



Understanding Key Issues of M&A Activity in Russia: The Case of Oil & Gas and Banking Industries

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Abstract

This study aims to analyse Russian oil & gas and banking industries from the point of view of M&A activity. In a form of case study, a brief history of M&A deals in both industries is presented and analysed in a context of Russian culture and economic environment. The study suggests that Russia is an extremely interesting and important example of a transitioning economy that could be useful for analysis of M&A activity in emerging markets. Research suggests that Russian economy through its short history has taken a path of strong consolidation and its key industries are now represented by few large players. History of M&A in Russia is full with hostile takeovers and scandals, while the level of foreign investments always remained low. Possible reasons for that could be found in Russia's cultural and historical background, especially in the strength of informal institutions in the managerial practices. The study opens a discussion for further research on the topic.

Table of Abbreviations

BRIC – a group of world’s largest emerging economies: Brazil, Russia, India and China

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization

HRM – Human Resource Management

M2 – measure of money supply that includes cash, checking deposits, saving deposits, money market securities, mutual funds and other time deposits

M&A – Mergers and Acquisitions

MNC – Multinational Corporation

R&D – Research and Development

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1 Introduction

Mergers and acquisitions (M&A) are one of the hottest topic in modern economics. They are defined as transactions in which the ownership of the companies, other business organizations or their operating units are transferred or combined. It spurs interest of researchers all over the world, since it combines technicalities of finance with science of governing business, bringing change, creating growth strategies and managing people, all attributed to the discipline of management. It is also an extremely interesting topic from the legal point of view. Financial side of M&A includes valuation, ways of funding the transaction (cash on hand vs. issue of debt vs. issue of stock), ways of payment (cash vs. stock), and various other aspects. But when two companies merge, questions of cultural and organizational fit arise as well, making it an extremely broad and complicated topic. Which company to target, who is going to manage the process, who will stay and who will go, how fast should the integration process be, what obstacles may arise on the way – all these questions have to be answered in preparation and during the implementation of the M&A deal.

The world economy is constantly growing, humanity creates new technology, new types of business emerge, and one of the most common strategies for growth nowadays is growing externally, using mergers and acquisitions to increase the influence of the company on the economy, grow its market share, etc. There are lots of motives for M&A, including potential utilization of economies of scale (Tirole, 1988), economies of scope (Motta, 2004), materialization of potential synergies that arise from combining assets of two companies, taxation motives, meaning that a company that generates profit can acquire a company that bears losses to reduce its tax burden (Burton & Levin-Nussbaum, 2014). Geographical expansion, which is a goal for any multinational corporation (MNC), can be conveyed through series of cross-border acquisitions. Market diversification can be achieved by acquisition of business that are unrelated to the core business of the company. Additional reasons include alternative ways of recruitment of talent, acquiring knowledge and other intangible assets, such as brands.

As already mentioned, M&A is intensively researched by scientists all over the world. However, this research is often focused exclusively on the developed markets, such as

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the United States of America, Canada, the United Kingdom, or Japan, while emerging markets often are overlooked (Angwin, Mellahi, Gomes, & Peter, 2016). Nevertheless, emerging markets are extremely interesting objects for analysis, since they often grow at a much faster pace, which fosters mergers and acquisitions activity. In particular, it is important to look at the largest emerging markets, such as China, India, Brazil, South Africa, and Russia. For instance, Zou & Simpson (2008) show that deregulation can significantly affect M&A activity on the example of China, which can have great implications for other heavily regulated emerging economies. Kumar & Bansal (2008) in their quite recent research on M&A activity in India emphasize the fact that the amount of research with significantly big number of cases on M&A in India is quite low and provide some interesting findings that are discussed a bit later in this study.

Among those countries, Russia is a particularly rare subject for research. Several reasons attribute to that, including lack of data, relative novelty of Russian market economy, language barrier and others. However, if China is becoming increasingly popular with researchers, so should Russia, as both countries are moving towards a capitalistic economic model, and a large amount of M&A activity is to be expected from both countries.

This study attempts to systemize the history of M&A activity in Russia in several industries, namely oil & gas and banking industry: two key spheres of Russian economics. Author attempts to systemize knowledge on M&A success factors, specifics of M&A in developing countries, as well as peculiar characteristics of Russian economy. After that, using open sources of secondary data, such as open databases and news articles, a brief history of M&A activity in oil & gas and banking industries is presented in a form of a case study. The key point of a case study is to create a big picture of what M&A activity in the most important industries in Russia looks like, create a map and a timeline of mergers and acquisitions that happened in Russia since the fall of the Soviet Union, give insights on how Russian peculiar culture influences the way M&A deals are implemented in Russia, compare M&A activity in oil & gas and banking; but most importantly this research is an attempt to boost interest to Russia as a subject for the research on M&A activity.

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Oil & gas industry was chosen due to its importance to the Russian economy, which relies heavily on natural resources. M&A activity in Russia was quite atypical, especially in the 1990s, it was characterized by an unusually big involvement of the government, corruption, huge amount of lawsuits and other scandals, which makes the research on this topic different from any other industry in any other country. It is important to look at these examples and issues through the lens of Russian cultural background and the legacy of the Soviet Union.

Banking industry, while being vastly different from oil & gas industry in all aspects, from the number of players in the market, to the products and services it offers, is also very indicative of M&A conjuncture in Russia. While there was no large merger of two Russian banks in the history as of yet, largest Russian banks, most of them owned by the state, showed sustainable growth and often choose to accumulate assets and expand by acquiring smaller banks, quite frequently in financial distress.

The M&A activities in Russia showcase some peculiar patterns, namely hostility, complications in communication, lack of integration and interdependence between the acquirer and the target. It is important to understand, why M&A in Russia looks the way it does, which factors influence it, what dynamics can one expect from M&A in Russia, and what lessons can Russian managers and government take from the previous experience, as well experience of other countries, both developed and developing ones. Comparative analysis of two industries is also extremely important. If M&A activity in a particular industry has some notable characteristics, it is important to understand, which of them are mostly explained by the cultural background of the country, and which can be attributed to the specifics of the industry.

The structure of the study is as follows: first, a thorough analysis of background literature on the most relevant topics is conducted, then the methodology of the case study is established, after which the qualitative analysis of the Russian oil & gas and banking industries is presented in a form of descriptive findings. After the analysis is done, suggestions for further research on related topics are provided.

2 Background literature

There is a vast amount of academic literature dedicated to research of mergers and acquisitions, relying on both the quantitative analysis, using regressions and other available tools for data handling, as well as qualitative analysis, most notably case studies that use various tools such as interviews, observation, coding, etc. For the purpose of this research, the main focus of the literature review was articles dedicated to analysing different factors that influence the success of M&A deals. While this field of research is very large and full of crucial helpful insights, it must be noted that there is a clear lack of systematic approach to the problem, which makes connecting the dots and reaching the academic consensus ever so complicated. Thus, a very thorough analysis of literature that exists up to date has to be conveyed. Leading economic journals were chosen as the main source of articles on this topic. Gomes, Barnes, & Mahmood (2016) identified key journals that contain the highest number of articles on the topic of M&A. Those include *Strategic Management Journal*, *International Business Review*, *Journal of Management Studies*, *Journal of International Business Studies*, *Harvard Business Review* and many other respectable journals.

Another category of relevant literature is one dedicated to analysing different markets, classified by geographic factors or industries, that showcase the history of mergers and acquisitions in particular countries and spheres. Furthermore, since this research is dedicated to Russian market, articles on M&A deals in Russia are a specific focus of the literature review. In addition to that, other academic studies about Russia, including managerial, historic, and even psychological ones were used for better understanding of peculiar qualities that Russian business environment has. Since research relied heavily on open sources of information, magazine and journal articles describing specific deals were a valuable source of insight.

2.1 What are the key factors for the success of M&A deals?

Critical M&A success factors can be divided into two basic categories: pre-merger and post-merger factors, which can be further split into several key points (Gomes E. , Angwin, Weber, & Tarba, 2013). The analysis of factors presented further relies heavily

on the classification suggest by Gomes et al. (2013), about the critical success factors involved in the pre- and post-merger processes.

One of the most important pre-merger factors that determines the future success of the deal comes in the very beginning of the M&A process, it is the search, evaluation and selection of the merger partner or acquisition target (Kitching, 1967). Many characteristics of the target that can be evaluated prior to the deal can influence the success rate, for instance, one may logically assume that market relatedness between the buyer and the target should not only increase investor's expectations of potential gains, but also lead to higher value creation after the merger. However, research does not seem to support this wide-spread notion, in fact, many researchers claim that some market and product relatedness is not necessarily better than none (Lubatkin, 1987). However, there are other types of fit, most notably organizational (Jemison & Sitkin, 1986) and strategic (Napier, 1989; Lubatkin, 1987), that can certainly increase the potential of the successful deal.

Another critical success factor is pre-merger valuation process conveyed by the buyer. While value creation from synergies after the merger depends on the ways companies fit, there is also a question of how much of this new created value goes to buyer's shareholders, and how much goes to the target's shareholders. This division of the whole pie depends most notably on the price that the buyer pays for the target, thus making the valuation process crucial for the success of the deal (Howell, 1970). It can also be claimed that destroying the value for the buyer's shareholders can have further negative effects on the integration process after the merger, destroying the synergies and worsening the situation even further. Inkpen, Sundaram, & Rockwood (2000) claim that in the U.S. hi-tech market "acquiring firm's shareholders do not get more than they pay for, and often get less. In contrast, the shareholders of acquired firms walk away with stock price gains of anywhere from 20% to 30%." That clearly illustrates how important the valuation and the price paid for the target is for the success of the M&A deal.

Another pre-merger success factors include matches or mismatches in size of the two firms. Acquiring the target both too big or too small will lead to low returns and a lot of difficulties in the integration process, while mergers between firms with similar sizes tend to lead to much better performance (Finkelstein & Haleblan, 2002). In addition, many

authors emphasize the importance of a so-called “courtship period”, a phase before the deal that allows both parties to get to know each other and each other’s corporate culture and differences better (Gomes E. , Angwin, Weber, & Tarba, 2013; Kitching, 1967; Jemison & Sitkin, 1986). It is particularly important for the cases, where cultural differences are more severe, for instance, in cross-border mergers and acquisitions. In a case of cross-border M&A, not evaluating all the risks connected to the cultural gaps properly can lead to a failure after the deal (Li & Guisinger, 1991).

Finally, there is also evidence that motivation of the managers of the acquired firm is extremely important for the post-merger success, which means that establishing a correct compensation policy that creates right incentives for the management is extremely important (Inkpen, Sundaram, & Rockwood, 2000). It has to be noted, however, that purely incentivizing managers with upfront stock payments, for example, can have negative consequences, as it encourages opportunistic behavior, and managers’ and shareholders’ incentives have to be aligned for a success of a newly formed company (Devers, Cannella, Reilly, & Yoder, 2007).

Obviously, the success of an M&A deal is not completely pre-determined prior to the completion of the deal. There are several post-merger success factors that have to be taken into account as well. Probably the most important one is the integration strategy that is employed to make a newly acquired business a functioning part of a freshly created larger mechanism. Multiple researchers agree on the fact that even a perfectly prepared merger or acquisition is not going to be effective and give good results, unless a proper, fitting integration strategy is chosen and implemented (Schweiger & Weber, 1989; Haspeslagh & Jemison, 1991). What is particularly interesting, even in integration there is such a thing as overkill, as extensively high integration can lead to the clashes between two corporate cultures, which is especially important for cross-border mergers (Weber & Schweiger, 1992).

As the base of knowledge accumulated on M&A deals was growing with time, many researchers attempted to classify the integration strategies implemented by the companies. One intuitive way of doing that is looking at the level of integration, meaning how closely the business processes of a newly acquired target are going to be entwined into the existing business structure of the acquirer. Almost half a century ago Howell

(1970) proposed classifying M&A deals by the motivation into three groups: financial, marketing and manufacturing. In a marketing merger, two companies serve the same market, or markets that are related, but the manufacturing processes do not relate. The opposite is true for the manufacturing mergers. Financial mergers are those of two companies with unrelated manufacturing that serve unrelated markets. These different types of deals require different integration strategies. Financial acquisition implies rapid growth after the deal, highly diversified program and emphasis on financial relations, it also requires the most extensive evaluation procedure, as the acquirer has to appraise target's product portfolio, as well as marketing and manufacturing processes that are not common for the buying firm. Marketing acquisition is less broad, allows for slower, more thorough evaluation, since the marketing processes do not require evaluation, and it implies moderate growth, purchases limited to specific areas, and emphasis on marketing relationships. Finally, the manufacturing acquisition is made when slow, steady growth is the goal that the acquirer's management keeps in mind. These deals usually have a very narrow program and put emphasis on manufacturing relationships. These different types of deals also imply different levels of flexibility for the target's management. In a case of a financial acquisition, the acquired management is often allowed the highest flexibility, almost autonomous operation, limited only by the financial constraints of the corporation, while in manufacturing mergers, the acquiring management is given a task of integrating their business processes completely into the business structure of the acquirer. It has to be noted, however, that the classification is not strict, the types of acquisitions are not mutually exclusive, and the same company can vary its strategy, depending on current goals and potential targets as in time, different programs of acquisition-oriented companies almost always form into a combinational pattern; meaning that they include financial acquisitions, acquisitions for specific market areas, and very narrowly defined manufacturing acquisitions. It has to be noted that since this research is dedicated to particular industries solely in Russia market, financial and manufacturing acquisitions are expected to be the most frequent in the case study.

Besides the strategic intent of the acquisition, the cultural differences, as already mentioned, should be taken into account. But not only should they be accounted for, they also have to be dealt with during the integration process. Nahavandi & Malekzadeh (1988) claim that "the degree of congruence between the acquirer and the acquired

organizations' preferred modes of acculturation will affect the level of acculturative stress" and that "the latter will in turn either facilitate or hinder the implementation of the merger". Gomes et al. (2013) reference the integration strategies classification framework provided by Haspeslagh & Jemison (1991) as the most comprehensive to date. It categorizes mergers and acquisitions into four stylistic groups, namely Absorption, Holding, Preservation and Symbiotic. The division is done in accordance with the placement of the deal in two separate dimensions: need for target's organizational autonomy and its need for strategic interdependence. If both of those factors are low, it is a holding acquisition, in which little autonomy is allowed, but the acquired business is not integrated heavily in the acquirer's structure. If the need for organizational autonomy is low, but the need for strategic interdependence is high, authors call it absorption, the acquiring company absorbs the acquired firm completely. This is often a time-consuming integration process, especially in the case of larger firms. If the opposite is true, meaning there is a huge need for organizational autonomy, but no need for strategic interdependence, such acquisition can be categorized as preservation. In that case the acquirer holds the assets of the target, but barely intervenes in the business processes or makes any changes to the structure. This is often the case with cross-border acquisitions, where the acquirer first learns from the experience of the target, preparing for later expansion into new markets. Finally, when both the strategic interdependence and organizational autonomy are needed highly, it is called a symbiosis, which requires the longest and hardest integration process that can be extremely costly for a company, since the new business has to be integrated, but the autonomy also has to be kept. Higher integration often leads to the willingness of top management of the target company to leave (Ahammad, Glaister, Weber, & Tarba, 2012), which makes it difficult to ensure the autonomy.

Ultimately, the research on integration strategies indicates, that the key to a successful merger or acquisition lies in balance between the sufficient level of integration and ability to sustain the level of knowledge accumulated by both companies, retaining key employees and resources. Insufficient integration leads to the loss of potential synergies, but integration that is too high, through the loss of target's autonomy can lead to dilution of knowledge and departure of important parts of the management team, which will lead the merger to failure (Chatterjee, Lubatkin, Schweiger, & Weber, 1992). Cording,

Christman & King (2008) name top management turnover as one of the key, oft-cited issues in M&A and claim that “managers represent potentially valuable resources in the combined firm that may be lost during integration.”

Post-acquisition leadership is another important matter that influences the results of an M&A deal. Hyde & Paterson in their analysis of the Astra and Zeneca merger in 1999 emphasize “the importance of managing change proactively, the need to have clear objectives that are aligned with the company’s strategic objectives and that also meet the needs of the participants and, crucially, maintaining senior management support.” (2001, p. 266)

In addition to the quality of change management and the integration strategy, the pace at which the merger is completed is also extremely important. This side of the M&A deals was relatively rarely emphasized in the academic literature, however, its importance is becoming increasingly recognized (Gomes E. , Angwin, Weber, & Tarba, 2013). Angwin (2004) calls speed of integration “the new mantra in business promising advantage, prosperity and success” and claims that in the M&A sphere the first 100 days of implementation of the integration strategy are crucial, just like in the U.S. presidency. Several reasons are cited, most notably the fact that time costs money, long integration means longer periods of uncertainty that are stressful both to the management and regular employees, and that the excitement and high expectations of stakeholders are the highest on early stages, right after the deal is finalized. Rapid integration allows to take advantage of the investors high hopes for the success of the deal, capturing their support for the actions of the management team. Due to these factors, those acquisitions that act quicker and bring more change during the first 100 days tend to be perceived successful more often, and the perception of success helps leading to further success as a self-fulfilling prophecy. The author also notes, however, that even though the perception of success worsens over time, after three or four years, when the results of the integration become visible, there is a new wave of excitement in success perception by stakeholders.

For the M&A deal to be successful it is also extremely important that the management team that leads the integration process keeps paying attention to the regular day-to-day operations of the company. Otherwise, while focusing on materialization of new potential synergies, the company can lose even more due to decline of its regular activities.

Evidence shows that management tends to pay less attention to the day-to-day business during the post-merger integration process, especially in the larger mergers (Ghemawat & Ghadar, 2000). This could potentially lead to competitors taking some market share from the participants of the merger. For instance, Ghemawat & Ghadar (2000) provide an example of a pharmaceutical company, Merck, refraining from any large M&A deals and focusing on its current business while Glaxo Wellcome and SmithKline Beecham were deeply consumed by their merger that would lead to creation of one of the largest pharmaceutical companies in the industry, GlaxoSmithKline. This distraction could allow Merck to strengthen its position in the market through aggressive marketing and other measures.

It is extremely important to establish proper communication between the acquirer and the target not only prior to the deal, but also during the integration process. Schweiger & DeNisi (1991) showed that communicating a realistic preview of a merger to the employees can reduce deficiencies and dysfunctional outcomes of the deal. This research was done in a form of a longitudinal field experiment with two plants: the experimental one, in which the merger was conveyed with an implementation of a communication program called “a realistic merger preview”, and a control plant with a traditional way of managing the merger. Data was collected in a form of four surveys at four different points in time prior to and after the announcement of the merger. The “realistic merger preview” program implied providing employees with a lot more detailed, honest, immediate information on how the merger is going to affect the plant and its workers, compared to the usual merger procedure. The experiment helped to prove that mergers have negative effects on the employees, increasing uncertainty, but more importantly, that proper communication helps to decrease the level of uncertainty and avoid the dysfunctional outcomes that a merger could have. On the contrary, however, some researchers provide evidence that providing too much information to the employees can also harm the integration process. Due to its complexity, management team needs flexibility in its actions, which means that it cannot provide the workers with a comprehensive, complete plan of action, and has to keep a touch of vagueness to its rhetoric. Eisenberg & Witten state that “the manager who is overly explicit in the statement of missions and goals also takes a risk” and “when missions are couched in unequivocal terms, conflict is unavoidable; when goals are stated concretely, they often

are strikingly ineffective” (1987, p. 422). Thus, just like with any other success factor that was mentioned above, balance is extremely important in communication between the change leaders who implement the integration strategy and regular employees who suffer the negative consequences that materialize in a form of uncertainty cause by the merger of the two companies.

Cultural differences, mentioned before, also have to be carefully dealt with. In a case of cross-border M&A it was shown that larger national cultural distance leads to worse financial performance (Datta & Puia, 1995). However, differences do not necessarily stem from cultural differences between countries that two companies are located in. Even if both firms are based in the same country, corporate cultures can vastly differ from one another. Chatterjee et al. (1992) claim that their findings “suggest a strong inverse relationship between perceptions of cultural differences and shareholder gains, after controlling for perceptions of the buying firm’s tolerance for multiculturalism and the relative size of the merging firms.”

There is, however, evidence of the positive influence of cultural differences between the acquirer and the target on the results of M&A. For instance, Morosini, Shane & Singh (1998), using an empirical regression analysis of 52 cross-border mergers and acquisitions that happened in a period from 1987 to 1992, showed a positive correlation between the national cultural distance and M&A performance. They attribute this to the emerging access to both the target’s and the acquirer’s “diverse set of routines and repertoires embedded in national culture.” Akanni and Ahammad (2015) seem to agree with this alternative hypothesis, claiming that if the cultural distance is retained after the merger it allows to realize the potential synergies that lie in the exchange of valuable resources and skills. Effective transfer of the unique capabilities between the two parties often leads to the improvement of the M&A performance.

Stahl and Voigt (2008) attempted to create a comprehensive analysis of the influence of cultural differences on mergers and acquisitions, recognizing that there is evidence of both negative and positive effects. Their framework takes into account two merger performance indicators: the realization of synergies reflected in improvements of the company’s financials, and shareholder’s value creation that is measured by cumulative abnormal returns. Cultural differences, according to the authors, can have effect on the

shareholder's value creation both in short term and long term. In the first case, they influence expectations of investors about how the acquirer is going to perform in the future. In the second case, they affect the probability of actual economic benefits being generated. This process, obviously, requires synergies to be realized. Synergies are critical to almost any merger or acquisition, except for the unusual case when the target is acquired at a large discount (Schweiger D. , 2002).

The first hypothesis proposed by Stahl and Voigt (Stahl & Voigt, 2008) is that cultural differences between firms are negatively associated with sociocultural integration outcomes. They claim that the most important aspects of this integration that can influence the realization of the synergies are the emergence of positive attitudes toward the new organization and creation of a feeling of unity, development of trust between the members of the organization, a sense of shared identity. There is an extensive amount of scientific evidence that show that people tend to trust those who have similar values (Darr & Kurtzberg, 2000), so this proposal seems absolutely logical. This hypothesis is supported by the empirical research, although the effect seems to be a bit smaller than authors expected it to be.

The second hypothesis is that cultural differences are negatively associated with the realization of synergies. This statement is a lot more questionable and there is no intuitive answer. Due to the mechanisms described by the first proposition, there is a power that decreases the likelihood of synergy realization. However, as mentioned before, there is evidence that cultural differences lead to exchange of unique capabilities, which in turn leads to the more likely realization of synergies. However, it is reasonable to assume that higher level of cultural differences will make the exchange of unique capabilities a lot more complicated. However, the second hypothesis is not supported, which means that positive and negative effects of cultural differences can offset each other and we cannot be certain that they have negative influence on the likelihood of the realization of synergies.

Hypothesis 3 focuses on the shareholder's value and is split in two parts in accordance with the short term and long term effect framework. Authors assume that higher cultural differences will lead to lower returns for shareholders at the moment of the merger announcement, as well as lower post-acquisition stock returns. This argument stems

straight from the efficient-market hypothesis that suggests that all the information available is included in the stock price (Fama, 1970). However, this hypothesis was not supported by the empirical analysis.

Fourth hypothesis compares the effect of organizational cultural differences on the performance of the merger and the effect of national cultural differences. Effects on sociocultural integration, synergy realization and shareholder value are taken into account. Authors claim that national cultural difference are less important for the success of the acquisition than the organizational cultural differences, and they also have more potential positive effects. This hypothesis was supported with regards to sociocultural integration and synergy realization.

Finally, fifth hypothesis suggests that in the case of high relatedness of two companies, cultural differences have a greater negative impact than when companies are loosely related. Again, this hypothesis holds true with regards to sociocultural integration and synergy realization.

Overall, Stahl and Voigt (2008) show that the impact of cultural difference can vary depending on the situation and that there is no single simple answer, since every M&A deal is different. Their findings tell the investors to be cautious in times of mergers, but not to panic and keep in mind that there is some upside to cultural differences, especially differences between national cultures of two countries in cross-border mergers and acquisitions.

As mentioned above, success of a merger or acquisition can rely heavily on the ability of companies to transfer their unique capabilities. That problem is closely related to human resource management. Effective HRM is key to the successful merger and acquisition performance, and that applies to various countries, especially developing economies like Israel (Weber & Tarba, 2010) or Nigeria (Gomes E. , Angwin, Peter, & Mellahi, 2012).

Kitching (1967) emphasizes six main statements that could be made based on interview from managers that were involved in M&A deals about the success factors. Firstly, the potential synergies that the merger can generate do not play a role as significant as “managers of change” do, meaning that people that could manage the integration process

are the most critical success factor for the deal. Secondly, Kitching states that if the managerial competence of both the acquirer and the target teams summarized fails to suffice the demand for the managerial tasks of the new company, such merger is destined to fail, the author even claims this to be a sort of “physical law” due to frequency of it being mentioned by interviewees. While seeming obvious, this fact is often overlooked by the participants of failing mergers. Thirdly, communication, or reporting standards established between the two firms determines the success of the deal quite heavily. Fourth success factor is the existence or lack of general vision, a growth strategy in an acquiring firm. Firms that just behave opportunistically and try to acquire another firm cheap without having any particular vision of integrating the business processes tend to fail a lot more frequently. Fifth factor boils down to how experienced the acquirer is, since cool-headed appraisal in the times of heated negotiations is necessary, and the more experienced the buyer is – the higher is the quality of the appraisal. Finally, many firms often underestimate the amount of funds and time that has to be dedicated to the newly acquired target. That could also decrease the return on investment.

2.2 Analysing specifics of M&A practices in developing markets

While M&A practices have been a subject of academic interest for a long time now, a huge part of it was focused on Western developed markets such as the United States of America, the United Kingdom or Germany. The lack of research on emerging economics is evident and can be attributed to many different factors, from lesser level of development of the markets and smaller base of M&A deals that could lie in the foundation of the research, to lower availability of data from these markets. However, recently, the largest developing economies that show the fastest growth, such as India and China, have become a more popular subject for the research (Gomes E. , Angwin, Peter, & Mellahi, 2012).

One approach to analysing M&A practices in developing markets is comparing them to that of the developed countries. Lin, Peng, Yang & Sun (2009) compare firms’ M&A activities in the U.S. and China and come to the conclusion that while in both countries learning and network factors are extremely important in the M&A, differences in the market-based institutions between two countries lead to massive variety in effects that these factors have on the M&A activity.

Kumar & Bansal (2008) in their research on the Indian M&A activities and their influence on the corporate performance, seem to support the comparative approach, pointing out differences in legislation that can also have an effect on the consequences of M&A in different countries. It is important to note that this research, while being quite simplistic in nature, is relatively new, which means that even the largest developing markets, such as India, seem to have been very unpopular with research in academia until very recently.

Risk management becomes an increasingly important topic for M&A when it comes to developing markets. In a less stable, more volatile economies mergers and acquisitions can be not only means for growth, but also defence mechanisms for companies to mitigate risks, such as default or liquidity risk. In developing markets, such as Nigeria, many companies exist that could certainly benefit from a merger, it would allow them to attract investors and improve their financial health immensely, which is even more critical in the volatile economy (Agundu & Karibo, 1999).

Analysing M&A activity in the developing markets can be particularly interesting due to more common crises in these economies. It is always important to look at the performance of firms not only in the calm environment of moderate growth and decline that it a typical business cycle, but also in the times of distress. Anandan, Kumar, Kumra and Padhi (1998) analysed the M&A activity in Asia and the influence of the 1997 Asian Financial Crisis on it. They found that despite an extreme fallout of the East Asian economies, between August and December 1997, in the very middle of the storm, more than 400 M&A deals worth in total more than \$35 billion were finalized in Asian developing markets. This was more than thrice the amount that Asian markets showed for the same period the year before. They attribute this to five key factors: easing of regulations, restructuring of family-owned conglomerates, sale of state-owned companies, overcapacity and deregulation of fragmented industries. Some of these factors could be extremely important in the analysis of the history of M&A in Russia. For instance, with the downfall of the Soviet Union in 1991, Russia transferred from the planned economy of communism to the market economy, which meant that thousands of government-owned companies were going to be sold to private owners. Easing of regulations is another key issue, as policy makers of the new Russian economy had to develop these regulations from scratch, which is a different story, but a related topic.

Easing of regulations in Asia that used to be quite strict in most countries of the region allowed for an inflow of foreign capital. Prior to that many Western investors were disappointed not only by the instability of the region, but also by restriction put on the percentage of the stake that they were allowed to hold in South Korean, Indonesian, Thai and other companies in the region. By 1999, the government of Thailand allowed foreign investors to be majority stakeholders in Thai companies, South Korea raised the ownership ceiling from 29% to 55%, and Indonesia to 49% (Anandan, Kumar, Kumra, & Padhi, 1998).

In the case of state-owned enterprises, as of 1996, they accounted for 70% of the Chinese economy, 50% in India, 45% in Thailand, 40% in Malaysia and 15-20% in South Korea. The amount of opportunities for the acquisition of these assets by privately owned enterprises was immense. It was seen as both a mean to raising funds for the government, as well as a way to raise the performance, since state-owned companies were proving to perform underwhelmingly. In China, for instance, up to 40% of state-owned enterprises were said to be losing money, while in India that estimate was around 50% (Anandan, Kumar, Kumra, & Padhi, 1998).

Deregulation of fragmented industries was also crucial. Since, for instance, the average paper company in China had the size of about 6-7% of a typical U.S. paper company, the potential for merger was extremely high in case of deregulation. As Anandan et al. (1998) put it, “the message was clear: merge or die.”

To sum up, the emerging markets have additional opportunities for successful M&A activity that developed countries don't. They lie in low operating efficiency of state-owned companies and extreme fragmentation of the industries that does not allow to exploit the economies of scale and economies of scope.

2.3 Analysing the economic environment and specifics of M&A activities in Russia

Research of academic literature dedicated to M&A activities in Russia shows that this developing economy, one of the largest in the world, is clearly underresearched by the academic community, especially when it comes to the articles in English that are published in leading financial and management journals. This revelation clearly shows a lot of potential and room for research.

Despite the shortage of literature on M&A in Russia, articles on some related topics, such as impact of national culture on the business sphere, comparison of organizational culture in the U.S. and Russia, and others were still relevant for the research. In terms of culture, Russia has always been somewhere in the middle between the West and the East, but most researchers tend to attribute Western qualities to Russia in a stronger fashion than Eastern. Ralston, Holt, Terpstra and Kai-Cheng (2008) provide a framework, in which countries are divided by two dimensions: ideology (socialism vs. capitalism) and culture (Western vs. Eastern) and place Russia in the third quadrant that refers to the Western culture and socialist ideology, as opposed to the U.S. (Western capitalism), Japan (Eastern capitalism) and China (eastern socialism). However, authors note that Russia at the time of the research was struggling with ideological transitioning. Ten years later it can be claimed that this statement still holds true. Russia can be characterized as having a collectivistic-oriented business ideology, which makes it different from the United States, but mixed with an individualistic-oriented national culture, which contrasts Russia with China. This unique combination of values should definitely have its reflection in the M&A activities and the influence of different success factors on the performance of the companies. Both Russia and China are also countries that are clearly on their way of transitioning to the capitalistic model, and while at first glance Russia is clearly ahead in this race, this question is far more complicated than it seems. But this transitioning shows clear great potential for M&A activity in Russia.

Cultural differences in the business sphere between Russia, the United States of America, China and Japan are reflected, for instance, in the demographic data on managers in these countries (Ralston, Holt, Terpstra, & Kai-Cheng, 2008). In a sample of 855 managers (about 200 from each country), it can be seen that managers in Russia are more predominantly male (68%) than in the U.S. (58%), but less than in China (75%) or extremely male-dominated, due to cultural features, Japan (98%). They also have the lowest experience among four countries, which can be explained by the fact that Russian market economy and the notion of manager as a profession is extremely new.

Fey and Denison (2003) provide a quite extensive analysis of Russian management practices. Highlighting the troubles that transitioning Russian economy had, they note that these problems stem from the Soviet legacy, which manifests in managers being

punished for negative outcomes, even when they are not to blame. This created a severe desire to showcase helplessness, put the blame on someone else, which is very typical of Russian mentality in general, and management practices as a shining example (de Vries & Manfred, 2000). Lack of accountability, on one hand, slows down the economic progress extremely, however, it also means that there is a lot of room for improvement, when the new generation of managers takes the leading positions. HRM practices, which are often a great indicator of cultural peculiarities, in Russia are defined by the fact that bonuses and additional incentives should be connected to initiative and individual accountability in order to defeat the willingness to make someone else make all the decisions for you, that lies deeply in the subconscious of most Russians, including managers and mere employees (Puffer & Shekshnia, 1996). What is also important, Russian workers are extremely inspired and motivated by opportunities to develop and learn (Fey & Bjorkman, 2001).

Lawrence & Vlachoutsicos (1990) emphasizes another characteristic trait of doing business in Russia: poor flow of information. It especially applies to horizontal flow of information, which can be explained by viewing information as a source of power, which is also attributed to the legacy of the Soviet Union, as well as high level of distrust towards peers that is common for Russian people. Curiously enough, evidence shows that Russians, nevertheless, enjoy group work and are working a lot more effectively, while doing so (Puffer S. M., *The Russian Management Revolution: Preparing Managers for the Market Economy*, 1992). This also has huge implications in developing integration strategies for M&A deals in Russia.

Closely related to the topic of M&A always stands the topic of strategic alliances. In a comparative analysis of two of the largest transitional economies, Russia and China, Hitt, Ahlstrom, Dacin, Levitas and Svobodina (2004) claim that due to China's more supportive and stable business environment, during the process of partner selection for strategic alliances, companies can afford focusing more on the intangible assets that a company has, and think about long-term synergies, whereas in Russia, which has a more volatile business environment, managers tend to have a more short-term focus and select partners that can provide sufficient amount of capital immediately. Same logic could obviously be applied to M&A. With time we should expect a shift in the logic of Russian

managers toward long-term synergies and intangible assets as Russian economy stabilizes and grows.

It is impossible to analyse the dynamics of M&A in Russia without looking at the historical perspective. Early transition from centrally planned economy to the market economy in Russia is characterized by mistakes made by policy makers that underestimated complexities of the transitioning (Seliger, 2004). There is a lot of evidence that suggests that good governance at the state level finds its reflection in the economic prosperity of the country (Shleifer, 1997).

Another key characteristic of Russian economic environment is high level of corruption (Venard, 2009). It is extremely important to keep that in mind while analysing cases of M&A activities in Russia. Russian government has such great influence on its economy, and especially on the oil & gas and banking industries, that corruption on the higher levels can be one of the most critical, defining aspects to the M&A activities that happened and are happening in modern Russia. Gidadhubli (2003) in his work, analysing connections between Russian oil industry and the state essentially predicted the conflicts between the government and the “oil barons”. While Russia went through the privatisation process after the fall of the Soviet Union, the relatedness of the business and the government is still too high not to play the role. As the author puts it, “notwithstanding the privatisation process, there are close relations and interactions between the state and private companies”. The largest private oil company in Russia, Lukoil, since its inception was led by Vagit Alekperov, who is a former deputy of the oil & gas industry of the USSR, and that is just one example of how intertwined the natural resources industries and the government were in Russia in the beginning of the 1990s, and they still are.

Despite all the unattractive traits that Russian economy had in the 1990s, even then there was evidence that it is a lot more attractive for foreign investments than it seemed. Shama & Shama (1997) very accurately noted that “in Russia, what you see is not what you get” and that “Russia’s true economy may be twice as large as officially reported, because private-sector companies, which constitute more than half of Russia’s economy, do not report 90 percent of their revenues and profits.” According to authors, foreign investors’ view of Russia was mostly based on the little information that was available to them, which included incredibly skewed official data from Goskomstat, Russian official

statistics bureau; personal subjective perceptions of the country, often overshadowed by stereotypes, and sometimes even pure gut feeling. In the meantime, Russian informal economy was estimated at 23% of GDP in 1988, before the Soviet Union fell apart (Grossman, 1993). One could only imagine what the number was by 1992, when the whole new type of economy emerged in the country, everyone was free to open their own business if they could afford it, and avoiding formal reporting of your true profits was still fairly easy due to lack of legal and financial institutions established. In addition to the fact that tax collection procedures were not properly established, tax rates were quite high in the beginning of 1990s, which also encouraged tax evasion (Economist, 1994).

Not all reservations that foreign investors had about investing in Russian economy had no base to them, however. The scale of organized crime in Russia in the 1990s was immense. Abandoning the socialist paradigm without providing a concrete alternative, as already mentioned, created a vacuum in many spheres. It also provided fertile ground for prosperity of organized crime (Gaekwad, 1999). While “powerful politicians and bureaucrats took control of economic enterprises”, “there was uncontrolled parallel economy and organized crime took hold and spread. Embezzlement, murder, drug trafficking and arms smuggling have become a part of life in Russia.” It was roughly estimated that from 1990 to 1996, Russian businessmen and fake companies accumulated about \$800 billion in offshore savings in Switzerland.

Shama & Shama (1997) claim that the best way to evaluate and analyse Russian economy of the time was qualitative research, most importantly interviewing Russian businessmen behind closed doors. What is interesting is that even today a lot of Russian economics are still happening in the shadows, so this advice for other researchers is relevant until this day and should be noted by every economist who would like to do research on economic activity in Russia, including the mergers and acquisitions analysis. All the most interesting action is happening behind the scenes and qualitative primary data collected from interview in Russia can be extremely valuable for representatives of the academic community.

The technique for obtaining sensitive qualitative data included a strict plan of the interview which led Russian business managers from the general questions to more specific and sensitive in nature. The results of these interview were astonishing: despite

official reports about the decline of Russian economy by 15% annually, nine out of ten managers that were interviewed said that their business grew by anywhere in the range from 15% to 250% (Shama & Shama, 1997).

In his analysis of Russian economy post-1998 crisis, Robinson (2009) calls it “political economy”, which perfectly describes the level of significance Russian politics and Russian politicians always played in the economy. Results of the financial crisis of 1998 in Russia were quite atypical and surprising: it was immediately followed by growth instead of recession and the role of foreign economic agencies in Russian economy did not increase. The key reason for that was, of course, increasing price of oil, the most precious and important resource that Russia has. Implications of the crisis, as Robinson puts it, were “mostly political”, but, as already mentioned, in Russia economics and politics cannot be separated at all. 1998, in hindsight, proved to be the point where the future track of Russia could be foreshadowed already: the “resource curse” and lack of foreign capital inflow to the economy. Russian economy tied itself tightly to the oil prices and twenty years later still cannot untie itself and does not seem to be willing to do so, even when prices dropped dramatically, quite possible because it doesn’t know how to do that anymore.

Still, the results of the crisis were surprising. For comparison, in non-transitional emerging markets, a banking crisis usually depresses growth by one percentage point in the year following the crisis, and three points the year after that (Eichengreen & Rose, 1998). Moreover, usually crises tend to force higher openness of the economy to the external intervention (Robertson, 2008). In Russia, however, after a 5% decline in the year of crisis, GDP bounced back by 6% the year after and continued to grow by about 7% on average in the next eight years (Robinson, 2009). The reason for that is actually quite interesting, and it is an extremely indicative example of how the Soviet legacy found continuity in the post-Soviet Russian economy. After the fall of the Soviet Union, Russian economy became demonetized. Money substitutes and barter were commonplace, which, on one hand, led to the financial crisis. But on the other, since a huge part of Russian economy was not even based on money, financial crisis could not really do it much harm, which is why Russian economy bounced back so quickly. To exemplify, by 1997, barter accounted for 40% of all industrial sales in Russia, promissory notes had a total worth of

about 65% of the ruble M2, in some regions non-monetary instruments amounted to 40% of budgetary expenditures (OECD, 1997).

This is one of those peculiar cases where crisis actually spurred growth. Decline of the economy during the crisis led to decrease in the volume of barter and monetary substitutes. After the crisis was over, this void was filled with money, which helped to boost Russian economy. This, in combination with growing oil prices led to the stable healthy growth of the economy in the following decade until the global financial crisis of 2008. However, Russia missed out on the opportunity of becoming more open and welcoming to the foreign investment and inflow of the capital into the country. Until this day lack of capital investments is one of the key problems of the Russian economy and all of it is rooted in the 1990s.

Puffer and McCarthy (2011) provide a comprehensive examination of management practices in Russia over the first two decades of its existence. They seem to support the idea that there was significantly less research dedicated to Russia than other BRIC countries. Their argument boils down to the fact that “Russian managers have relied excessively on informal institutions, including personal networks, to conduct business due to the void created by the weak legitimacy of the country's formal institutions.” While that might be fine for the first years during the transformation, an argument can be made that if Russian managerial force continues to govern companies in such a way, Russia will never become a completely integrated part of the global economy (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004; Ahlstrom & Bruton, 2006).

Russia definitely deserves the attention of researchers as its average household disposable income is 30% higher than in Brazil, 4 times higher than in China and 10 times higher than in India. For their analysis, Puffer and McCarthy (2011) created a three-part model that includes the environment, the business organization, and the mechanisms that are bridging the two. As already mentioned, weak legitimacy of formal institutions is one of the key characteristics of the Russian economy, which leads to Russian managers relying on informal institutions that are heavily influenced by the national culture (Scott, 2008).

Influence of the government on the economy in Russia increased immensely in 2000s with Vladimir Putin as president, and essentially the state is in itself a formal economic

institution, and the only one that is really legitimate at that (McCarthy, Puffer, & Naumov, 2000). It was almost necessary after the 1990s, when after the privatization process came into full forces, oligarchs who owned the largest companies in the country, due to Russian peculiar economics-politics dynamic, became de-facto the rulers of the country. In a war with each other for the assets they destroyed the infrastructure that was left after the centrally planned communist economy (Shama & Sementsov, 1992), which created a lot of difficulties for managers to deal with (Wright, Hoskisson, Filatotchev, & Buck, 1998). Russian privatization process is universally deemed an extreme failure that harmed the transitioning to the market economy in many ways, since it essentially ruined the concept of property rights (Ellerman, 2002).

Russian informal institutions are built around the notion of trust, it is deemed extremely important, but at the same time Russians tend to have very low general trust towards people they don't know well (Hendley, Murrell, & Ryterman, 2000). This creates additional barriers for the growth of Russian businesses, especially through mergers and acquisition. There is evidence that his trait of character actually undermined negotiations with Western partners (Ayios, 2004) and required significant sacrifices of time that had to be spent on building this trust (Kuznetsov & Kuznetsova, 2005). While some Russian companies attempted to implement and showcase good management practices, it is clear that, in most companies, management still relies on informal institutions and that slows the development of Russian economy significantly. There is evidence, for instance, of managers using their networks to put their trusted associates into the Board of Directors to establish connections with the government that are so crucial in Russian business environment (Melkumov, 2009).

Due to the fact that formal institutions have weak legitimacy in Russia, corporate governance of privatized companies and startups also relies on networks, trust and other informal institutions. Some of the results of such corporate culture include complete disregard to the needs of minority shareholders, lack of transparency in company's performance, and board of directors that consists of friends, rather than competent people who are professional enough for this and can make the decisions objectively, people who are able to criticize each other. Puffer and McCarthy (2011) also mention that research on the topic of corporate governance in Russia is often too narrow and employs too much

empirical methods, while broader range of topics should be taking into account when analysing corporate governance in Russian companies. That actually applies to all research on Russian economy. Due to the lack of good data and peculiar business environment in Russia, it would be extremely useful and important to conduct as much research with qualitative methods as possible. It allows for better, deeper understanding of the underlying issues, it helps researchers to get to the core of the problem, to the real reason why Russian business environment is so peculiar. Authors themselves say that “the record of corporate governance in Russia has generally been very poor”, which, unfortunately, does not allow for a good research based on secondary data, especially numerical data.

Strategic choices of Russian managers are extremely limited due to poor implementation of the privatization program, as well as dominance of informal institutions in corporate culture. Corruption being commonplace in Russia, for instance, is not a cause, it is a result, it is the only way for managers to deal with the chaotic business environment that surrounds them and their company. Same applies to the commonplace use of networks that is described by Russian term *blat*. Since a substantial amount of money is spent on bribes, the company becomes limited in its resources that could be used for production, spent on marketing or research and development (R&D). This leads to differences in decision making on almost every aspect of management between Russian and, for instance, U.S. companies, from strategic planning to human resource management.

Puffer and McCarthy also support the hypothesis that Russian managers are more focused on the short-term results due to both the cultural background and a hostile, volatile business environment. But what is even more important, they acknowledge the movement of Russian management practices towards the right direction, claiming that “as the first decade of the new millennium progressed, Russian managers moved beyond survival strategies to those that focused more on achieving growth in a highly uncertain environment”.

Among potential forces that could bring change to management practices in Russia, leadership and knowledge management are named first and foremost since they usually tend to lead to more transparent corporate governance, usage of more competitive business strategies and implementation of clearer practices that are based around formal

institutions. The problem here lies in the fact that perception of the concept of leadership in Russia is skewed due to its Soviet past. A leader for Russian people is someone who is authoritarian, or maybe even behaves like a dictator. However, that is not the leadership that a modern corporation needs. Evidence suggests that most Russian business leaders prefer the authoritarian style of governing, distancing themselves from the employees (Elenkov, 2002). However, recently more and more Russian employees voice their concerns about that and claim that they would prefer working under a more democratic regime in the workplace.

To sum up, Russian historical and cultural background makes it a unique country with a very specific dynamic between the government and the businesses, as well as peculiar practices and traditions in management that do not allow it to become a complete member of the global economy and do not encourage the inflow of foreign capital into the country. In addition to that, even domestic alliances and M&A deals are hindered by the high level of general distrust that is characteristic to Russian managers, just like it is to all Russian people.

All this knowledge accumulated on topics of M&A success factors, specifics of M&A activity in emerging markets and Russian unique business environment and management practices should allow for better understanding of the history of M&A activities in Russia throughout its history.

3 Methodology

The research is conveyed in a form of a case study. The history of mergers and acquisitions finalized throughout the history of modern Russian Federation since its inception in 1991 until July 2017 is analyzed to get a better understanding of factors that are particularly crucial for M&A success in Russian business environment. For the oil & gas industry, an extensive map is created, showing the development of the competition in these industries, ways that companies were merging with time. Tables with the key information about the most important M&A deals in both markets are created. Such information includes participants of the deal, the time it was prepared and finalized, as well as the stake acquired and the valuation of the target firm. These tables allow for

better systematization of the knowledge gathered on the deals that happened in Russian oil & gas and banking markets. For the same purpose, a table comparing key characteristics of M&A in oil & gas and banking industries in Russia is also created. All of the aforementioned tables can be found in the annex.

The research presented in this study relies heavily on open sources of information, such as industry overviews prepared by consulting companies, news and magazine articles, interviews with top management of the companies that participated in the deals analyzed in the research. This approach was chosen due to very constrained and limited access to databases, as well as lack of personal connections of the author in the business sphere, that would allow to conduct interviews and create a detailed case study of just one or several companies and deals. Sources used in this case study include the most respected Russian business media, such as *Forbes Russia*, *Vedomosti*, *Kommersant* and *RBK*. These are the most reliable sources of information on Russian economy. All the sources provide information in Russian, translation of the data was done by the author.

Oil & gas industry analysis considers 14 major oil & gas companies that emerged after the fall of the Soviet Union, and tracks the way they merged into six existing major players in the market. Banking industry analysis focuses on the most important mergers and acquisitions that happened in the history of Russia and analyzes them from the perspective of frameworks provided in the related literature.

Comparative analysis of the cases of two industries is later conducted to establish peculiar characteristics of the M&A activity in each of the industries. All the findings are attempted to be explained through the existing models and frameworks listed in section 2. Appropriate frameworks are selected and applied in order to achieve better understanding of business processes in Russia and emphasize factors that are especially important for the success of the M&A activities in Russian business environment, taking into account unique cultural features.

4 Findings

4.1. Oil & Gas industry

Russian economy is often considered to be “oil-addicted”, depending too heavily on the price of such natural resources as oil and gas. This makes oil & gas industry, quite possibly, the most important for modern Russian economy. As of 2017, Russian oil & gas market has six major players: Rosneft, Gazprom, Lukoil, Surgutneftegaz, Tatneft and Russneft. However, previously the market was a lot more fragmented, it has a long history of mergers and acquisitions (see Figures 1 and 2).

The 1990s started with the fallout of the Soviet Union and emergency of a new country: Russian Federation. Transitioning from the centrally planned economy to the market economy resulted in emergency of state-owned companies based on the oil & gas enterprises that the Soviet Union had. The first half of the decade was characterized by the emergence of oil & gas companies, some of which remained state-owned to different extent, and some were sold at auctions to private investors. Some of the companies that emerged at that time include Gazprom (formed in 1989), Lukoil (1991), Surgutneftegaz and ill-fated Yukos (1992), Tatneft, SIDANKO, ONAKO, VNK and Slavneft (1994), YUNKO, TNK and Sibneft (1995).

Middle of the 90s is often considered as an era of ruling oligarchs in Russia. For the oil & gas industry this meant constant trading deals on minority stakes in those companies that were privatized, but no M&A activity was happening at the time. The first significant deal happened in 1997, when Yukos acquired 45% of VNK’s shares, which, in addition to 9% already owned by Yukos gave the company control over VNK’s assets. Yukos paid 4.8 trillion rubles, which means that VNK was evaluated at 10.6 trillion rubles. This deal will later receive an extremely notorious status and will become a part of the infamous lawsuit against Yukos’ CEO Mikhail Khodorkovsky (Reznik & Myazina, 2010).

In 1998, Russian oil & gas industry could be shaken for the first time by an extremely large M&A deal: a merger between Yukos and Sibneft, which would have made a merged company the owner of the largest proven oil reserves in the world. However, this deal never happened, since the primary goal of the deal was to privatize Rosneft later, but Yukos and Sibneft management lost interest after oil prices crashed (Kommersant.ru,

2001). Urals brand oil prices at the time were at their lowest point in a decade, lower than \$10 per barrel. Motivation for potential M&A deals at the time was quite simple and not very strategic: due to the newly emerged economy, financial crises coming wave after wave, the conjuncture of the Russian oil & gas market could mostly be defined by the expression “survival of the fittest”. Companies that were in the hardest financial distress were being acquired piece by piece by those who had sufficient capital, without any integration strategy thought through, it was an acquisition of tangible assets: oil reserves, machinery, territories, but certainly not intangible assets and know-how.

In the beginning of the new millennium, TNK became a major player in the market and started the M&A activity in the industry with three huge deals in three years. In 2000, it acquired 50% plus one share of ONAKO for \$1.08 billion. In 2001, TNK acquired SIDANKO, which was already going through the bankruptcy procedure at this point. Finally, in 2002, Slavneft was split evenly between TNK and Sibneft, two companies paid \$1.86 billion in total.

2003 was marked for the Russian oil & gas industry by the largest deal up to date. British oil company BP offered TNK to create a joint venture called TNK-BP. TNK was terminated, all its assets became a part of TNK-BP which was owned by old TNK shareholders and BP equally.

Around the same time, legal lawsuits against Yukos emerged. Eventually they led to the bankruptcy of the company, and in 2004 it was acquired by the state-owned Rosneft. Since Yukos assets were arrested by the government, the state-owned Rosneft was able to buy them out at an extreme discount. That is not the only case of such an acquisition, in fact, acquisitions at a large discount due to either the arrest of assets by the government or the bankruptcy of the target were quite common for the industry and for Russian economy of that time in general. This fact may explain why post-merger integration was so weak. When the acquisition is done at a large discount, the management of the acquirer has no incentives for the realization of synergies, shareholder’s value creation happens on its own, simply from the cheap acquisition.

The case of Yukos is still considered one of the largest economic and political stories in the history of modern Russia. Events surrounding Yukos bankruptcy and sentences to

Mikhail Khodorkovsky and Platon Lebedev shaped both Russian economy and politics of that time. It was a turning point for the Russian oil & gas industry that symbolized emergence of state-owned giants and further consolidation of assets due to the government's increased involvement in the country's economics, which Putin deemed necessary due to the fact that weak government of Boris Yeltsin let oligarchs to take the power into their own hands.

In 2005, Gazprom entered the oil business, acquiring 72.6% of Sibneft's shares from Roman Abramovich's Millhouse Capital for \$13.091 billion and renaming it into Gazpromneft (Lenta.ru, 2005). This insanely huge deal became the final sign of the new era. After this deal, Russian oil & gas M&A activity was basically non-existent on a large level for eight years.

In 2013 Rosneft announced the largest deal in the history of Russian oil & gas industry. It acquired 100% of TNK-BP, evaluated at more than \$55 billion. BP was paid both with cash and Rosneft's shares, getting a 19.75% stake in Rosneft after the deal (RBK, 2013). This deal was preceded by heavy involvement of government, as always. In 2011, BP CEO Bob Dudley and Rosneft's president Igor Sechin, who is often called a "de-facto deputy of Vladimir Putin" (The Guardian, 2017) signed a global strategic alliance agreement in the presence of the president Vladimir Putin himself. This agreement sealed the deal in which Rosneft exchanged 9.5% of its shares for 5% of BP's shares. This contradicted the exclusive agreement between BP and TNK that did not allow BP to collaborate with any other Russian oil company in the Russian oil market (Todorova, 2016). TNK-BP CEO, Mikhail Fridman, sued BP and Rosneft, and the deal was denied. However, this ruined the relationships between BP and TNK-BP management that already had lost of tension in them. BP wanted out of the joint venture with TNK, and since contacts with Rosneft were already established, finding the acquirer was not complicated.

Rosneft and TNK-BP merger is the only huge merger in the Russian oil & gas industry that happened recently, but at the same time enough time passed for some data to be obtained to estimate the performance of the merger. Prior to the merger, in 2012, TNK-BP had EBITDA of \$13.3 billion, Rosneft had EBITDA of \$4.6 billion. In 2014, most-merger, Rosneft showed EBITDA of \$4 billion. Revenue of Rosneft in 2012 and 2014

was almost the same, although TNK-BP had a revenue 2 and a half times higher than Rosneft prior to the merger (Todorova, 2016). Certainly, to some extent these underwhelming results could be attributed to the fluctuations in the oil prices and the exchange rate of ruble. However, since the results are so dramatic, one could claim that the lack of commitment to the integration process and lack of leadership in Rosneft's management also played its role.

The latest large M&A deal in Russian oil & gas industry happened in 2016, when Rosneft bought 50% plus one share of Bashneft, which quickly became one of the most scandalous deals in the history. The controlling stake in Bashneft belonged to JSFC Sistema since 2005. However, in 2014 the owner of JSFC Sistema, Vladimir Evtushenkov, was accused of money laundering and Bashneft's assets were arrested and deprivatized. When Rosneft acquired 50% of Bashneft for 330 billion rubles (around \$5 billion), it was essentially one state-owned company acquiring another. Rosneft's press secretary, Mikhail Leontiev, did not try to hide the truth: "All money will go to the budget. We just needed to add money to the budget quickly, that is one way." (RBK, 2016) This is yet another case of Rosneft's acquisition of assets arrested by the government.

Analysis of the oil & gas mergers and acquisitions in Russia allows us to make several conclusions. Firstly, and that is the most characteristic trait of the M&A conjuncture in Russia, a fairly segmented market that emerged after the privatization of oil deposits and oil refining facilities that belonged to the government was moving towards consolidation from the very beginning.

Secondly, all the M&A deals were followed by the weak integration strategy, companies were growing larger by acquiring assets of companies that were on the verge of bankruptcy or with hostile acquisitions that were allowed by the government's support. Usually the acquired companies were keeping their name and autonomy for a small period of time (three to five years), after that their assets were completely consumed by the acquirer. Acquisitions were usually followed with mass firings in order to optimize the cost structure. Specifics of the oil & gas industry allowed for weak interdependence and integration, since all oil wells and deposits function separately and often collaborate with oil refineries that are located nearby. This makes Russian oil & gas industry not very usable for analyzing integration strategies, however, this example is a great showcase of

how mergers and acquisitions are conducted in a transitioning economy in a sector that relies on natural resources and heavy manufacturing.

Thirdly, it is quite interesting that during the history of Russian oil & gas market, no foreign company ever acquired a Russian company, and only BP risked creating a joint venture with TNK. Other companies, such as Exxon, entered Russia by themselves, exploring, extracting and refining oil using their own resources. In addition to completely understandable caution due to political risks, it seems that Western oil companies do not believe that the cultural gap between the West and Russia can be overcome in the integration process. The fallout that happened between the management of TNK and management of BP only supports that hypothesis. The lack of communication was worsened by geopolitical tensions between Russia and the Western world, which led to BP wanting out of managing its venture in Russia. Currently BP exists in Russia purely as a brand.

To summarize, the analysis of the oil & gas industry in Russia show that motives for mergers and acquisitions in Russia often have less to do with corporate strategy and business, and more with political ambitions of the top management of the state-owned oil companies.

4.2 Banking Industry

Banking industry in Russia, obviously, is represented by a lot more companies than the oil & gas industry. It has to be noted, that even without analyzing particular cases, by looking at mere numbers, it becomes clear that Russian banking industry was also a subject to consolidation, which is to be expected. After the fall of the Soviet Union, thousands of small financial organizations were trying to fill the vacuum and satisfy the demand for financial services. Poor management decisions, financial crises and simple natural selection led to extinction of the larger part of those banks. In 1997, there were 2007 banks in Russia, by 2009 that number decreased to 1041 (Central Bank of Russia, 2017). In recent years, the Central Bank of Russia was using desperate measure to increase financial health of Russian banking system, which led to further shutdowns and acquisitions of poorly performing banks. As of October 5, 2016, there are about 600 functioning banks in Russia.

Ten largest Russian banks include: Sberbank, VTB, Gazprombank, FC Otkritie, VTB 24, Rosselhozbank, Alpha-Bank, Bank of Moscow, National Clearing Center, and UniCredit. It is important to note that banking industry was historically vastly different from the oil & gas industry in terms of the M&A activity, since there was no large deal including two Russian banks. On the contrary, foreign banks were extremely interested in expanding into the Russian market and many of them have chosen the strategy of expansion through acquisitions.

The M&A activity in the banking industry in Russia became noticeably intense after the economy recovered from the banking crisis of 1998, around 2000. Prior to the crisis, the market was extremely segment and the presence of foreign capital was minimal. This was caused by poor investment climate, specific Russian management practices and lack of cultural fit, but also due to the policy of the Central Bank of Russia that was determined to keep control over the national banking system. This position was and still is supported by the major Russian banks. Nevertheless, several foreign banks that were focused on Eastern European markets were still working in Russia at the time, including HVB, Bank Austria and Raiffeisen Bank. The only notable M&A deal that happened during that period was an acquisition of Bank Austria Creditanstalt by IMB. This was a part of a larger acquisition of Bank Austria by HVB, since IMB was HVB's subsidiary. This deal was just a part of the consolidation process (Central Bank of Russia, 2017).

During the golden period of Russian economy (2000-2006), the M&A activity increased and foreign financial institutions became increasingly willing to purchase assets of Russian banks, despite high economical and institutional barriers, illiquidity of Russian ruble, lack of Russian presence in WTO, weak regulation of the M&A activity in the banking industry and overall and some other factors. Moreover, if prior to 2003-2004, the only option of expansion that foreign banks had was opening a subsidiary in Russia, starting from that time acquisitions of Russian banks finally became an option. Central Bank of Russia (2017) points out common patterns in these cross-border acquisitions that were taking place during that period.

One of the characteristic traits of those deals was the fact that foreign banks were attracted to banks that were already owned by foreign agents, but smaller ones. Usually the number of such attractive banks was quite low, which meant constant high competition. In

addition to that, potential acquirers were focusing on mid-sized banks with particular specialization, be it retail, corporate or investment banking. Investors were interested in banks that already had a strong established position in a specific segment of the market.

The period of 2003-2004 was a preliminary stage of some sort, during which foreign banks were mostly evaluating their options. One notable M&A deal from that period of time was the acquisition of Delta-bank by the financial services subsidiary of General Electric, GE Consumer Finance (see Figure 3). It was the first major acquisition of a Russian-owned bank by a foreign company. The deal was estimated at about \$100 million (Banki.ru, 2006).

Meanwhile, largest world banks were fighting for the best pieces available in the Russian market. For instance, KMB-Bank attracted attention of Banca Intesa (Italy), Deutsche Bank (Germany) and BNP Paribas (France) all at once. The acquisition of 45% of Russkiy Standard Bank by Cetelem, a subsidiary of BNP Paribas was almost finalized, but at the last moment the owners increased the price and the deal got called off. This move by the owners of Russkiy Standard was justified, as the Russian economy was growing and stabilizing, Russian commercial banks were becoming increasingly attractive and expensive.

The period of 2005-2006 was characterized by a more open interest of foreign capital in Russian banks, and not just mid-sized ones, major banks too. Societe Generale (France) acquired a 20% plus one share stake in Rosbank with an option of expanding the ownership to the controlling stake. Later, in 2008, the French bank would proceed to acquire additional 30% of Rosbank, becoming the majority stakeholder. In total, Societe General paid \$2.3 billion (Kommersant, 2008). There were also talks of acquisition of Gazprombank (financial subsidiary of Gazprom) by Dresdner Bank AG (Germany). The motives of such deals were clear: some foreign banks already trusted Russian economy and were willing to enter it and capture a significant market share immediately. In the mid-sized segment there were some important deals as well, for instance, two acquisitions of DeltaCredit and Promec-Bank by the aforementioned Societe Generale, as well as Raiffeisen International Bank-Holding acquiring Impeksbank and Banca Intesa acquiring KMB-Bank after winning the fight against Deutsche Bank and BNP Paribas (Banki.ru, 2005). Banks that focused on such acquisitions were choosing a bit more cautious

strategy, they were paying less for a lower market share, but they were entering a consumer banking segment that was growing rapidly as disposable income of Russians was growing steadily. Some banks, like Swedbank (Sweden) and ICICI (India) chose another path and acquired small banks in order to get a license from the Central Bank of Russia.

From the beginning of 2005 to the beginning of 2007, due to this expansion, share of foreign capital in Russian financial institutions increased from 6.2% to almost 14.9% (Central Bank of Russia, 2017). Foreign banks were not just acquiring Russian banks; they were actively integrating them into the corporate structure. The most indicative part of that was that almost all of the banks were either immediately, or eventually terminating the old brand and managing the branches under the parent's brand. In the middle of 2000s Russians could not help but notice how Russian bank names were disappearing from the streets, giving way to foreign-sounding brands. Other large deals included the acquisition of 75% of Orgresbank by Nordea (Scandinavia) for \$313 million.

All this M&A activity resulted in something that nobody would have believed in in the 1990s: foreign bank groups emerged in Russia. Societe General acquired three banks and formed two subsidiaries: Bank Societe General Vostok and Rusfinance Bank. Banca Intesa, UniCredit and Raiffeisenbank also created bank groups in Russia.

Large Russian banks were relatively passive in terms of the M&A activity compared to their foreign counterparts. The only relatively large deal that happened between two Russian banks at that time was the acquisition of 75% of PSB by VTB for \$577 million (Kommersant, 2005).

Foreign banks were not only attracted to the retail banking in Russia. In 2006, Deutsche Bank acquired an investment company United Financial Group for \$700 million to establish the investment banking department in Russia (Deutsche Bank, 2017). That was the largest deal in the investment sector. At the same time, UniCredit acquired two departments of the investment group Aton: Aton Broker and Aton International Ltd. For \$424 million.

In the following years, two more large deals happened when Belgian KBC Group acquired 92.5% of Absolut Bank for \$953 million, interrupting Absolut Bank's

preparation for the potential IPO, and when Barclays acquired Expobank for \$745 million (Banki.ru, 2016). A few smaller deals occurred at the time, but the M&A boom in Russian banking sector ended at the same time as in most other countries and most other industries, in 2008 with the global financial crisis.

After the global financial crisis of 2008, the M&A activity in Russian banking sector slowed down, just like the whole economy. However, in the new decade, as Russian economy found itself in distress due to fluctuations of oil prices, as well as geopolitical issues, many minor banks in Russia found themselves in a desperate situation. At the same time, some successful players, such as Binbank and Otrkitie took advantage of it and started rapid extension through cheap acquisitions of banks in distress. Otrkitie quickly rose to power and became the fourth largest bank group in Russia through this strategy.

It is clear that the case of the banking industry in Russia is extremely different from the oil & gas industry (see Figure 4). Due to much lesser involvement of government in the market, foreign banks were not as reluctant to acquire assets in Russia, as foreign oil & gas companies were. Another reason for such difference may lie in the size of potential targets: almost any acquisition in the oil & gas industry would have been at the valuation over \$1 billion dollars, which is a sum too big to commit to such an unstable market as Russia. Mid-sized banks, on the other hand, could be acquired at the valuation of \$100-500 million (see Figures 2 and 3).

While foreign banks were a lot more active in terms of M&A in Russian market than foreign oil & gas companies, the opposite is true about domestic companies. While big fish in the oil & gas industry was constantly trying to eat everyone who is at least a little bit smaller, large Russian banks were very passive and just one relatively big acquisition occurred. Reasons for that remain unclear, although one educated guess would be that most larger Russian banks are owned either by the Central Bank of Russia, like Sberbank, or by government structures, like VTB, and state-owned companies usually tend to showcase more passive behavior. The only large bank that was actively acquiring competitors was the privately-owned Otrkitie.

Motivation for the M&A deals in two industries is extremely different. While in oil & gas industry companies were often acquiring bankrupt competitors just for their assets with a goal of further restructuring, which in result led to the ruling of a few giant firms, in the banking industry the main motive that was driving the M&A activity was growing attractiveness of Russian commercial and investment banking markets, which attracted lots of foreign investors, since huge Russian market was essentially just created and there was a lot of demand for financial services to suffice. Such huge markets emerge out of nowhere extremely rarely and everyone wanted a piece of it.

The M&A boom in the banking industry in Russia happened in the middle of the 2000s, when Russian economy was at its healthiest state in all history of the country. Perhaps, foreign investors could show interest to Russian oil & gas companies in these circumstances as well, but by 2005 there was, essentially, no one left to buy, the segment already went through most of the consolidation it could go through and all the potential targets were too big for foreign investors.

However, M&A activities in both industries also share something in common. Both are characterized by general movement in the direction from the higher number of players to the lower number through consolidation. The main reason why this holds true for both industries is that it is cause by the historical background of the country. After the Soviet Union fell apart and the new market economy started emerging, in attempts to satisfy the demand Russian businessmen oversaturated the market and it was returning to the state of balance. However, it has to be noted, that with time drivers of consolidations were extremely different. While in the banking industry banks started failing in 2010s due to complicated geopolitical situation and the following volatility of ruble exchange rate, as well as oil prices, in the oil & gas industry smaller players failed at the junction of two millennia, when Russian economy did not stand on two feet yet and oil prices were extremely low. Also, the business environment in the banking industry was a lot less hostile than in the oil & gas industry.

5 Further research implications and practical significance

The conducted research opens a path for further analysis of the Russian M&A market. Being a young market economy with less than 30 years of history, Russia is an extremely interesting and exciting subject for further research as M&A activity in the country is expected to grow as the economy grows and develops further and approaches the levels of the developed markets. The amount of research conducted on Russian M&A market is significantly lower than that of developed countries. Furthermore, a large part of the research that is present, is reported in Russian language, which creates a language barrier for various researchers from all over the world. This study aims to participate in an attempt to overcome this obstacle.

As already mentioned, the research presented in this study is very limited due to lack of access to more private information on Russian M&A deals. There is a huge opportunity to go into a lot more detail for researchers with better access to those means of research. This research could be quantitative, there is a great need for better, more wholesome databases on M&A activity in Russia, and this data needs to be analyzed. It could also be qualitative, there are lots of extremely interesting, peculiar M&A cases that happened in Russia in past years, and a lot of important insights could be obtained from top management of the companies that participated in these deals. That is especially true since a big part of deals that happened in the Russian oil & gas industry happened under very questionable circumstances, so to understand the complete context it is extremely important to have primary information from the participants of the deal firsthand.

The sample of mergers and acquisitions analyzed in this research, as well as the number of companies is relatively small. Thus, one obvious way of building upon this work is to analyze smaller companies and smaller deals and create a complete, exhaustive map of mergers and acquisitions in the aforementioned industries in Russia. It has to be noted that there is an evident lack of data, even when it comes to the bigger deals, which means that researchers, when going deeper, will have to rely on obtaining access to private sources of information, including primary sources, such as interview with participants of the deals that happened.

Similar research could obviously be conducted for other industries of Russian economy. While oil & gas and banking are certainly two of the most crucial industries for Russia, which is why they were chosen as subjects of the research, there are several other industries that would be interesting to look at. Those include energy, metals, coal mining, and retail.

Research on M&A activity often lies in a close proximity to psychology, since human factor is so important. M&A deals that happened in Russia both in 1990s and 2000s are so peculiar that human factor becomes even more important, the history of M&A in Russia is so full of strong characters that there is a huge potential for extremely interesting case studies on particular deals, such as Gazprom's acquisition of Sibneft or TNK and Sibneft splitting Slavneft, which led to a lot of conflicts between shareholders of both companies. Russia has to be researched from the inside, that was already shown by many authors whose works are mentioned in the related literature review. That means that research that uses qualitative data is a lot more valuable in case of Russia, than research that utilizes quantitative methods, especially until good databases on Russian market appear. Same approach could be valuable in the research on banking industry as well, one of the potential topics for exploration could be the reasoning behind passive behavior of large Russian banks during the M&A boom compared to their foreign counterparts.

Russia is one of the largest developing economies, which means that analysis of the M&A market in this country could be extremely important for understanding of specifics of M&A activity in developing markets. This could have a lot of implications, most notably, it could be used as know-how by companies in less developed markets that will move up the ladder of development level in the future, for instance, larger African or South American markets.

The unique relationship dynamic between Russian companies, especially state-owned ones, and the government, can be extremely important to analyze for later application to other markets with a similarly high role of government, such as Turkey, Venezuela, etc. It seems pretty evidence that M&A activity in countries with such a relationship between the government and the business differs significantly from countries with low involvement of the government. This topic could be extended into comparative analysis, it would help establishing, whether government involvement always harms the success

of the M&A deals, or there are cases in which it can have positive effects. Both companies and the government can learn something and make conclusions that would allow for better, smoother economic transition of young developing markets.

Outside of the topic of mergers and acquisition, this case study is an interesting illustration of how the country's historical and cultural background influences the economy and relationships of all the agents involved in the economy with a government. This topic could be further researched by an alliance of economists, psychologists, historians and representatives of other scientific disciplines. Russia is one of the youngest market economies in the world, which means that it is one of the few cases of a transitional economy that is going through the transition in the modern era, where scientists have a lot more ways to access data and a lot more data accumulated then, for instance, even 50 years ago.

It is hard to overstate the importance of Russian economy as a subject for economical case studies. Its unique culture and mentality of its people, its cultural and historical background allow for thorough, unique analysis, it is a gold mine for scientists to explore and expand the base of knowledge that humanity accumulated on the topic of history, economics and other social disciplines during its history.

M&A activity in Russia, as this study shows, is closely related to corruption, one could claim that understanding the way corruption in Russia works is key to understanding the M&A processes in Russia. Since most of the research on M&A is focused on developing markets, there is a clear lack of research on how corruption influences the M&A conjuncture in the economy. Nevertheless, there are a lot of countries in the world with a level of corruption comparable or even higher than in Russia. Thus, researching the influence of corruption on M&A activities in Russia is another possible direction of research that could be taken so that other countries could learn from the experience of Russia.

This study also showcases particular importance of research dedicated to comparison of M&A practices between different industries in one country. Controlling for peculiarities of the national culture would allow to explore better the specifics of the M&A processes

in different industries and evaluate the attractiveness of a particular industry in a particular country for foreign investors.

By the same token, it is important to provide comparative analysis of the M&A activity in the same industry between different countries, especially different countries with emerging economies. Better understanding of the influence of cultural differences between Russia, China, India, Brazil, South Africa, South Korea or any other emerging market would allow companies from these countries to obtain priceless knowledge and implement in in the M&A process in the future.

Research also showed that sometimes financial crisis can lead to an increasing M&A activity as it leads to massive failure of companies that are later acquired cheaply by competitors. It would be interesting to look at the impact that financial crises have on the M&A activity in other emerging markets, as well as developed countries, since its effects are not as trivial as it may seem at first.

It is also important to note that further research should look not only at the past, but also into the future. As Russian market becomes more developed and a new generation of managers takes control of Russian businesses, it would be interesting to compare newly introduced practice in the M&A activities to those of the past. It can be expected that in five to ten years Russian businesses would be more willing to participate in field experiments and other active methods of research. Best Western practices could be implemented in Russian companies with the help of economists and the results of this implementation would be extremely important for attempts to answer the question whether these practice can work for Russia, or its culture is too different for these practices to work. Next 20-30 years will be an extremely exciting period for Russian economy and academia has to use it to their advantage. The key question to be answered about Russia and its economy remains this: is it possible that old informal institutions are going to be exterminated from the managerial practices and replaced by solid formal institutions similar to those in the West?

6 Conclusion

As shown by this research, Russian M&A activities are full of interesting cases worth analyzing. Compared to developed markets and other emerging economies, Russian market is defined by a set of peculiar characteristics. The purpose of this research was to start analyzing the differences Russian markets have with other emerging and developed markets, as well as the differences between M&A activities in different industries in Russia.

The most important finding of the research was a striking difference between the climate that prevailed in the oil & gas industry and in the banking industry. It is a great illustration of the importance of both national cultural differences and organizational cultural differences, as well as the level of involvement of the government in the business processes of the major companies in the country in a particular industry.

Firstly, and most importantly, a striking majority of all M&A deals that happened in Russia through its almost 30-year history happened in a holding or preservation style according to the framework provided by Haspeslagh & Jemison (1991). That means that in a transitioning economy that is not developed enough, companies do not have a lot of intangible assets accumulated over time, such as know-how or brand recognition, and the acquisition of the company is basically the same as acquisition of its material assets.

Secondly, in a newly emerged market economy there was a clear vacuum of leadership, which, according to research, is one of the most important factors for the success of an M&A deal. The same lack of leadership led to the fact that so many companies were failing and Russian markets were consolidating through series of hostile takeovers. This also connects to the first trait, since there was no management to speak of in the target company, it could be easily acquired and no conflict of interest between two management teams arose.

Thirdly, the lack of leadership mentioned earlier can also be explained by the legacy of Soviet Union, where severe punishments for failure led to people being afraid of taking initiative and responsibility. One could claim that the destinies of many Russian oligarchs that rose to power in the end of 1990s, such as Mikhail Khodorkovsky, Vladimir Gusinsky or Boris Berezovsky would create the same fear of taking initiative in a new, younger

generation of managers and businessmen. This would be an interesting issue to tackle in further research.

Fourthly, additional reason why post-merger integration is conducted with such carelessness in lots of Russian companies may have to do with the fact that many acquisitions are made at a huge discount due to the fact that many companies that are acquired are on the verge of bankruptcy. As Schweiger (2002) points out, if the merger is done at a large discount, there is no need for realization of the synergies for the creation of the acquirer shareholder's value.

Additional value of this research lies in the fact that the prevailing majority of data on Russian market, including mergers and acquisition, is in Russian. It is one of the reasons why Russia is such an overlooked region for research, and the importance of this study lies in author's ability to collect data in Russian and then analyze it through frameworks that were developed by bright economic minds from all over the globe. Findings of this research should inspire and encourage researchers around the world to collaborate with Russian-speaking scientists in research on Russian business environment. Same holds true for other countries where native language is not widely-spread and there is a lack of data in English on the country. Collaborating with native speakers is always a good practice, since they often do not only provide access to additional data, they can also give insights that are only understandable for people who grew in the culture that is subject to the research.

By analyzing the dynamics of oil & gas and banking industries in Russia we can come to a conclusion that this markets now have a lot less companies than in the beginning of the 1990s. That is to be expected of any economy that is transitioning from centrally planned to market form. Many companies that arise to fill the void due to market powers, later fail due to poor management or financial turbulence that is also to be expected when the country experiences such a dramatic transition. Assets of failing companies are acquired cheaply by those who survive, making them bigger and stronger.

Government's extremely high involvement in the oil & gas industry together with high level of corruption on every level of Russian government and business pushed consolidation in the market even further, giving power to the few state-owned companies,

such as Rosneft, or protecting private companies that are governed by people loyal to the government, like Lukoil. This result can have far-going implications for any country or industry, where government is heavily involved, especially if the level of corruption is high, and these two notions often go hand in hand.

The case of TNK-BP and an overall lack of foreign investment in Russian oil & gas market show that the business world believes more in negative effects of cultural gaps on the success of mergers and acquisitions, rather than the positive ones. That is completely reasonable, however, further research on that subject may with time change the public perception of cultural gaps, if stronger evidence of positive effects is found.

Another reason for lack of foreign investment in Russian oil & gas and banking industries was that half of Russian economy in 1990s existed in shadows for the Russian government, which meant that official reporting that was visible to foreign investors also did not showcase half of the Russian economy. This led investors to believe that Russia is a lot less attractive for invest in than it actually was. One could make a conclusion that this willingness to hide own revenues and profits from the government did not only come from purely opportunistic behavior, but also from the communist background, where businessmen that just managed to privatize a business were afraid that once they get successful, government is going to take it back after it grew under proper management. Taking into account the events of 2000s, it is hard to blame Russian businessmen of the 1990s for thinking that.

In addition to that, Russian management practices always relied heavily on informal institutions, such as culture and ethics, due to the fact that formal institutions were too weak and illegitimate after the fall of the Soviet Union. This means that unique characteristics of Russian mentality and national culture are reflected so heavily in the organizational culture, that it increases the cultural distance of Russian companies from their foreign counterparts to extreme levels, which makes potential cross-border mergers and following integration processes increasingly complex and complicated to conduct, and communication deficiencies between two management teams are more likely to occur in cross-border M&A deals including Russian companies.

However, it can be seen that the experience of the banking industry was strikingly different. Possible explanation to this could lie in the fact that banking industry did not experience as much intervention from the government officials, as oil & gas industry did, it worked by different laws, closer to the Western management style. To explain the differences between two industries better, it would be interesting to look at the changes in management teams of Russian banks that were acquired by foreign investors. If Russian managers were kept at their positions, then the hypothesis about bad Russian management practices staying forever is false.

The legacy of the Soviet Union can be tracked in many aspects of the M&A activity throughout Russian history. From the patterns in management to overall mentality of all the participating agents, from the overreaching hand of the government in the business activities to the suspicious looks on the business sphere in Russia from the West, 30 years later it still defines Russian economics. Russia today is a field experiment happening in real time that showcases what are the main obstacles in transitioning from a centrally planned economy to the market economy. Hopefully, Russian economy will learn on its own mistakes and other countries that are yet to begin the transformation could use this example to avoid falling into the same traps and take only the best of practices that are emerging in Russia during this process of transformation.

In conclusion, the analysis of Russian oil & gas and banking industries through the lens of M&A activity showed that M&A characteristics are both extremely industry-specific and country-specific. The conjuncture of the M&A activity in two different sectors of the same economy can be unbelievably different, almost the opposite. Moreover, despite an extremely large base of knowledge accumulated on the topic, there is still no scientific consensus on lots of various aspects of M&A and it stills seems like every single case is different from the other and no general conclusions can be made. That indicates a huge need for more research, especially qualitative research with the usage of primary data obtained from interview. That also means that there will always be potential for further research of M&A activity for economists around the world, as long as there are unresearched cases, and they will always be there since the new ones are appearing every day.

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Annex

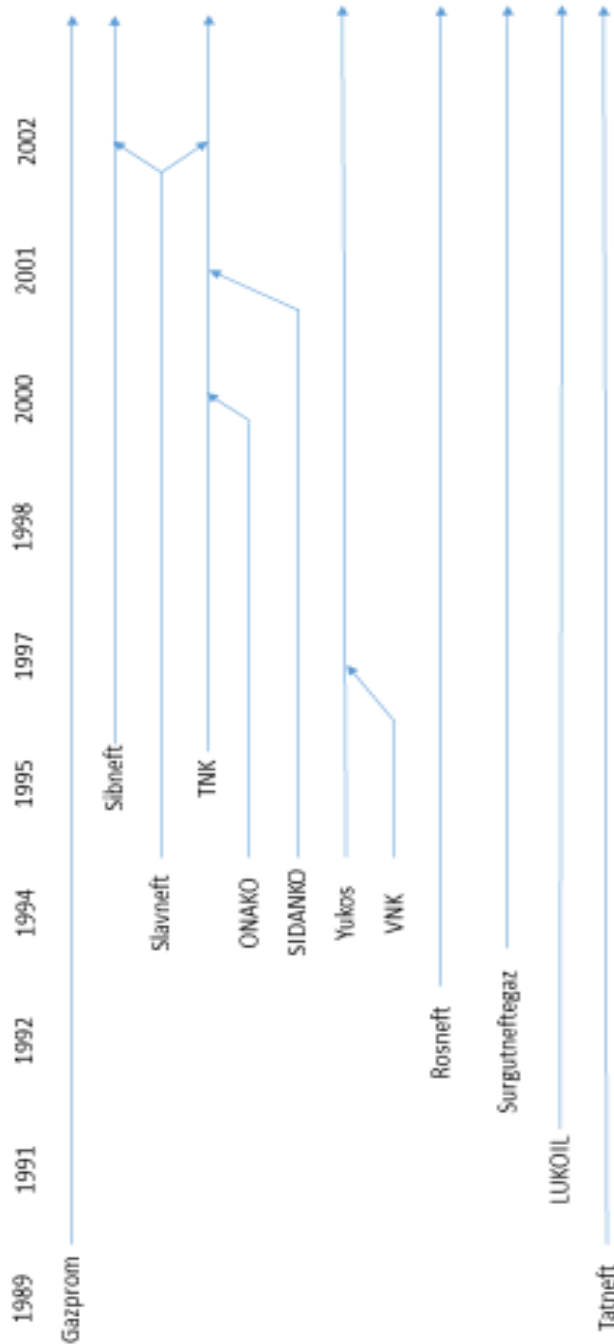


Figure 1. Timeline of M&A activity in Russian oil & gas industry

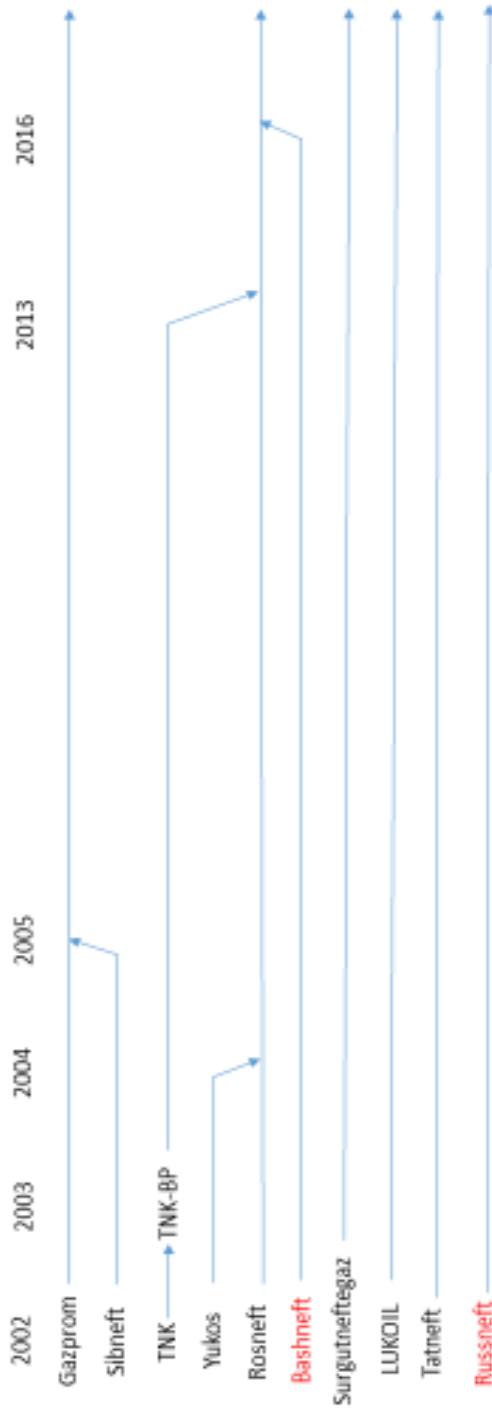


Figure 1 (continued). Timeline of M&A activity in Russian oil & gas industry

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Acquirer	Target	Year	Acquired stake	Valuation
Yukos	VNK	1997	54,0%	\$1.83 bln
TNK	ONAKO	2000	85,0%	\$1.27 bln
TNK	SIDANKO	2001	40,3%	n/a
TNK (50%) + Sibneft (50%)	Slavneft	2002	100,0%	\$1.86 bln
Rosneft	Yukos	2004	77,0%	\$24.63 bln
Gazprom	Sibneft (Gazpromneft)	2005	72,6%	\$18 bln
Rosneft	TNK-BP	2013	100%	\$56 bln
Rosneft	Bashneft	2016	50%	\$10 bln

Figure 2. Table of main M&A in Russian oil & gas industry

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Banking Industries

Acquirer	Target	Year	Acquired stake	Valuation
GE Money	Delta-bank	2004	100,0%	\$100 mln
Societe Generale	Rosbank	2005-2008	50%+1	\$4.6 bln
Banca Intesa	KMB-Bank	2005	75,0%	\$120 mln
Raiffeisen International	Impeksbank	2006	100,0%	\$550 mln
VTB	PSB	2006	75,0%	\$770 mln
Nordea	Orgresbank	2006	75,0%	\$417 mln
Deutsche Bank	UFG	2006	100%	\$700 mln
UniCredit	Aton Broker, Aton International Ltd.	2006	100%	\$424 mln
KBC Group	Absolut Bank	2007	92,5%	\$1.03 bln
Barclays	Expobank	2008	100,0%	\$745 mln

Figure 3. Table of main M&A in Russian banking industry

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Oil & Gas	Banking
Extremely high involvement of the state, a lot of political motivation behind the M&A activity	Low involvement of the state, more purely economic motivation for M&A
Very little involvement of foreign players	Foreign banks dominated in the M&A activity
Motivation: competitors going bankrupt, opportunity for easy growth through acquisition	Motivation: growing attractiveness of a large, newly emerged market
Low degree of interdependence between the acquirer and the target	Higher degree of interdependence, the target benefits from acquirer's foreign brand
A fairly monopolistic market, about 20 major players at inception	More than 1000 banks in the beginning
Key target characteristic for M&A is the price	Key target characteristic for M&A is the size and previous ownership (local vs. foreign)
Trend towards consolidation of the market	
Preoccupation of foreign investors with potential cultural gaps	

Figure 4. Comparison of key characteristics of M&A activity in oil & gas and banking industry in Russia