the adoption of programme budgeting in the public sector, such as new-institutional theory, diffusion theory (Rogers, 2010), actor-network theory (Latour, 2005) or governmentality (Foucault, Burchell, Gordon, & Miller, 1991). We stem from an interpretive approach that budgeting belongs to organizational and social reality, affected by (and, in turn, affecting) institutional variables. In this sense, it contributes to rationalization and legitimization processes in public administrations (Hopwood, 1987). Therefore, ideas of new-institutional theory (Dimaggio & Powell, 1983; Meyer & Rowan, 1977) can be applied as a proper perspective to analyse the adoption of new public sector budgeting techniques such as PB, emphasizing the institutional nature of budgeting and its dynamics.

Based on Anessi-Pessina et al.'s (2016) literature overview, few studies addressed public sector budgeting as a separate topic for theorization. It was seen predominantly as part of a wider reform package with institutional isomorphism nature (see for example Edwards, Ezzamel, & Robson, 2005; Pettersen, 1995) and its institutionalization (Ezzamel, Hyndman, Johnsen, Lapsley, & Pallot, 2007). Our point of departure is in some sense similar. Reforming public budgeting can be seen as the institutionalization process of the new technique, i. e. the institutionalization of PB (Greenwood, et al., 2008).

In this sense, the institutionalization of PB practices can be described in this way: "The social processes, obligations, or actualities come to take on a rule-like status in social thought and action" (Meyer & Rowan, 1977, p. 341), i.e. the formation of a PB institution. However, for the last decade, the discourses in institutional theory have been shifting towards a different understanding of the institutionalization and institutions themselves. The classic understanding of the institution as being 'monolithic' and framed with three pillars (Scott, 2014) has been increasingly replaced by two schools of thought for exploring institutional dynamics: principally, institutional logics and institutional work (Zilber, 2013). These two approaches are usually seen as each emphasizing different aspects of institutions and being in opposition with each other (see Appendix 1).

### *Institutional logics*

Institutional logics (IL) represent frames of reference that condition actors' choices for sense-making, the vocabulary they use to motivate action, and their sense of self and identity (Thornton, et al., 2012). Applied to budgeting, multiple logics can be reflected in and enabled by budgeting practices (Ezzamel, Robson, & Stapleton, 2012). For example, managerial logics can be imposed on new budgeting techniques (such as programme budgeting) and create tensions in the public sector organizations exposed to them (Greenwood, Raynard, Kodeih, Micelotta, &

Lounsbury, 2011). For example, managerial logics can compete with professional logics or rather be aligned with other logics (such as political and professional) in public sector organizations. It follows that public sector organizations operate in a context characterized by ambiguity when they face multiple logics, especially in a case when they are not aligned.

To date, most studies have focused on studying two competing logics (managerial vs. professional) in the organizational field, while less attention was paid to the organizational level itself with multiple logics inside (Greenwood, et al., 2011) and how these logics are worked out on the ground (Zilber, 2013).

In this respect, the relevant questions are: What kinds of logics are presented in new budgeting techniques, and what other logics are shown in the organization? How do these logics interact? How does this interaction influence PB implementation and the internal structure of the organization?

However, the IL framework does not cover the micro dynamics involved in (re-) constructing budgeting systems through their implication in everyday practices and how this is conditioned between multiple logics. This entails the use of institutional work to investigate how actual practices happen in institutionalized settings (Mouritsen, 2014).

#### *Institutional work*

Institutional work (IW) is concerned with the practical actions through which institutions are created, maintained, and disrupted (Lawrence, Suddaby, & Leca, 2009; Lawrence, et al., 2011). According to Lawrence et al. (2009, p. 1):

IW highlights the intentional actions taken in relation to institutions, some highly visible and dramatic, as often illustrated in research on institutional entrepreneurship, but much of it nearly invisible and often mundane, as in the day-to-day adjustments, adaptations, and compromises of actors attempting to maintain institutional arrangements.

For the public sector, IW can be understood more as a variety of day-to-day actions in public sector organizations, where professionals and other actors associated with the professions are concerned with the ambiguous conditions that they face routinely. They are doing their work without seeing the general picture of the institution they are a part of (i.e. being institutionally embedded). In our case, these conditions are a new budgeting system in the municipality, where involved actors interpret, translate, transpose, edit, make sense, modificate and recombine ideas in a specific organizational routine. When it comes to explaining change and institutionalization process, (Lawrence, et al., 2011, p. 57) proposed that:

...actors, at any given time, are subject to pressures from many different institutions and are often responding locally, creatively, incrementally, and more or less reflexively. An institutional work perspective attends more closely to practice and process than to outcome – asking “why” and “how” rather than “what” and “when”. Finally, the construct of institutional work defocalizes agency by shifting attention away from dramatic actions of the heroic entrepreneur to the small worlds of institutional resistance and maintenance in which institutionalisation and institutional change are enacted in the everyday getting by of individuals and groups.

In this regard, several aspects of IW may be emphasized (Zilber, 2013, p. 86): firstly, the role of institutional actors as purposive, skilled, and reflexive agents (Modell, 2015); and secondly, different types of actions in creating, changing, maintaining or disrupting institutions. Moreover, the embedded nature of agency means that “*actors either as ‘cultural dopes’ trapped by institutional arrangements, or as hypermuscular institutional entrepreneurs*” (Lawrence, et al., 2009, p. 1).

In this respect, relevant questions are: What actors are involved in PB adoption and use in the municipality? What kind of reflexivity is displayed by different actors? In what kind of institutions are those actors embedded? What kinds of actions are employed during PB adoption and use?

The latter question supposes that different types of work can be observed on the ground (Lawrence & Suddaby, 2006), such as creation, maintenance and disruption of institutions. We use Perkmann & Spicer’s (2008) typologies of work connected with the institutionalization of new practices, mainly: political, technical and cultural works. Political work is focused on building rules and regulations through creating networks of social relations and recruiting actors into coalitions (Perkmann & Spicer, 2008, pp. 825-826). Technical work involves developing theoretical models of practice, including “specifications of templates, procedures, manuals and tools” (Perkmann & Spicer, 2008, p. 827) justified normatively and practically. Cultural work focuses on presenting and disseminating new practice to a wider audience beyond those actors who are in practice.

However, IW scholars neither deny nor ignore the effect of institutions and institutional logics on organizational practice and the actions of institutional inhabitants (Lawrence, et al., 2009, 2011). As (Lawrence, et al., 2009, p. 7) noted: “Those effects are crucial to understanding the nature of institutional work.” In this regard, it makes sense to take both streams (IL and IW) into consideration.

#### *Making institutional logics and institutional work agree*

As noted by (Zilber, 2013), these two streams are rarely used together, rather taking their own trajectories and emphasizing different aspects of institutions: macro vs. micro, structures vs. agency. The distinction between IW and IL was described by Mouritsen (2014) and Czarniawska (2009) through the image of the institution as a ‘pyramid’ and ‘anthill’. When we imagine the institution as a ‘pyramid’, we see it more as a rigid structure built (probably) with blocks. However, in this way we forget about the individuals who participate in its construction. The ‘anthill’ image shows that institution is less monolithic than it might be imagined by traditional institutional theory: the “anthill is not a building erected according to a plan; it is a practice of long standing, taken for granted by ants” (Czarniawska, 2009, p. 438). However, ants’ actions result in the same cone-form of an ‘anthill’ as the ‘pyramid’ we usually imagine. Following this metaphor, ants (practitioners) as institutional inhabitants, are busy doing their work and performing actions aimed at creating, maintaining or disrupting institutions. In our case, it can be that those professionals who work with the budgets may just not know where a new form of budgeting comes from (even being top-driven by public sector authorities), dissolving it in the daily routines of organizational life.

Thus, based on IL and IW conceptualization, PB can be both a practice to be institutionalized and a space where budgeting becomes “a mediator in the game for visibility with multiple potential dimensions and many types of users” (Mouritsen, 2014, p. 99). In the case of PB, the new space may form and link up different actors in the municipality and their different worlds, knowledge bases and discourses. While institutional logic can describe and explain how logics and institutional constraints construct the context in which PB is implemented in the municipality, IW is useful in describing how individuals work within institutional dynamics.

Therefore, in our case, PB institutionalization can become the arena for exploring the interplay between IL and IW, which is missing so far. (Zilber, 2013) suggested treating IL and IW as a figure (IL) and ground (IW), where it is essential to employ both (rather than only one) for “bridging of internal tensions within institutional theory” and to “offer a more complex and balanced view of institutional processes” (p. 90).

### **Research setting and method reflections**

Based on the research question and theoretical considerations, the developing paper represents the qualitative research, applying the case-study strategy. The case study involves an empirical investigation of a particular contemporary phenomenon within its real-life context (Robson, 2002). Our contemporary phenomenon is the institutionalization process of PB in one Russian municipality during 2014-2016.

#### *Research setting*

The selected municipality is located in the northwest region of Russia<sup>5</sup>. The municipality choice is explained mainly by accessibility reasons. However, as emphasized by (Lawrence, et al., 2009), it is critical to have the reach and the detailed case when you study IW. The ideas of PB were first announced in 2004 by the Russian central government as a part of public sector reform (Khodachek & Timoshenko, 2015; Timoshenko & Adhikari, 2009). However, the implementation process only took place in 2012, when federal and regional authorities started to adopt PB. The central decision about PB adoption on a municipality level was made at the end of 2013 (Annual Budget Message of the president of Russian Federation, 2013). Most municipalities (together with the selected one) started to adopt PB from 2014, meaning that the budget for 2015-2017 should be based on the programme principle.

#### *Data collection*

We have drawn on three multiple sources of data, tracing PB adoption and use from 2014 to 2016: documentary analysis, semi-structured interviews, and short observation. To date, most of the data were collected during the author’s one-month internship in the selected municipality in July 2015.

The point of departure was documentary analysis before the municipality internship. In order to understand the context and preconditions of PB in Russia, we accessed a variety of written

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<sup>5</sup> There is no disclosure of the municipality’s name or respondents’ names, due to ethical considerations.

material (Russian scientific literature and newspaper articles about the Russian public sector) and official legislation documents (see Appendix 2, mainly #8-9). This preliminary analysis gave the ability to apply for an internship with a general understanding of PB norms (Bergevärn, Mellemvik, & Olson, 1995). The internship was negotiated in regard to personal contacts in the municipality. More precisely, it was organized in the economy and investments department<sup>6</sup>, which was responsible for the implementation of PB in the municipality. The starting point during the internship was the documentary analysis of internal documentation and local legislation documents advised by interviewees (see Appendix 2). According to (Silverman, 2010), the text is something that we should and cannot ignore in our research. All people are “routinely, often extensively, involved in the production and consumption of written records and another kind of documents” (p. 78). Documents can be seen as ‘social facts’. If we wish to understand how budgeting works and how people work with it, then we cannot afford to ignore their various activities as readers and writers. This data helped me to become familiar with the budgeting process. In addition, documentary analysis became some kind of cross-check of oral accounts and vice versa, creating organizational versions of reality (Silverman, 2010). Moreover, we also obtained access to the drafts of internal document, giving the ability to trace how they were changed over time.

Seventeen semi-structured interviews were conducted (see Appendix 3), mostly during the municipality internship through the snowball approach. In most cases, my access-giver introduced me to her colleagues from other departments, giving me additional cognitive access and increasing credibility. Each interview lasted around 40-60 minutes with note-taking. A tape recorder was used in order to keep respondents in their comfort zone for conversations<sup>7</sup>. In this regard, the interview notes were summarized just after the interview in order to catch the most important points and develop them further during transcription. The notes’ summaries were printed and sent to respondents for approval. Mostly this was performed the day after the interview. Therefore, this gave the ability to meet respondents again personally and obtain additional feedback/reflection on the interview’s summary. Due to the different perceptions, skills and experience in the area, the questions for interviews were changed from one interviewee to another as a consequence of new information gained or different interviewees’ specializations. However, the general idea was to have guided conversations rather than structured queries, allowing the ability to gain narratives from ‘institutional biographers’ (Lawrence, et al., 2009). More precisely, we searched for reflection of their background (embeddedness), interpretation of PB and making sense of the PB process (reflexivity), their actions and roles (work types), as well as how PB influences them. In addition, two unstructured interviews were conducted with experts involved in PB adoption in Russia<sup>8</sup>, covering the issues of PB norms (one hour, with note-taking, September 2015).

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<sup>6</sup> The author was given an office, sharing with two people, and access to the internal network system.

<sup>7</sup> As noted by the access-giver: “Most public officials are from the ‘old times’ and are made very nervous by a recording device”.

<sup>8</sup> They work at the Institute of Public Finance Reform (Moscow) and are involved in the World Bank programme of cooperation with Russia.

During the internship, three internal meetings (30-40 minutes each in the economy and investment department) regarding the evaluation of PB were observed. In addition, some observations, field notes, and self-reflections on the interview results were written down as a research diary during the internship.

#### *Data analysis*

In this study, we took an abduction approach, which, compared to deductive and inductive approaches (Saunders, Saunders, Lewis, & Thornhill, 2011), gave the opportunity to be in both theory and empirics and to alternate them (Alvesson & Sköldbberg, 2009, p. 16). In our case, it gave the opportunity to follow the ideas of IL and IW before, during and after the collection and interpretation of data. The data analysis strategy was based on highlighting the parts which were significant to the research guided literature, i.e. IL and IW aspects.

#### *Limitations of the study*

Several limitations of this study should be mentioned. Firstly, we take into consideration the fact that the time frame of our study, 2014-2016, can be criticized as not long enough to study institutionalization (Zilber, 2013), because institutionalization is a slow, long and ongoing process, meaning that probably there is no beginning and no end (Lawrence, et al., 2009). Secondly, the single municipality case may be criticized as a research application in the context of Russia<sup>9</sup>, raising the issue of generalization. However, there is no aim for statistical generalization in our study. Rather, we would like to see theoretical generalization, when acquired theoretical knowledge regarding PB may become related to other empirical contexts or even fields (Silverman, 2010).

#### **Preliminary conclusions**

Preliminary findings have revealed that PB can be seen as a tool to be adopted in the selected municipality for legitimacy purposes, which can lead to decoupling and rather symbolic alternations in internal organizational dynamics. That way of presentation can be seen as a result of competing logics in the selected municipality.

Based on preliminary findings, PB became a carrier of a new wave of managerial logic, which was framed with a new performance measurement agenda in the upcoming budgeting process in 2015. In this regard in 2015, PB became a sort of technique which internal municipal departments struggled with because of tensions with intrinsic professional logics. In line with some previous studies of institutional logics in the public sector, we found that multiple logics coexist in the municipality, mainly connected with the professional values of internal municipal departments such as sport, culture and education. In this sense, the municipality departments were not only the ones which work with new managerial logics but they also became its mediators with particular public sector organizations such as local schools and sports organizations.

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<sup>9</sup> According to official statistical data, there are more than 22 000 municipalities in Russia.



However, over time, the internal organizational dynamics have changed; PB has become a tool to exercise expert power, negotiate conflicts and even manipulate interbudgetary relationships between regional and municipality authorities.

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**Appendix 1. Institutional logics vs. institutional work**

Feature	IL	IW
Roots	DiMaggio & Powell (1983); Meyer and Rowan (1977); Zucker (1977)	DiMaggio (1988); Oliver (1991; 1992)
Main references	Thornton & Ocasio (2008)	Lawrence and Suddaby (2006); Lawrence et al. (2009; 2011; 2013);
Institutions are	symbolic belief systems; providers of social norms for actors by which to behave	products of human action and reaction, motivated by both idiosyncratic personal interests and agendas for institutional change or preservation
What is logic / work?	socially constructed, historical pattern of cultural symbols and material practices by which individuals and organizations provide meaning to their social reality	the efforts of individuals and collective actors to affect the institutional structures, within which they are and which give them their roles, relationships, resources, and routines
Focus	interaction between institutions and logics; the effects of differentiated (multiple, consensus, conflicting, shifting, hybrid) institutional logics on individuals and organizations in a variety of contexts	lived experiences of individuals (institutional inhabitants, organizational actors, institutional biographers); interaction between individuals; people's roles as institutional interpretators, sustainers, reproducers, and creators;

## Appendix 2. Documents studied

#	Document	Number of pages
1	Decision # X, 10.12.2012 *On the budget of the municipality "X" of Leningrad region 2013 and the planning period of 2014 and 2015*	Approx. 100
2	Decision # X, 10.12.2013 *On the budget of the municipality "X" of Leningrad region 2014 and the planning period of 2015 and 2016*	Approx. 100
3	Decision # X, 10.12.2014 *On the budget of the municipality "X" of Leningrad region 2015 and the planning period of 2016 and 2017*	Approx. 100
4	Decree #X, 11.11.2014 *On approving the list of municipal programmes of the municipality "X" of Leningrad county	3
5	Resolution #X, 15.07.2013 *On approval of the design, implementation and evaluation of municipal programmes of the municipality "X" of Leningrad county*	15
6	Decision # X, 29.10.2013 *Approval of the Regulations of the budget process municipality "X" Leningrad County*	29
7	The main directions of the budget and tax policy of the municipality "X" of Leningrad county for 2015 and the planning period of 2016 and 2017	24
8	Article 179 of the Budget Code RF. State programmes of the Russian Federation, the state programmes of the Russian Federation regions and municipal programmes Source: <a href="http://ppt.ru/kodeks.phtml?kodeks=2&amp;paper=179">http://ppt.ru/kodeks.phtml?kodeks=2&amp;paper=179</a>	
9	Order of the Government of the Russian Federation, March 29, 2013 N467-p *On approval of the state programme of the Russian Federation "Economic development and innovative economy"* System GARANT: <a href="http://base.garant.ru/70350078/#ixzz3jFH4qSGQ">http://base.garant.ru/70350078/#ixzz3jFH4qSGQ</a>	
10	Resolution of the Government of the Leningrad County on March 7, 2013 N966 "On approval of the design, implementation and evaluation of state programmes of Leningrad county." <a href="http://docs.cntd.ru/document/537931984">http://docs.cntd.ru/document/537931984</a>	13
11	Resolution #X, 01.09.2014 *On approval of municipal programme of the municipality "X" of Leningrad county "Development of roads in X of Leningrad county"*	75
12	Resolution #X, 24.09.2014 *On approval of municipal programme of the municipality "X" of Leningrad county "Agricultural development in X of Leningrad county"*	21
13	Resolution #X, 20.10.2014 *On approval of municipal programme of the municipality "X" of Leningrad county "Stimulating economic activity in X of Leningrad county"*	61
14	Resolution #X, 18.11.2014 *On approval of municipal programme of the municipality "X" of Leningrad county "Modern education in X of Leningrad county"*	85
15	Resolution #X, 18.11.2014 *On approval of municipal programme of the municipality "X" of Leningrad county "Social support for individual categories of citizens in X of Leningrad county"*	40
16	Resolution #X, 25.11.2014 *On approval of municipal programme of the municipality "X" of Leningrad county "Development of culture in X of Leningrad county"*	25
17	Resolution #X, 27.11.2014 *On approval of municipal programme of the municipality "X" of Leningrad county "Development of sports in X of Leningrad county"*	16

### Appendix 3. List of respondents interviewed in municipality

#	Position	Department/responsibilities	Date and duration of interview
1	Chairman of the committee/female	Economy and investments committee/Economy, investment, tourism, long-term programmes, strategic planning of the municipality	03.07.2015 90 minutes
2	Specialist/female	Economy and investments committee/Sector of municipal purchases	08.07.2015 75 minutes
3	Deputy Chairman of the committee/female	Economy and investments committee/The socio-economic situation in the region, the municipal order, investment projects	10.07.2015 60 minutes
4	Deputy Chairman/Head of the Budget Department/female	Finance Committee/Budgeting and accounting process in municipality	10.07.2015 80 minutes
5	Deputy Chairman of the committee/female	Social protection committee	14.07.2015 55minutes
6	Accountant /female	Social protection committee/Department of accounting and control/organization and accounting, reporting and control of expenditure of funds	14.07.2015 75 minutes
7	Head of the department/female	Department of road facilities, transport and communications/Committee of road facilities, transport, communications, capital construction, coordinating housing programmes	14.07.2015 60 minutes
8	Chairman of the committee/female	Economy and investments committee/Economy, investment, tourism, long-term programmes, strategic planning of the municipality	17.07.2015 60 minutes
9	Head of the department/female	Department of agrarian policy	20.07.2015 50 minutes
10	Chairman of the committee/female	Economy and investments committee/Economy, investment, tourism, long-term programmes, strategic planning of the municipality	24.07.2015 50 minutes
11	Main specialist/female	Provision of urban amenities/Housing and communal services Committee	27.07.2015 55 minutes
12	Head of the department/male	Provision of urban amenities/Housing and communal services committee	27.07.2015 50 minutes
13	Chairman of the committee/female	Education committee	28.07.2015 60 minutes
14	Head of the department/male	Information-analytical department/Education committee	28.07.2015 60 minutes
15	Deputy Chairman of the committee/Head of the department	Department of sport Committee of sports, culture, tourism and youth policy	28.07.2015 45 minutes
16	Chairman of the committee/female	Economy and investments committee/Economy, investment, tourism, long-term programmes, strategic planning of the municipality	12.03.2016 40 minutes
17	Deputy Chairman/Head of the Budget Department/female	Finance Committee/Budgeting and accounting process in the municipality	19.03.2016 80 minutes



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## DO WAGES REALLY MATTER? EMPLOYMENT ISSUES IN THE HIGH NORTH OF RUSSIA

### Abstract

This working paper is written as part of the PhD course “Governance in the High North: implications for Arctic private and public sector” and based on two lectures given by me on that course: “Labour market of the northern extractive regions of Russia” and “Labour market institutions in the High North of Russia”. The article examines the impact of the labour markets’ locations on their outcomes in the case of the High North regions of Russia. The unique features of the labour markets of these territories include compensative differentials and specific labour protection legislation. In the paper, using a fixed effects model, it was discovered that higher wages aim to compensate for the lack of regional amenities in the High North of Russia; thus wages have a significant impact not only on the number of employees but also on the number of the unemployed and migrant workers in the High North of Russia. Whether labour supply exceeds labour demand and migration plays an essential role in labour market equilibrium in those territories was also explored. The main findings of the paper can be used as a part of social policy in the High North regions of Russia.

**Key words:** labour market; regional labour market; labour market institution; High North; Russia; employment; labour demand; labour supply; wages

## Introduction

The High North of Russia is traditionally associated with an unfavourable climate, remoteness from the European part of the country and high wages, which should compensate for the uncomfortable living conditions. The High North can be characterized by a 5.5% share of the population of Russia and about 10% of the Gross Domestic Product. Most areas of the High North have a strictly oriented economic specialization: in value terms they produce more than 50% of the product of the extractive industry of Russia. In recent years, despite the multiple growth of the real wages in the High North, the number of employees in the majority of cases has demonstrated a negative trend. Thus, wages in 2000-2013 in the High North were 1.6-2 times higher than the average national wage, but the resident population in the High North and equivalent areas in 1999-2014 decreased by 1.207 million people, i.e. by almost 11%. There is an impression that the harsh climatic conditions affect individual decisions about employment in the High North more than the ability to earn higher wages and receive other benefits for the employees in these areas, such as earlier retirement and higher pensions, provided for by the legislation.

The case of the High North regions of Russia is interesting because they have the strongest employment protection legislation among all the regions of the country. On the other hand, all the other institutions in the High North are identical to those in the rest of the country.

Employment protection legislation in the High North regions of Russia is based on Chapter 50 of the Labour Code of the Russian Federation and also implies special consequences for retirement. The Labour Code of the Russian Federation provides the following benefits for employees in the High North regions:

- regional coefficient from 1.15 to 2 points from the individual wage;
- bonuses as a part of wages (in % of wages) with additional bonuses for young people;
- in the case of layoffs, the employer can be obligated to pay the average wage for up to six months, instead of the two months' standard in the rest of the country;
- special terms for women, e.g. 36 working hours per week instead of 40 for all the other employees with the same wage;
- additional annual paid leave; etc.

Special consequences' allowances for retirement provide a younger retirement age (50 for women and 55 for men, instead of 55 and 60) and regional coefficients to the retirement benefits. All this can have an impact on an individual's retirement decisions and employment behaviour and, together with the benefits from the labour code, seems to lead to higher protection and better conditions of employment in the High North regions of Russia, especially for women and young people.

In reality, the additional guarantees and compensations significantly increase the costs to the employer in official hiring, wages and layoffs. They can also cause the constriction of employment, compared to the level which is potentially possible with less stringent regulations. Thus the impact of wages on employment in the High North regions of Russia is not obvious and

can be an interesting research question. The research was provided at the base of the aggregated regional data of Federal State Statistics Service of the Russian Federation (Rosstat), using a panel dynamic fixed effects econometric model.

## Background

To date, there have been no empirical studies on employment in the High North of Russia, but a number of works highlight the specific features of the labour markets of the northern territories of Russia or suggest their existence. In these, we can distinguish the following main areas: theoretical models and empirical studies that describe the equilibrium level of the regional labour markets and the reasons for the migration of employees between regions: Rosen (1979), Roback (1982), Blanchard and Katz (1992) and Moretti (2011); studies that identify certain areas of the country as the objects of analysis concerning certain characteristics (e.g., one-company towns): Berger et al. (2003), Bignebat (2006), the World Bank Project for the Restructuring of the Northern Territories of Russia (2001-2010), Ammermueller et al. (2007), Caponi (2008), and Commander et al. (2011); the body of literature that contains the results of research into the inter-regional differences in wages, including the compensative differentials: Coelho and Ghali (1971), Greenwood et al. (1991), Bignebat (2003), Lukyanova and Oshchepkov (2007), Oshchepkov (2010) and Lukyanova (2011), Oshchepkov (2015). A number of studies were devoted to the estimation of the impact of labour market institutions on labour market outcomes in Russian regions: Gimpelson et al. (2009), Mironenko (2010), Lehmann and Zaiceva (2013), Muravyev and Oshchepkov (2013) and Gimpelson and Kapeliushnikov (2014). And finally, some authors, such as Oshchepkov (2006), Giltman (2014), Semerikova and Demidova (2015), studied other peculiarities of regional labour market development in Russia. On the other hand, there is some evidence outside Russia, which empirically proves that locations really affect labour markets outcomes: Fujita et al. (1999), Combes et al. (2004), David et al. (2010), Manning and Petrongolo (2011) and Bratti and Leombruni (2014).

Based on the theoretical models and empirical findings mentioned above, I can compose the following theoretical explanation of the impact of location on employment in the High North of Russia. According to the general model of the local labour markets' equilibrium by Rosen (1979) and Roback (1982), labour inside a country is much more mobile than between countries, which makes the domestic labour supply perfectly elastic (Moretti, 2011, pp. 1254-1255). The model of local labour markets' equilibrium implies that employees select the areas for employment based on nominal and real wages, as well as on the productivity of a local (in our case, regional) economy. The possibilities included in individual labour supply decisions are wider for employees with higher qualifications. The simplest pattern of the model of local labour markets' equilibrium is based on the indirect utility function of the individual  $i$  in a location  $c$  and can be presented as follows (1):

$$U_{ic} = w_c - r_c + A_c + e_{ic} \quad (1)$$

$w_c$  – nominal wage in location  $c$ ,

- $r_c$  – housing costs in location  $c$ ,
- $A_c$  – amenities of location  $c$ ,
- $e_{ic}$  – worker  $i$  idiosyncratic preferences for location  $c$ .

The model predicts that the employee makes a decision regarding his choice of local labour market, taking into consideration economic factors, i.e. the advantages of this area for living and his subjective attitude to living in the particular area. Moretti (2011) has supplemented this model with the fact that individual preferences for place of residence and the opportunities available for using local amenities reduce the elasticity of the labour supply between the local markets, but high labour mobility between different areas of the country still remains one of the key preconditions for this model. Therefore, according to this model, individual decisions about mobility between regions are based on the local (regional) amenities of a particular territory and have to increase individual utility to the potential employee and wages, which in some cases can compensate for the loss of the regional amenities when moving to a less desirable location.

As a rule, those kinds of conclusions are based on the theory of compensative differentials (Coelho and Ghali, 1971; Greenwood et al., 1991; Bignebat, 2003; Lukyanova and Oschepkov, 2007; Oschepkov, 2010; Lukyanov, 2011; Oshchepkov, 2015). The theory of compensative differentials suggests that employers are forced to pay higher wages to employees in order to compensate them for the negative utility resulting from the movement to a location with fewer local amenities. Greenwood et al. (1991) assume that the majority of regional labour markets never reach equilibrium due to migration, wages, and regional price changes. They come to the conclusion that incorrect (over- or under-evaluated) estimations of regional amenities by employees lead to a disequilibrium in regional labour markets because the level of wages is based on under- or over-evaluated compensative differentials. It can be assumed that the disequilibrium in regional labour markets tells us about the variability of the real size of compensative differentials due to changes in living conditions (e.g. changes in infrastructure) and regional prices for goods and services that affect the dynamics of employment. At the same time, according to the research by Greenwood et al. (1991), the labour supply will be more elastic in regions with the highest proportion of compensative differences in the structure of wages. In Russia those areas are situated in the High North (Lukyanova and Oschepkov, 2007). Empirical evidence of the existence of compensative differentials in the regions of the Russian Federation can be found in the works of Bignebat (2003), Lukyanova and Oschepkov (2007), Oshchepkov (2015). An indirect confirmation of the compensative differentials' existence can be different returns on human capital in the different regions of Russia (Bignebat, 2003; Oschepkov, 2007). At the same time, it was noted in some studies (Lukyanov and Oschepkov, 2007; Oshchepkov, 2015) that compensating differences play a greater role if companies do not only have to, but also on the basis of their financial situation can, pay higher wages. The largest concentration of such companies is observed in the northern extractive regions, above all, Khanty-Mansiysk and Yamalo-Nenets Autonomous Okrug. Berger et al. (2003) discovered that, in Russia, regional amenities have a substantial sufficient impact on interregional migration, and compensative differentials exist even if the regional coefficients are excluded. Net migration is positively related

to the quality of life (regional amenities) and reaches the highest level in the south and the European parts of the country.

Lukyanova and Oschepkov (2007) and Oshchepkov (2015) empirically confirmed another important fact: the prices of goods and services have a greater impact on the differences in wages between regions than any other regional labour market outcomes. The importance of regional prices in the analysis of wages was shown by Coelho and Ghali (1971). They proved that differences in wages between the North and South of the USA disappear, if regional prices are taken into account. In spite of the low interregional mobility of employees in the Russian Federation (Bignebat, 2003), empirical estimates made by Bignebat (2006) showed a significant impact of regional wages for goods and services on interregional migration in Russia. We can assume that increasing prices for goods and services in the High North of Russia, including those for vital goods such as food or housing, are due to the influx of migrant employees, which is a consequence of higher wages in these regions with respect to the other regions of the country. Prices do not usually tend to decrease; consequently, decreasing not only nominal but real wages can be very significant in terms of outflows from the High North regions.

Based on the analysis of the results of the empirical studies described above, I can try to describe theoretically the dynamics of employment in the High North of Russia. Employees in the High North do not increase their utility from living in those regions, i.e. there are no regional amenities, and wage level is the main motivating factor for employment and residence in these areas. Rising wages attracts employees from other regions of the country and this leads to an increase in the prices of goods and services and reduces real wages. Additional norms of the labour protection legislation in the High North of Russia raise the cost of hiring and firing employees in those areas and lead to more moderate decisions by employers regarding the hiring of new employees. As the flexibility of employment is based on flexible working hours and wages, the demand for labour in the northern regions seems to be even more stable than in the rest of Russia. The reaction of employees in the High North to changes in wages may be, on the contrary, closer to the competitive model of the labour market than in other regions of the country because their decisions on labour supply are supposed to be taken more rationally. The mobility of employees from the High North to other regions of the country is usually based on the size of wages and not limited by regional amenities due to their absence. Initially, individuals who came for employment in the High North can be characterized by a greater tendency to risk and mobility, and greater rationality in decision-making. As for companies, they should also have strong economic reasons for moving to the North, because producing goods in these areas is inherently more expensive due to high transport costs, poor industrial infrastructure, remoteness from the centre, etc. Empirically, this hypothesis is confirmed by Bignebat (2006). Based on the results of the World Bank for restructuring the economy of the Northern regions of Russia (2001-2010), she concluded that, for many cities in the High North of Russia, a narrowing in the size of a company actually leads to a decrease in the number of their residents because of the large number of one-company towns in these areas. This can be explained by the lowest diversity in economic activities in the northern territories among all the Russian regions. Kryukov (2014) noted high variability in socio-economic processes in the extractive regions, many of which are

situated in the High North of Russia. Thus, according to our theoretical assumptions, the peculiarities of the labour markets in the High North of Russia are based, on the one hand, on a labour force which is highly variable because of migration, and, on the other hand, on a quite stable labour demand, resulting from a preference for layoffs over the expansion of recruitment. For these reasons, we tested two hypotheses: higher wages increase the number of employees both by reducing unemployment and increasing the net migration from other regions; lower wages decrease the number of employees due to migration to the other regions of the country.

### **Empirical evidence from the High North regions of Russia**

#### *Case description*

The High North regions of Russia are statutorily defined. There are regions that are totally and regions that are partly recognized as the High North (Table 1). This definition is necessary for the application of the system of benefits for employees in these areas. The mentioned system has remained in force since 1960.

Table 1 High North regions of Russia.

<b>Partly (usually statistically insignificant compared with the rest of the population of the region)</b>	<b>Totally</b>
Altai Republic	Republic of Karelia
Republic of Buryatia	Komi Republic
Zabaykalsky Krai	Sakha (Yakutia) Republic
Krasnoyarsk Krai	Tuva Republic
Perm Krai	Kamchatka Krai
Primorsky Krai	Arkhangelsk Oblast
Khabarovsk Krai	Magadan Oblast
Amur Oblast	Murmansk Oblast
Irkutsk Oblast	Sakhalin Oblast
Tomsk Oblast	Yamalo-Nenets Autonomous Okrug
Tyumen Oblast	Khanty–Mansi Autonomous Okrug – Yugra
	Chukotka Autonomous Okrug

One of the most important issues for the state regulation of employment conditions in the High North is the additional tools which were designed in order to increase wages in the North compared with those in other regions of the country.

At the same time, in spite of the multiple growth of the real wages in the High North (Fig. 1), in the majority of cases, the number of employees has demonstrated a negative trend (Fig. 2). These regions were in the lead in terms of morbidity per 1,000 citizens: over the same period this indicator was about 1.2 times higher compared to the average value in Russia. In most of these areas, the net migration was negative (Fig. 3).

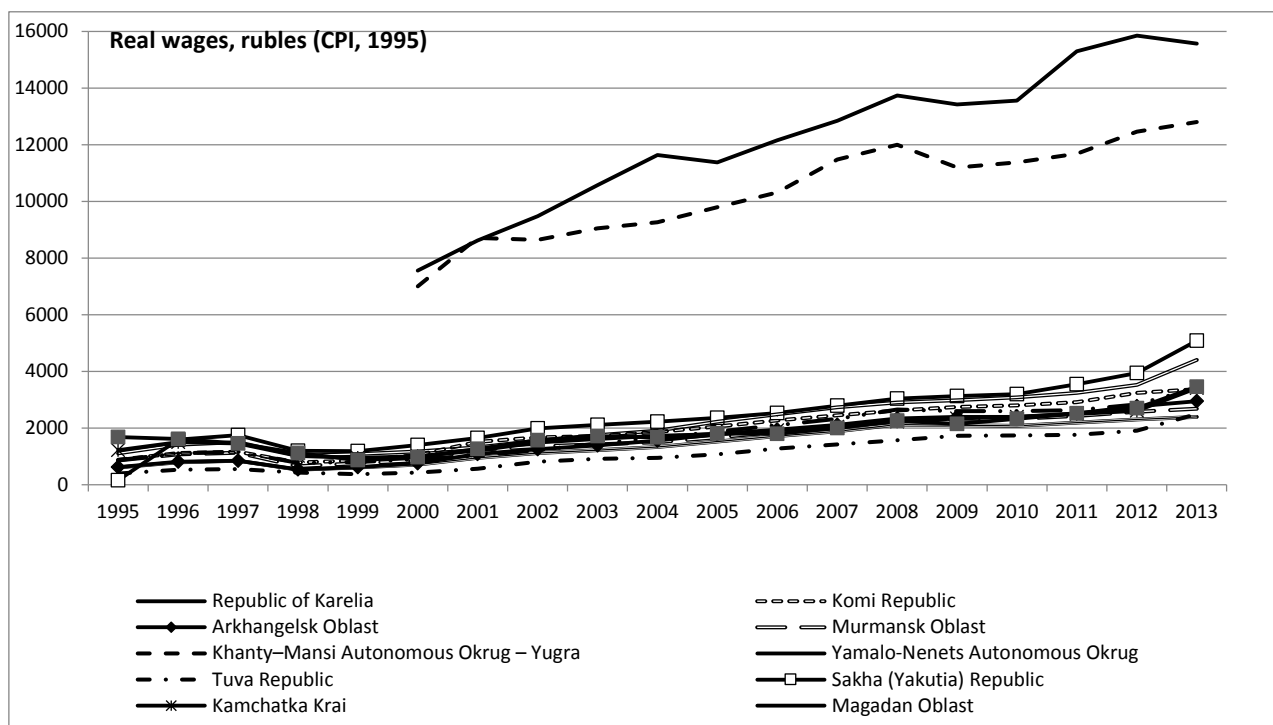


Fig. 1 Real wages in the High North of Russia (Data: Rosstat).

### Employment, th. employees

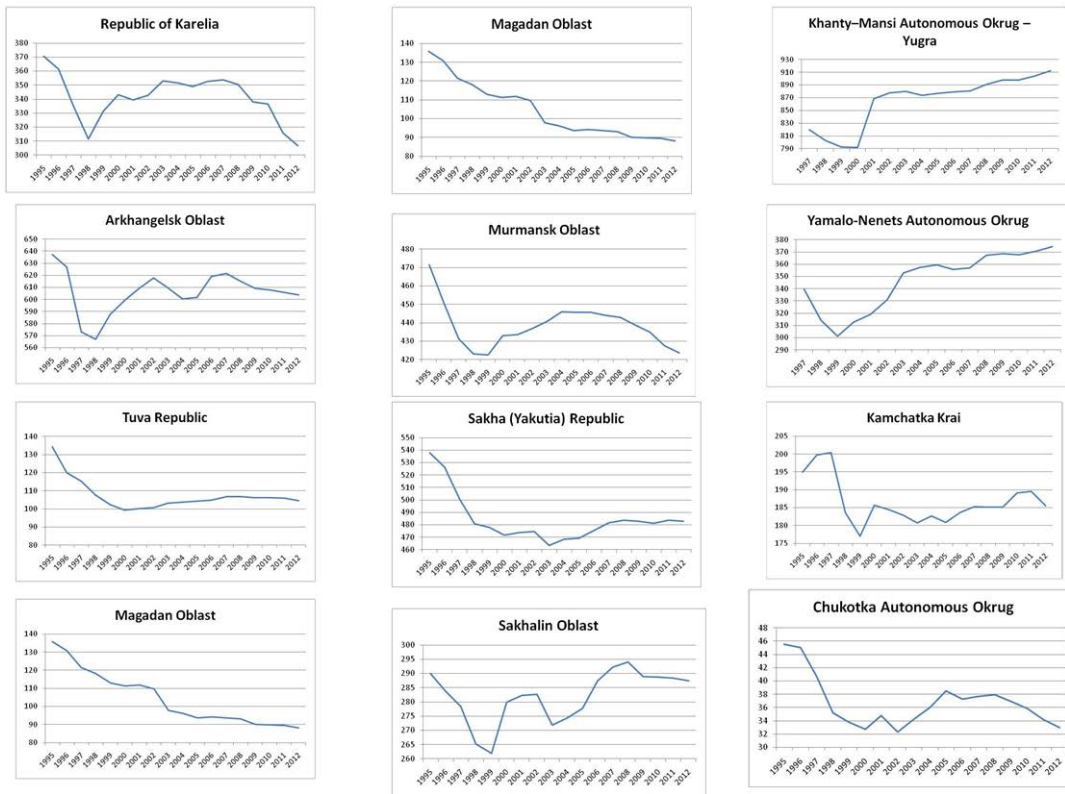


Fig. 2 Employment in the High North of Russia (Data: Rosstat).

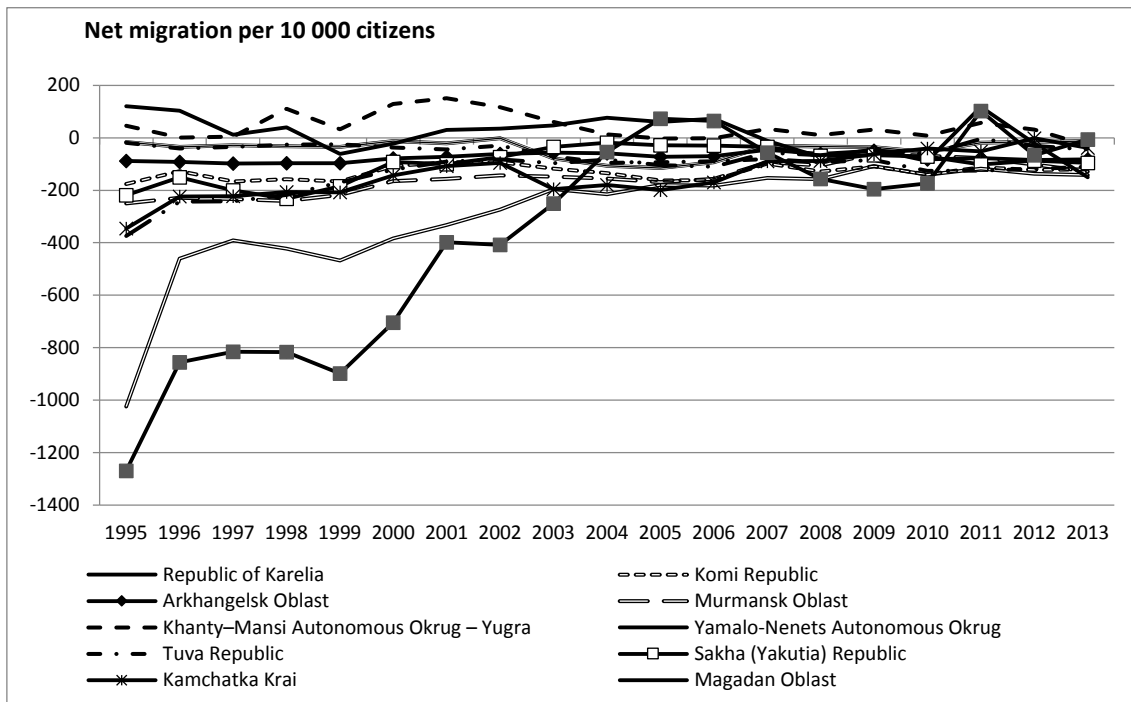


Fig. 3 Net migration in the High North of Russia (Data: Rosstat).



Only the indicators of the Khanty-Mansi Autonomous Okrug and Yamalo-Nenets Autonomous Okrug look predictable: substantially higher wages lead to employment growth and positive net migration (Figs. 1-3). These statistics could be explained by the sectoral structure of the economy of those regions: most of the Russian oil and gas production is concentrated here. In the rest of the High North regions, the labour supply at first sight is difficult to explain, and it seems that it depends more on the subjective attitude of employees to the advantages and disadvantages of employment and residence in the particular territories than on objective factors.

The decline in the number of employees in the High North is in contrast with the rest of the country. According to the Russian Labour Market Model (RLMM), employment in Russia has remained consistently high from 1990 until now, which differs greatly from the labour market outcomes during the transition in Central and Eastern Europe (Kapeliushnikov et al., 2011). Kapeliushnikov et al. (2011) explain this phenomenon by the flexible wages and flexible working time that became widespread in labour relations in Russia during the transition because of weak enforcement of the Russian employment protection legislation. The flexible wage was based on the absence of compulsory indexation, significant share of bonuses in the structure of individual wages, wage arrears and 'grey' salaries and non-monetary payments (payments in kind). Working time became flexible because of nonstandard work arrangements, shortened working hours and administrative unpaid leave, secondary employment or multiple jobs, production of goods and services in households (during the peak of the farming season, about 40 per cent of the adult population is involved in work on private allotments) (Kapeliushnikov et al., 2011).

In general, the permanency of RLMM was based on the labour market institutions. Although there are five common groups of labour market institutions normally shared by all countries (active labour market policies; passive labour market policies; wage setting arrangements, in particular those of trade unions and statutory minimum wages; employment protection legislation and taxation of labour), they all possess national peculiarities and have a different impact on labour market outcomes. North (1991), Aoki (1998), Scott (2001), Kapeliushnikov et al. (2011) emphasize the role of institutions, stating that labour market institutions have an essential influence on individual decisions about employment and labour supply and on the employer's decisions about hiring and firing; thus, they determine the labour demand. So labour market equilibrium depends on the labour market institutions. In their empirical research, Lehmann and Muravyev (2012) estimated that, in the transition economies, institutions matter for labour market outcomes and deregulation of the labour markets improves their performance. This means that strong regulation of the labour market has a negative impact on labour market outcomes.

Strong regulation of the labour market can also lead to a more complicated structuring of wages, due to decreases in the base (constant) part of it (for more details about the impact of the labour legislation of the Russian Federation on the wage structure, see Gimpelson and Kapeliushnikov (2008)). In other words, while the labour protection legislation for the northern regions is becoming tougher, its enforcement, on the contrary, is growing weaker. Gimpelson et al. (2009) have noted that, despite the fact that the labour protection legislation in Russia was adopted at the national level, its practical implementation (enforcement) always appears at the regional

level. These inter-regional differences in the enforcement of the labour protection legislation have shown a statistically significant influence on the development of the regional labour markets. In areas where the strictness of the labour protection legislation is really enforced in practice, the labour market outcomes demonstrate a reduction in employment and an increase in unemployment. This is particularly true for women and young people, i.e. the most vulnerable groups of workers, who were supposed to be more protected by the additional norms of the labour protection legislation, including those in the northern regions. Empirical estimations have shown that the rigidity of the labour protection legislation of the Russian Federation leads to a narrowing of the demand for labour by the employers. The authors also found that violations of the labour protection legislation were more frequently identified in the northern regions. Vishnevskaya and Kapelyushnikov (2008) have shown that most of the northern regions are leaders in the number of labour disputes, compared to the other subjects of the Russian Federation. There are some other studies showing the negative impact of excessive institutional regulation on the regional labour market outcomes. For example, Caponi (2008) analyses the impact of the state programme of containment of migration from the southern to the northern regions of Italy and the trade unions' actions aimed at supporting this programme, on the Italian regions' labour market outcomes. He comes to the conclusion that such a policy increases unemployment in the southern regions and reduces salaries in the North and that it has a negative impact on the regional labour market outcomes. According to the estimations of Commander et al. (2011), the government policy of artificially maintaining the concentration of employment in the Russian one-company towns leads to a reduction in productivity. Ammermueller et al. (2007) have compared the groups of regions in Italy (North-South) and Germany (East-West). They show that the strength of the relationship between regional wages and regional unemployment is affected by the institutions in the local labour market. In Italy the impact of institutions on the regional labour market outcomes was more significant because of informal employment, which is widespread and highly affects enforcement in various regions. This is very similar to the situation in Russia. Therefore, we can assume that the additional norms of the labour protection legislation designed for the High North of Russia increase the strictness of that legislation, which can lead to finding ways and forms to weaken its enforcement in those regions, which often manifests itself in more flexible wages and working time (Kapeliushnikov et al., 2011).

### **Methodology and database**

To test the hypotheses, I used the regional data of Rosstat from the surveys "Russia's Regions. Socio-economic indicators" and "Economic and social indicators in the High North and equivalent areas" from 2005 to 2013. The objects of observation were only taken from those regions whose territories are entirely included into the High North, such as the Republic of Karelia, the Komi Republic, the Republic of Sakha (Yakutia), the Tuva Republic, Kamchatka Krai, Arkhangelsk Oblast, Magadan Oblast, Murmansk Oblast, Sakhalin Oblast, Yamalo-Nenets Autonomous Okrug, Khanty-Mansi Autonomous Okrug-Yugra, Chukotka Autonomous Okrug.

As for the methodology, empirical analyses of regional labour markets are usually based on regional panel data and fixed effect models with different specifications, for example, Lukyanova and Oschepkov (2007), Gimpelson et al. (2009), Muravyev and Oshchepkov (2013), etc. Fixed effect models are relevant for the analyses of the panel data with a limited number of observations. Those observations should have their own sustainable peculiarities which are difficult to measure. All this makes fixed effect models a relevant methodology for regional-level research in labour economics. In some cases, if it is assumed that the variables can only make a significant impact on the basic fixed effect models over some period of time, lags can be added, for example, Muravyev and Oshchepkov (2013), Greenwood et al. (1991). We assume that changes in wages also affect the number of employees in the High North with some lags, because workers need time to feel the reduction in real wages, to take a decision about leaving and migrating to another region, to organize the move, etc. Employers also do not respond immediately to a change of requirement in the number of employees. They need time to understand the dynamics of wages and labour force population in the region. I have estimated three equations for the number of employees, number of unemployed and net migration with the following specifications (2):

$$Y_{it} = \alpha + \beta_1 \ln W_{it} + \beta_2 \ln W_{it-1} + \beta_3 \ln W_{it-2} + \beta_4 \ln W_{it-3} + \beta_5 \ln W_{it-4} + \beta_6 \ln W_{it-5} + \beta_7 \ln W_{it-6} + \beta_8 \text{Trade}_{it} + \beta_9 \text{Const}_{it} + \beta_{10} \text{Manuf}_{it} + \beta_{11} \text{Age}_{it} + \beta_{12} \text{LnWomen}_{it} + \beta_{13} \text{GRP}_{it} + \beta_{14} \text{Life}_{it} + \beta_{15} \text{Search}_{it} + \varepsilon_{it}, \quad (2)$$

where it represents region i in time t;  $Y_{it}$  – dependent variables. In my case I suppose that employment, migration and unemployment are connected, because there are no other reasons for individuals to go to the High North regions, except for work and wages. This means that immigrants and native inhabitants can be employed or unemployed. If individuals are unemployed in the long term or they are not satisfied with real wages, they prefer to leave the High North territories. According to that logic, I estimated equations for three dependent variables: Emp – number of employees (thousand people); Unemp – number of unemployed (thousand people); Migr – net migration (thousand people).

Independent variables are as follows: W – average wage per month in a particular region (rubles); Trade, Const, Manuf – share of employees in trade, construction and manufacturing with respect to all the employees in the region (%), as a proxy for the structure of the regional economy. The joint share of employment in trade, construction and manufacturing industries, with respect to all the employees in the High North regions, was between 13% and 38%. These industries are present in all the regions, and the share of employees involved in these industries is not correlated with wages and Gross Regional Product (GRP), but correlated with the total number of employees in the region. This is not the case for the extractive industries, which usually have a particular geographic (regional) binding. Age – share of population of working age with respect to the total number of employees in the region (%); Women – number of women with respect to 1000 men (persons). Age and gender were added because there are special conditions of employment and payment for young people and women working in the High North, and Russian legislation provides for an earlier retirement for employees in the North. As a rule, pensioners

leave the northern territory because of the absence of regional amenities in respect of residence; i.e. the age structure of the labour force population consists almost completely of individuals of working age. GRP – Gross Regional Product (thousand rubles), as a variable that describes development of the regional economy (productivity in the model of local labour markets' equilibrium); Life – life expectancy at birth (years), as a proxy for regional amenities; Search – as the average time taken for job search by the unemployed (months), as a proxy for the search intensity of unemployed job seekers in the regional labour market;  $\varepsilon$  - normally distributed error term. GRP and wages were deflated by the consumer price index (CPI) for the particular region in the respective years. The number of lags was determined on the basis of the formal AIC and BIC criteria and test for the normal distribution of the error term. Estimation was carried out in the Gretl econometric package; the results of the estimation are shown in Table 2.

### Discussion of the empirical findings

Estimated results of the regressions are as follows (table 2).

Table 2 Estimated results of the regressions.

Regressor	Regressand		
	Coefficient (standard error)		
	lnEmp	Unemp	Migr
Const	-3.13 (5.96)	-1768.8 (1480.8)	-831308 (994302)
Trade	-0.001 (0.006)	0.78 (2.29)	2336.7 (1141.8)*
Const	0.006 (0.006)	0.85 (1.64)	479.2 (966.9)
Manuf	0.015 (0.015)	2.45 (2.17)	637.9 (2503.9)
Age	0.014 (0.01)	5.03 (3.03)	3764.7 (1846.0)*
Women (log)	1.23 (0.62)*	131.9 (151.0)	9235.8 (100281)
GRP (log)	0.08 (0.15)	0.2 (19.3)	-8632.6 (10685)
W (log)t	0.03 (0.15)	-89.3 (38.4)**	45128.4 (19384.6)**
W (log)t-1	-0.03 (0.1)	47.8 (37.3)	14982.9 (18792.1)
W (log)t-2	-0.1 (0.1)	-1.6 (29.6)	-33464.2 (18725.6)
W (log)t-3	-0.17 (0.07)**	31.1 (28.4)	46048.3 (13454.7)***
W (log)t-4	-0.06 (0.07)	16.2 (25.2)	-7149.5 (12950.1)
W (log)t-5	0.04 (0.14)	54.8 (22.2)**	28093.9 (25047.9)
W (log)t-6	-0.002 (0.1)	-5.1 (30.0)	-34611.5 (19017.6)

Life	0.01 (0.005)**	-0.015 (2.04)	11.8 (843.8)
Search	-0.0007 (0.003)	0.7 (0.9)	123.9 (508.9)
	<i>Number of observations 108</i>	<i>Number of observations 108</i>	<i>Number of observations 108</i>
	<i>Standard regression error 0.013</i>	<i>Standard regression error 3.13</i>	<i>Standard regression error 2077.62</i>
	<i>R<sup>2</sup>(within) 0.732</i>	<i>R<sup>2</sup>(within) 0.605</i>	<i>R<sup>2</sup>(within) 0.809</i>
<i>Joint test on named regressors</i>	<i>F(15. 9) = 1.64057 p-value = P(F(15. 9) &gt; 1.64057) = 0.228844</i>	<i>F(15. 9) = 0.919185 p-value = P(F(15. 9) &gt; 0.919185) = 0.574976</i>	<i>F(15. 9) = 2.53828 p-value = P(F(15. 9) &gt; 2.53828) = 0.0805631</i>
<i>Hausman test</i>	<i>F(11. 9) = 1019.2 p-value = P(F(11. 9) &gt; 1019.2) = 1.54831e-012</i>	<i>F(11. 9) = 16.328 p-value = P(F(11. 9) &gt; 16.328) = 0.000125455</i>	<i>F(11. 9) = 4.83722 p-value = P(F(11. 9) &gt; 4.83722) = 0.0125815</i>
<i>Normality of error distribution test</i>	<i>Chi-squared (2) = 0.00876763. p-value = 0.995626</i>	<i>Chi-squared (2) = 0.246723. p-value = 0.883944</i>	<i>Chi-squared (2) = 1.64938. p-value = 0.43837</i>
<i>*** 1% significance level, ** 5% significance level, * 10% significance level</i>			

We can see that all the main formal tests (joint test on named regressors, Hausman test and test for the normal distribution of the error term) in all the estimated equations were met successfully, and our estimations are effective.

The results showed that wage level is a significant factor that positively affects the involvement of migrants in the workforce in the northern regions. Employment and unemployment react to changes in wages with different lags and, in both cases, negatively. From my point of view, it confirms the findings of previous empirical research and our theoretical assumptions about the greater flexibility of the labour supply in the northern territories. It also tells us that an increase in wage level attracts new employees from other regions, and this growth of the labour force population leads to the wage declining. More concretely, the estimated coefficients reflect the following picture. Growth of wages by 1% reduces the number of unemployed in the same year to 0.89 thousand people and increases net migration in the same year to 451 people. The simultaneous growth of wages and reduction in unemployment in the region most likely reflects increasing labour demand. In three years the growth of wages by 1% has a negative impact on the number of employees by 0.17%, which reflects the narrowing of labour demand. Also, this ratio can be interpreted as a reduction of real wages after hiring additional employees with a lag of three years. Both interpretations demonstrate a reduction in the need of the employer to hire new employees.

At the same time, three years after the 1% wage growth, net migration increases by 911 people. The lag looks quite understandable due to the period necessary for information distribution and making decisions about moving to another region. But, as is shown by the reaction of employment, employers do not have a need for additional workers anymore. In this context, the total decline of unemployment over five years by 0.89 thousand people compared with 0.35 thousand people, which has been estimated for the first year, looks quite logical. This difference demonstrates the positive dynamics of the number of unemployed from the second to the fifth years, which affects the signs of the coefficients of the lagged wages, although they are statistically insignificant. Thus, the results of my research reflect a surplus of labour supply with respect to labour demand in the High North of Russia. The reaction of the individual labour supply in the High North is too strong and leads to a decrease in wages and an increase in unemployment in the northern regions. In contrast, the reaction of the labour demand is moderate or at least not so flexible. The lack of flexibility of Russian employers (firms) in the hiring and firing process was also empirically proved by Gimpelson et al. (2010). By and large, it can be assumed that the artificial suppression of migration from the High North to the other regions of Russia will strengthen these negative consequences.

Some control variables also appeared to be significant. Firstly, an increase of 1% in the number of women per 1000 men raises the number of employees in a region by 1.23%. In spite of the fact that, according to Chapter 50 of the Labour Code of Russia, labour protection legislation for women is more stringent compared with that for men, the sign of this variable is positive. I can explain this with the assumption that usually women are paid less than men; therefore they are cheaper for the employer and it raises their employment numbers. Empirically, the lower wages of women were estimated by Arabsheibani and Lau (1999) and Oshchepkov (2006). The sign and significance of the variable of life expectancy at birth is also revealing. Its growth over a year increases employment by 1.37%. It reflects the impact of the quality of life in a particular region on the dynamics of the labour force population in the High North. A growth in life expectancy at birth increases the level of regional amenities, and employees can agree to work for lower wages without leaving the northern areas. Increasing the share of people of working age in the general population by 1% leads to a growth in net migration of 3 765 people. This fact reflects a concentration of the working age population in areas with higher wages, which attract immigrants. The structure of the regional economy also appears to be significant – a growth in the share of people employed in trade by 1% leads to an increase in net migration of 2 337 people. This result can be interpreted within the model of local labour markets' equilibrium (Moretti, 2011). Since I did not include employment in the main industries in the number of independent variables because of their high correlation with the GRP, I could not estimate their impact on the dependent variables. However, according to the model of Moretti (2011), employment in trade, which refers to the industries that produce so-called 'non-tradable goods', in the region, is secondary to that in the main industries. In other words, the main industries of the regional economy are the first to develop. They attract more employees, and this affects the development of the service sector, including trade, in order to serve the needs of employees of the other industries. Consequently, the significance and the sign of the structure of the regional

economy can be explained as a reaction of immigrants not only to the development of the trade itself but also to the growth of employment in the basic industries of the regional economy.

## **Conclusions**

The peculiarities of employment in the High North of Russia are based on the specifics of labour supply and labour demand in those regions. Individual decisions about labour supply are affected by regional amenities, which are able to increase the indirect utility to an employee in the High North, as long as the wages are also high enough to compensate for the unfavourable conditions of life. Labour supply responds to the dynamics of wages through interregional migration. The specifics of the Russian Labour Market Model are explained by the combination of officially strong employment protection regulations, weak enforcement and low labour market institution performance in general. All this leads to a combination of a sustainably high level of employment and a low level of real protection of employees in the Russian economy. The additional institutional regulation of labour demand in the High North of Russia, such as wage arrangements and employment protection legislation, is established by Chapter 50 of the Labour Code of Russia and assumes more stringent labour protection legislation in the High North compared with the rest of the country. This leads to higher costs in the hiring and firing of workers and has a significant impact on the labour market outcomes.

A number of empirical studies carried out on the Russian data have shown that differences in wages between regions had a significant impact on interregional mobility. Compensative differentials present themselves in the structure of wages of the individuals employed in unfavourable living conditions. The real value of the compensative differentials varies considerably under the influence of regional prices. All this makes the labour supply in the High North of Russia more flexible and the labour demand more constrained, compared with the rest of the country.

A fixed effects model estimated using the panel data for the High North regions of Russia from 2005 to 2013 demonstrated that wage is a significant factor and positively affects interregional migration to the northern regions. Employment and unemployment react to changes in wages with different lags and, in both cases, negatively. This may indicate that, even in the case of the need for additional employees in the High North regions, it will be covered only partly by immigrants and partly by the unemployed already living in those regions. Thus, the results of this research demonstrate the surplus of labour supply with respect to labour demand in the High North regions of Russia. The growth of wages attracts immigrants from other regions of the country and eventually leads to lower wages and higher unemployment in the northern territories. It can be assumed that the artificial suppression of emigration from the High North regions of Russia may strengthen these negative consequences.

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## BACK TO THE FUTURE: NATIONAL STRATEGY IN CONTEMPORARY RUSSIA

### Abstract

Global governance has been the dominating discourse in social sciences for the past decades (Djelic and Sahlin-Andersson, 2006). However, the very recent developments show that the unification of governance did not happen, and the nation-state remains the fundamental building block of the world order (Kissinger, 2014). Developing economies seem to challenge the Western model of globalization, and the BRICS countries, especially Russia, are the most aggressive change-makers. Russia and the collective West have a long history of ideological confrontation between Russian communism and Western liberal democracy. However, the studies of the Russian context show that neither official rhetoric nor practice offers any strong evidence of communism or socialism being restored in today's Russia. What is it then, if not communism, that Russia builds on, while defining its national strategy and designing its state governance system? This paper aims to answer this question by bridging the national ideology discourse and the emerging state strategic planning system in contemporary Russia. The authors argue that the strategizing pattern that the Russian state is trying to pursue is complex and sophisticated. The paper claims that the emerging system of state strategic planning re-evaluates – but does not employ – the Soviet planning legacy and also accommodates Western ideas. At the same time, the content of the national strategy builds on the ideology that is distinct from both Soviet and Western ideas, positioning Russia as an opponent to neoliberal globalization and Westernization. We claim that the institution of national strategy is constructed both under the influence of competing institutional logics, such as Soviet, Western and current Russian ideologies and through the mundane actions of individuals, involved in strategy-making, which can be defined as institutional work.

**Key words:** national strategy; strategic planning; Russia; Soviet planning; Russian ideology

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## Introduction

Around three decades ago, the Western research community witnessed the emergence of new approaches to understanding the relations between the state and the society, shifting the focus from national governments to transnational or global governance (Djelic and Sahlin-Andersson, 2006; Bevir, 2011). However, the very recent crisis in international relations, the demise of supra-national institutions and the revival of a national state as the key actor in security, welfare and politics challenge the existing order and question the post-modern mainstream literature. Kissinger (2014) suggests that political and economic organizations of the world are at variance: although the economic system has become global, the political structure has remained based on a nation-state as the main building block of the world order. In turn, think tanks close to the administrations of the European Union and Russia present the rise of a sovereign state as one of the strongest features of the near future (ECFR, 2015; Valdai, 2015). The developing countries are seen to be the main change-makers of the global order, the most powerful of which form the BRICS bloc: Brazil, Russia, India, China and South Africa. Although the supra-national global institutions, promoted by non-Western emerging leaders, are in principle designed similarly to those, engendered by the Western countries, they possess a key difference. Instead of trying to reorder the globe by imposing unified standards in capital markets, financial reporting or public administration, they secure each country's spheres of influence and construct a parallel governance system (Korostikov, 2015). The examples are the BRICS development bank, the Eurasian Economic Union and the Shanghai Cooperation Organization, to name just a few.

Shifting the economic gravity centre to the Wider Asia region challenges the existing approaches to political economy and geo-economics. The demise of the global significance of the G7 format after Russia quit the G8 and the emergence of the G20 forum, aimed at balancing the interests of advanced and developing economies, illustrates the above-described trends for the international relations discipline (Valdai, 2015). The nationalization of public sector governance reforms (Pollitt and Bouckaert, 2011) and the emergence of contextual models [at least in research] (Drechsler, 2013) illustrate the wider changes in post-modern global order for public administration and public governance. This creates sufficient rationale to pay attention to the contextual peculiarities of the emerging pillars of the new world order. Russia, with its vast territory, historical and cultural background, large economy and strong military forces, own regional integration project and growing political ambitions, represents an interesting context to discover.

Russia and the collective West have a long history of ideological confrontation between Russian communism and Western liberal democracy. The Soviet system is known for great achievements like industrialization and mass engineering education, which enabled accomplishment of the nuclear and space programmes just in the 20 years since the end of the devastating Second World War. Therefore, it would be natural to expect Russia's elite to turn back to the Soviet model for new great achievements. Indeed, the recent study by Tsygankov (2016) shows that the aspects of Russian politics that did not fit into the neo-Soviet autocracy narrative were widely ignored by the American media between 2008 and 2014. However, deeper studies of the Russian context

show that neither official rhetoric nor practice supply any evidence of the restoration of communism or socialism in today's Russia.

The state in Russia not only looks different compared to the West; it also has a different nature. The Russian language the concepts *gosudar'* and *gosudarstvo* for long time signified deep personal connections between the ruler and the object of power, depicting the quality of being a ruler and the territory of his rule (Kharkhordin, 2005). Therefore, when we talk about centralization and concentrating power in the hands of the Russian state, we should be very accurate in labelling this as the return of Soviet centralized administrative planning.

Although the strong state is a natural and probably inevitable feature of the Russian context (Tsygankov, 2014), the ideology behind public governance reforms clearly reminds us of New Public Management and other global trends, relevant to most developing countries (see for example Timoshenko, 2008; Antipova and Bourmistrov, 2013; Khodachek and Timoshenko, 2015). The Soviet governance system was built on two pillars: the theory of the socialistic state, based primarily on Marxism with significant amendments, and the developed methodology of administrative planning (well-known *pyatiletki* – five-year plans). We could not find strong evidence to claim that Marx and socialism have returned. Neither have we found the re-emergence of the detailed five-year production plans and administrative command mechanisms. What is it then, if not communism, that Russia builds on while defining its national strategy and designing the state governance system? This paper tries to answer this question by connecting Russian national ideology discourse and the emerging state strategic planning system. The authors argue that the strategizing pattern that the Russian state is trying to pursue is complex and sophisticated. Our findings show that the emerging system of state strategic planning indeed re-evaluates the Soviet planning methodological legacy, but, simultaneously, it accommodates Western ideas of the liberal market in economic policies as well as rational planning in the design of state strategic planning (Ansoff, 1965). At the same time, the content of national strategy builds on an ideology that is distinct from both Soviet and Western ideas, positioning Russia as an opponent to neoliberal globalization and Westernization.

Emerging at the exact time of probably the greatest turmoil in relations between modern Russia and the collective West, the turn towards other ideas in strategizing than those suggested by Western institutions and the Soviet legacy in ideology is an interesting shift in state governance. What are the key ideas in Russia's current ideological and strategic discourses, where do they come from and how do they emerge publicly? What are the key features of the emerging state strategic planning system, what are the implications behind them and how are they linked to the ideological discourse? These are the main themes discussed by this paper.

We claim that it is quite difficult to label the current model, which Russia is advancing. The ideological constructs promoted by Rossiya Segodnya (aka Russia Today or RT – the main official propaganda vehicle) and reflected in Russia's Strategy of National Security (issued 31<sup>st</sup> December 2015) may be traced to the ideas of post-Marxist thinker, Alexander Zinoviev, who criticized both Soviet communism and Western liberalism. The management methodology taught to top government executives in Skolkovo institutions is based on the ideas of Georgy Schedrovitsky,

who invented the so-called *action approach* in management, social design and strategizing. The World Public Forum “Dialogue of Civilizations” suggests *polycentricism* in the global economy with regional networks of nation-states as the main building block of the new global world order. Thus, many ideas and schools of thoughts promoting them are engaged in the public discourse on national ideology and strategizing.

We label Soviet communism, Western liberal globalism and current Russian ideology that distinct from both of them as competing institutional logics, framing the construction of the institution of national strategy. At the same time, the actions of government executives and the organizations they populate, their interpretations, translations and rationalizations of the ideas suggested by these logics also impact national strategy, especially at the level of strategizing patterns and practices.

Our findings can be relevant for those who are interested in governance ideas outside the mainstream literature and also for those, who, in their research on national strategy, are trying to connect ideology and governance.

The remainder of the paper is structured as follows. The next two sections present the theoretical implications and the methodology of the study. Then two empirical sections provide an analytical description of the Soviet planning system and present the key features of Russia’s emerging state strategic planning system, followed by an analysis of Russia’s current national strategy and national ideology discourse. Discussion and conclusion sections present the key findings, the dilemmas, and suggestions for further research.

#### **A note on method...**

The empirical section is framed as a literature review of key relevant texts devoted to the dismantled Soviet administrative planning system and the emerging Russian strategic planning system. Thus we show the distinctions between Soviet and Russian strategizing. The discourse analysis is performed through a study of online publications by authors and organizations involved in national strategy, ideology and politics.

We assume that there are links between ideological and strategic discourses and strategic planning documents. These links may be unveiled through commonalities in vocabularies used in online publications, key ideas and concepts that are transferred from discourses into the documents. Firstly, we identify the authors and the organizations involved in ideological and strategic discourses. The authors are experts, researchers and strategists, while the organizations are government agencies, think tanks, experts, analytical and research institutions, universities, media, state-owned and private companies, non-governmental organizations, etc. Then we define the affiliation of authors and build a network map of actors involved in ideology and strategy making. In so doing, we identify current Russian schools of thought in ideology and strategy and trace links between these schools of thought and state institutions responsible for or involved in strategic planning. We use a two-dimensional framework to situate the organizations and the schools of thought. The dimensions are: (horizontal) universal socio-political distinction between left wing and right wing views and (vertical) Russian distinction

between Slavyanofily and Zapadniki. The latter represent two traditional contradicting world views of Russia's elite in respect of Russia's stand towards Europe and the collective West. Slavyanofily (Slavophiles) was a 19<sup>th</sup>-century intellectual movement that wanted Russia's future development to be based on values and institutions derived from the country's early history; it insisted that Russia should not use Western Europe as a model for its development and modernization but should follow a course determined by its own character and history (Slavophiles, Encyclopædia Britannica). Meanwhile, Zapadniki (Westernizers) – the opposing intellectual group of the same period – emphasized Russia's common historic destiny with the West (Westernizers, Encyclopædia Britannica). Although these two names are primarily associated with an intellectual divide in the second half of the 19<sup>th</sup> century, many authors believe that contemporary debates on Russian identity are rooted in 19<sup>th</sup>-century disputes between them (e.g. Zevelev, 2009).

Having the framework (Appendix 1), we select key texts associated with the authors and organizations (media and research publications, scientific reports, official statements) and perform a discourse analysis to understand whether – and eventually how – the vocabularies, ideas and concepts are accommodated in strategic planning legislation (including strategies themselves as state institutions issue them in the form of legal acts). The selection criteria we use are time (from the beginning of 2014 until the end of 2016), relevance for the topic (they should either discuss or address ideology and strategy), and affiliation with the state (state entity, state-owned or state financed company/NGO or, if leaders, the key experts and the management should have previously worked in the government).

In order to understand whether and how Soviet, Western and Russian ideologies are accommodated in the work government agency responsible for strategic planning, we employ participant observation and conduct a series of interviews with the officers of that agency. *Due to the early stage of this paper in progress, the findings based on the observation and the interviews are not presented here and will be accommodated in the later versions of the text.*

### **...and theory**

From the theoretical point of view, we treat national strategy as a social institution: “an (observable) pattern of collective action (social practice), justified by a corresponding norm” (Czarniawska, 1997 in Czarniawska, 2009, p. 423). We claim that altogether public discourse and legislation may contribute to constructing the social norm of national strategy as a social institution in today's Russia.

Institutional dynamics can be explained in many ways. Researchers tend to distinguish two streams, recently emerged in institutional theory: institutional logics and institutional work. The former tends to see changes in institutions as a result of interactions among competing logics. Those can be the capitalist market, bureaucratic state, democracy, nuclear family and Christian religion (Friedland and Alford, 1991) or markets, states, corporations, professions, families, religions (Thornton, 2004) and communities (Thornton et al., 2012). The latter focuses on the micro aspects of institutionalization, attaching the processes of the creation, enhancement and disruption of institutions to the mundane daily activities of the members of organizations. The

main interest of institutional work is in describing the impact of individuals and collective actors on the “institutions that regulate the field in which they operate” (Lawrence and Suddaby, 2006, p. 218).

Researchers such as Zilber (2013) suggest that these competing analytical perspectives can complement each other and thus unveil different tiles in one mosaic of institutional dynamics. The main theoretical argument of this paper is to suggest how this framework, integrating two streams, may be applied to study the emergence of an institution of public governance – national strategy. We claim that the institution of national strategy is constructed both under the influence of competing institutional logics, such as Soviet, Western and current Russian ideologies and through the mundane actions of individuals, involved in strategizing, which can be defined as institutional work. The individuals are authors that represent the organizations with which they are affiliated, participating in the discourse of national strategy and ideology.

The paper’s main contribution is to the relations between national strategy and ideology and the strategic planning system. In other words, we are trying to see how the design of the strategic planning system and the content of national strategy are intertwined and what implications this may have for state governance.

### **Soviet planning and how Russia is not coming back to it**

In 2015, the Russian Federation celebrated 25 years of independence – the Declaration of State Sovereignty of the Russian Soviet Federative Socialist Republic was signed on 12<sup>th</sup> June 1990. Russia is generally recognized as the successor state of both the USSR and the Russian Empire. Unlike the case in China, the introduction of market mechanisms into the socialistic planned economy of post-Soviet Russia was rapid and dramatic. The reforms denied the possibility of a smooth transition, and the main planning institutions had been destroyed deliberately by the reformers as they constrained liberal market mechanisms. However, the market mechanisms alone could not instantly provide basic welfare. Only by the end of 2007, after a severe economic crisis when the economy contracted by up to 50%, did Russia reach the GDP (PPP) level it had in 1991 (RA Expert, 2007). Although the liberal market paradigm of economic policy, proclaimed at the beginning of the 1990s, dominates both official and national academic discourse, there have been several attempts to re-evaluate the Soviet planning legacy. Soviet socialistic planning functioned for more than half a century and appeared to be extremely effective in concentrating resources on key directions like space and nuclear programmes. Besides, it allowed the rapid recovery of the country to be achieved after the exhaustive Second World War, without external aid like that of the Marshall Plan. Even after the collapse of the Soviet Union, its merits still attract thinkers searching for alternatives to Western mainstream ideas (see e.g. Cottrell and Cockshott, 1993).

There were two pillars of the planning system in the Soviet Union: the theory of the socialistic state, based primarily on Marxism with significant amendments, and the methodology of



planning. The key feature of this system was a heavy reliance on national science that provided both the theoretical background of Soviet socialism and technologies for planning<sup>10</sup>.

Marx's theory was enriched by significant amendments, suggested by leading Soviet economists and Joseph Stalin himself: the so-called *theory of the development of the socialistic state*. The fundamentals of this theory had crystallized within the 15 years between 1936 and 1951 in the discussion on a new course of political economy for the Soviet education system. There were two main products of that discussion: the draft of a textbook *Political economy of socialism* and a famous collection of essays by Joseph Stalin, named *Economic problems of socialism in the USSR* (Stalin, 1951). While not denying the role of the market in the economy, Stalin suggested that the regulatory system in socialism should be twofold: the market and the state.

In the 1960s, the theory of the socialistic state was enhanced by the theory of optimal functioning of the economy, suggested by several Soviet economists at the Soviet Academy of Science: Albert Vainshtein, Aleksandr Lurye, Leonid Kantorovich (1975 Nobel Prize laureate), Vasily Nemchinov and Viktor Novozhilov. The main contribution of the theory of optimal functioning of the economy to the planning system was the econometric modelling of mass consumer behaviour and linear programming. The theory proclaimed the existence of an optimal point in mass production where the differential labour inputs are in proportion with the differential social effect. In their work, Aleksandr Lurye and his colleagues reflected on the ideas of the Russian imperial economist, Mikhail Tugan-Baranovsky, the scientific leader of Nikolai Kondratiev, known for his theory of 'K-waves' (Kondratiev waves) or *long economic cycles*. The theory (or in later works – the system) of optimal functioning of the economy suggested the following principles:

- combination of centralized planning with the autonomy of single production entities;
- coordination of the interests of production entities with general economic policy;
- wide-range use of economic instruments (prices, profits, interests, etc.) in the design and implementation of economic plans;
- application of mathematical methods, linear programming, and numerical engineering.

In the 1980s, the theoretical framework of Soviet planning focused on the duality of the person in a socialistic economy, trying to balance his/her roles as a unit of production force and as a consumer. The issues of quality of life, social interaction, and spiritual development led to the concept of *socio-economic optimum*, where these synthetic needs, sometimes of a non-material nature, could be satisfied. Thus, the Soviet theory of the socialistic state shifted its focus to human needs and the ways in which the state could satisfy them.

The second pillar was the planning methodology based on numerical engineering and the balance method with its advanced version – the *inter-industry balance*. The inter-industry balance method is also known as the *input-output method*, further developed by Wassily Leontief (1973

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<sup>10</sup> Here and hereafter in this section we introduce the key ideas of the book *Fundamentals of strategic planning of the Russian Federation* by Olga Smirnova (2013), former executive of the Ministry of Regional Development of Russia.

Nobel Prize laureate). The idea of inter-industry balance was applied in the first balance of the national economy in 1923. Although Leontief is the most well-known author of the input-output method, his Soviet counterparts, Mikhail Bor, Stanislav Strumilin, and Shamaï Turetskiy, did much for the fully-fledged application and development of the inter-industry balance method in the planning system of USSR in the 1950s. Gosplan (the state planning commission created in 1921) widely adopted the inter-industry balance method in forecasting, industrial and spatial development, and strategic planning.

The system of complex planning and forecasting would be impossible without the application of mathematical apparatus, developed by Leonid Kantorovich and his colleagues, who, in fact, founded the Soviet school of mathematical modelling in economics. The models included three levels: industry (sector), multi-industrial complexes and national economy. Through the integration of these models with spatial development plans, Gosplan tried to achieve the balanced and efficient use of the vast territory of the Soviet Union. The strategic planning system used the scenario approach and included several dimensions, such as:

- quality of life;
- scientific and technical development;
- economic, industrial (sectoral) and spatial modelling.

It used the most advanced, for that time, integrated computing and modelling infrastructure, named the Automated System of Planning Calculations. In the 1970s, the advances in calculation techniques allowed the use of the programme-target approach to long-term strategic planning. Target programmes set priorities and problems that required a special focus, apart from the five-year plans. The complex hierarchy of plans' and programmes' targets challenged the calculating infrastructure, but, at the same time, it allowed their aims to be attached closer to the ground, making the planning system more flexible and realistic.

Smirnova (2013) mentions the following key achievements of the Soviet planning methodology:

- continuity and steadiness of strategic planning;
- integration of strategic planning with scientific and technological progress;
- integration of spatial and industrial (sectoral) dimensions of economics in strategic plans.

Vivid examples of effective application of those principles are the *spatial-industrial complexes*, created in Siberia under the supervision and assistance of the Siberian branch of the Soviet Academy of Science.

The reforms, conducted at the beginning of the 1990s with the aim of replacing centralized administrative planning with market coordination mechanisms, destroyed the main Soviet planning institutions such as Gosplan, applied economic research infrastructure and computing machinery. However, the expectations of increasing efficiency in the economy and overcoming the pitfalls of administrative planning were not fulfilled due to the uncontrolled collapse of supply chains and social welfare. The inefficiency of the Soviet administrative system compensated at the higher level by its smart design, aimed at allocating industrial production according to the

geographical conditions of the vast country. When national republics gained independence, there were no stimuli for new owners of industrial assets to cooperate through custom and administrative borders. So, all post-Soviet countries have lost significant shares of their GDP, creating catastrophic consequences for welfare.

As an element of Soviet heritage, today the Russian state has a huge and developed bureaucratic apparatus and an advanced, but obsolete, welfare system. Besides, the state is a significant actor in the national economy, directly or indirectly controlling in total around 70% of Russia's GDP (Federal Antimonopoly Service report, 2016). The governance of the state, the public sector and the state-owned enterprise sector is extremely sophisticated and faces continuous attempts to reform it by top political leaders. The global ideology of New Public Management (NPM: Hood, 1991) seems to have influenced the content of reform concepts and policies in Russia (Timoshenko, 2008). However, research shows that recent public sector reforms, more reminiscent of adaption than adoption (Bourmistrov, 2001), pursue the legitimacy of the Russian state in the international arena rather than enhance instrumentality for local users (Timoshenko, 2008) and, although well satisfying the top political agenda, they contradict existing traditions (Antipova and Bourmistrov, 2013). The broader study of public administration reforms describes the unveiled contradictions as *incommensurability*: the NPM content of the reforms conflicts with the political agenda, described as creating *the vertical of power* (Zherebtsov, 2014). Most recent studies report the nationalization of NPM-like reforms and the emergence of hybrids, accommodating different ideas from various reform ideologies (Khodachek and Timoshenko, 2015).

The previously mentioned studies focus on changes in government accounting and budgeting or broader public administration reforms, occurring before 2014. However, there have been significant changes since. In June 2014, President Putin signed a new law #172-FZ from 28<sup>th</sup> June 2014 "On strategic planning in the Russian Federation". This law binds together in a single huge governance system all three levels of public governance (federal, regional and municipal); public sector entities; state-owned enterprises and, although indirectly – private companies that have so-called "strategic significance for national security and economic development". The law defines key concepts of strategic planning, e.g. aim, task, result (outcome), forecasting, programming, monitoring, the system of strategic planning, etc. It also states key principles of strategic planning, describes the documents that are to be issued at all levels of governance for the implementation of the law and regulates interrelations among the participants of strategic planning. The so-called system of strategic planning emerges as an extremely sophisticated set of forecasts, strategies and plans, aimed at coordinating federal, regional and local budgets with the socio-economic development of Russia, its regions, and municipalities. The federal Ministry of Economic Development became responsible for creating the *state strategic planning system*.

In 2015 the Ministry of Economic Development initiated a comprehensive research project aimed at formulating suggestions on the implementation of the new law on strategic planning. The work was outsourced to the Institute of State and Municipal Management at the National Research University Higher School of Economics. Under the authorship of the head of the institute, Andrey Klimenko and his group, the 284-page report provides an overview of the theory and

methodology of strategic planning on an international scale and suggestions on amendments to the federal legislation. Besides, the report analyses the law itself and concludes that the design of the system of strategic planning in Russia implies the rational planning model, developed by Igor Ansoff (1965) and reminiscent of the Soviet planning system. According to Klimenko et al. (2015), the key features of the design of the system are rigid hierarchy, direct through top-down planning and bureaucratic control. All these, as the report says, allow the emerging system of strategic planning to be defined as belonging to a “classic strategic management approach” (Klimenko et al., 2015, p. 15). Thus labelling the system, they refer to the following works: Strumilin (1932), Ansoff (1965) and Christensen et al. (1965). Klimenko et al. (2015) claim that the “classic strategic management approach” has many pitfalls, the main one of which is the inability of the planning system to cope with external turbulence. They also mention the lower level of the flexibility of the system, and the weaker forecasting capacity with higher costs. The conclusion of the analytical part of the report is that adopting a classic strategic management approach exposes the planning system to the relevant and well-known risks of uncontrolled increase of running costs. The latter, with the system’s expected ignorance of the implementation issues, should lead to bureaucratization of the strategic planning practices and reduction in the value of the strategizing system, making it in fact not a strategic, but rather a “technical planning system” (Klimenko et al., 2015, p. 15).

In order to cope with the mentioned pitfalls of classic strategic management approach the authors of the report turn to the concept of uncertainty, claiming that uncertainty should be the key factor in re-thinking of state strategic planning. They call for the introduction of corporate practices into the work of government organizations, suggesting that the most advanced techniques are developed in private companies. The authors mention the resource-based view, the dynamic capabilities approach, inter-organizational relations and knowledge management as the key ideas relevant for adjusting the emerging strategic planning system to uncertain environment and turbulence. However, they say that these techniques require adaptation to the government organizations’ specificity. Klimenko et al (2015) refer to the following works: Duncan (1972), Collis (1992) for the conceptualization of uncertainty; Beinhocker (1999), Kaplan, Beinhocker (2003), Doz, Kosonen (2008) reflecting on their call for ‘real-time forecasting’; Beinhocker (1999), Kaplan, Beinhocker (2003) as a new approach to understand the multiplicity of the future; Doz, Mikko (2008) who suggest externalization and explorative approach to the information management.

Klimenko et al. (2015) insist on complementing the classic approach with techniques and instruments, assisting to navigate the state in turbulent environment. Thus, they suggest the so-called ‘integral’ system of strategic planning that in addition to hierarchical order of documents has a strong focus on interaction among actors involved in strategy formulation and implementation, stimulates the involvement of private companies in strategizing and employs various techniques of quality and performance management (Total Quality Management and process management, Key Performance Indicators, etc.). Besides they suggest adding accent to organizational culture, develop foresight and forecasting techniques, and such models as robust

and fast strategies. All these, they say, should make the system more flexible and increase the capabilities of handling various kinds of uncertainties.

### **If not Soviet, what then?**

In 2014 the Russian authorities consolidated key media assets RIA Novosti and Russia Today (RT) into the large information agency, Rossiya Segodnya (transcript of Russia Today), appointing Margarita Simonyan, the head of the RT network as a chief editor. Also through financial and political support, the state enabled several pro-Russian think tanks in the form of non-governmental organizations. These are so-called clubs: the Zinoviev Club, affiliated with Rossiya Segodnya, and the Valdai Club, affiliated with the Russian Foreign Affairs Council. The Zinoviev Club studies and discusses the works of Alexander Zinoviev, the Russian thinker, logician and philosopher, who criticized both the pitfalls of the Soviet Union and the Western pattern of globalization. He became famous for his concepts of ‘catastroika’ (catastrophe and perestroika), ‘manhill’ (anthill and man), ‘homo soveticus’ and ‘super-society’. Although Zinoviev builds his arguments on Marx’s ideas, his followers claim that he overcame Marx and provides novel ideas, based on understanding and explaining the world through the direct application of principles of logic. He criticizes the collective West for the decoupling of power and state, meaning that executives of transnational corporations and oligarchs throughout the whole world in fact represent the real power – he labels them as the *super-society*. Unlike the power of the elected politicians, the power of the super-society is not restricted by the legal bindings imposed on government and parliaments by democratic regimes. Thus, he concludes, the world is about to be ruined by their rush to unlimited profit as a result of unlimited power. Together with other think tanks, such as the Russian Institute of Strategic Research (RISI) and the Valdai Club, the Zinoviev Club is supposed to establish and propagate novel Russian ideology, distinct from both Soviet socialism and Western liberalism.

Alexander Zinoviev was the founder of the Moscow Logical Circle that later became the Moscow Methodological Circle – an informal forum at the Faculty of Philosophy at Moscow State University. While Zinoviev was clearly the most famous philosopher and logician among members of the club, the distinct methodology of management, based on the so-called action approach was suggested by Georgy Shchedrovitsky.

Apart from state-endorsed clubs, there are communities initiated by former top level executives from government or state-owned enterprises. Examples include The Committee of Citizens’ Initiatives, supported by former minister of finance, Aleksei Kudrin, and World Public Forum “Dialogue of Civilizations”, supported by former head of Russian Railways, Vladimir Yakunin.

We have located these think tanks, government agencies and other institutions such as universities on a single map (see Appendix 1).

### **Concluding discussion**

A quarter of a century since the collapse of the Soviet Union and 15 years after the start of recovery from the harsh economic crisis, the strong centralized Russian state again plays the key

role in Russia. The idea of historical reliance on the strong state was captured very well by the current Russian leader: “Our state and its institutions have always played an exceptionally important role in the life of the country and its people. For Russians, a strong state is not an anomaly that should be gotten rid of. Quite the contrary, they see it as a source and guarantor of order and the initiator and main driving force of any change” (Vladimir Putin, cited in Tsygankov, 2014, p. 6).

Researchers depict the state in Russia as not only looking different, compared to the West, but also having a different nature. In the West historically the word ‘state’, derived from *le stato* in Machiavelli’s *The Prince* or *status regni* in Justinian’s code, meaning ‘the upstanding position of the sovereign or the order of things’, was finally detached both from the people and from the person of the prince, while Russia did not adopt the Latin term for the same purpose. In Russian, the concepts *gosudar’* and *gosudarstvo* represent long-signified deep personal connections between the ruler and the subject, depicting the quality of being a ruler and the territory of his rule. The proper translation of *gosudarstvo* would be ‘domain’ from Latin *dominatio* – a regime of domination, frequently implying personal possession. Both *the state* and *gosudarstvo* have transformed from meaning the personal domination of the prince to describing an apparatus of government, but this transformation happened in different historical periods and in different manners, which helps us to understand the semantic distinctions they still probably have today (Kharkhordin, 2005).

Although the Russian tradition of autocratic statehood has always been distinct from that of the West, the strong state Russia is building in the post-Soviet period is also going to be distinct from its past forms (Tsygankov, 2014). Thus, when we talk about centralization and concentrating power in the hands of the Russian state, we should be very accurate in labelling this as the return of Soviet centralized administrative planning. Although Smirnova (2013) clearly demonstrates great respect for the Soviet planning legacy, she concludes that the resurrection of administrative planning is impossible: “One should not perceive the creation of a strategic planning system as an attempt to revive Soviet direct planning – it stayed in the past” (Smirnova, 2013, p. 20).

It seems to be that the background of the law is based on the idea of a *rational planning approach*, suggested by Igor Ansoff (1965). Although the focus of Ansoff and his successors was mainly on how to make a corporation compete more successfully, the main idea of rational decision-making, as well as the implementation of these decisions, corresponds to the main ideas of the law.

The ideology which the Russian state is trying to construct is distinct from both Soviet communism and Western neoliberalism. It promotes a strong state as a key strategic actor and personalizes the power of the state in a strong charismatic leader, which is an integral feature of the Russian context. Although many thinkers and strategists acknowledge and re-evaluate the Soviet experience of administrative planning, both at the instrumental and at the ideological level, this experience is not seen as the panacea for handling the current challenges Russia faces domestically and in the international arena.

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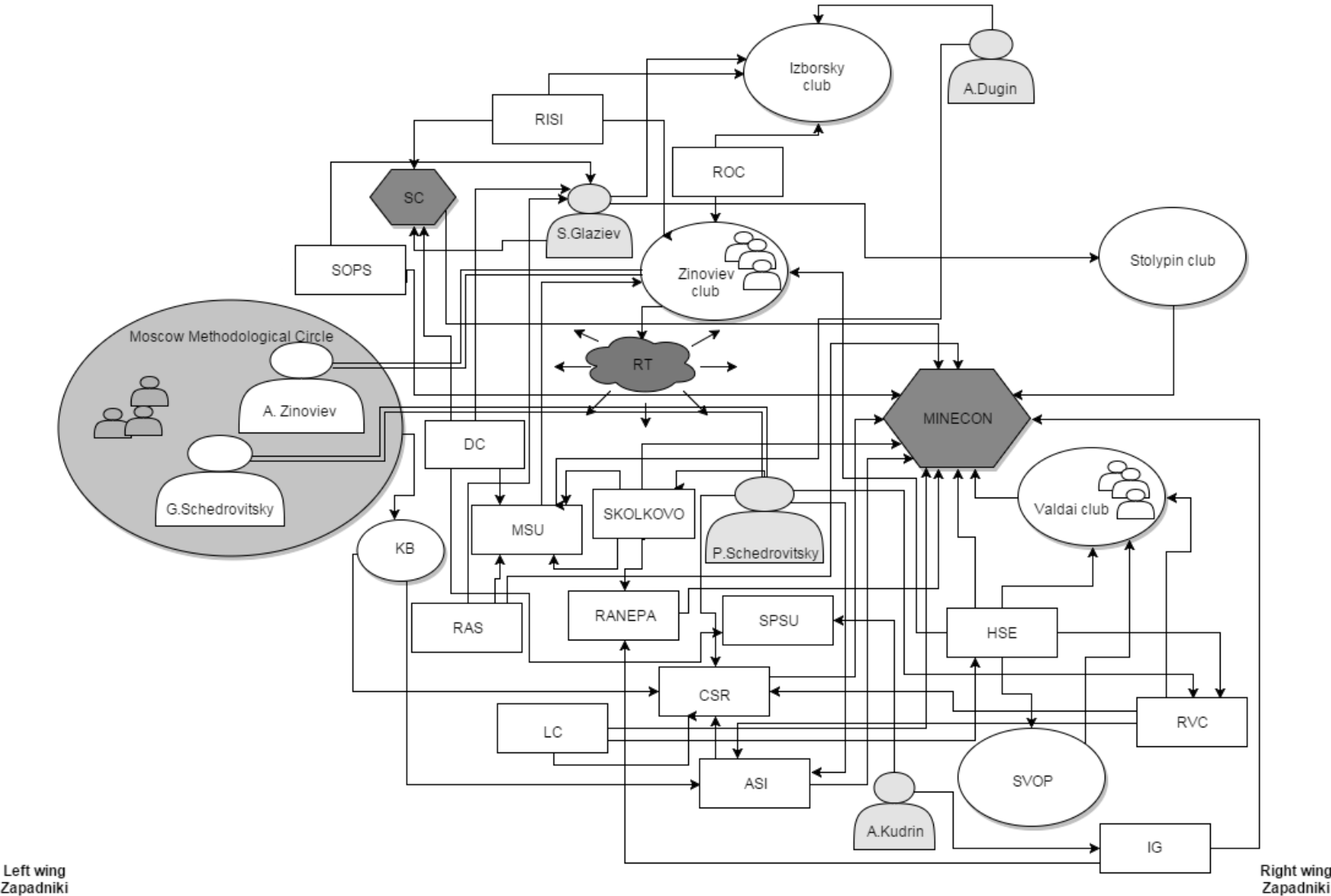
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Left wing  
Slavyanophily

Right wing  
Slavyanophily

Contemporary Russian schools of thoughts on ideology and strategizing



Left wing  
Zapadniki

Right wing  
Zapadniki

The list of organizations presented in the diagram with the affiliated persons, involved in Russia's national strategy and ideology discourse.

1. ASI - Agency for Strategic Initiatives
  - a. Andrei Nikitin
  - b. Dmitrii Peskov
2. CSR - Centre for Strategic Research
  - a. Vladimir Knyagin
  - b. Aleksei Kudrin
3. HSE - Higher School of Economics
  - a. Andrey Klimenko
  - b. Vladimir Korolev
4. IG - Gaidar Institute
  - a. Anatoly Chubais
  - b. Aleksei Kudrin
  - c. German Gref
5. Izborskiy Club
  - a. Aleksandr Prokhanov
  - b. Sergey Glazyev
  - c. Aleksandr Dugin
  - d. Zhores Alferov
  - e. Bishop Tikhon
6. DC - Dialogue of Civilizations
  - a. Vladimir Yakunin
7. KB - Future Designing Group
  - a. Sergey Pereslegin
  - b. Artyom Zheltov
8. LC - Leontief Centre
  - a. Leonid Limonov
9. MINECON - Ministry of Economic Development
  - a. Oleg Fomichev
  - b. Elena Chuguevskaya
  - c. Elena Rozhkova
10. MSU - Moscow State University
  - a. Aleksandr Auzan
11. RANEPА - Russian Academy of National Economy and Public Administration
  - a. Vladimir Mau
12. RAS - Russian Academy of Science
  - a. Zhores Alferov
  - b. Sergey Glazyev
13. RISI - Russian Institute for Strategic Research
  - a. Leonid Reshetnikov

14. ROC - Russian Orthodox Church
  - a. Patriarch Kirill
  - b. Bishop Tikhon
  - c. Vladimir Legoyda
15. RT - Rossiya Segodnya Information Agency
  - a. Dmitriy Kiselev
  - b. Alexei Pankin
16. RVC - Russian Venture Company
  - a. Igor Agamirzyan
  - b. Evgenii Kuznetsov
17. SC - Security Council
  - a. Nikolai Patrushev
  - b. Leonid Reshetnikov
  - c. Sergey Glazyev
18. SKOLKOVO - Skolkovo Cluster (includes Open University Skolkovo, Moscow School of Management Skolkovo, Skolkovo Institute of Science and Technology and several other organizations)
  - a. Petr Schedrovitskiy
  - b. Andrey Volkov
19. SOPS - Council for Study of Production Forces
  - a. Olga Smirnova
  - b. Aleksandr Pilyasov
20. SPSU - Saint Petersburg State University
  - a. Aleksei Kudrin
21. SVOP - Council on Foreign and Defence Affairs
  - a. Igor Ivanov
  - b. Fedor Lukyanov
  - c. Dmitriy Badovskiy

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## REGULATORY CHALLENGES FOR THE RUSSIAN HIGH NORTH DURING THE CURRENT ECONOMIC CRISIS

### **Abstract**

Specific features of government regulation in the Russian High North are associated with three factors: a) the external business environment, b) the impact of national government, and c) the adaptation of Russian businesses to changes in regulation. The author reveals the cycle of the "impact of government regulation on operations of firms" and, demonstrates businesses' adaptation to the impact of national government during the crisis and the subsequent demand for further government regulation.

**Key words:** government regulation; Russian High North; adaptation of firms

## **Introduction**

The need to make changes to government regulation is caused by the current crisis in the Russian economy. The drop in global oil prices has led to a decrease in the ability of the government to support businesses in the development of the North. During the crisis, changes to government regulation in the Far North of Russia may be carried out either by providing governmental support to businesses and the regions, or by improvements in performance of the businesses. This crisis requires not the strengthening of government regulation for the development of the North but greater attention to the adaptation capabilities of firms. Moreover, climate change creates further challenges for the adaptation of firms. Improving the adaptation shall be possible through the use of the cycle “impact of government regulation on operations of firms”.

The article aims to contribute new knowledge in respect of the contemporary crisis and its impact on the economy of Russia, problems of government regulation in the High North of Russia, and the adaptation of firms to government regulation. In the scientific literature, regulation is mainly regarded as rules, structures and institutions that govern, regulate and control economic life. In recent decades, however, the concept of regulation has been extended (Baldwin et al., 2010; Lukichev, 2015). Most researchers of government regulation either argue for government intervention in the economy or suggest arguments in favour of deregulation. At the same time, measures proposed by legislative and executive branches may not necessarily be effective due to the capacity of firms of adapting to them. This problem is particularly acute in conditions of the High North' economy.

Falling global energy prices place the economies of all resource-producing countries in an extremely difficult position. The focus of this paper is to build a framework for obtaining insight into how the capacity of firms to adapt to the impact of the government determines their capabilities for organization of optimal business concepts.

## **Method**

This paper represents qualitative research. The main contribution of the article is achieved on the basis of an analytical review of the literature. The framework is applied at two levels: the level of norms and the level of practice, representing the macro-level and the micro-level, respectively. On the norm level, it investigates Russian government regulation of the business environment in the Far North.

## **Analytical discussion**

By the end of 2015, Russian businesses were in a difficult position due to international sanctions and the actual devaluation of the ruble. By its actions the government may change the economic situation. How successful are these actions for economic subjects? In the long run, government regulation aims to consciously change the 'game rules' for companies by creating a new 'business – environment'.

Economists of the 20th century used two main approaches to explain government regulation of the economy.

The first approach Orthodox can be defined public interest theory. According to Veselovsky et al. (2015), the main argument in favour of government regulation is a need to bring elements of order into economic development, as the classic market regulation no longer works in these conditions. Epstein (2013) states that the belief that a disembodied free market - one which does not rest upon government force will function effectively is certainly a mistake of epic proportions, if not an anarchist myth. Glaeser & Shleifer (2003) argue that, in many instances, regulation is strictly necessary because the alternative a form of case-by-case-litigation- can easily prove to be worse. Djankov (2004) also writes that regulation is necessary to secure creation by individuals of property rights that are good against the rest of the world - a state of affairs that no system of voluntary contracts can hope to create.

Regulatory capture theory presents the second approach to government regulation. This theory was first advanced by George Stigler (Stigler, 1971). He noted that, with its power and organizational apparatus, government is a potential source or threat to every industry. Therefore, according to Stigler, the main tasks of economic regulation theory are to explain: who will receive the benefits or burdens of regulation, what form will regulation take, and what are the effects of regulation upon the allocation of resources? Stigler's central thesis is that regulation of the industry, as a rule, is acquired by the industry and is designed and operated primarily for its benefit (Stigler, 1986).

In any case, as Epstein (2013) suggested, the study should seek to find what kinds of regulations are desirable as a result of positive consequences they bring about and, conversely, what kinds of regulations are generally dubious because of the negative consequences they cause.

Government regulation is carried out simultaneously at different spatial and temporal levels. The national (federal) level of regulation is usually the leader. It provides equal competitive opportunities for all manufacturing companies. Sometimes, however, the economy begins to strengthen a trend towards regional management. For example, in a large economy there are significant differences in the levels of development between individual regions, such as North Russia, South Italy, and the polar regions of Norway, Sweden, and Finland. This necessitates a special regional regulatory policy.

It is important to analyse regulation and deregulation as sources of environmental turbulence and, at the same time, as an opportunity for broader strategic choice for firms (Shaffer, 1995). In the short term, government intervention in the economy, as a rule, is aimed at solving current problems and, in particular, at the elimination of those market failures and market inefficiencies, which it considers to be temporary. In the long term, government regulation aims to change intentionally change the 'rules of the game' and to create a new 'business – environment' for firms. In this article, we will mainly consider the long-term aspect of regulation. In our opinion, an evaluation of the effectiveness of government regulation requires regular analysis of the temporal and spatial levels of this process.

Government regulation should not replace the business activity of firms but develop a strong institutional framework for businesses and provide them with equal conditions for competition in the global market. Therefore, the development and enforcement of regulation for the Russian

economy, based on a combination of support for Russian firms and the development of competition, are the foundations for economic growth in Russia.

Specific features of government regulation in the Russian High North are associated with three factors: a) the external business environment, b) the impact of national government, and c) the adaptation of Russian companies to the changes in regulation.

In respect of the first factor we distinguish the political, transport, and environmental components. The modern High North is an arena for international cooperation. In particular, the Russian High North has attracted growing interest from foreign companies as a route for transit traffic. It is also drawing the attention of industrial companies due to the large deposits of natural resources. The unique landscape, wilderness and other natural resources such as oil and gas promise and favour potential opportunities. Indeed, economic activity in the Arctic has already increased in recent years, not least because of new technologies and the melting of the ice, which improve the accessibility of these polar regions and make operations there more economical (Howard, 2009).

Although the policy of economic sanctions has an adverse effect on all Russian companies, it is particularly detrimental to transport and environmental problems, which are specific to businesses of the High North. The share of transport costs in the cost of final products in the Arctic zone of the Russian Federation is as much as 60% (the national average is 10 %). In this context, the design and implementation of measures for the development of a unified Arctic transport system of the Russian Federation, focused on year-round operation, is required. It should include the Northern Sea Route, as well as meridional rivers, railroads, a highway system and an airport network. Nevertheless the High North's limited customer base restricts opportunities for developing competitive markets and economies of scale (Scott, 1999).

The very fragile nature of the High North (Borgerson, 2008; McGuire, 2015) requires special protection due to the expansion of mineral extraction. Global warming not only provides new opportunities for the development of the High North but also causes problems; it will be much harder to build houses and structures on thawing permafrost.

Despite the relative intactness of the natural environment at the Russian Arctic (as compared to other regions), its high sensitivity to anthropogenic and technogenic pollution determines the need for a system to monitor projects at all stages of their development. The aim is to develop preventive measures to mitigate the negative impact on Arctic ecosystems.

Stern (2007) states that standard externality and cost-benefit approaches have their usefulness for analysing climate change, but, as they are methods focused on evaluating marginal changes and generally abstract from dynamics and risk, they can only be starting points for further work. Modern Russian firms operating in the Far North are faced with two challenges: the first is climate change and the second is changing government regulation.

According to Stern (2007) climate change has specific features that, taken together, pose particular challenges for the standard economic theory of externalities. There are four distinct issues:



- Climate change is an externality that is global in both its causes and consequences.
- The impacts of climate change are persistent and develop over time.
- The uncertainties are considerable, both in terms of their potential size, type and timing of impacts and in terms of the costs of combatting climate change; hence the framework used must be able to handle the risk and the uncertainty.
- The impacts are likely to have a significant effect on the global economy, if actions are not taken to prevent climate change, so the analysis must consider potentially non-marginal changes to societies, not merely the small changes amenable to ordinary project appraisal.

All these circumstances require active government regulation in the High North. This is manifested in the efforts of the government to create conditions for Russian companies. According to *Doing Business*, in the last two years the rating of Russia has risen by 11 positions up to 51<sup>st</sup> place among the 189 countries of the world (World Bank, 2016). For the last 10 years, over-regulation of the Russian economy has declined and today the burden of government regulation is easier than that in France or in Spain (The Economist, 2014). In this article we take a closer look at the third factor.

Reality and the goals of government regulation may significantly diverge during the period of government interference in the operations of sector, region or individual enterprise. It is difficult to assess whether it is 'good' or 'bad' in economic terms for regulated objects of government influence, without taking their adaptive capacity into account. In order to explain the possibilities of this trend, we introduce **the cycle "The impact of government regulation on operations of firms"**, which describes the adaptation of businesses to measures of government influence and, in response, the influence of businesses on the government.

We distinguish the following six stages of the cycle.

Stage 1. National macroeconomic policy determines the need for an extent of government intervention in the economy in a given period.

The predominance of the political component is typical for this stage. Currently, the anti-crisis plan of the Government of the Russian Federation is aimed at achieving two goals. The first is to support import substitution. This concerns the non-primary sectors of the economy. Thus, it will make real diversification of the Russian economy possible. The second is to increase employment. The government intends to increase the proportion of the working-age population employed in small and medium-sized businesses from 25 to 50%. Sustainable development of small and medium businesses will only be possible with the long-term government measures to support business, not within the current program of 'patching the holes'.

Stage 2. Government regulation changes the external economic environment in which firms operate.

At this stage, the government decides on forms and types of government regulation. The government determines the optimal combination of economic and social goals; selects the most effective combination of various forms of government regulation in this period: nationalization

(privatization), fiscal and monetary policy, direct regulation; evaluates the necessary duration of the influence of the government on the economy. It calculates the 'cost – benefit' of government regulation. "Framework conditions", in which firms operate, are thereby changing. Different kinds of government regulation have significantly different dimensions in respect of the costs of their implementation. Regulatory costs of \$1,88 trillion amount to 11 percent of the U.S. gross domestic product (GDP), which was estimated at \$17,599.8 billion in 2014 by the Commerce Department's Bureau of Economic Analysis (Crews, 2015). As a consequence, the efficiency of individual producers is distorted, and it is not always economically justified. Therefore, society shall continuously monitor not only the funds allocated to government regulation but also the effectiveness of the use of these funds. The problem of efficiency of government regulation is increasingly relevant in the environment of falling budget revenues due to declining oil prices and anti-Russian sanctions.

Stage 3. Development of new institutions.

At this stage, institutions, as understood by North (1990) in a broad sense to be the establishment of effective rules and arrangements for the behavior of firms, should be changed in accordance with the change in the 'business – environment'. For businesses, the latter either creates opportunities for development or builds tight barriers to operation. Some studies investigate how export market characteristics, such as local government regulation, infrastructure differences, export market lag, cultural differences, differences in tastes and preferences of end users, and competition intensity, affect ideal and actual product adaptation (Johnson et al., 1995). Others have indicated the importance of the analysis of development based on commodity revenues (Gurieva et al., 2009).

Stage 4. Firms choose a way to adapt to the measures of government regulation.

For private firms, there are three methods of action at this stage: 1) to adapt; 2) to fight actively or passively for a change in "framework conditions"; 3) a combination of both. In 2013, oil and gas revenues, as a percentage of budgetary revenues of Russia, amounted to 50.2%. More than forty percent drop in world oil prices from July to December 2014 was the biggest shock for the global economy and for the economy of Russia particularly.

Russia's economy is highly dependent on the "resource curse". While the resource curse hypothesis postulates a negative effect of resource abundance on output growth, the empirical results show the contrary: commodity terms of trade growth seem to have affected primary-product exporters positively. Since the negative impact of commodity terms of trade (CTOT) volatility on GDP per capita is higher than the growth-enhancing effects of commodity booms, volatility, rather than abundance per se, drives the resource curse paradox (Cavalcanti et al., 2012)

The market, fulfilling its coordinating role in the economy, is both organizer and destroyer. As noted by Lessourne, creation of an order is powered disorder, and that the destruction is accompanied by consciousness (Lessourne, 1992). Therefore, every external shock, such as a drop in oil prices in 2014, modifies the values of the upper and lower demand firms and destroys

the previous stable state. New framework conditions in which firms operate, give them two options: either to suffer bankruptcy or to adapt.

In modern conditions, the operations of a business largely depend on the 'influence' exerted on its managers. More effective impact on the managers (directors) of enterprise leads to more efficient use of the factors of production in the company. This leads therefore to a more efficient operation of the enterprise. The further activities of the company will depend on how shareholders or bureaucrats (politicians) may again affect the managers (directors). We emphasize that the choice of a particular method of adaptation for the company depends largely on the company's life cycle. Companies in a startup phase bear relatively small costs of adjustment to government regulation measures. On the contrary, companies in a mature phase, or in a phase of decline, may face significant costs in adjusting to government regulation.

Stage 5. Real changes in the internal structure of the company and in the mechanism of decision-making.

These changes are directly dependent on motivation of the company. The most common are: 1) the firm is maximizing profits; 2) the firm is acting in accordance with the management theories and is maximizing sales. Most Russian companies now have the form of the enterprise, which is directed at survival (EDS). An enterprise, directed on survival, reduces its transaction costs and, depending on successfulness of its operation either survives, or goes bankrupt. Reduction of both traditional and transaction costs is now a priority for each of the Russian businesses. Then, after securing survival, firms expand their economic activities. The crisis situation developing in the Russian economy requires not just strengthening of government intervention from above, but also much greater autonomy for businesses to adapt to the crisis.

It is not possible to determine from the top all the variants that exist in the economy. Who, immediately after the August 1998 crisis, when the per capita income of the Russian Federation fell by 200%, could suggest that investments made by Korkunov in the production of elite chocolate and sweets, would be so profitable?

Stage 6. Adapted firms demand further government regulation.

Better adaptation of firms to the changing business environment will increase revenues, while failure to act on their own will lead to a loss. According to Johnson and Arunthanes (1995), sales growth was the only dimension that was significantly affected by adaptation. We repeat that today, when most businesses are released from the pressure of tough international competition, and new opportunities for diversification appear. If international sanctions extend for another year or two, Russian businesses will be provided with a real opportunity to create new vertical chains. The problem lies in, whether Russian companies and the government will take advantage of these potential opportunities.

At the final stage, the adapted firms seek to use government regulation through the expansion of a restrictive framework on top and bottom and request further government intervention in the economy. The circuit is thus closed and a new cycle begins.

## **Conclusion**

The effectiveness of government regulation is a derivative of both public policies and the aspirations of companies to follow it. The possibilities for the Russian government to regulate the economy of the Far North have significantly declined during the crisis. This enables greater freedom for businesses to adapt to the crisis conditions. The 'impact of government regulation on operations of firms' cycle introduced by the author makes it easier to understand the relationship between the measures of government regulation and their results. Consideration of the rational expectations of firms shall be a compulsory element of government regulation of the national economy.

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## STATE SUPPORT FOR INVESTMENTS IN RUSSIA AND NORWAY

### **Abstract**

The issue of regional investment policy is currently of particular relevance during the foreign policy crisis, economic sanctions and capital outflow. Nevertheless, regional authorities still need to attract investment for regional economy modernization and development under these unfavourable circumstances. A regional investment policy includes legal regulation to improve all investment types, the development of infrastructure and the stimulation of savings in order to convert them into investment resources. The main aim of a regional investment policy is to create a favourable investment climate for territorial economy modernization and development. The investment climate, as well as the successful modernization of the economy, is one of the key factors in investment activity. The creation of favourable conditions for investors is a strong incentive for investment inflow to regions.

**Key words:** investment activity, levels of government, regional development, regional investment attractiveness, regional investment policy.

## Introduction

One of the key factors for stable regional development is investment activity oriented to financial and material resources attraction in regions. Parra (1992) stresses that investment plays an important part in an economic system. Firstly, investment activity increases a country's production capacity, thus creating extra income. Secondly, it improves the quality of life because "The implementation of investment projects generates changes on the labor force market, creating an extra need of labor force for the sectors that prepare and implement these investment actions" (Parra, 1992, p. 282).

A considerable amount of research has been carried out on the problem of a country's investment activity and the factors that have a great impact on it. For instance, Groh and Wich (2012) established that the state of a country's economy directly affects its investment activity. They emphasize four criteria of investment-driving forces: economic activity, legal and political environment, business environment and infrastructure. Regarding economic activity, the GDP level has a significant positive impact on inflows of investment (Fung et al., 2002). Billington (1999) finds that, in addition to a high GDP, economic growth has a positive influence on investment activity. Moreover, an expanding domestic market and industrial growth are especially important for developing countries (Wheeler and Mody, 1992).

Concerning the political and legal system, regulatory and risk reduction factors have a positive influence on regional investment activity (Ramcharran, 2000). Moreover, regulatory burdens and the rule of law are robust determinants of investment inflow (Naudé and Krugell, 2007). In addition to the quality of the legal system, political stability is one of the key factors in attracting investments (Naudé and Krugell, 2007). Therefore, it is an important determinant for investment activity.

With respect to business environment, Rodriguez and Pallas (2008) find that labour costs and human capital are significant determinants of investment inflow. Furthermore, the country's tax policy, the complexity of bureaucratic procedures and time requirements strongly affect investors' decisions.

With regard to infrastructure, Loree and Guisinger (1995) stress that a developed communication and transportation infrastructure positively influences inward investment activity. In addition, the level of information and communication technology has a great impact on inward investments (Addison and Heshmati, 2003). Wheeler and Mody (1992) add that infrastructure is one of the key factors for investment attraction in developing countries.

Investment represents the most critical decision made by every region trying to grow its economy, but it also represents a very complex task. Based on the provided literature review, attracting investments at the national level is an important issue for the country's investment activity. However, little discussion has taken place in respect of how the regions within one country deal with their investment attractiveness, especially in the comparative perspective. So, the *aim* of this paper is to discover the kind of methods and mechanisms that the state uses to attract investment in the regions, based on the examples of Russia and Norway.



For this paper, the following research question is chosen: “*What is the difference between state support for investment activity in Norwegian and Russian regions?*”

In order to investigate the problem of the research, I chose the following structure for the paper. The first section is devoted to the introduction and a short presentation of the topic. This is followed by a discussion of the theoretical framework. The research methodology and instruments for data collection are presented next, followed by an interpretation of the empirical results of the paper. Finally, the analysis and major conclusions of the research are presented.

### **Theoretical framework**

The theoretical framework provides the conceptual description of regional development and its features. Moreover, it gives information about Principal-Agent theory, providing a basis for this paper.

Over the last few decades, major changes in the world economy have changed the conditions for economic growth at regional, national, and international levels. It is necessary to add that, in many modern countries, the levels of government are represented by federal, regional and local levels. Every level has its own responsibility zone and its own features. Nowadays, the issue of regional development is becoming a subject of great importance.

Although regional development theorists are interested in understanding the process of regional growth and decline, there is little agreement among researchers as to how regions should be defined.

Christaller (1933) and Losch (1954) provide an early approach to defining a region. In their central place theory, regions are defined as *hierarchical systems of central places or cities*. Each region has a small number of large higher-order cities and a large number of smaller lower-order cities. The order of a city is determined by the diversity of goods offered in the city, which in turn is determined by the relative size of the market areas for different goods. A limitation of this definition is that it is only useful as a way to determine the spatial structure of regions that house market-oriented firms.

Also, regions can be defined in terms of *natural resources, ecosystem, or other geographic boundaries*. A few authors suggest an interesting approach to defining regions in terms of the interdependencies between natural resource systems and human populations.

Markusen (1985) defines a region as a “historically evolved, contiguous territorial society that possesses a physical environment, a socioeconomic, political, and cultural milieu, and a spatial structure distinct from other regions and from the other major territorial units, city and nation” (pp. 16-17). This definition recognizes that regions are historically determined entities that emerge largely due to the interaction between humans and local natural resources.

For the purposes of this research, the following definition is chosen: a region is defined as a “spatially contiguous population (of human beings) that is bound either by historical necessity or by choice to a particular geographic location” (Dawkins, 2003, p. 133). The dependence on

location may arise from a shared attraction to local culture, local employment centres, local natural resources, or other location-specific amenities (Dawkins, 2003).

Concerning *regional development*, it is a broad term but can be seen as a “general effort to reduce regional disparities by supporting economic activities in regions” (Oecd.org, 2016).

Regional development focuses on certain kinds of economic and social improvement such as:

- better quality infrastructure;
- improved community services;
- greater and more diverse volume of production;
- lower unemployment;
- rising average wealth;
- improved quality of life;
- support for investment activity (McCall, 2010).

In this research, I mainly focus on state support for investments in the regions of Norway and Russia, as investment activity is one of the determinants of the economy. There is a high correlation between the structure and investments’ rates of increase, and between the volume and trend of growth of gross regional product and of national income in the future. Investment activity in the regions influences the regional economy in two directions: the *economic effect* is expressed in the increase of both gross regional product and the regional enterprises’ total production and profits; the *social effect* is related to reducing unemployment and improving the regional social welfare, etc. (Kulinich, 2014).

Among numerous approaches to collaboration between different levels of government that provide a ‘lens’ through which the researcher can examine particular issues, I used the well-researched *principal-agent* theory to clarify the features of the investment process in Russia and Norway. In my model, *federal government* acts as the *principal*, providing public funds to regional government to implement and promote the investment process in the regions. The theory tries to resolve the problem that arises when the desires and goals of the principal and of the agent are in conflict, and when it is difficult for the principal to verify the agent’s performance (Gauld, 2007). Besides, principal-agent theory assumes that the principal and agent are engaged in cooperative behaviour but have differing attitudes toward risk (Ting et al., 2007); it provides a guide on how both participants can structure a relationship to maximize the chances that the goals of the principal are achieved. The relationship between federal and regional governments is an agency problem, subject to asymmetric information on both some external parameters and the actions performed.

## Methodology

This chapter provides the methodological framework of my research paper. The methodological chapter shows how the research has been conducted and why the specific approaches have been used. The aim is to provide transparency and to facilitate the comprehensibility of the study.

The term methodology “refers to the theory of how research should be undertaken and this ‘how?’ in its turn refers to the specific techniques of data collecting and analyzing” (Saunders et al., 2009).

### *Research philosophy*

The research philosophy determines the essential issues concerning the nature of research. Providing the range of assumptions, research philosophy underlies the research strategy and methods used, thus framing the whole research process (Saunders et al., 2009). There are two main epistemologies underpinning the research philosophy: *Positivism* and *Social Constructionism*.

Positivism is focused on objective data that can be measured, and there is just one ‘truth’ (Easterby-Smith et al., 2012). In my paper I used a *social constructionism approach*, which is based on the idea that the ‘reality’ is determined by people rather than by objective and external factors. Using the social constructionism approach helps me to study the types of methods and mechanisms that Russian and Norwegian states use to attract investment in the regions, as it accepts the value of multiple data sources and enables generalizations beyond the present sample. Other peculiarities of social constructionism are the fact that the observer is a part of what is being observed and human interests are the main drivers of science (Easterby-Smith et al., 2012).

### *Research strategy*

There are two forms of conducting primary research: quantitative or qualitative (Denzin and Lincoln, 2005). Quantitative research attempts to investigate world phenomena through objective ways, which mostly obtain a numeral character (Bryman & Bell, 2008). However, qualitative research strives to understand social contexts through a naturalistic and emotionalistic approach. In order to find the answer to the research question, I used a qualitative research method, which helps the observer to take a deeper look into the investigated problem, using why and how questions, instead of what, when and where (Denzin and Lincoln, 2005). One of the main advantages of qualitative research is its ability to provide complex textual descriptions of how people experience a given research issue.

### *Research design*

According to Easterby-Smith et al. (2012, p. 37), research design is the essential step in organizing research activity. It includes the collection of data, in ways that are most likely to achieve the research aims. Hence research design is “about making choices about what will be observed, and how” (Easterby-Smith et al., 2012, p. 38). It gives not only the explanation of what data is to be gathered, how and from where, but also how this data will provide answers to the research question. It considers research strategies, choices and time horizons (Saunders et al., 2009, p. 136).

Depending on the aim of the research, there are three types of research design: exploratory, descriptive and explanatory. The choice of research design depends on how much we already know about the investigated question (Burns and Bush, 2000).

Exploratory research is usually aimed at clarifying the nature of the studied subject, highlighting it from different perspectives in order to seek new insight: asking questions and assessing phenomena in a new light (Robson, 2002). This design fits the research when the subject or research is not clearly defined.

The descriptive research design is usually employed when the studied subject is well defined and a researcher is going to characterize it very accurately and thus exactify it (Saunders et al., 2009). This type of research helps to obtain information concerning the current status of the phenomena and to describe 'what exists' with respect to the variables or conditions in a situation (Libguides.usc.edu, 2016).

The explanatory research design is more common for "studies that establish causal relationships between variables" (Saunders et al., 2009). It aims to explain the observed situation through the analysis of cause-effect relationships between the events.

In this paper, I have decided to use a *descriptive research design*, as I describe the current state of investment activity in Russia and Norway and define the existing methods and mechanisms that these states use to attract investment in the regions.

#### *Data collection*

I focused on obtaining qualitative data, as I consider them more appropriate for studying such a phenomenon as state support for investment activity. *Secondary data* is important for my paper, as it is the most efficient source of the information for studying large-scale and geographically dispersed phenomena (Saunders et al., 2009). The advantages of secondary data are savings in time and effort for the researcher and the fact that the data sources appear to be of high quality, especially when published by firms and governments (Easterby-Smith et al., 2012).

As I aim to study state support for investments in Russia and, information is required about the methods and mechanisms of the support and the features of its implementation.

In my research paper, I used the following sources of secondary data:

1. *Annual government reports* about the investment climate in Norway and Russia. The reports provide specific information related to the investment policy of given countries, the volume of foreign direct investment and some specific indicators of investment activity. In addition, there is a description of the main directions of investment and the investment projects implemented in these countries.
2. *Web resources*. The main web resources used in the research are the websites of Statistics Norway and the Federal State Statistics Service of Russia; these helped me to gain information about investment indicators (e.g. total volume of investment, the volume of foreign direct investment) for various periods. In addition, I used different economic information portals such as Santander (for a description of Norwegian investment activity) and Expert RA group of rating agencies (for a description of Russian investment activity), which provide information about the current situation on investment activity in the chosen countries.
3. *Newspaper and journal articles*. This type of secondary data source helps to obtain information about the current state of investment activity in Russia and Norway and to find explanations of the

different phenomena related to the investigated topic. Moreover, it provides the opportunity to compare the state support for investments in Russia and in Norway on the basis of expert opinion.

4. *Investment legislation* of Russia and Russian regions. This characterizes the features of investment activity and the forms of state support for investment activity.

5. *Former research papers*. Analysis of existing research papers connected with my research question helps in the investigation of those issues related to the investment activity in Russia and Norway, which attracted researchers’ attention and what results were discovered.

The types of my secondary data sources are represented in Table 1.

Table 1 The types of secondary data

<b>The type of secondary source</b>	<b>The types of documents</b>
Multiple source	<i>Annual government reports</i> : Norway investment climate statement and Russia investment climate statement
Documentary (non-written materials)	<i>Web resources</i> : Statistics Norway, Federal State Statistics Service of Russia, Santander Trade Portal and Expert RA group of rating agencies
Documentary (written materials)	<i>Newspaper and journal articles</i> and <i>former research papers</i> related to investment support and investment activity in Russia and Norway. Also, there is <i>Investment legislation</i> of Russia and Russian regions.

Therefore, at the beginning of my study, secondary data were used to obtain a general understanding of the investigated topic and to assess the development of scientific knowledge and practical operations in terms of the chosen area. Finally, Norwegian and Russian surveys and studies helped to outline the methods and mechanisms of attracting investments in Russian and Norwegian regions.

**Empirical results**

The following section presents the results of my case study of state support for investments in Russian and Norwegian regions. Information is provided on the administrative divisions of the given countries and the features of implementation of the investment process in Russia and Norway.

*Russian experience in state support for investments*

Russia is divided into a number of different types of constituent entities. The main focus for this paper is the regional level. There are 46 oblasts, 22 republics, nine krays, four autonomous districts, three cities of federal significance and one autonomous oblast. Formally, all of them have equal status. Regions (oblasts) and territories (krays) are areas in which the ethnic Russian population forms the majority. Republics are ethnically based and have a slightly higher status, which, for example, allows them to have their own constitutions. Autonomous districts and the autonomous oblasts are also theoretically ethnically based, but in reality the ethnic Russian population constitutes the majority there.

The basis of successful regional development in Russia is represented in Fig. 1.

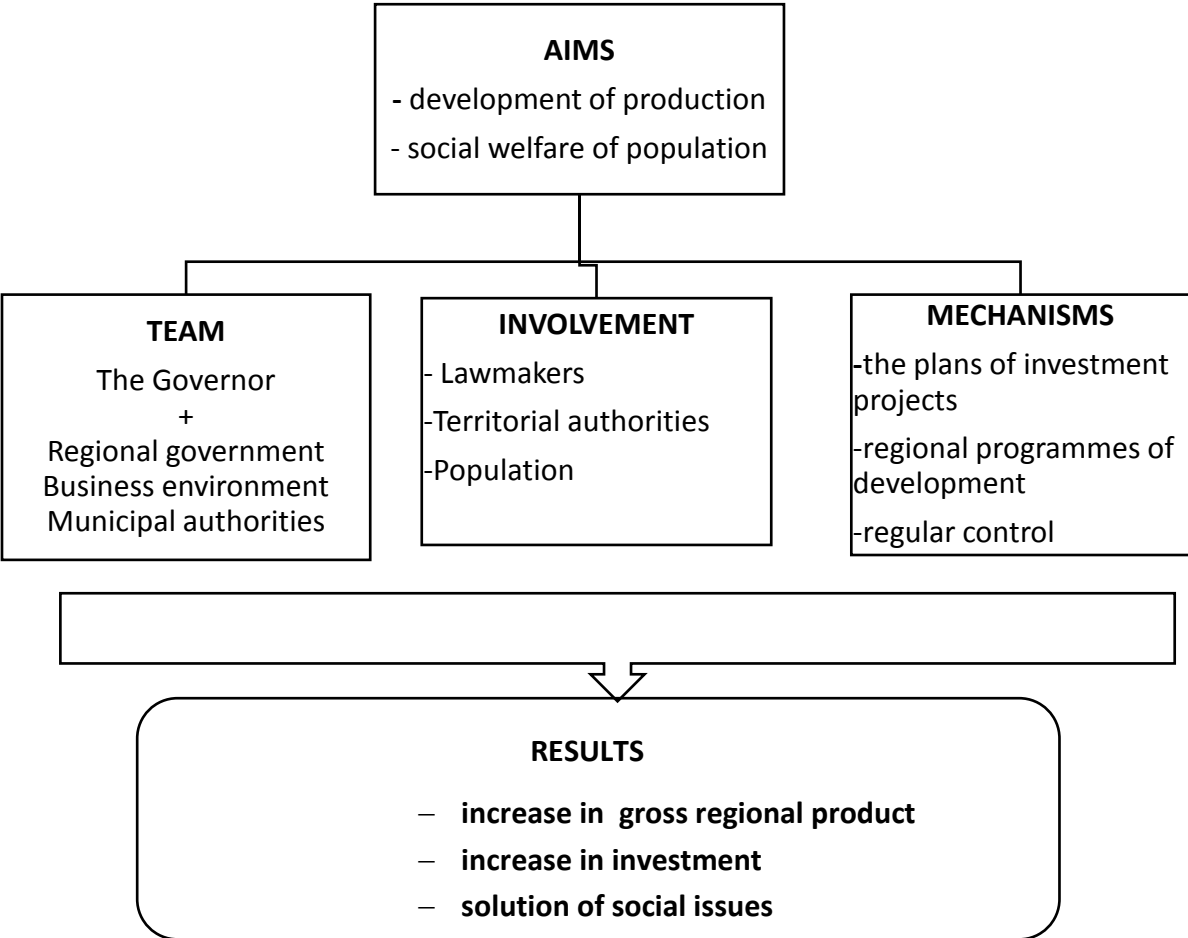


Fig. 1 The basis of successful regional development in Russia.

Using principal-agent theory for the Russian investment process, there is an immediate supervisory relationship between federal and regional governments (Fig. 2).

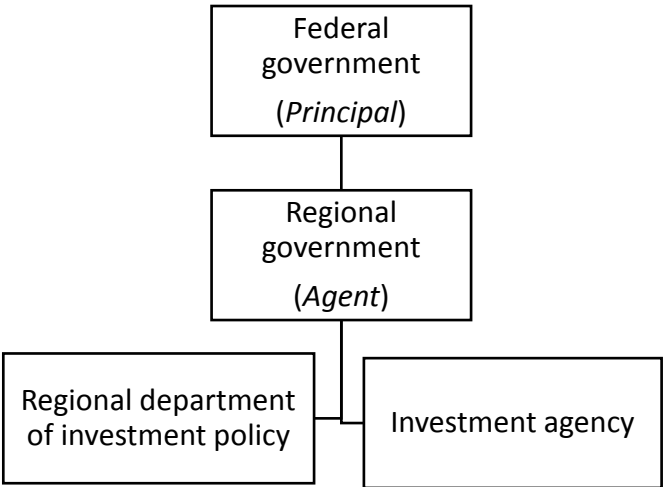


Fig. 2 Implementation of principal-agent theory in Russian investment process.

In Russia, regional government is funded by federal government for the implementation of investment projects. However, regional government is independent in taking decisions on what investment projects should be approved. In every entity, regional government creates *regional departments of investment policy*, whose main goal is to support investment projects. Furthermore, in several regions there are investment agencies. For example, in Tyumen Oblast, responsibility zones are divided between the regional department of investment policy and investment agencies for the purpose of more efficient implementation of investment projects. Projects costing more than 300 million rubles are managed by the *regional department of investment policy*, whereas those projects costing less than 300 million rubles are managed by an *investment agency*.

In Russia, support for investment activity is carried out through the adoption of regulations by the federal, regional and municipal authorities. The most complete forms and methods of regulation of investment activity are defined in the *Federal Law of 25<sup>th</sup> February 1999 № 39-FZ "Investment Activity in the Russian Federation in the form of capital investments"*. According to this law, state regulation of investment activity includes the implementation of three key points:

1. *Creation of favourable conditions for the development of investment activities performed in the form of capital investments* by means of:

- improvement of the taxation system, and the system for accruing amortization charges and for the use of amortization deductions;
- adoption of anti-monopoly measures;
- improvement of opportunities for use of pledges in the granting of credits;
- set-up and development of information and analytical centres with the aim of conducting regular rating and publication of rating assessments of subjects of investment activities.

2. *Direct participation of the state in investment activity pursued in the form of capital investments* through:

- granting on a competitive basis state guarantees for investment projects at the expense of the resources of budgets of subjects of the Russian Federation;
- allocation of funds from the federal budget for the financing of investment projects according to the procedure stipulated by the legislation of the Russian Federation on the placement of orders for delivery of goods, performance of works, and rendering of services for state and municipal purposes;
- involvement of construction sites and facilities owned by subjects of the Russian Federation, which were temporarily suspended and shut down, in the investment process;
- protection of Russian organizations from supplies of technology, equipment, components and materials, which are obsolete and consume large amounts of materials and energy and which are not high technology.

3. *Other forms and methods of state support for investments in accordance with the legislation of the Russian Federation:*

- ensured equality of rights in performance of investment activities;
- transparency in discussions of investment projects;
- stability of rights of subjects of investment activities.

To promote regional investment activity, *each federal subject* adopts its own specific legislation *State support for investment activity*. According to regional legislation, regional authorities have the following responsibility zones:

- providing state guarantees of federal subject to investment project holders of the certain federal subject;
- providing subsidies at the expense of regional budget means to investment project holders of the certain entity;
- preparation of ground areas as industrial sites; providing industrial sites to investment project holders;
- reduction in the following taxes of the region: income tax (the tax rate can be reduced from 18% to 14%); property levy (the tax rate can be reduced from 2.2% to 0%); transport tax (the tax rate can be reduced to 0%);
- rendering informational, organizational and consultative assistance to persons who carry out or plan investment activity in a certain federal subject.

It is interesting to note that every year various organizations make *ratings of Russian regions' investment attractiveness*, taking into account different factors. One of the most reliable ratings is that made by the international rating agency Expert RA. It is made on the basis of official information from the Federal Service of State Statistics and from federal departments' statistics such as the Ministry of Finance, Ministry of Natural Resources and the Central Bank of Russia. The rating of regional investment attractiveness ranks regions using two main criteria: investment potential and investment risk. The total investment potential consists of nine individual areas of potential: labour, financial, industrial, consumer, institutional, infrastructure, natural, tourist, innovative. The cumulative indicator of risk includes six individual risks: financial, social, administrative, economic, ecological and criminal. Every individual indicator is estimated by representatives of the expert, investment and bank communities.

As a rule, the best estimate is obtained by wealthy regions with high-income companies, public budgets, and high and concentrated demand for goods and services (e.g. Moscow, Moscow Oblast, Saint Petersburg). Regions with unstable socio-economic status, low income, low demand and lack of natural resources for investment are recognized as outsiders (e.g. Altai Republic, Magadan Oblast, Ingushetia Republic). It must be admitted that Russian regions are very different in the size of their economic potential, territory and population. Therefore, for the evaluation of investment activity in the regions, it is necessary to use not only indicators of the total investment in fixed assets but also their specific values per capita. So, it is necessary to improve the existing methodologies of regional investment attractiveness, using actual indicators of investment activity in the Russian regions.

#### *Norwegian experience in state support for investments*

Norway's sub-national government comprises 19 counties and 428 municipalities of widely varying population size. Oslo, with a population of around 650 000, is both a county and a municipality. Meanwhile, Finnmark is the smallest county with a population of 75 000.



Counties and municipalities are responsible for substantial segments of education, health services, social support and infrastructure. The dividing lines on government responsibilities are similar to those found in many other countries. In education, for example, local government runs primary and lower-secondary schools, whereas regional government is responsible for upper-secondary education and some types of tertiary education, while national government runs the university sector (see Table 2).

Table 2 The division of responsibilities across levels of government in Norway.

	<b>Municipal government</b>	<b>County government</b>	<b>National government</b>
<b>Education</b>	Primary and lower - secondary school (1 <sup>st</sup> grade to 10 <sup>th</sup> grade)	<ul style="list-style-type: none"> <li>• Upper secondary school</li> <li>• Vocational training colleges (upper secondary and tertiary)</li> </ul>	University sector
<b>Health care</b>	Primary health care	Dental care	Oversees secondary health care, notably hospital services which are delivered by four regional health authorities
<b>Welfare</b>	<ul style="list-style-type: none"> <li>• Kindergarten services and (most) child welfare services</li> <li>• Safety net support</li> <li>• Housing support</li> <li>• Some areas of child welfare</li> <li>• Elderly care</li> </ul>		<ul style="list-style-type: none"> <li>• Most cash welfare benefits (via the NAV)</li> <li>• Employment services and labour-market training</li> </ul>
<b>Water, transport, energy and communication</b>	<ul style="list-style-type: none"> <li>• Fresh water and waste water infrastructure and services</li> <li>• Most hydropower facilities are owned and run by municipalities</li> <li>• Local roads</li> </ul>	<ul style="list-style-type: none"> <li>• Regional road construction and maintenance</li> <li>• Local and regional public transport</li> </ul>	<ul style="list-style-type: none"> <li>• National roads</li> <li>• National rail system</li> <li>• Telecommunications and energy</li> </ul>

<b>Other notable roles and responsibilities</b>	Local planning and development	Regional planning development, including attracting greenfield investment and tourism	The “usual” national responsibilities, such as national defence, foreign policy, justice system
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State support for investment activity in Norway is carried out through *the participation of the state in the capital of the large national companies* and through *investment support programmes*, implemented by government organizations.

The state is the largest owner of the assets in Norwegian companies. Norwegian ministries manage state shares in the capital of 80 companies, which employ more than 280 000 workers. In addition, ministries are directly involved in the management in 68 Norwegian companies. The cost of shares belonging to the state is 664.6 billion NOK.

In 2014 the Norwegian government activated the process of the privatization of state shares in some of the largest enterprises, in particular, in June 2014, the process of the sale of Mesta AS (road construction). In October 2014 the state reduced its share in ENTRA (real estate management) from 100% to 49.9% and sold its share (59.17%) in Cermaq (aquaculture) to the Japanese company, Mitsubishi. Discussions are ongoing on the possible reduction of state shares in Statoil and Telenor, as well as in the transport Company Flytoget.

Maintaining control of the economy and active intervention in almost all its scope, the Norwegian government actively promotes the development of enterprises through different investment structures. Using principal-agent theory for Norwegian investment process, the collaboration between federal and regional government goes through *intermediators*. In this case, government organizations act as intermediators between federal and regional government (Fig. 3).

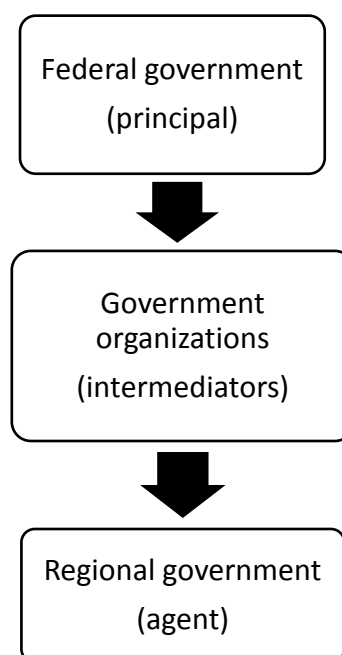


Fig. 3 Implementation of principal-agent theory in Norwegian investment process.

In fact, government organizations in Norway decide which project should be approved.

The Norwegian government's main instruments in the implementation of the investment policy are:

1. *Organization Innovation Norway*. This is the Norwegian government's most important instrument for the innovation and development of Norwegian enterprises and industry. The main aim of Innovation Norway is to promote new technologies in the development of national industry and tourism, to stimulate innovative regional projects and to attract foreign investment in the Norwegian economy. The organization supports companies in developing their competitive advantage and to enhance innovation. Funded by the government, Innovation Norway is owned by the Ministry of Trade, Industry and Fisheries (51%) and the county authorities (49%). The organization is represented in more than 30 countries worldwide and in all Norwegian counties; its head office is in Oslo. Innovation Norway provides competence, advisory services, promotional services and network services. In 2014 the total investment resources of Innovation Norway were 6861 million USD, but in 2015 the Norwegian government decreased these by 1.3 % to 6 675 million USD (Innovasjon Norge.no, 2016).

2. *State investment company Investinor*. A subsidiary company of Innovation Norway, Investinor is the largest venture investor in Norway, owned and funded by the Norwegian government. Investinor focuses on sectors with high potential in Norway, e.g. *ICT, oil and gas, biotech and aquaculture*. The company manages 4.2 billion NOK and invests on the same terms and conditions as private investors, with a clear exit strategy for all investments. It takes minority stakes (less than 50%) in the portfolio companies and always syndicates its investments with other investors. "We then execute active ownership through board positions in our portfolio companies" (Investinor.no, 2016).

3. *Public enterprise SIVA, owned by the Norwegian Ministry of Trade and Fisheries*. SIVA is the part of the public funding agencies for innovation and works closely with Innovation Norway, the Norwegian Research Council and the Norwegian Patent Office. It invests in *real estate and commercial property*, reducing the risk for new entrants where market mechanisms make this particularly demanding. With ownership in innovation companies across the country, SIVA develops knowledge and startup environments, and connects them to regional, national and international networks. The company was established in 1968 and has been supporting Norwegian business development in the region through the creation of infrastructure (business incubators, technology parks, logistics centres, etc.), providing capital in order to reduce the risks arising from the opening of new companies (SIVA, 2016).

## **Analysis and conclusion**

The following section presents the main findings and conclusions of the paper, which are matched to the existing theoretical framework concerning the researched phenomena.

There are great differences between state support for investment activity in Russia and in Norway. In Russia, regional government is independent in taking decisions regarding which investment project should be approved. Moreover, state support for investment activity is carried out primarily through the adoption of regulations by the federal, regional and municipal authorities.

In addition, in every federal subject, regional government creates regional departments of investment policy, whose main goal is to support investment projects. In Norway, however, state support for investment activity is carried out through the participation of the state in the capital of the large national companies and through investment support programmes implemented by government organizations. In Norway such government organizations as Innovation Norway, Investinor and SIVA act as intermediators between federal and regional government in the investment process. These organizations are owned and funded by the government and they decide which projects should be approved. However, their investment priorities differ: Investinor invests in projects in the sphere of ICT, oil and gas, biotech and aquaculture, whereas SIVA invests in real estate and commercial property.

It is interesting that the price and time of administrative procedures for investors differs completely in each entity. For instance, enrolment takes 19 days in Kaluzhskaya Oblast and 60 days in Yakutsk; acquiring a construction permit takes 150 days in Surgut and 448 days in Tver. So, it is necessary to reduce the time taken for different administrative procedures for investors in Russia and to improve its investment climate.

In addition, every year various organizations make *ratings of Russian regions' investment attractiveness*, taking into account different factors. As a rule, the best estimate is obtained by wealthy regions with high-income companies, public budgets, and high and concentrated demand for goods and services (e.g. Moscow, Moscow Oblast, Saint Petersburg). Those regions with unstable socio-economic status, low income, low demand and lack of natural resources for investment are recognized as outsiders (e.g. Altai Republic, Magadan Oblast, Ingushetia Republic). In Norway there is no investment attractiveness rating at the regional level; the only rating takes place at the national level.

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## SOCIAL HOUSING AS AN INSTRUMENT OF STATE HOUSING POLICY IN NORWAY AND RUSSIA

### **Abstract**

This paper focuses on the comparative analysis of social housing as an element of Norwegian and Russian state housing policy. Despite the existence of a single global understanding of social housing, each country has its own approach to the implementation of social housing policy. This analysis allows to identify similarities in Russian and Norwegian state social housing policy and to learn whether there are any differences between them; it helps to identify the factors that influenced the formation of modern state social housing policies in these countries through the housing culture prism. The basis of the work includes literature studies, review of state housing reports and state social housing legislation of Russia and Norway. Thus, the paper presents the comparative analysis of such welfare states as Norway and Russia in terms of social housing.

**Key words:** state housing policy; social housing; housing allowance; housing policy goal; housing legislation

## Introduction

The concept of a house as a home, a place of comfort and security, is typical for many cultures. Nowadays, home is more than just a roof over one's head; it has become a symbol of family, stability and wealth. Housing is one of the key human needs that form the basis for the individual's living conditions, and it is the largest item in the budget for most households (Stamsø, 2009). Therefore, each country has its own housing policy, which aims to solve the housing problems of its residents.

According to the Working Document "Social Affairs Series - W 14" of the European Parliament: "Housing policies have been traditionally concerned with accessibility, that is access to adequate housing, and management and maintenance services, for lower income households affordability, involving restricting the burden of housing payments for lower income households quality, including raising the standards of new construction or promoting maintenance and rehabilitation to ensure adequate homes for poorer households" (Europarl.europa.eu, 2016). Thus, the housing policy of many modern countries includes social housing.

Social housing is one of the four domains of such welfare states as Norway and Russia (Stamsø, 2009). According to its constitution, Russia is a social state whose policy aims to create conditions for a dignified life and the distribution of economic benefits in order to help those in need (Zakonrf.info, 2016). As a modern welfare state, Norway's average housing standard is high and better than that of most other countries. This means that Norwegians are the largest consumers of housing per person in the world. However, young people, low-income households and other marginalized groups do not have the benefit of comfortable and secure housing (Nystad, 2004). Thus, social housing is one of the most important housing policy instruments, through which welfare states, like Norway and Russia, assist their residents (Kemp, 2007).

However, despite the existence of a single global understanding of social housing, each country has its own approach to the implementation of social housing policy, which is formed under the influence of housing culture. Many authors analyse social housing policy and housing culture separately. However, none of them analyses social housing policy through the prism of housing culture. This factor is extremely important in the formation of the social housing policy of any country. In this regard, it would be interesting to compare the social housing policies in such welfare states as Russia and Norway, taking into account the housing culture of these countries. Onibokun (1985) considered that every civilization produces its own housing forms, highly reflective of the historically prevalent cultural values (Støa and Aune, 2012). Therefore, it is necessary to take into account cultural aspects in the analysis of state social housing policy. So in this paper I will use Gullestad's theory of housing culture and Hoekstra's variables for the analysis of housing policy. Thus, this analysis will allow me to identify similarities in Russian and Norwegian state social housing policy and to learn whether there are any differences between them; it will also help to identify the factors that influenced the formation of modern state social housing policies in these countries through the housing culture prism. Therefore, the research question in my paper is formulated as: "How is state social housing policy designed and implemented in Norway and Russia?"



For a more detailed analysis of the study, I chose the following structure for the work. The next section focuses on the theoretical framework. Following that, the research methodology and instruments for data collection are defined. The empirical results of the research question are then presented and the final section is devoted to major conclusions of the research.

### **Theoretical framework**

This section is devoted to shaping the theoretical foundation of my research. I will explain what underlies my research interest from the theoretical point of view. Defining the theory within the field of social housing policy is extremely important for formulating my research question and, further, for addressing it.

**General understanding of social housing.** The literature review indicates that different states have different definitions of social housing and there is no common definition of this notion. The semantic diversity implies enormous differences in the levels of social housing present in each country (Scanlon et al., 2015). For instance, at the European Union (EU) level, social housing includes three general elements: “a mission of general interest, the objective of increasing the supply of affordable housing, and specific targets defined in terms of socio-economic status or the presence of vulnerabilities” (Social Housing in the EU, 2013, p.6).

According to the second edition of the *Encyclopedia of housing* (1998), the term ‘social housing’ has two meanings. The first considers all types of housing receiving the following direct or indirect public subsidies: tax shelters for homeownership, grants to builders, tax relief on mortgage interest, depreciation allowances for investments in residential properties, or below-cost provision of collective public services (roads, electricity, water or sewers) for housing. The second notion is close to traditional public housing, i.e. social rented housing or housing subsidized by the state. Moreover, this term includes non-market and new forms of publicly supported housing provided by non-profit private firms, social agencies, community groups and political organizations other than governments (Carswell, 2012).

**Analysis of state housing policy: social housing.** There are many theories and approaches aimed at the analysis of state social housing policy. The theoretical basis of this paper is Hoekstra's (2003) theory, which includes the following variables (Stamsø, 2009, p. 199):

1. De-commodification
2. Stratification
3. Mix of state, market and family
4. State regulation
5. General housing policy objectives
6. Subsidization
7. Price-setting and price regulation
8. Housing allocation
9. Organization
10. Housing provision

These variables will allow us to analyse the state social housing policy of the researched countries and make a comparative analysis. The use of these variables will make the comparative analysis more visible.

Despite the existence of unified approaches and principles in respect of social housing policy, each country has its own unique housing culture due to the impact of different factors. Many authors analyse social housing policy and housing culture separately. However, none of them analyses social housing policy through the prism of housing culture. This factor is extremely important in the formation of the social housing policy of any country. Onibokun (1985) considered that every civilization produces its own housing forms, highly reflective of the historically prevalent cultural values. Therefore, it is necessary to take into account cultural aspects in the analysis of state social housing policy.

Gullestad (1989) singled out the following factors that affect the formation of a country’s housing culture: physical structures, socio-economic structures and ideas, values and meaning (Fig. 1). Støa and Aune (2012), citing Gullestad, conclude “culture intervenes in a dynamic way in how we live, produce and build our houses”. Therefore, in this paper I will use Gullestad’s theory for conducting a more comprehensive analysis of Russian and Norwegian state social housing policy (Støa and Aune, 2012).

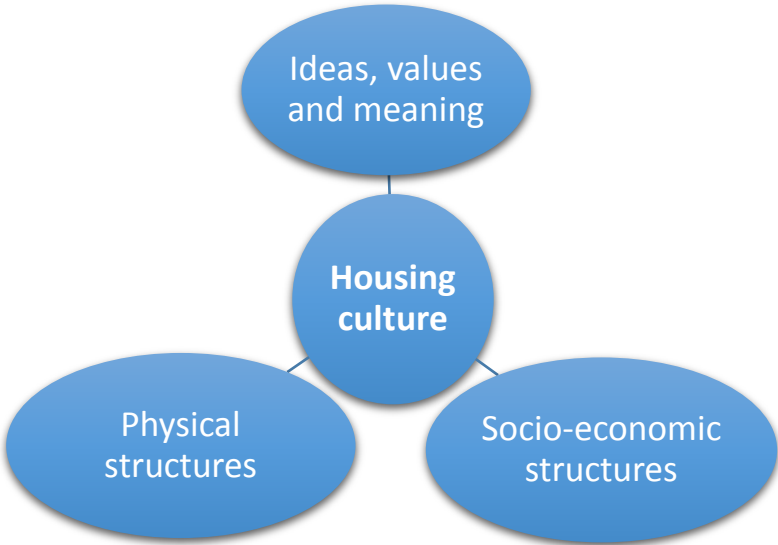


Fig. 1 Gullestad’s theory of housing culture (1989).

Table 1 Factors of Gullestad’s theory (1989).

Physical structures	Socio-economic structures	Ideas, values and meaning
– Localization	– Household structure / family patterns	– Ideals and preferences
– Housing types	– Lifestyle and consumption patterns	– Attitudes towards nature (rural – urban)

– Plan layout – typologies	– Work and leisure (time use)	– Meanings of home
– Use of space	– Tenure / economic issues	– Relation between private and public
– Technical standard	– Housing policies	– Gender issues
– Construction / materials		
– Design / aesthetics		

Thus, the use of Gullestad’s and Hoekstra’s theories will allow me to identify similarities of Russian and Norwegian state social housing policy and to learn whether there are any differences between them. Moreover, these theories will help to identify the factors that influenced the formation of modern state social housing policies in these countries through the housing culture prism.

### **Methodological framework**

This chapter includes information concerning the methodological framework of my research. The methodological section is significant in terms of defining the right way to perform the study and to respond to my research question.

#### *Research philosophy*

Research philosophy relates to the expansion of knowledge and the nature of that knowledge. It contains important assumptions about the way in which a researcher views the world (Understanding research philosophies and approaches, 2016). Thus, a review of philosophy is an essential part of the research process (Holden and Lynch, 2016).

In this research I use relativism ontology, according to which different observers have different viewpoints: “what counts for the truth can vary from place to place and from time to time” (Collins, 1983, p. 88). Therefore, the relativism ontology position reflects the idea of my research, since there are different approaches to social housing and different ways of implementing social housing policy.

There are two main epistemological approaches to conducting social research: positivism and social constructionism. The social constructionism philosophy, which focuses on the ways that people make sense of the world through sharing their experiences with others via the medium of language, reflects my way of conducting research, aiming at contributing to the expansion of state social housing policy (Easterby-Smith et al., 2015, p. 52).

#### *Research design*

According to Easterby-Smith et al. (2015, p. 67), research design plays a crucial role and is the essential step in organizing research activity. It concerns how to collect data, in ways that are most likely to achieve the research aims (Saunders et al., 2007 p. 136).

There are three types of research design, depending on the aim of the research: exploratory, descriptive and explanatory (Saunders et al., 2007). Due to the fact that my research is aimed at a

comparison of Norwegian and Russian state social housing policy, I use a descriptive research design with elements of exploratory, in order to go more deeply into the study and clarify differences in the approaches to the design and implementation of state social housing policy in these countries.

*Data collection*

As the aim of my research is to discover similarities and differences between Norwegian and Russian state social housing policy by using secondary data as a main resource, my research has a largely a descriptive nature. I consider that qualitative data is more appropriate for conducting a comparative analysis of Norwegian and Russian state policy in the field of social housing. Secondary data is an important resource for studying large-scale and geographically dispersed phenomena (Saunders et al., 2007).

In my research paper I used the following types of secondary data:

1. Books and articles from business journals about social housing and state social housing policy. This type of secondary data helped me to obtain information about the nature of social housing, current state social housing activity in Russia and Norway, and to discover the differences in the social housing policies of Norway and Russia.
2. Web resources. Firstly, I used the official websites of those Russian and Norwegian authorities, which are responsible for social housing. These websites helped me to gain information about housing policy goals, subsidization and the responsibilities of local authorities. Moreover, the paper includes a review of the official website of the Norwegian State Housing Bank (Husbanken), from which I obtained information about interest rates, housing allowance and types of loans in Norway.
3. The Housing Code of the Russian Federation. This contains information about Russian social housing policy, its goals and the categories of people who are entitled to such housing.
4. Annual reports of the Norwegian State Housing Bank. These contain all the necessary data about the objectives, values and main directions of the development of Norwegian housing policy and provide specific information related to state social housing activity.
5. Former research papers. The analysis of existing research, which is relevant to my paper, helps me to find gaps in the research problem and to understand the relevance of the investigated topic.

The types of my secondary data sources are presented in Table 3.

Table 2 Types of secondary data.

Type of secondary source	Types of documents
Documentary (non-written materials)	Web resources: The State Norwegian Housing Bank, Norwegian Housing and Building Department, The Housing Code of the Russian Federation

Documentary (written materials)	Books, articles and former research papers related to social housing policy in Norway and Russia
Multiple source	Annual reports of the Norwegian State Housing Bank

In order to understand the nature of social housing and reveal different approaches for the analysis of state housing policy in the field of social housing, I used such secondary data as former research papers and books about social housing theory. Later, in order to identify the mechanisms of the implementation of social housing policy in Russia and Norway, I studied the official websites of the Russian and Norwegian authorities and the annual reports of the Norwegian State Housing Bank.

### Empirical results

I will start by providing a definition of social housing according to Norwegian and Russian housing legislation. This section also includes a review and an analysis of the current situation in the housing sector in the Russian Federation and in Norway by using Hoekstra's variables. Then Gullestad's (1989) theoretical framework will allow the study of Russian and Norwegian housing culture through these factors: physical structures, socio-economic structures and ideas, values and meaning.

**An overview of Russian state social housing policy.** The enactment of the new housing code was a significant step in the regulation of the housing sector in Russia (Kollegova, 2011), coming into effect from 1<sup>st</sup> March 2005 (Krashennikov, 2008). The housing code aims to create and develop an affordable housing market for the middle class and to provide social housing for the poor (Vihavainen, 2005). Poverty is defined based on property owned and income (Kollegova, 2011). The poverty limit is established by local governments according to the recommendations of the Ministry of Regional Development, and each Russian region has its own poverty criteria. As a result, there is a group of people, who can neither afford to buy an apartment nor are 'poor enough' to be entitled to social housing (Vihavainen, 2005).

The notion of social housing is undefined in the Russian legislation (Kollegova, 2011). However, in accordance with the Housing Code (2016), social housing is accessible for people on low incomes, who have no possibility of buying housing on their own. The following categories of residents have a priority to obtain social housing: the military, orphans, WWII veterans, internally displaced people, casualties of natural disasters, Chernobyl victims, those suffering from chronic illness or pathologies, and residents of emergency and dilapidated buildings (Cis-legislation.com, 2016).

For a more detailed analysis of Russian housing policy, this paper used Hoekstra's variables. The analysis includes the following parameters: housing policy goals, housing allocation, subsidization, price regulation and interest rate (Table 1).

According to the table, Russian housing policy is oriented to the development of an affordable housing market and the provision of social housing for the poor through the creation of effective mortgage finance instruments and state support of the building sector. In accordance with the new housing code, local authorities are responsible for the provision of social housing. Certain categories of citizens and those on low incomes are entitled to state housing subsidization. Social assistance to citizens includes providing subsidies for the payment of housing, utilities and other

services. As for price regulation, there is market regulation of housing and land prices in the Russian housing sector. The Central Bank of Russia controls interest rate for mortgages. Today only 10-18% of Russians can afford mortgages (Gurtov, 2009). To develop the mortgage system, the Russian government established The Mortgage Agency (AHML), which has the following mission: to increase the affordability of housing and create comfortable and favourable living conditions for the citizens of Russia. Reducing risks in the housing and mortgage markets, encouraging the construction of affordable housing, the development of mechanisms for financing the engineering infrastructure, and the implementation of anti-crisis measures to support housing and mortgage markets are the main goals of The Mortgage Agency (Minstroyrf.ru, 2016).

Table 3 Characteristics of Russian housing policy according to Hoekstra’s variables (Stamsø, 2009).

Variables	Russian housing policy
Housing policy goal	<p>The vision of housing policy: developing a well-functioning affordable housing market for the middle-class and providing social housing for the poor.</p> <p>The main goals of housing policy are:</p> <ul style="list-style-type: none"> <li>• development of mortgage finance instruments;</li> <li>• creating conditions for developing the middle-class housing market;</li> <li>• fulfilment of state obligations to provide housing for people with low incomes.</li> </ul>
Housing allocation	Local authorities are responsible for provision of social housing. Private companies take the initiative for housing production.
Subsidization	Targeted subsidies for low-income families and certain categories of people. Targeted social assistance to citizens includes providing subsidies for payment of housing, utilities and other services.
Price regulation	Market regulation of housing and land prices.
Interest rate	Interest rates for mortgages are controlled by the Central Bank of Russia (11.8–18.9 %).

**An overview of Norwegian state social housing policy.** The Norwegian understanding of social housing is similar to the European definition of this notion: that a key function of social housing is to provide affordable accommodation for people on low incomes (England.shelter.org.uk, 2016). Social housing has direct or indirect public subsidies: tax shelters for homeownership, grants to builders, tax relief on mortgage interest, depreciation allowances for investment in residential properties, etc. (Carswell, 2012).

Norwegian legislation has the following criteria to determine people eligible for social housing:

- economic or social disadvantage (people who for economic reasons have difficulty obtaining or retaining housing or who do not naturally fit into the other categories, but who have housing problems, for example due to behaviour, discrimination or more undetermined causes);
- substance abuse (the individual has been in contact with treatment for their drug problems or has an acknowledged substance abuse problem, which makes it difficult to establish/maintain a stable relationship on the ordinary housing market);
- psychiatry (mental illness refers to psychological difficulties of such a kind or degree that qualifies for a diagnosis, which makes it difficult to establish/maintain a stable relationship on the ordinary housing market);
- substance abuse and psychiatry (where factors relating to substance abuse and psychiatry are present, which make it difficult to establish/maintain a stable relationship on a mainstream housing market);
- initial resettlement refugee (households with refugee status and where aspects such as language, social understanding, economy or other factors make it difficult to obtain housing in the ordinary housing market);
- physically disabled (persons with disabilities, illness or injury);
- elderly (disadvantaged, aged over 67 with physical or other disabilities that make it difficult to establish a stable living situation);
- development impaired (an umbrella term for a wide variety of conditions with various causes; various developmental disabilities; in many cases learning capacity and ability to survive on their own in society are weakened, which makes it difficult to establish/maintain a stable relationship on the ordinary housing market).

It is interesting to use Hoekstra's variables for analysis of Norway's housing policy (Table 4). According to Table 4, the vision of government housing policy is that everyone should have adequate and secure housing in a good local environment and that everyone should be able to own their own home. The housing policy is an important part of Norwegian welfare policy. Housing allowance is an instrument to ensure housing safety and to reduce poverty. There are also many and various loans, for instance start-up loans, basic loans, and grants for the construction and refurbishment of housing units (Husbanken, 2014). The Norwegian State Housing Bank (Husbanken) plays a crucial role in the country's housing policy, providing loans and grants for disadvantaged groups in the housing market. As for housing allocation, a large part of the housing stock has market allocation. However, a small part of the housing stock is reserved for targeted group (Stamsø, 2009). There is market regulation of prices for houses and land. The variable interest rate is autonomously controlled by the Central Bank of Norway, and the mortgage lending rate is around 4% (Regionaldepartementet, 2006).

Table 4 Characteristics of Norwegian housing policy according to Hoekstra's variables (Stamsø, 2009, p. 205).

Variables	Norwegian housing policy
Housing policy goals	The vision of housing policy: everyone should have access to adequate and secure housing. The main goals of housing policy are: <ul style="list-style-type: none"> <li>• more homes and buildings that meet the needs of the future;</li> <li>• more disadvantaged people should get their own home;</li> <li>• further simplification and innovation of the homebuilding and construction sectors.</li> </ul>
Housing allocation	Market allocation of a large part of the housing stock. Regulated allocation of a small part of the housing stock reserved for targeted group..
Subsidization	Subsidies for small targeted groups. The most important tools are housing allowances, various loans and grants for the construction and refurbishment of housing units.
Price regulation	Market prices on houses and land.
Interest rate	Variable interest rate is autonomously controlled by the Central Bank of Norway. Mortgage lending rate is around 4%.

For a more in-depth analysis of Norwegian and Russian state social housing policy, this paper will use Gullestad's theory (1989), which includes three factors: physical structures, socio-economic structures and ideas, values and meaning. However, due to the fact that the last factor requires the use of interviews, it will be excluded from the analysis, since this research is based on secondary data and does not allow the use of interviews as a data collection method. Therefore, physical structures and socio-economic structures are the key criteria for conducting further analysis.

Norwegian state social housing policy is analysed by using the following criteria: physical and socio-economic structures.

### 1. Physical structures

*1.1. Types of housing.* It should be noted that detached homes are dominant in Norway. Such housing types represent more than half of all dwellings. Even in major cities detached dwellings are the dominant type of housing. Multi-dwelling buildings are typical for only one place in Norway – Oslo. This means that Norway is a 'single family home' country.

*1.2. Design.* As for housing design, it is quite universal in terms of accessibility to disabled and elderly persons (Halvorsen and Sandlie, 2012).

*1.3. Plan layout – typologies.* As a rule, Norwegian detached houses are quite large and well-appointed. Average living space is 95 m<sup>2</sup>: four rooms and a kitchen (Nystad, 2004, p. 64).



Norwegian homes are built to a high standard and are very well equipped. “All households have a TV, nine out of ten have a freezer and almost as many have a washing machine. Nine out of ten households have a PC. However, only eight in ten households have a dishwasher” (This is Norway 2015, 2015, p. 19).

*1.4. Construction, materials.* The promotion of environmentally friendly solutions is one of the key directions in Norwegian state activity in the field of housing construction, for instance, reducing the use of construction materials which are dangerous to human health and the environment, reducing energy consumption in building and housing sectors, etc. (The Norwegian State Housing Bank, 2009).

### *Socio-economic structures*

*1.5. Economic issues.* According to Norwegian state social housing policy, people with low incomes may be allowed to buy their own homes through home loans and personally targeted subsidies (Interview). Providing certain groups with subsidies and support for housing costs via the Norwegian State Housing Bank is the way to solve the problem of housing issues (Nystad, 2004). The most important financial measures of the state social housing policy are basic loans, start-up loans, housing grants and housing allowances (Modernisation, 2016).

*1.6. Housing policies.* Legislation in the field of social housing is oriented to equality and preventing housing problems. The aim of local municipalities is to provide housing for disadvantaged persons who are unable to protect their interests in the housing market because of age, disability or other reasons (Interview). Besides, the state social housing policy takes into account the fact that the current housing stock must be prepared for the demographic challenges caused by refugees, economic migrants and people experiencing difficult transitions (Husbanken, 2014). The development of a more environmental and sustainable housing sector is also one of the main objectives of Norwegian state social housing policy. According to Nystad (2004), “A more sustainable housing sector means that each individual must consume less space, both in terms of land-area and floorspace” (Nystad, 2004, p. 64).

The analysis of Russian state social housing policy is based on the use of physical and socio-economic structures as criteria for conducting a further comparative analysis.

## *2. Physical structures*

*2.1. Types of housing.* Apartment buildings are typical for the Russian housing market. High-rise apartments with 12 or more floors represent 43% of the housing sector; apartment buildings with four to eight floors constitute around only 16% of Russian dwellings. However, they are more optimal in terms of symmetry, proportions, and interrelationship with the urban space (Kosareva et al., 2016).

*2.2. Design.* There is standard design of Russian social housing; it does not meet the needs of the elderly or persons with special needs, such as young families or people with disabilities. There are no particular standards for such housing.

2.3. *Plan layout – typologies.* According to housing legislation, the total area of social housing per family member should not be lower than the social norm, which is established in each region of Russia (Kollegova, 2011).

2.4. *Construction, materials.* The main problem with social housing is its quality. Most construction companies economize on materials, workforce and design. They use immigrants from Central Asia with few or no qualifications as a cheap source of labour (Country profiles on the housing sector Russian Federation, 2004).

#### *Socio-economic structures*

2.5. *Economic issues.* Low-income families and certain categories of people are entitled to state housing subsidization. One of the tools of state subsidization is a housing certificate. According to this document, the state purchases an apartment for a certificate holder, so it bestows the right to receive subsidies for housing (Trustpeople.ru, 2016).

In addition, social assistance includes an opportunity to obtain a mortgage at a low interest rate. One of the responsibilities of The Mortgage Agency (AHML) is to provide such loans (Minstroyrf.ru, 2016).

2.6. *Housing policies.* The result of privatization in the 1990s was a significant reduction in the municipal housing stock. Thus, the housing fund, which was supposed to be used for social housing has significantly decreased. The actions of the Russian authorities are aimed at reducing the ‘waiting list’: a list of people who have the right to this kind of housing. Therefore, increasing the volume of social housing construction in compliance with quality standards and the development of appropriate financial and credit institutions are the main directions for the development of social housing construction in Russia. Moreover, to make social housing construction more attractive, municipalities create additional conditions such as electric, gas, heat supply, water and plumbing (Kollegova, 2011).

Thus, the analysis of Norwegian and Russian social housing policy by using Hoekstra’s variables and Gullestad’s theory shows that both Russia and Norway have a common understanding of social housing. Furthermore, the development and improvement of social housing policy is one of the directions of general state housing policy. Norwegian and Russian authorities take care of targeted citizens by means of subsidization and developing special financial instruments for solving this issue. However, despite the many similarities in approaches and a common understanding of the importance of dealing with this issue, each country has its own distinctive features, which have their own historical background.

### **Concluding discussion**

My research paper is devoted to the investigation of the differences in design and implementation of Russian and Norwegian social housing policy. In order to gain a comprehensive overview of the research question, I have studied the literature, collected the data, made a comparative analysis and provided interpretations of the results.

Relying on the data of my paper, I can conclude that social housing has two connotations. The first one considers all types of housing receiving direct or indirect public subsidies. The second notion

is close to traditional public housing, i.e. social rented housing or housing subsidized by the state. Social housing is a key focus of state housing policy in both Norway and Russia, and they share a common understanding of social housing: that it is affordable housing for people on low incomes, who are most in need or struggling with their housing costs. However, the list of citizens who are prioritized as having a right to social housing differs. For instance, in Norway, people with drug problems can apply for social housing. At the same time, Norwegian legislation makes no mention of the military or veterans of the Second World War (Stamsø, 2009). According to the Russian housing code, the military, orphans, WWII veterans and Chernobyl victims have a priority to obtain social housing (Cis-legislation.com, 2016). Thus, in both countries, the categories of those citizens whose right to social housing is prioritized are quite different. However, the main idea is that social housing is for those who cannot solve the housing issue alone. Moreover, in both countries the government offers subsidies and special financial instruments to targeted groups. In Norway and Russia, there is market regulation of housing prices, and the interest rate is controlled by a state bank. Therefore, the use of Hoekstra's variables has allowed many common features in Russian and Norwegian housing policy to be revealed.

However, despite the many similarities in approaches and a common understanding of the importance of dealing with this issue, each country has its own distinctive features, which have their own underlying background, such as housing culture. This conclusion is based on the use of Gullestad's theory of housing culture for the analysis of Norwegian and Russian state social housing policy through the physical and socio-economic criteria of housing culture. Norwegian social housing policy is still strongly influenced by the development that took place after the end of the Second World War. The ideals of this period have determined the type and manner of housing sector development. As a result, today, Norway is a country of homeowners. Detached homes are dominant, representing more than half of all dwellings. This means that Norway is a 'single family home' country (Halvorsen and Sandlie, 2012). However, in the Russian housing market, apartment buildings are typical, representing about 60% of the overall housing sector (Kosareva, 2016). Russian social housing design is standard; it does not meet the needs of the elderly or persons with special needs like young families or people with disabilities. There are no particular standards for such housing (Kollegova, 2011). As for Norwegian social housing design, it is quite universal in terms of accessibility to disabled and elderly persons (Halvorsen and Sandlie, 2012). Furthermore, the promotion of environmentally friendly solutions is one of the key features of Norwegian state activity in the field of social housing construction (The Norwegian State Housing Bank, 2009). However, in Russia, the government is not concerned with sustainability because the main problem with social housing is its quality. Most construction companies economize on materials, workforce and design (Country profiles on the housing sector Russian Federation, 2004). The result of the privatization in the 1990s was a significant reduction of the municipal housing stock. Thus, the housing fund, which was supposed to be used for social housing, has significantly decreased. The actions of the Russian authorities are aimed at reducing the 'waiting list': a list of people who have the right to such housing. Therefore, increasing the volume of social housing construction in compliance with quality standards, and the development of appropriate financial and credit institutions are the main directions of social housing construction development in Russia (Kollegova, 2011). In respect of economic issues, the Norwegian State Housing Bank is responsible

for providing certain groups with basic loans, start-up loans, housing grants and housing allowances (Modernisation, 2016). In Russia, one of the tools of state subsidization is a housing certificate, according to which the state purchases an apartment for a certificate holder (Trustpeople.ru, 2016). The Mortgage Agency (AHML) is responsible for providing mortgages with a low interest rate (Minstroyrf.ru, 2016).

Therefore, the results of my research allow me to draw the conclusion that the design of state social housing policy in Norway and Russia is quite similar, due to the fact that both countries are welfare states. According to the analysis through Hoekstra's variables, social housing is one of the most important housing policy instruments, through which Norway and Russia, as welfare states, assist their residents. However, according to Gullestad's theory, the implementation of social housing policy differs, due to the impact of housing culture. Thus, Norwegian housing policy reflects distinctive features of Norway as a nation: rural and egalitarian traditions have formed the housing culture and, as a consequence, the state housing policy. Today, Norway is known as a country of homeowners (Stamsø, 2009). Modern Russian housing policy is a result of the Soviet Union's housing policy and the reforms of the 1990s. In the Soviet Union, the housing stock was mainly state-owned; however, later in the 1990s the process of free privatization began in order to create private housing. Due to the privatization in the 1990s, only 15% of housing stock belongs to municipalities; that is not sufficient for the stock to be used as social housing. Therefore, the housing fund, which was supposed to be used as social housing has decreased significantly. At present, social housing development is the main challenge for the Russian authorities (Kollegova, 2011). Therefore, I can conclude that, despite the existence of a common understanding of social housing, Russia and Norway have their own approaches to the implementation of social housing policy, which have been formed under the influence of housing culture.

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## REFORMING UKRAINIAN LOCAL BUDGETING NORMS: INSTITUTIONAL PERSPECTIVE

### **Abstract**

The working paper is written as a part of the PhD course 'Governance in the High North: implications for Arctic private and public sector'. The main aim of the essay is to provide a wide overview on international approaches to building national governance systems. The essay traces the development of public sector governance in the particular context of Ukrainian local government budgeting reforms. Illustrative examples are provided, describing whether and how external institutions influenced the reforms of Ukrainian budgeting norms (e.g. legislature, rules, and standards). By applying the lens of institutional theory, the New Public Management trends in reforming the Ukrainian public sector are described, and the driving forces of local budgeting norms' 'modernization' are considered. The essay contributes to the international comparative budgeting research by increasing awareness of the role of external institutions in changing budgeting norms and by fostering an understanding of the main reasons for these changes.

**Key words:** public sector; reform; international institutions; local budgeting; Ukraine

## Introduction

Nobody is travelling in the same direction. Targeting constant economic growth, stability and wealth, countries apply numerous strategies to reach this goal. One of the most common is economic reforms. Some nations, such as the Organisation for Economic Co-operation and Development (OECD) countries, have already become pioneers in implementing and promoting New Public Management reforms, whereas Eastern European countries still struggle with the complexity and ambiguity of the policy development process (Wedel, 2009) in reforming their economies. Such diversities in public sector financial reforms have become a highly discussed issue within academic circles, such as the Comparative International Governmental Accounting Research (CIGAR) network, the European Accounting Association (EAA) and more. This paper draws attention to the public sector budgeting reforms' initiation and implementation in a country experiencing a change in its economic and political paradigms.

The scientific debates stress the importance of local context in studying the financial aspects of changes in the public sector (Czarniawska, 2008; Martinez-Vazquez and McNab, 2003; Gherardi and Jacobsson, 2000). During recent decades, the increasing tendency to conduct comprehensive reforms of national intergovernmental fiscal systems in developed and developing countries might be observed (Dabla-Norris, 2006). Many scholars (Ruffner and Sevilla, 2004; Webber, 2004; Dabla-Norris et al., 2010) have shown that the most successful reforms in public sector budgeting are often associated with a number of influential international financial institutions, such as the International Monetary Fund (IMF), the Organization of Economic Cooperation and Development (OECD), the World Bank (WB) and more. In addition, changes in public sector budgeting may be caused by the desire of central government to integrate into the European community (Jesus and Jorge, 2010). However, the changing role of international organizations in framing fiscal relations has questioned the assumption that successful public sector reforms are a product of international 'best practices'.

Indeed, driven by economic challenges, e.g. unsustainable public deficits, the first countries to reform their public sector finances were New Zealand, Australia, the UK and the US (Cepiku and Mititelu, 2010). The experience of these and some other European countries served as a contextual frame for conducting numerous studies in the field of governance and public sector administration (Brumby, 1999; Blöndal, 2003).

This research aims to make a theoretical contribution to understanding the influence of international institutions on local government budgeting reforms in the context of a country in transition. Choosing the Ukrainian case enables comparisons to be made with countries that have a similar background. For instance, research carried out within the Romanian context (Tiron Tudor, 2006) shows that, after a long period of centralization, there was a need to reform the institutional framework for local governments in regulating the regime of local autonomy. This caused changes in relations with the central administration authorities, making local government more independent. In the case of Poland's (Nowak, 2008) reforms in public finance law, regarding local government, budgeting was initiated in order to increase transparency, openness and local fiscal autonomy. The historical analysis of changes in local budgeting norms in Ukraine will show how such processes were handled in Ukraine and who were the main actors in the process of public



sector budgeting reforms. This research, therefore, seeks to trace the path of Ukrainian public sector budgeting 'modernization' and to identify the external factors, which influenced the reforms of Ukrainian local budgeting norms. Hence, the research question is: *How have external institutions influenced changes in local budgeting norms?*

The paper is structured as follows: in the second section, a brief literature overview is presented, outlining the New Public Management variations and discussing the reasons for conducting local government reforms. In the third section the methodological choice and the trustworthiness of collected data are described. The fourth section, findings, provides a historical overview of relationships between the Ukrainian government and international institutions from 1991 until 2015 and the pace of conducting reforms. Finally, the study closes with a concluding discussion and perspectives for future research.

### **Literature overview**

This section provides an overview of scientific debates on the New Public Management (NPM) paradigm. The diffusion of international approaches to conducting public sector reforms has created several types of NPM models. Besides, the analysis of literature shows that several reasons can be identified for governments to modernize governance in the public sector. During this process, the role of international financial institutions becomes significant, especially in developing countries.

#### *New Public Management variations*

Before the late 1970s, the domination of the Weberian rational bureaucracy model of public sector management spread around the globe. However, from the 1980s, substantial efforts were made to reinvent the public sector worldwide, by implementing progressive models of public governance. These significant changes occurred in public administration and accountability (Power and Laughlin, 1992), targeting public sector modernization under the NPM paradigm as a response to growing bureaucratic apparatus, low trust in public servants and focus on the process rather than on output (Hood, 1991, 1995). NPM was generally based on rationality, together with a neo-classical shift in economics, seeking to build public sector upon the principles of effectiveness and efficiency by applying successful business practices.

The OECD countries were the earliest adopters of the NPM model; however, sometimes it is possible to notice numerous variations. On one hand, the NPM reforms were strongly promoted by the UK, Australia and Sweden through international organizations such as the IMF, the WB and others in developing countries, with several remarkable examples. For instance, the case of such developing countries as Malaysia (Dornbusch, 2001), Nepal (Timoshenko and Adhikari, 2009) and Sri Lanka (Adhikari et al., 2013) show a positive result of the reforms' implementation. On the other hand, OECD countries as Germany (Reichard, 2003), the Netherlands (ter Bogt, 2003), Switzerland and Japan decided not to conduct public sector reforms in frames of NPM in its pure sense. These decisions resulted in the implementation of NPM doctrines in different ways, creating unique NPM variations. For instance, apart from other countries implementing personnel management decentralization, the Japanese case has demonstrated the enforcement of the National Personnel Authority (Hood, 1995).

Over recent decades, the tendency towards international diversities, while conducting public sector reforms has become even more significant (Premfors, 1998). Having said that each country has a specific case, reforms are more likely to be implemented by the influence of strong national and relatively successful models of public sector management (Pollitt, 2001). More examples might be found, while comparing the reforms within the public sector in EU countries (Pollitt and Bouckaert, 2000).

For instance, UK, France and Germany find it necessary to develop their own administrative models (Pollitt, 2001). It is possible to conclude that the historically formed background of politico-administrative systems in a particular country has an influence on the reforms proposed, leading to the establishment of homogenous groups of NPM models (see Fig. 1). According to Pierson (2000), the phenomenon can be identified as ‘path dependency’, referring to the general characteristics of established political systems inherited from the past.

As Meneguzzo et al. (2010) noted, the Germanic countries that are characterized by a basically Weberian bureaucracy model have an administrative practice marked by a dominance of legalistic philosophy; meanwhile, the Anglo-Saxon model was developed in the UK and the US as an antithesis of the Germanic tradition, and the state does not exist as a legal entity. Countries in Southern Europe such as France, Italy, Portugal, Spain and Belgium, referred to as Napoleonic countries (Ongaro, 2009), exhibit a tendency towards the high impact of NPM and some applications of the Neo-Weberian State (NWS) model. In Scandinavian countries, public sector reforms were mostly developed at the decentralized, municipal level (Olson and Peters, 1996), evolved from a legalistic to a pluralistic/consensual government type (Kickert, 1997). Most countries with a transition economy (Bulgaria, Estonia, Hungary, Poland, Ukraine and others) conducted their public administration reforms within the NWS model (Cepiku and Mititelu, 2010).

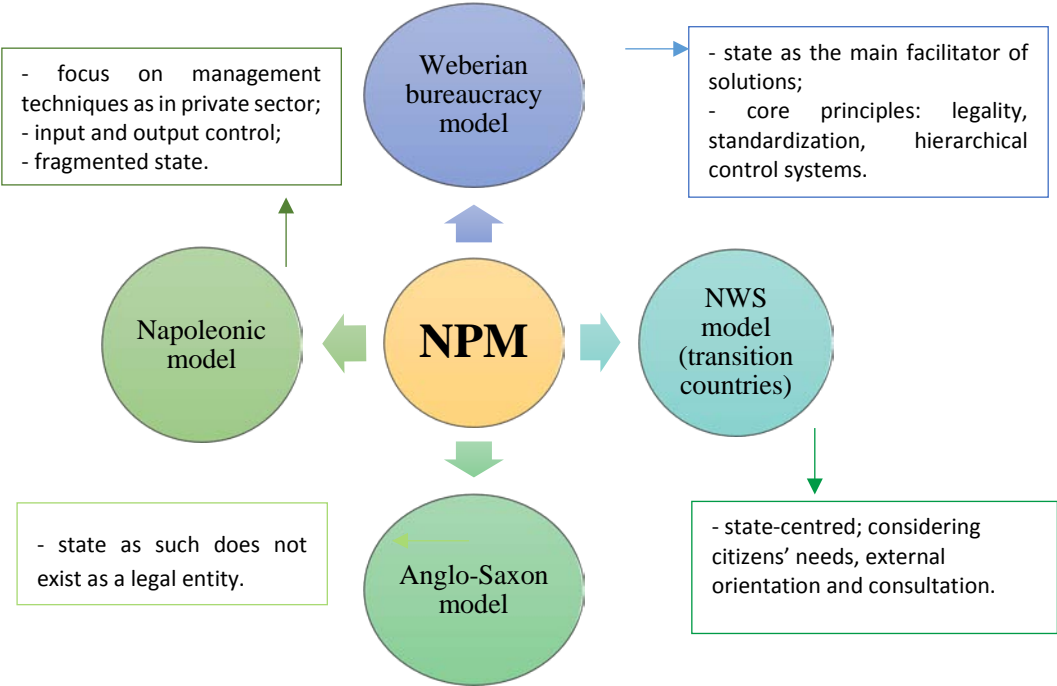


Fig. 1 Variations in NPM models\*.

\*developed by the author, based on Meneguzzo et al. (2010)

The issues of promoting decentralization, strengthening trust in public servants and limiting corruption were considered as key elements of the NPM model worldwide (Hood, 1995). Scientific debates were raised by CIGAR network scholars, disclosing experiences in different countries. In the case of Scandinavian countries (Bourmistrov and Mellemevik, 2005; Monsen and Oulasvirta, 2008), the level of local autonomy depends on the relationship between central and local governments. Researchers from Italy, Spain and Portugal (Anselmi and Lazzini, 2008; Montesinos and Brusca, 2008; da Costa Marques and de Almeida, 2005) have also mentioned that reforms in local government budgeting were caused by excessively heavy bureaucratic apparatus, the need for social modernization and greater fiscal autonomy. This shows that currently countries face difficulties in maintaining local government autonomy, making the issue of fiscal decentralization more important.

The growing influence of international organizations on governmental structures remains a common issue for developing countries, while conducting institutional reforms in the public sector (Andrews, 2013a). International institutions became the main advocates of reforming the public sector in developing countries and countries in transition, where the most serious problems were those of weak administrative capacity and corruption (Manning, 2001). Meanwhile, there is still a lack of analysis of the reforms in countries at different stages of development (Allen, 2009), especially those, which face an enduring transition stage. Ukraine represents a group of ex-communist countries with a durable transition stage (O'Connell and Wetzel, 2003). After the collapse of the USSR, the transition process from a centrally planned to a market economy provoked a number of reforms in Ukraine, including the need to develop a sphere of public sector budgeting on different levels (Martinez-Vazquez and McNab, 2003).

#### *Reasons for conducting the local government reforms*

Some researchers (Pollitt, 2001; Marginson and Ogden, 2005; Edwards et al., 2005) claim that one of the best solutions for improving efficiency and effectiveness in public sector governance is to implement already designed 'one-best-way' models and to adjust the performance of various spheres of public services, according to these systems. In his papers, Jönsson (1991; 1996) highlighted the involvement of numerous actors, while changing the legislative framework of a particular country. Not only is the central government responsible for making budgeting laws, e.g. direct regulation, but also international institutions give their 'ideas' on how public sector budgeting legislature would rather look.

Nevertheless, sometimes interventions in public sector budgeting can have negative effects (Stiglitz, 2001; Andrews, 2013b), which makes all governments relatively suspicious of the adoption of such reforms (Pina et al., 2009; Jones et al., 2013; Timoshenko and Adhikari, 2009; Andrews, 2011). These kinds of forces do impose an implementation of common procedures that have an influence on the core spheres of public services, among which is local government budgeting. Besides, the reformation of local government regulation, according to suggested external rules, can require the implementation of several other reforms connected to the overall fiscal policy of the country (e.g. changes in taxation system, financing of social spheres or decentralization tendencies).

Being on the agenda in almost all Western and Central European democracies, local government reforms might be implemented for numerous reasons (Vetter and Norbert, 2013).

Firstly, several authors claim that the main goal of reforming budgeting is an intention to make changes *towards a better future* (Matheson, 2002; Blöndal, 2003). Since the budgeting process applies planning techniques, budgets are created to estimate future revenues, expenditures, and forecast the deficit or surplus outcomes. For instance, according to Matheson (2002), the failure of the annual budgeting approach to find the balance between the current situation and future needs provoked the reforms in the budgeting framework and the adoption of a long-term budgeting approach. The implementation of such an approach results in setting more realistic goals for funding opportunities, gaining more certainty in forecasting expenditures, and estimating the prospects of economic welfare. Therefore, governments in developed economies get rid of annual budgeting and conduct reforms to implement a multi-year budgeting approach. In the case of the former Soviet countries, implementation of the public sector budgeting reforms requires substantial financial support to overcome political, economic and social instability (Kravchuk and Chudowsky, 2005).

Secondly, discussions within another perspective of reforms in public sector budgeting show that, in order to achieve lasting budgetary efficiency, reforms are considered as a 'must-have' (Brumby, 1999). By reforming the sphere of governmental budgeting, specific 'rules of the game' are established, leading to institutionalization (Vetter and Norbert, 2013). These rules and procedures are institutionalized in social practices and maintained by the learning process (Balsiger, 2014). Hence, reforms should respond to the 'logic of appropriateness', the concept of actor's actions' interpretation proposed by March and Olsen (2006). This kind of logic is embodied in the foundational norms of contemporary societies, since the appropriate rules have been portrayed as part of democratization processes (March and Olsen, 1995).

Thirdly, one of the main reasons for reforms initiated by central government may serve the will of the government to *improve its legitimacy* (Wu and Wang, 2012). Besides, reforms of local government budgeting norms are tightly connected with *public interests* and *social welfare* (Wu and Wang, 2012). Thus, such reform may be motivated by a desire of the government to be recognized as an effective one (Andrews, 2010) in front of international institutions. However, not only adoption, but also adaptation of reforms has to be considered. The government can choose an adoption strategy, which means that it simply mimics the successful experience of other countries. However, in order to develop high-quality governance models, it is necessary to avoid implications of the 'copy-paste' approach and adapt the reforms to the context and cultural features of a particular country.

Thus, one of the main reasons for the reforms is to advance governance structures and to boost national growth (Matheson, 2002). Besides, the issue of local budgeting autonomy is considered as one of the key objectives, while conducting public sector reforms worldwide. Placing the same priorities in first place, Ukraine is currently cooperating with international institutions in order to improve its public governance and administration.

Currently, the importance of conducting public sector reforms in Ukraine, especially in public sector budgeting, has been strongly supported by both national politicians and international

institutions. There are several reasons for such support. Firstly, as an independent country, Ukraine faced difficulties in moving from an inherited centralized administrative planning of the Soviet budgeting system to new Western practices (Bird and Gendron, 2006), causing numerous amendments in Ukrainian legislature. In order to increase the efficiency and effectiveness of the public administration, the Ukrainian government endeavours to instigate complex territorial and local governance reform, making it a priority of the current economic agenda.

Secondly, the budgetary system of Ukraine is defined by legislature and consists of (Krylova, 2006): central government budget and numerous local budgets. As for 2016, the Ukrainian budgetary system accounts for 11 761 local budgets (not including *de facto* the Autonomous Republic of Crimea and Sevastopol). Political tensions and instability in several Ukrainian regions also create preconditions for the Ukrainian government to reconsider and improve local government budgeting legislature.

The historical perspective on the cooperation between the Ukrainian government and international institutions is described further. Even though the economic and political situation is changing quickly in Ukraine, by reaching out to and communicating with qualified experts and civil servants, the general tendencies in local government budgeting development and international cooperation are traced. A special emphasis is placed on the influence of external institutions on Ukrainian local government budgeting reforms.

## **Method and data**

In the following section, the methodological choice is explained, and implications for the approaching empirical research are discussed. In particular, the main instruments of data collection: archival and documentary analysis, as well as interviewing, are described. The main participants and procedures of the data collection process are presented, supporting the chosen research strategy. The means of data analysis are specified and the main challenges of data collection are discussed. Finally, arguments for the trustworthiness of the research are provided.

### *Instruments of data collection*

Taking into account the research question and the context of the research, several instruments of data collection are used, mainly: (1) archival and documentary analysis; (2) semi-structured and in-depth interviews.

*Archival and documentary analysis.* It is impossible to ignore texts, while conducting research (Silverman, 2005), since people are routinely, often extensively, involved in the production and consumption of documents, which can be seen as 'social facts'. In order to understand which actors were involved in reforming Ukrainian public sector budgeting norms and what their role was in this process, a number of Ukrainian and international official documents were analysed.

Table 1 in Appendix 1 summarizes the national and international legal acts, official documentation, and agreements, which were studied in order to conduct a comprehensive background research of the topic. By addressing the national documents shown in Table 1, Appendix 1, the main features of public sector budgeting in Ukraine were clarified. However, in order to grasp the wide spectrum of actors involved in reforming Ukrainian public sector budgeting norms, several international documents were also chosen. These agreements and legal acts enabled the

identification of the international financial institutions, which took part in the Ukrainian public sector reforms.

Official documents, external reports, agreements and memoranda, articles and resources from the media helped to formulate the main questions for data collection. Fig. 2 shows the logic of the interviewing process, moving from narrow and specific questions to more abstract and general questions. To get the full picture of the changing phenomenon, the questions are structured to find out: who, why, what and how. While conducting a documentary analysis, the more objective answers to these issues were found. It became clear how, by whom and in what way the reforms of local government budgeting were conducted. However, it was still crucial to obtain the opinion of practitioners by interviewing them.

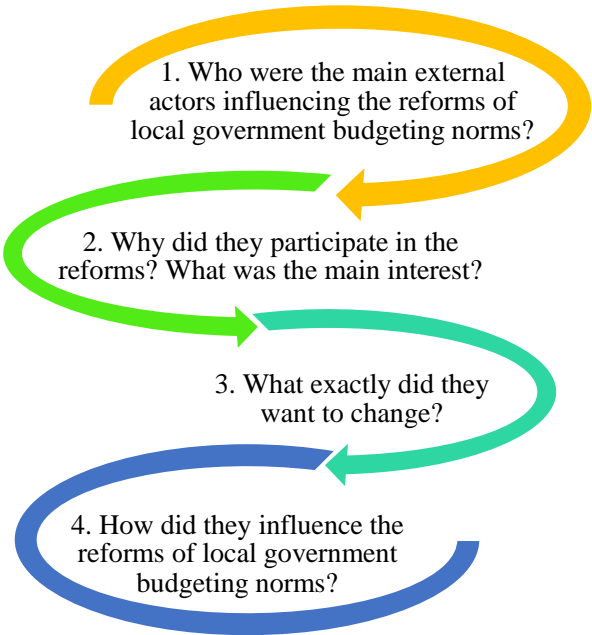


Fig. 2 The logic of the interview guide\*.

\*developed by the author

Four *semi-structured interviews* and one *in-depth interview* were conducted with five Ukrainian specialists, familiar with the current state of public sector budgeting reforms as well as with historical changes in local government budgeting norms. For the semi-structured interviews, four basic questions (as in Fig. 2) were clearly identified. Meanwhile, the last in-depth interview was more informal and provided an opportunity to gain considerable insight into the drivers of Ukrainian reforms of local government norms. The in-depth interview gave the interviewee a chance to talk freely about events and concerns regarding the historical development of Ukrainian public sector budgeting, the key international actors in promoting reforms of budgeting norms and the consequences for Ukrainian local governments. Nevertheless, before starting the analysis of the data gathered from the interviews, it is important to develop a good preunderstanding of the research topic (Saunders et al., 2009). Hence, the documentary analysis and semi-structured interviews served as a springboard for the in-depth interviewing. While conducting the interviews, a strategic ‘snowball sampling’ effect was applied. By asking interviewees about other competent

specialists in the area, several contacts were received; these constituted the next people to be targeted for the interviewees.

Considering the time frames and the sensitivity of the topic, the interviewees were provided with a brief description of the research, the main topics covered during the interview and approximate time limits (60-90 minutes per interview). As initially planned, the interviews were voice recorded. However, two interviewees refused to allow their interviews to be recorded; therefore, extensive notes were taken of the conversations.

As for other qualitative techniques, analyses of other secondary data resources (information from the official websites, media, earlier publications in the particular field, etc.) were used. In today's era of IT technology, a significant amount of information such as reports, budgeting statements, announcements are available online through net-groups, forums and official sites. Since all sources of data create organizational versions of the reality (Silverman, 2005), the texts and other data from official websites (local and central authorities) are also taken into consideration. This creates a full picture of the drivers of the reforms of local government budgeting norms in Ukraine.

#### *Participants and procedures*

The people who were interviewed represent various expert groups, specializing in different areas of public sector budgeting, such as debt management, fiscal regulation, decentralization and cooperation with international financial organizations. During the early stage of the research, informal conversations with civil servants from the Ukrainian Ministry of Finance were organized. Through speaking with them, a general understanding of the current issues of Ukrainian public sector budgeting norms was obtained. They also provided several contacts, who were then interviewed (Appendix 2, Table 1). During the conversations, the following issues were discussed: the reforms of the Ukrainian legislature in the sphere of public sector budgeting, major institutions supporting the reforms, the type of financial aid provided for the Ukrainian government, and how the reforms influenced the level of fiscal autonomy of local governments.

The interviewees were divided in two broad categories: civil servants and experts. This was done in order to increase the validity of the data, since some of the civil servants may also defend their political interests and may provide less critical responses when talking about the reforms of budgeting norms due to their involvement in these changes (in particular, avoiding speaking about the failures). Hence, a special strategy for conducting interviews is introduced. This can be achieved by enlarging the set of respondents (such as scholars and NGO representatives) and discussing different topics within a research field.

There is a tendency in the Ukrainian public authorities (especially at a central level) to regulate access to data extremely strictly and carefully. In order to ensure the process of gaining data, a special access plan was created (see Fig. 3), enabling as much information as possible to be received; this involves various means of collaboration between the researcher and the interviewees. During the conversation, such roles as interviewer, a discussion partner and an observer replaced each other, allowing the interviewee to speak more.

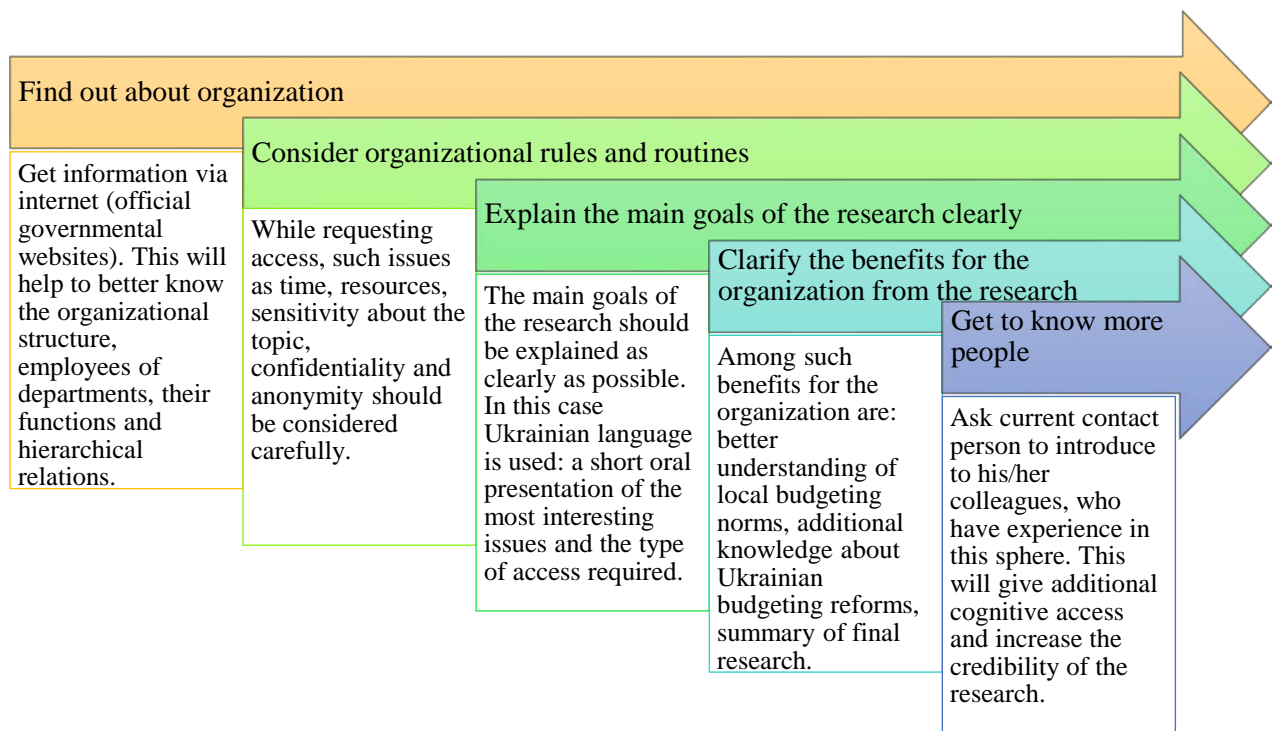


Fig. 3 Plan for access to the data\*.

*\*developed by the author*

Taking into account the features of the Ukrainian public sector, an official reference letter from Nord University Business School, as well as reference letters from Ukrainian partner institutions (an alliance agreement was signed between Nord University and 11 Ukrainian universities in December 2014) might be useful in the future. This will also enhance the credibility while gaining access.

#### *Data analysis and trustworthiness of the research*

During the process of data analysis, several challenges occurred. A description of these is provided below, as well as ways for overcoming them.

Firstly, it is not only data collection (interviewing and observations) that can be very time-consuming; the process of transcribing the data also requires a significant amount of time. Therefore, software was used (e.g. NVIVO) for transcribing the interviews. In order to facilitate the data collection process and avoid 'drawing' in ideas and information, the interviews and notes were imported into NVIVO. Then an initial node structure was set up, based on the literature review and primary research ideas. The nodes were also organized for the potential interviewees, their positions and places and where they currently work, which facilitated the structure of the data.

Secondly, the analysis and interpretation of data is quite challenging. Since the research is conducted in the context of the Ukrainian public sector, the working language for the interviews was in most cases the Ukrainian language, and only once, Russian. This might cause difficulties when translating the conversation, since some of the categories do not have a precise foreign synonym. Therefore, the interviewees were asked to be specific and to explain the meaning of the words they used.



Focusing on the process of collecting and analysing data, which requires careful time management and great concentration, it is also very important to pay attention to the verification of the research results. According to Riley and Wood (2000), a particular scale is reliable, when repeated applications of the scale produce the same results, given that the attitudes remain the same. In a sense, reliability is about replication (being able to repeat and reproduce results).

There is an opinion that qualitative papers are sometimes negatively affected by interpretations, where it is difficult to distinguish between raw empirics and analysed data (Seale, 1999). In order to ensure the trustworthiness of the research, the credibility, transferability, and dependability (Guba, 1981) are considered.

1. Credibility aims to ensure that the findings are congruent with the reality (Merriam, 1998; Lincoln and Guba, 1985). While studying the reforms of local governments' budgeting norms, the triangulation technique is used. The main advantage of triangulation is that it combines various methods, such as in-depth interviews, focus groups, secondary data sources and observations. Therefore, to complement the interviews, a comprehensive secondary data analysis is presented.

2. The transferability principle represents the level to which the results of qualitative research may be generalized or applied to other contexts or situations (Shenton, 2004). By providing rich data regarding the historical reformation of local budgeting norms and understating the main actors involved in this process, the results of the research may raise interest among other countries and be used by some ex-USSR countries, which are in the same stage of transition as Ukraine (Stuart et al., 2002).

3. Dependability means that the same results are obtained, if the research is repeated in the same conditions. However, several scholars (Marshall and Rossman, 1999; Florio-Ruane, 1991) claim that, due to the ever-changing nature of the phenomenon, obtaining the same result twice is extremely problematic. Therefore, in order to meet the dependability principle, a research design is created, highlighting the frames of the research (e.g. an interview guide), considering the possible limitations of data collection (ethical issues) and critically evaluating the conducted interviews. To be sure that the interpretations and analysis of collected interviews are managed correctly, communication with interviewees via mail or phone during the analytical process will be maintained.

The next section presents key findings obtained after analysing the Ukrainian legislature and official documents, and from interviewing Ukrainian civil servants and experts in public sector finances.

## **Findings**

In the following section, the question of *which* external institutions have influenced the reforms of local budgeting norms is mainly addressed. In addition, several aspects showing *how* they influenced the reforms of local budgeting norms are also discussed.

### *Ukraine and international institutions 1991-2015: cooperation for reforms*

Changes in Ukrainian local budgeting norms may be seen as a process of budgeting 'modernization' (Meyer and Rowan, 1977; Scott, 1995). However, which actors/institutions are involved in

reforming the norms for local government budgeting in Ukraine? And how did they influence the reforms of Ukrainian local government budgeting norms?

After gaining independence in 1991 and for several years after, Ukraine had a rather simplified institutional framework, regulating weak intergovernmental relations (Bird et al., 1995). Norms that defined budgeting processes in the early stage of Ukrainian independence were more oriented to the centralized command economy, rather than being market-driven. According to Mikesell and Mullins (2001), this was caused by inherited budgeting patterns from the USSR, which were an obstacle to conducting public sector reforms and updating the fiscal policies crucial for economic development.

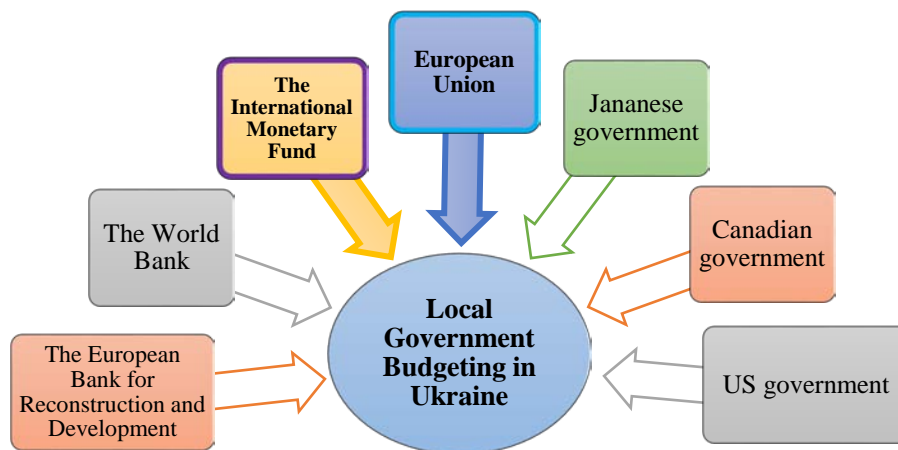


Fig. 4 The main international institutions influencing public sector reforms in Ukraine\*.

*\*developed by the author*

As shown in Fig. 4, historically, seven major actors can be identified as having influenced the reforms of local government budgeting norms. The impact of most of them, however, was indirect. Only two external actors have several programmes concerning budgeting transparency, fiscal decentralization and regional development. Based on the collected data from the interviewees and wide secondary data analysis, a brief historical overview of relations between Ukraine and international institutions is shown in Fig. 4, and a broader analysis is outlined below.

In the early 1990s, the Ukrainian government, led by the first Prime Minister, Vitold Fokin, and the first President, Leonid Kravchuk, chose to vector national policy towards the development of strategic relations with the EU and Western partners. In 1992 the Ukrainian parliament approved several important laws (as mentioned in Table 2), creating the legislative base for the initiation, preparation and implementation of the economic and social development of Ukraine. From that time, Ukraine has also recognized and follows the Articles of Agreement (IMF, 1944). After becoming a member of the IMF (possessing 0.58% of its total voice), Ukraine has accepted the essential purpose of the international monetary system: that is, to create a framework, which facilitates the exchange of goods, services, and capital among countries, and sustains sound economic growth (Article IV, Section 1 of the IMF Articles of Agreement, 1944). Therefore, after Ukraine recognized the necessity for financial and economic stability, the collaboration between

the Ukrainian government, the IMF and other members was maintained to develop a stable financial system of the country in transition.

In July 1992, Ukraine announced its desire to join the Council of Europe. The aim of this intention of the Ukrainian government was to demonstrate the democratic values of the country, consistency in conducting reforms regarding human rights' protection and the development of democratic institutions. After three years of application proceedings, in 1995 Ukraine joined the Council of Europe and thus ratified the European Charter of Local Self-Government. This led to the reformation process, pursuing European values in the organization of Ukrainian local governance.

In 1994, when the Partnership and Cooperation Agreement (PCA) was signed between Ukraine and the EU, the Ukrainian government stated that integration into the EU community was the main foreign policy objective. It did not take long to introduce a new package of legislative documents and, in 1996, the law, which declared the rights of local governments, was introduced.

Due to the severe financial difficulties, which Ukraine had faced since 1991, the IMF made a decision to provide Ukraine with financial aid, but, in return, the Ukrainian government had to adhere to reformation of its budgeting and tax systems (Rutland, 1998). During the period from 2000 until 2008, the financial condition of Ukraine was stable and there was almost no need for external financial support. The economic policy was developed under 'the future without debts' banner.

Nevertheless, in 2008, the world financial crisis touched the Ukrainian economy, causing the double devaluation of the national currency and a GDP decline of around 14.8%. In such conditions, at the end of 2008, the IMF accepted a stand-by programme for Ukraine, providing \$16.4 billion. The Ukrainian government, led at that time by Yulia Tymoshenko, undertook obligations to conduct structural reforms, increase energy efficiency and privatize several public enterprises. Unfortunately, this IMF programme was not fully accomplished because of conflicts among the Ukrainian branches of power and the start of an election campaign. Ukraine could only receive \$10.5 billion within this programme.

Starting from 2006-2007, Ukraine received an opportunity to attract external financial aid from the European Union in terms of budgetary support. This type of support is granted from the EU budget for Ukraine in order to maintain the reforms and policies of mutual bonding, with respect to existing agreements between these countries. Budgeting support programmes require the implementation of structural reforms in Ukraine in order to transfer financial support from the European Commission on a gratuitous and irrevocable basis to the state budget of Ukraine. This cooperation is developed based on strategic documents from the Ukrainian government, undertaking to carry out reforms, and the European Union is committed to providing financial support for the implementation of these reforms.

In 2007-2013, the European Investment Bank, on behalf of the EU government, committed more than €1 billion for bilateral assistance to Ukraine under the European Neighbourhood and Partnership Instrument (ENPI). However, implementation of the budget support programme in Ukraine was faced with the complexities of setting financing agreement conditions. In this regard, the practical implementation of the programme was delayed, and the payment of funds stopped.

In November 2013, the dialogue on the conditions of budget support improved significantly; the European Commission approved the progress in the field of public finance and made a decision to transfer €88 million in one tranche. On 5<sup>th</sup> March 2014, the European Commission announced a large support package for Ukraine to help stabilize the economic and financial situation of the country. All the measures combined could bring overall support of €11 billion over the next seven years from the EU budget and the international financial institutions, including up to €1.4 billion of bilateral grants. On 9<sup>th</sup> April 2014, the Commission decided to create the Support Group for Ukraine. Enlargement and Neighbourhood Policy Commissioner, Štefan Füle, was appointed as the support group leader. The group, headed by Peter Balas (currently the Deputy Director General in the Trade Directorate-General), consists of around 30 full-time officials, experts from the member states, contract agents and special advisers. Ensuring that the Ukrainian authorities receive all the support for undertaking the political and economic reforms and stabilizing the country, their activities will be defined by the document “European Agenda for Reform”. On 29<sup>th</sup> April 2014, the European Commission adopted new support for Ukraine’s transition worth €365 million – the special measure that includes a state building contract and support to civil society<sup>11</sup>.

In addition, several EU projects launched in Ukraine were devoted to the development of financial decentralization, and budget and tax reform at the local level (Prytula, 2013). The most recent (2010-2013) projects are: strengthening local democracy and support for local government reforms in Ukraine by the Council of Europe, and Community Based Approach to Local Development by EU and GIZ (Gesellschaft für Internationale Zusammenarbeit) programmes, co-financed by the governments of the EU member states or the EU. According to Prytula (2013), following the financial support, European partners cooperated with local governments in Ukraine to strengthen institutional capacities on a local level, implement sustainable development strategies and contribute to financial decentralization.

#### *Driving forces of local government budgeting reforms in Ukraine*

When trying to understand the driving forces of local government budgeting reforms in Ukraine, it becomes important to analyse the institutional context of the country. In different countries, external influence (quite homogenous suggestions of international institutions) might have different results. As Way (2002, p. 581) argues: “export of institutional ‘best practice’ has its own interpretations in different contexts...describing institutional reform in weak institutional contexts requires a deep empirical knowledge of how the country’s institutions function, that international consultants and economists often do not have the training to acquire”.

The historical cooperation between Ukrainian governments and international financial institutions provides evidence of Ukraine’s desire to boost its economy and to integrate into the world community and of its readiness to conduct NPM reforms (Fig. 5). As revealed by the interviews and secondary data analysis, close cooperation and quite strong influence (mostly financial aid and consultancy services) on the reforms of Ukrainian local government budgeting norms came from the international institutions. In addition, in order to overcome the challenges of the transition stage, Ukraine sought support from international institutions. The reforms were conducted in

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<sup>11</sup> Official website of European Commission: [https://ec.europa.eu/europeaid/countries/ukraine\\_en](https://ec.europa.eu/europeaid/countries/ukraine_en)

order to increase local governments' fiscal autonomy, to enhance budgetary transparency and to overcome corruption, thus improving public sector governance.

At the same time, the changes in the Ukrainian local government budgeting legislature might be presented within the following stages: (1) from 1990 until 2001; (2) from 2001 until 2010; and (3) from 2010 until 2014; during each stage, a new local government budgeting norm was introduced. By referring to the chronology of international institutions' influence, the connection between their participation in the reforms and the development of local government budgeting norms might be found (Fig. 5).

Entering international arena: Ukraine becomes a member of IMF, EBRD, and others.	First IMF credit (\$667.2 mln)	<ul style="list-style-type: none"> <li>• 1995 Ukraine joined the Council of Europe</li> <li>• Every year a 1-year "stand-by" from IMF (overall \$2 660 mln)</li> </ul>	3-year Extended Fund Facility from IMF (\$2.6 bln)	"Future without debts" (period without credits)	2-year "stand-by" (\$16.4 bln) from IMF	Projects by the EU members to promote reforms in public finances	<ul style="list-style-type: none"> <li>• IMF credit for 2 years (\$17.01 bln)</li> <li>• large support package from the European Commission</li> </ul>
●	●	●	●	●	●	●	●
1990-2001 Law "On the Budgetary System of Ukraine" (currently not valid)				2001 Budget Code of Ukraine (currently not valid)		2010 Budget Code of Ukraine (valid, new edition with	2014 Budget Code of Ukraine (valid, new edition with

Fig. 5 Chronology of the most important events associated with international institutions' influence on Ukrainian reforms and changes in local government budgeting norms\*.

\*developed by the author

During 1990-2001, there were no significant improvements in local governments budgeting, since most of the attention was paid to problems associated with high inflation and the implementation of the monetary system. At that time, the Ukrainian government had no clear goals and stages for the reforms. However, in 2001, the Ukrainian government, in cooperation with foreign consultants, introduced the Budget Code of Ukraine, which was the start of moving forward from the command economy. The Ukrainian economy became more stabilized and, in 2000-2008, there was no need to apply for financing of public sector reforms; nevertheless, some mutual investment protests took place. After the world financial crisis in 2008, Ukraine had to apply to international donors for support.

Financial challenges motivated the Ukrainian government to reconsider and enhance the local government budgeting legislature and, in 2010, the new edition of the Budget Code of Ukraine and several other documents became valid. This returned the Ukrainian economy into relative balance until 2014, when the national revolution started. In 2015, the reelected government expended considerable effort in order to retrieve legitimacy in the international arena and to build trust with the international institutions. The negotiations were quite successful, resulting in

increased financial support worldwide, especially from the EU and the IMF. Nevertheless, these institutions remain cautious and agree to provide aid only in response to the visible economic transformations and successful reforms in Ukraine.

Most of the interviewees noted that the main driving force of the reforms were national institutions and NGOs willing to decentralize the existing budgeting system. This might serve as a basis for further research aiming to study in more detail internal drivers and their role in local government budgeting reforms in Ukraine.

### **Concluding discussion**

Reforms in public sector budgeting are often associated with a number of influential international financial institutions, such as the International Monetary Fund, the Organization of Economic Cooperation and Development, the World Bank and more. In addition, changes in the territorial structures of public administration may be caused by the desire of central government to integrate into the European Community, as may be observed in a number of countries: Poland, the Czech Republic, and Slovakia (O'Dwyer, 2006), as well as in the Balkan states (Demetropoulou, 2002).

This study tried to shed light on the role of external institutions in reforming local government budgeting in transitional economies. The Ukrainian context was chosen to identify the driving forces of reforms building a NPM model in a country, which inherited a centrally planned economy.

Starting from 1991, Ukraine has experienced a gradual reform strategy, decelerating economic stabilization and liberalization for a couple of years (Havrylyshyn, 2007). The process of moving from a Soviet-like economic model to a NPM one was problematic, especially at the beginning of Ukraine's history as an independent state.

After adopting major laws in the 1990s, the Ukrainian government showed a significant will to cooperate with Western partners. Ukraine joined the IMF, the EBRD, and the WB and cooperated with the EU institutions. During 1991-2000, due to the gradualist approach of the central Ukrainian government to the reforms' implementation, the objective of prompting the process of public sector reforms was not fully achieved. However, the Ukrainian economy was more or less stable in the period from 2000 to 2008, creating a new credo of Ukrainian politicians, declaring "the future without debts."

One of the main reasons for conducting reforms was a decision by the Ukrainian government to integrate into the European Community; this required several improvements in regulations, in particular, local government budgeting laws. However, some of the issues with local government budgeting are not yet solved. Way (2002, p. 582) noticed that the Ukrainian authorities do not have a complete understanding of the reforms' complexity: "the primary task of the reform very often continues to be understood in transitional terms as the replacement of institutional incentive structures rather than a more fundamental problem of institutionalization". In this sense, studies of the Estonian experience (Wrobel, 2003; Jõgiste et al., 2012) may serve as a good example in Ukraine for local self-governance re-creation, which helped Estonia to join the EU despite having a centralized Soviet-type budgeting system.

In 2008, due to the impact of the global financial crisis on the Ukrainian economy, the government decided to apply for external financial resources and consultancy services. In 2014, active negotiations started between IMF representatives and the new Ukrainian government. It is not only economic issues, which have served as a reason for close cooperation but also the need for Ukrainian recognition as a democratic state. Therefore, the Ukrainian government responded with a more ambitious and comprehensive programme of reforms. As a result, in early spring 2015, the IMF Executive Board approved a four-year, \$17.5 billion Extended Fund Facility arrangement for Ukraine, targeting security of financial stability, improvement of public finances and advances in structural reforms.

Referring to the above, the reforms of Ukrainian local government budgeting norms were influenced by external forces and were tightly connected with building and maintaining legitimacy in an international arena, with a focus on European integration. Therefore, the Ukrainian government was trying to follow and gradually implement a Neo-Weberian State model of NPM.

Nevertheless, the lack of understanding of public sector budgeting reforms and NPM implementation, as well as the changing political priorities in the early 1990s, caused long-lasting economic difficulties in Ukraine. The latter required the involvement of the external financial institutions in the process of establishing Ukrainian local government budgeting. While cooperating with international institutions, a reduction in political uncertainty and economic instability and the development of fiscal autonomy and budgeting transparency were achieved in the Ukrainian public sector. However, attention should also be paid to internal (national) institutions that were also drivers for the reforms, as was revealed from the interviews with Ukrainian public servants and economic experts. This strong tension between external and internal forces and local responses shaped the Ukrainian way of conducting NPM management reform.

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## Appendix 1

Table 1 The main official documents used for collecting data.

National legislature		International legislature	
Name	Information	Name	Information
Constitution of Ukraine	Defines main rights and obligations of local governments	Articles of agreement of the International Monetary Fund, 1944	Defines the main purposes of the IMF members and provides rules for their financing
Budget Code of Ukraine № 2456-VI of July 8, 2010	Provides a comprehensive overview of budgetary relations between central and local levels; defines rules and procedures of budgetary process, sources of local governments' revenues and types of expenditure	Ukraine: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, July 21, 2015	Describes the policies that Ukraine intends to implement in the context of its request for financial support from the IMF
Tax Code of Ukraine from December 2, 2010 of No. 2755-VI	Identifies the local taxes	The European Charter of Local Self-Government	Introduces basic rules guaranteeing the political, administrative and financial independence of local authorities. It provides recognition of the principle of local self-government in domestic legislation and in the constitution
Law "On Ukraine Entering the IMF, the IBRD, International Finance Corporation, the International Development	States the main rights, obligations and rules for cooperation between the Ukrainian government and the mentioned institutions	European Commission's support to Ukraine, Brussels, 5 March 2014	The package of support identifying concrete measures to assist Ukraine economically and financially. These measures are seen as the Commission's contribution to a

<p>Association and the Multilateral Investment Guarantee Agency” from 03.06.1992 № 2402</p>			<p>European and international effort to support Ukraine's economic and political reforms</p>
<p>Decree of the President of Ukraine “On Ukraine’s membership in the European Bank for Reconstruction and Development” from 14.07.1992 № 379/92</p>	<p>States the main rights, obligations and rules for cooperation between the Ukrainian government and the European Bank for Reconstruction and Development</p>	<p>EU-Ukraine Association Agreement, Brussels, 27 June 2014</p>	<p>Focuses on support for core reforms, economic recovery and growth, and governance and sector cooperation in areas such as energy, transport and environment protection, industrial cooperation, social development and protection, equal rights, consumer protection, education, youth, and cultural cooperation</p>

## Appendix 2

Table 1 The list of the interviewees.

Name	Position	Category	Date	Length
Interviewee 1	Non-staff adviser to Minister of Finance of Ukraine	civil servant	4.11.2015	100 min
Interviewee 2	"Open Society" foundation, economic expert	expert	5.11.2015	60 min
Interviewee 3	Chairman of the subcommittee on evaluation of draft laws to the impact of budget figures and compliance with budget legislation	civil servant	10.12.2015	90 min
Interviewee 4	"Open Society" foundation, economic expert	expert	11.12.2015	60 min
Interviewee 5	First Deputy Chairman of European integration committee of the Verkhovna Rada of Ukraine	civil servant	20.12.2015	45 min
Interviewee 6	Director, "Open Society" foundation	expert	21.12.2015	40 min
Interviewee 7	National deputy of Ukrainian Parliament of the 6th convocation, member of the budget committee (at that time)	civil servant/ expert	23.12.2015	50 min
Interviewee 8	PhD, Head of the adaptation of international standards accounting chamber of Ukraine	civil servant/ expert	10.01.2016	50 min