

МИРОВАЯ ЭКОНОМИКА И МЕЖДУНАРОДНЫЕ ФИНАНСЫ

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*K. Liuhto***FOREIGN BOARD MEMBERS IN RUSSIA'S LARGEST CORPORATIONS:
A SPECIAL EMPHASIS ON THE COUNTRY'S 10 BIGGEST FIRMS INVESTING
ABROAD**

A foreigner born outside the former USSR occupies every fifth board seat in Russia's 50 largest corporations. Unsurprisingly, Russia's private firms more frequently have foreigners on their boards, than the state-owned enterprises do. Less than 10 % of the board seats of Russia's largest state-owned enterprises have been given to foreigners, while the respective share in privately-owned firms is nearly 30 %. The share of foreigners on the boards of Russia's biggest firms investing abroad is clearly larger than in the country's 50 largest corporations, in general, indicating a correlation between an intensive foreign direct investment expansion and a higher proportion of foreigners on the boards of directors. The British, the Americans and the Germans hold more than half of the board seats given to foreigners, in Russia's 50 largest corporations. Only two Chinese citizens could be detected among the nearly 100 foreign board directors. It remains to be seen what the impact of Western sanctions on the future board composition of Russia's largest corporations will be. Therefore, it is worth following how the number of Chinese board members, in Russia's most significant firms, will develop in the coming years, since the growing number of board seats usually reflects increased FDI flows. So far, Russian statistics show that Chinese investments in Russia are non-existent, and the same applies to Russian investments in China, as well.

Keywords: Russian outward foreign direct investment, internationalisation of Russia's largest corporations, corporate governance, board of directors.

*K. Liuhto***ИНОСТРАНЦЫ В СОВЕТАХ ДИРЕКТОРОВ КРУПНЕЙШИХ РОССИЙСКИХ КОРПОРАЦИЙ
(НА ПРИМЕРЕ 10 ВЕДУЩИХ ФИРМ, ОСУЩЕСТВЛЯЮЩИХ ЗАРУБЕЖНЫЕ ИНВЕСТИЦИИ)**

Каждый пятый член совета директоров 50 крупнейших российских корпораций является иностранным гражданином, родившимся за пределами бывшего СССР. Нет ничего удивительного в том, что частные фирмы прибегают к услугам иностранцев чаще, чем государственные компании. В случае первых доля иностранцев достигает без малого 30 %, в то время как в случае последних она составляет менее 10 %. При этом доля иностранцев в советах директоров компаний, активно осуществляющих зарубежные инвестиции, заметно превышает аналогич-

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ный показатель 50 крупнейших корпораций. Это позволяет сделать вывод о наличии прямо пропорциональной связи между интенсивностью прямых зарубежных инвестиций и долей иностранцев в совете директоров. Представители Великобритании, США и Германии занимают более половины мест, приходящихся на иностранцев в советах директоров 50 крупнейших российских корпораций. Одновременно среди примерно 100 иностранных членов советов директоров есть только два гражданина КНР.

Вопрос о том, какое влияние оказывают западные санкции на состав советов директоров крупнейших российских компаний, остается открытым. Поскольку увеличение представительства иностранцев обычно отражает увеличение потоков прямых зарубежных инвестиций, особое внимание следует обратить на то, как будет изменяться представительство китайских граждан в советах директоров крупнейших российских фирм. На данный момент российская статистика свидетельствует об очень небольших размерах китайских инвестиций в России и аналогичной ситуации в отношении российских инвестиций в КНР. Библиогр. 44 назв. Ил. 1. Табл. 4.

Ключевые слова: российские прямые зарубежные инвестиции, интернационализации крупнейших российских корпораций, корпоративное управление, совет директоров.

Introduction

Over four million enterprises have been registered in Russia [Small and Medium..., 2014]. Despite a considerable number of firms, large corporations, nevertheless, account for the majority of the Russian GDP, exports and investments abroad. At the beginning of this decade, the Russian outward foreign direct investment (FDI) stock exceeded \$400 billion. Recently, however, both Russia's outward FDI stock and outbound FDI flow have withered, due to three main reasons: 1) lower prices for Russian goods (oil, metals and other raw materials) in the world market, causing a lack of capital for new investments, 2) higher interest rates for bank loans and 3) the Russian Rouble's weaker exchange rate. As a consequence of the slowdown, the position of the Russian outward FDI, in the world, has weakened. At the end of 2015, Russian capital represented just 1–2% of the global outward FDI (Table 1).

Table 1. Russia's outward FDI stock and annual FDI outflow in selected years

Indicators	1995	2000	2005	2010	2014	2015
Russia's outward FDI stock (\$ million)	3,015	20,141	120,417	433,655	431,865	251,979
Russia's share in the world's outward FDI stock, %	0,10	0,28	1,13	2,12	1,67	1,01
Russia's annual FDI outflow (\$ million)	358	3,050	12,767	52,616	56,438	26,558
Russia's share in the world's annual FDI outflow, %	0,10	0,27	1,45	3,85	4,17	1,80

Note: The FDI figures are not constant in all of the UNCTAD reports. The author has used the newest available UNCTAD data.

Sources: [UNCTAD. World Investment Report. United Nations Conference on Trade and Development. New York; Geneva, 2001; 2006; 2011; 2015; 2016].

Over two-thirds of the Russian total outward FDI has landed in the EU, as of June 2016. However, one should not take the geographical division of the Russian outward FDI stock too literally, as a great part of the Russian outward FDI does not stay in the first foreign country in which they have been invested. In fact, a substantial share of the Russian

outward FDI returns to Russia. As an indication of a massive capital boomerang, one can take the FDI moves between Russia and Cyprus. Cyprus covered 33 % of the Russian outward FDI stock, and correspondingly, the Cypriot share in the Russian inward FDI stock was 29 %, in the middle of 2016 [Central Bank of Russia Russian Direct Investment ..., 2016].

Russia's outward FDI is a relatively novel phenomenon, and therefore, it is logical that several of its dimensions have not, as yet, been thoroughly studied. Therefore, this article aims at filling one of the existing research gaps, as the article explores the corporate governance of Russia's most multinational corporations.

1. The study accomplishments and the research objective

Research on Russian outward FDI has grown, hand-in-hand, with growth in the Russian outward FDI activity (for a definition of FDI, see [OECD Factbook 2010...]). However, corporate governance has been a neglected research area, in the context of the Russian outbound FDI [Liuhto & Majuri, 2014]. As earlier studies on the Russian OFDI did not support the implementation of this research¹, the author reviewed earlier findings related to the relationship between board composition and an FDI decision by a firm, in a non-Russian context.

After conducting the literature review, the author decided to focus the analysis on foreigners on the boards of directors of Russia's largest corporations. The author decided to select the 50 largest corporations, in terms of their 2016 turnover (see Appendix). Turnover data provided by the journal, *Expert*, was used [Expert (2017) Эксперт 400...]. A special emphasis, in the analysis, was placed on the foreigners on the boards of directors of non-financial companies with the largest assets abroad. A study by Kuznetsov [2016] was useful in identifying these companies (Table 2).

Table 2. Russia's 10 leading non-financial corporations, in terms of their foreign assets, in 2014

Company, industry	Turnover, \$ billion	Foreign assets, \$ billion	Foreign assets/ total assets, %
1. <i>Gazprom</i> , oil and gas	133,3	36,0	13
2. <i>Lukoil</i> , oil and gas	98,5	32,9	29
3. <i>VimpelCom</i> , telecom	9,1	30,4	74
4. <i>Rosneft</i> , oil and gas	82,3	9,4	6
5. <i>Evrast</i> , metallurgy	11,9	5,3	46
6. <i>Sovcomflot (SFC)</i> , maritime transport	1,0	5,3	83
7. <i>Rusal</i> , metallurgy	8,1	2,8	19
8. <i>Russian Railways (RZD)</i> , rail transport	45,7	2,8	4
9. <i>TMK</i> , production of metal pipelines	5,3	2,5	44
10. <i>Zarubezhneft</i> , oil and gas	0,8	2,4	67

Note: The turnover figures were converted from RUR into USD, using the annual average rate of 2014, i. e. RUR 38.6 against USD 1 [Bank of Finland (2017) Russia statistics...].

Sources: [Expert (2017). Эксперт 400...; Kuznetsov, 2016].

¹ Tepavcevic [2015] and Liuhto [2017] have analysed the relationship between the ownership and the outbound investment of Russian companies. However, none of the aforementioned authors focused on the impact of the board composition on the outward investment of Russia firms.

A selection of the 10 largest corporations, with the largest assets abroad, does not offer a representative sample, and hence, does not allow us to generalise the findings. Despite this limitation, the used method also has its strengths. We should not forget that the studied companies account for nearly a third of Russia's total outward FDI stock. To put it differently, even if the selected companies do not form a representative sample, they form an economically purposeful sample [Merriam, 2009].

Here, we should acknowledge that companies and their governance structures evolve constantly, and therefore, it needs to be stressed that the author describes the situation as the companies reported it, in their newest annual reports or on their websites, in February 2017.

In this study, a person who is born outside the USSR and who does not hold Russian citizenship is regarded as a foreigner. The author could detect several persons who have non-Russian citizenship; but, as they were born in the USSR, they have not been classified as foreigners. The aforementioned definition has been created in order to be able to accomplish this research. The definition should not be regarded as a political statement.

The main objective of this article is to study foreign members on the boards of directors of Russia's largest corporations, in terms of their turnover. The article places special emphasis on the role of foreigners, on the boards of Russia's non-financial companies with the largest foreign assets.

2. Earlier empirical research on the relationship between the board composition and a firm's internationalisation — with a special focus on foreigners' roles on the board of directors

Sanders and Carpenter [1998] utilised several datasets to collect their data on approximately 250 large US firms. They discovered that a large board size was positively associated with internationalisation. Furthermore, the proportion of outsiders on the board was also positively related to a firm's degree of internationalisation.

Sherman et al. [1998] analysed seven regional US telecommunications firms and they found little to support the indication that board characteristics were related to a firm's internationalisation. Similarly, Lien et al. [2005], after having analysed over 200 publicly listed companies in Taiwan, concluded that there is only limited statistical support for the impact of board characteristics upon the decision to undertake FDI.

Datta et al. [2009] used a dataset consisting of close to 400 acquisitions and 200 joint ventures, in the US manufacturing sector. Their findings indicate that firms with boards characterised by a higher proportion of outside directors, independent leadership structures and firms with a separation of the Chief Executive Officer (CEO) and board chair positions are more inclined to favour acquisitions over joint ventures, in their foreign market entry. The aforementioned finding is supported by Majocchi and Strange [2012], who found that when the board of a family-owned firm has a higher proportion of independent directors, international diversification is greater.

Masulis et al. [2011] analysed nearly 10,000 US firms, during the period of 1998–2006. Their findings suggest that firms with foreign independent directors on their boards make better cross-border acquisitions, when they pursue targets from the home regions of foreign independent directors. They also found that firms with foreign board members pay

their CEOs excessively high compensation, but on the other hand, they are less responsive to replacing poorly performing CEOs.

Barroso et al. [2011] studied 45 listed Spanish firms. They concluded that the tendency for board members to remain longer on the board of directors has a negative influence on the firm's degree of international diversification. Their research findings do not support the hypothesis related to the influence of a board's international background on the firm's degree of international diversification. Finally, the authors argue that the most internationalised enterprises require a higher level of education for its members.

Oxelheim et al. [2013] surveyed some 350 non-financial listed Nordic firms during 2001-2008. The authors found, unsurprisingly, that the nationality of foreign board members tends to match the nationality of foreign owners and the country in which a company cross-lists its shares. The findings also suggest that a foreign strategic owner is associated with the appointment of a foreign board member. Moreover, firms with a higher percentage of foreign sales, more foreign ownership and whose shares are cross-listed on foreign exchanges have more internationalised boards of directors. Despite the aforementioned finding, the authors do not claim unidirectional causality, as board internationalisation may drive, as well as be driven by, firm internationalisation. Furthermore, scholars argue that board participation by foreign directors is primarily related to financial internationalisation, rather than foreign sales and hence, presumably, to monitoring rather than advisory functions. A large firm size is positively linked with the presence of foreign directors, as smaller companies may find it difficult to attract foreign directors to their boards.

Earlier studies indicate that there is ambiguous support for the impact of board characteristics upon either internationalisation, in general, or the FDI decision, in particular. Researchers are not certain about the causality between board composition and internationalisation, as board internationalisation may drive, as well as be driven by, a firm's internationalisation. Despite the aforementioned ambiguities, some earlier research results, on foreign board members, suggest that a connection seems to exist between foreign ownership, the scope and intensity of foreign business activities and the role of foreigners on the board of directors of a firm. It is worth observing that foreign directors more frequently hold a monitoring function position rather than that of an advisory role in an enterprise, i. e. foreign board members more often act as financial controllers sent by the foreign owners, rather than as business developers.

3. Research results

3.1. General findings

Nearly 100 foreigners have been accepted to the boards of directors of Russia's 50 largest corporations. In other words, almost two foreigners operate in each of these enterprises, on average. Even if further studies are required, it might well be that the boards of Russia's largest corporations are more international than those of their counterparts in China or the USA, for instance.

A foreign board member is a more frequent acquaintance in Russia's biggest investors abroad, than in Russia's largest corporations, as a whole. Almost 30% of all board seats are occupied by foreigners in the 10 enterprises with the biggest assets abroad. The respective share in Russia's 50 largest corporations is 20%. This finding implies that

there is a correlation between an intensive FDI expansion abroad and a larger foreign representation on the board of directors. Less than 10% of the board seats of Russia's largest state-owned companies have been given to foreigners, while the respective share in privately-owned firms is nearly 30%. This finding could easily be anticipated, since the state-owned enterprises are usually less keen on inviting foreigners onto their boards (Fig. 1 and the Appendix).

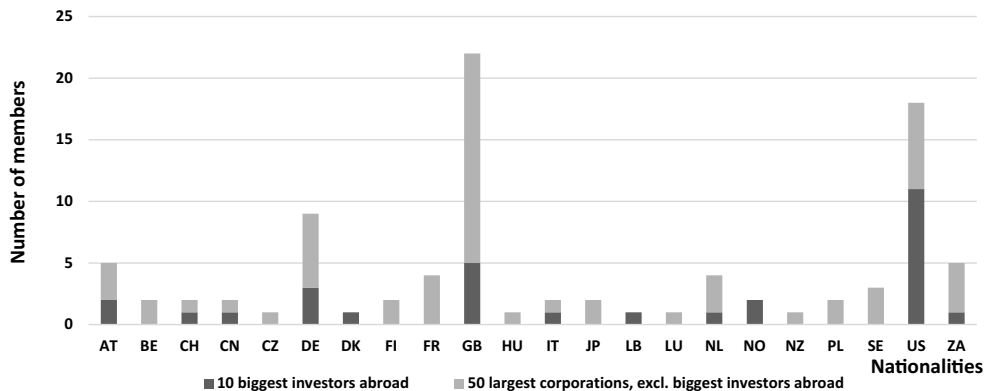


Fig. 1. Foreign board directors in Russia's 10 biggest investors abroad and 50 largest corporations (divided by nationality)

Note: AT (Austria), BE (Belgium), CH (Switzerland), CN (China), CZ (the Czech Republic), DE (Germany), DK (Denmark), FI (Finland), FR (France), GB (Great Britain), HU (Hungary), IT (Italy), JP (Japan), LB (Lebanon), LU (Luxemburg), NL (the Netherlands), NO (Norway), NZ (New Zealand), PL (Poland), SE (Sweden), US (the United States of America), ZA (South Africa).

Over 20 nationalities can be found in the board rooms of the studied corporations. British, American and German board directors occupy approximately half of the board seats that foreigners have received, in Russia's largest corporations. A Chinese board director is still a rarity in Russia's most significant firms. In fact, just two Chinese citizens have found their way onto a board. In contrast, board members from South Africa are, surprisingly, often represented in the analysed companies, despite the fact that South African companies have invested practically nothing in Russia, and in turn, these Russian firms, in general, do not possess strategically valuable assets in Africa. To put it differently, neither the foreign ownership nor the external operational environment (Africa) have forced the Russians to invite South Africans onto their boards of directors. It is also interesting to note that the share of the Austrians in the Russian boards is somewhat higher than the share of Austria in the Russian inward FDI stock, which was 1.7% [Central Bank of Russia Russian Direct Investment..., 2016]. All of the Austrian board members operate in metallurgy. The overrepresentation of Austrians and South Africans on the Russian boards would require an empirical study.

Russia's metallurgical companies have accepted the greatest number of foreigners onto their boards of directors. More than a quarter of all of the seats given to foreigners can be found in metallurgy. Metallurgy is followed by the oil and gas sector. A fifth of foreigner board seats are in the oil and gas industry. The American board directors play a visible role in Russia's oil and energy industry. In particular, Americans can be found in Russia's biggest investors abroad. Foreign board seats, in Russia's banking sector, have been rather

equally divided among eight nationalities. Scandinavians especially occupy board seats in mobile telecommunications. British and Dutch board members are relatively frequent acquaintances in the Russian retail trade. And, German board seats are located rather evenly across Russia's industries (Table 3).

Table 3. Foreign board directors in Russia's 10 biggest investors abroad and 50 largest corporations (divided by industry and turnover)

Industry/turnover	Below \$5 billion	\$5–10 billion	Over \$10 billion
Oil and gas (18)		<u>Total: 10</u> 2 FR, 2 JP, 1 BE, 1 CH, 1 DE, 1 GB, 1 HU, 1 ZA	<u>Total: 8</u> 5 US, 1 CH, 1 DE, 1 GB
Banking (9)	<u>Total: 3</u> 1 CZ, 1 US, 1 ZA		<u>Total: 6</u> 1 DE, 1 FI, 1 FR, 1 GB, 1 IT, 1 US
Transport & logistics (4)	<u>Total: 2</u> 1 GB, 1 LB		<u>Total: 2</u> 2 DE (1+1)
Metallurgy (24)		<u>Total: 24</u> 5 US (3+2), 5 AT (2+3), 5 GB (2+3), 3 ZA (1+2), 1 CN, 1 DE, 1 FI, 1 IT, 1 NL, 1 PL	
Telecom (9)	<u>Total: 4</u> 3 SE, 1 GB	Total: 5 2 NO, 1 DK, 1 GB, 1 US	
Production of metal pipelines (2)	<u>Total: 2</u> 2 US		
Retail trade (14)	<u>Total: 9</u> 6 GB, 3 NL		<u>Total: 5</u> 1 DE, 1 FR, 1 GB, 1 PL, 1 US
Electric power & coal (7)	<u>Total: 6</u> 2 DE, 1 BE, 1 GB, 1 NZ, 1 US		<u>Total: 1</u> 1 US
Petrochemicals (1)		<u>Total: 1</u> 1 CN	
Multi-industry (4)			<u>Total: 4</u> 3 GB, 1 LU
Grand total (92)	(26)	(39)	(26)

Note: Foreigners in Russia's biggest investors abroad have been marked in bold, in the table above.

3.2. Research findings related to Russia's 10 largest firms investing abroad

In the following, the internationalisation and the board composition of Russia's 10 biggest firms investing overseas are analysed, case by case. At the end of these 10 brief case studies, a table summarising the main findings is provided. The analysis is begun with Gazprom, Russia's biggest investor abroad. At the end of 2014, the total value of Gazprom's foreign assets reached \$36 billion, meaning that its foreign assets accounted for 13 % of the corporation's total assets [Kuznetsov, 2016].

1. Gazprom: the majority of Gazprom is owned by the Russian State. The corporation is the globe's leading natural gas producer. In 2015, Gazprom produced nearly 420 billion cubic meters (bcm) of gas. With the aforementioned production, Gazprom

was responsible for a tenth of the global gas production and two-thirds of Russia's gas output. Approximately 225 bcm of Gazprom's gas was exported, i.e. more than 50 % of the corporation's gas production. Since the export price for natural gas is higher than the domestic gas price in Russia, Gazprom received nearly three-quarters of its revenues from its exports. Gazprom has a presence in most European countries. In addition to Europe, Gazprom has established a presence in Africa, the Americas and Asia [Gazprom, 2017a PJSC Gazprom Annual Report 2015...]. Viktor Zubkov, the Prime Minister of Russia in 2007–2008, acts as the chairman of the Gazprom Board. In addition to the former Prime Minister, the Minister of Energy, Alexander Novak, and the Minister of Economic Development². None of the 11 board members of Gazprom can be considered a foreigner, according to the classification of a foreigner used in this study (see Chapter 2 for the definition). On the other hand, the board has established a close connection to the Kazakh President, since one of Gazprom's Board Members previously served as a part-time advisor to the president of Kazakhstan³ [Gazprom, 2017b [Board of Directors, 2017. Gazprom...; Grey et al., 2015].

The board members' educational backgrounds are mainly Russian, the majority having studied at Russia's top universities. Only one of the board members has reported that he had studied abroad and only one of the board members has experience working in a foreign firm based outside the former USSR. Around half of the board members have a personal, educational or professional connection to St Petersburg (Leningrad), the city Russia's President Vladimir Putin comes from.

Taking into account the huge corporate responsibility, the average age of the board is surprisingly young (55 years), the oldest member being 75 years old and the youngest one being under 40 years. The board of Gazprom is highly masculine, since no female directors acted as a member of the board at the beginning of 2017 [Gazprom 2017b]. [Board of Directors, 2017. Gazprom...].

2. Lukoil: the corporation's first international operation took place in Azerbaijan, in 1994. Now, the company is present in over 30 countries. Lukoil is one of the world's largest oil companies accounting

for over 2 % of the global crude oil production, in 2015. Almost 20 % of the corporation's production took place outside of Russia [Lukoil Annual Report, 2015...]. Lukoil's foreign assets are

valued at more than \$30 billion and they cover nearly 30 % of the company's total assets, indicating that the corporation is both committed to international operations and highly dependent on them, at the same time [Kuznetsov, 2016].

The Lukoil Board has 10 members. Two of the Russian board members have acted as a deputy minister in the Soviet energy ministry. One of them, namely Vagit Alekperov, has managed to collect an extraordinarily huge ownership stake in the company (over 20 %).

² Alexey Ulyukaev used to be a board member of Gazprom prior his arrest in mid-November 2016 for corruption [Corruption charges against a minister signal..., 2016]. The corruption allegation is not linked to Gazprom.

³ Timur Askarovich Kulibaev holds Kazakh citizenship, but as he was born in Almaty, the Soviet Republic of Kazakhstan, he is not regarded as a foreigner in this study. Kulibaev is the son-in-law of Kazakh President Nursultan Nazarbaev [The World's Billionaires...]. In addition to Kulibaev, Alexander Novak was born outside the Russian Federation, namely in the Soviet Republic of Ukraine [PJSC Gazprom Annual Report 2015...].

In addition, Igor Ivanov, Russia's Minister of Foreign Affairs, 1998–2004, and Secretary of the Security Council, 2004–2007, brings government knowledge to the board.

The company's 2015 annual report reveals that the Russian board members have not extensively studied abroad and that their international work experience is surprisingly scarce. The average age of the board (70 years) is even more surprising, since oil business is generally regarded as a dynamic business field. The chairman of the Lukoil Board will celebrate his 90th birthday in this decade [Lukoil Annual Report, 2015...; Lukoil — Board of Directors, 2015...]. Such a board age structure does not necessarily give an impression of experience and dynamism, but rather an impression of seniority and immobility.

Foreigners occupy 40 % of the Lukoil Board seats, i.e. two Americans, one Briton, and one Swiss have managed to acquire a board seat. Interestingly, only one of the foreigners can be considered as a heavyweight in the international oil business, which indicates that business experience has not been the main criterion for choosing the foreign board members. This may indicate that the foreign directors in Lukoil exercise more of a controlling function rather than playing an advisory role on the board. On the other hand, the foreign directors are well-connected in the business circles of their own societies. For example, foreign board members have memberships in their national chambers of commerce, business associations and clubs linked to Russia that allows them to influence the image of Russia back home. One female director has found her way into this masculine field of business [Lukoil– Board of Directors, 2015...].

3. VimpelCom: even if the company's headquarters are currently located in the Netherlands and the principal owner is nominally from Luxembourg, the company can still be regarded as Russian, since it is controlled by Russia's second richest oligarch, Mikhail Fridman [Forbes 2017 The World's Billionaires, 2017...]. The company is one of the world's largest mobile service providers, in terms of customers. The corporation has over 200 million customers, in over 10 countries. Russia is the main clientele base, with nearly 60 million customers. In 2014, VimpelCom's assets abroad were valued at around \$30 billion and three-quarters of the company's assets were located outside the Russian borders [Kuznetsov, 2016]. When VimpelCom's skyrocketing internationalisation is assessed, it needs to be remembered that the company's foreign expansion only began in 2004, when VimpelCom entered the Kazakh market [VimpelCom Annual Report 2015...].

Five out of nine board members are foreigners and they are mainly from Scandinavia. The ownership of Telenor, a Norwegian telecom, explains the large representation of Scandinavians on the VimpelCom Board. Four Russians serve the supervisory board, of whom one is its chairman. Mikhail Fridman holds a board seat in the company, as well.

The board members have received their education from some of the most respected educational institutions throughout Europe and the USA. Their formal experience, related to either the Russian Government or other national governments, is rather narrow. Only one board member reported that he had worked in the Norwegian ministry. When assessing this member's government experience, one became aware that his ministerial career dates back to the end of the 1970s and the 1980s, and that it is not in the field of telecommunications.

The VimpelCom board is relatively young, i.e. the average age of the supervisory board is just 53 years. This young age can be seen as a comparative advantage in a highly dynamic field of business. No females have entered the VimpelCom board, as yet [VimpelCom Supervisory Board 2017...].

4) Rosneft: the corporation is Russia's largest oil producer, accounting for almost 40 % of the country's oil production. With a 5 % global share, Rosneft is the world's second largest oil producer, after Saudi Arabian Aramco. Rosneft was a domestic market-oriented corporation, until the early years of this millennium, but its international expansion has since sped up. As a result of this internationalisation, the company has established its substantial presence, in over 20 countries [Rosneft 2017a Rosneft Annual Report 2015...]. Despite top management's growing interest in foreign expansion, Rosneft has only lightly invested outside Russian borders; taking into consideration its substantial size. The group's foreign assets are valued at less than \$10 billion and just 6 % of the enterprise's total assets were located abroad [Kuznetsov, 2016].

The Rosneft Board is formed of nine members, with an average age of 60 years. No females have been accepted to the board of directors. Four board directors are foreigners, i. e. three US citizens and a German. None of the Russian board members reported that they had studied abroad and only one provided information about international working experience.

The board seems to be well connected with the Russian president, as the chairman of the board is an assistant to the Russian president. Besides, Rosneft's Vice-chairman Igor Sechin presumably has a close connection to the Russian president, since he acted as deputy head of the executive office of the Russian president in 2000–2008, and thereafter, he served as deputy prime minister, until 2012. Moreover, the incumbent Russian minister of energy holds a seat on the board. Another influential personality, Andrey Akimov, who is a member of the Gazprom Board as well, needs to be mentioned here. German board member Matthias Warnig, Managing Director of Nord Stream 2, is another noteworthy personality. BP, in turn, has added its president to the Rosneft Board. A former senior director of ExxonMobil also holds a seat [Rosneft Board of directors 2017...].

5) Evraz: the headquarters of this metallurgical company have been located in London for a decade. Despite the location of its headquarters in Great Britain, Evraz can be classified as a Russian-controlled company, as approximately 80 % of its share capital is held by Russian tycoons [Evraz (2017a) Board of directors...; Forbes (2017) The World's Billionaires...].

The company started its expansion outside the former USSR, in 2005. Now, Evraz is present in eight foreign countries, namely Canada, the Czech Republic, Italy, Kazakhstan, Switzerland, Ukraine, the United Kingdom and the USA. In 2015, foreign markets accounted for more than half of Evraz' steel sales [Evraz (2017a) Board of directors...]. At the end of 2014, the Evraz foreign assets totalled \$5 billion, which is nearly half of the corporation's total asset value [Kuznetsov, 2016]. Despite the fact that the main metal deposits of Evraz are located in Russia, the large share of foreign sales and foreign assets makes the firm highly dependent on foreign markets.

The Evraz Board consists of eight members, whose average age is 57 years. The private ownership of the company has probably influenced the owners to ensure that it is free from high-level civil servants. In other words, the board consists more of business-minded directors than of government-sent supervisors. Three out of eight of its board members are foreigners. Two come from Great Britain and the third board member is from Austria. One woman has found a seat on the Evraz Board [Evraz (2017b) Board of directors...].

6) Sovcomflot (SCF): the enterprise is Russia's largest shipping company and one of the world's largest firms in the shipment of crude oil, petroleum products, liquefied

natural gas (LNG) and petroleum gas. SCF has nearly 150 vessels, with a total deadweight of 12 million tonnes. The company's oil tankers cover over 90 % of these deadweight tonnes [SCF Group — Annual Report 2015...]. SCF foreign assets exceed 80 % of the firm's total assets, which gives a clear indication that flagging ships overseas plays an elementary role in the overall internationalisation of Sovcomflot [Kuznetsov, 2016]. Tax planning is probably behind the flagging of the ships abroad.

SFC has nine board members, with an average age of 59 years. The chairman of the board previously acted as a representative of the Russian president for the North-West Federal District and three of the board members have previously served as a deputy minister in the Russian government. It is interesting to note that two SCF board members are also members of Zarubezhneft, Russia's 10th biggest investor abroad. None of the directors on the board are women.

Two of SFC's directors are foreigners, one being a Briton and the other a Lebanese citizen with a close connection to US business circles. Previously, the British citizen was involved with Lloyd's Register and the Lebanese citizen worked for Morgan Stanley. Thus, these foreign board members bring to the Sovcomflot Board additional expertise on international shipping and international finance.

7) Rusal: the corporation is the world's largest producer of aluminium. It accounted for nearly 7 % of the global aluminium output, in 2015. Rusal's internationalisation began in 2002, when the company acquired a foil mill in Armenia and a mining complex in Guinea. By now, the company has established its business presence in a dozen foreign countries, namely Armenia, Australia, China, Guinea, Guyana, Ireland, Italy, Jamaica, Kazakhstan, Nigeria, Sweden and Ukraine [Rusal 2017a Facts and Figures, 2017. Rusal...]. The value of Rusal's foreign assets was estimated to have reached almost \$3 billion, as of the end of 2014, representing a fifth of Rusal's total assets [Kuznetsov, 2016].

Rusal has an surprisingly large board with 18 directors. The Rusal Board size is approximately twice as large as the average board size, in companies of similar size. The average age of the Rusal Board is 53 years. As the metal business is regarded as a rather masculine field of business, it is surprising to encounter four women on the board, with one of them being a foreigner.

None of the Russian board members have served the Russian Government. Should the Russian board members lack government experience, some foreign board members have had formal links to the governmental structures within their countries, such as Philip Lader, former White House deputy chief of staff, and Elsie Leung Oi-Sie, a committee member of the National People's Congress of China. Another influential foreign board member should be mentioned here, Matthias Warnig, the German managing director of Gazprom-controlled Nord Stream 2 and is a board member of Rosneft and Transneft [Rusal 2017b [Board of Directors, 2017. Rusal...]

8) Russian Railways (RZD): the corporation, with over 800,000 employees, is responsible for over 80,000 kilometres of rail network, i. e. the RZD railroads are long enough to wrap twice around the globe. The company accounts for nearly 90 % of Russia's total freight turnover, excluding pipeline transport, and 25 % of the country's total passenger turnover. Russian Railways currently carries passengers to 30 countries in Europe and Asia [Russian Railways, 2017...]. The foreign assets of RZD totalled approximately \$3 billion, as of the end of 2014, representing 4 % of the RZD total assets [Kuznetsov, 2016].

The company's 12-member board is led by the incumbent deputy prime minister. In addition to the deputy prime minister, the company has substantial government experience, as Russia's ex-prime minister, two deputy ministers and a former deputy minister sit on the board. In other words, almost half of the RZD Board has some sort of ministerial experience. Despite such a wide ministerial praxis, the average age of the board is surprisingly low, i. e. approximately 52 years. No females have gained membership on the RZD Board.

Several board members have studied at the world's leading universities, such as Harvard Business School, Stanford University and Wharton School of Business. Although some members of the board have studied abroad and have gained foreign firm-related working experience, one may conclude that the board's knowledge in international business is somewhat narrow.

One of the RZD board members is a foreigner, namely German Hartmut Medorn. Until May 2009, Hartmut Medorn served as CEO of Deutsche Bahn, Germany's largest railway company. He is clearly the oldest board member at Russian Railways. Medorn celebrates his 75th birthday in July 2017 [Russian Railways 2017b [Board of Directors, 2017. Russian Railways...].

9) TMK: is a privately-owned firm. It is one of the globe's leading producers of steel pipes for the oil and gas industry. In 2015, pipe shipments for the company totalled nearly four million tonnes. The Russian market is the stronghold of TMK. The exports formed just a quarter of the company's total revenues, in 2015. In 2006, the company started its foreign production in Romania. Currently, TMK operates in Canada, Kazakhstan, Oman, Romania and the USA [TMK 2017a TMK, 2017]. The enterprise's foreign assets were valued at \$2.5 billion, at the end of 2014, representing over 40 % of its total assets [Kuznetsov, 2016].

The TMK board consists of 12 members. The average age of the board members is 55 years. No females have received a seat on the board. Even if the TMK Board has been built around professionalism, two former ministers have received a seat on the board. These two board members are rather unique personalities, since they have also gained broad business experience. One of them is the president of the Russian Union of Industrialists and Entrepreneurs and the other one is the chairman of Rusnano.

Two foreigners have entered the TMK Board. Both of them are US citizens and both of them are highly experienced in international finance and doing business in Russia. It is rather peculiar that one of the foreign directors has previously served as press officer for the US Treasury Department [TMK 2017b TMK Board of Directors, 2015...].

10) Zarubezhneft: the company was founded in 1967. Since the beginning of its operations and until the year 1990, Zarubezhneft was "*a key foreign agent*" of the Soviet oil industry abroad. Its global activities during the Soviet era covered over 30 countries. The company currently has assets in Belarus, Bosnia and Herzegovina, Cuba, and Vietnam [Zarubezhneft 2017a Zarubezhneft, 2017]. The value of these foreign assets was \$2.4 billion, at the end of 2014. The foreign operations are of strategic importance to Zarubezhneft, as two-thirds of the enterprise's assets are located abroad [Kuznetsov, 2016].

The board of directors consists of seven directors. At the time of writing this article, the chairman was Eugeniy Murov, a former KGB officer. In addition to the security connection, the board also possesses earlier ministerial experience and broad knowledge of the oil business. Some of the board members have been educated in the leading

educational institutions of Russia and Western Europe. Neither foreigners nor females have entered the board of Zarubezhneft. All in all, Zarubeshneft has relatively young board, 54–55 years [Zarubeshneft 2017b Board of Directors, 2017. Zarubezhneft...].

3.3. A summary of the main research findings

To sum up, the board size of Russia's 50 largest corporations varies from five to 18 members, the average number being 10. The board size is slightly larger in state-owned enterprises than in private firms. However, the size difference is not significant. Industry membership does not explain the board size differences. No major differences in board size could be detected between Russia's 50 largest corporations and the country's 10 biggest investors abroad (Table 4 and the Appendix).

The lowest average age, of these boards in Russia's 10 biggest firms investing overseas, was 52 years old, while the highest was 70 years old. Surprisingly, the lowest average age was in the state-owned Russian Railways and the highest average age was in the privately driven oil company, Lukoil. It is interesting to note that the foreign board members were often older than the average age of their board. The average age of the foreign board members, in Russia's 10 biggest investors abroad, was 62 years. By selecting older foreigners for their boards, the Russian corporations may receive more experience, but whether or not they also receive the necessary dynamism and the latest corporate governance know-how is already a debatable issue.

Three out of Russia's 10 biggest investors abroad have invited at least one woman onto their board. One can find six female board members in Russia's 10 biggest investors abroad. Three of these female directors were foreign citizens and another three Russians, which means that females occupy around 5% of the board seats in Russia's 10 biggest firms investing outside the country. The situation for female directors in Russia's 50 largest corporations is, more or less, the same (6%). The aforementioned finding indicates that the internationalisation of Russian companies has not improved the chances for women to enter the board of directors, and hence, it can be concluded that Russia is still a rather masculine working environment. However, Russia is not an exemption, when we approach gender equality, from a global perspective.

Table 4. A summary of foreign board directors in Russia's 10 biggest investors abroad

Company, founding year, headquarters	Ownership	Foreigners/ total number of board members	Foreign board members (assumed citizenship), excl. persons born in the ex-USSR
Gazprom, 1989/1993, Moscow, Russia	State-owned: the Russian Government owns more than 50%, the rest being on free float	0/11 Average age: nearly 55 years. No female members.	No foreigners
Lukoil, 1991/1993, Moscow, Russia	Privately-owned: Lukoil management 35%, including Vagit Alekperov 23% and Leonid Fedun 10%, Lukoil Investments Cyprus Ltd 16%, others 55%	4/10 Average age: 70 years. One female member	Toby Gati (US) , Richard Matzke (US), Roger Munnings (GB), Ivan Pictet (CH)

Company, founding year, headquarters	Ownership	Foreigners/ total number of board members	Foreign board members (assumed citizenship), excl. persons born in the ex-USSR
VimpelCom, 1992, Amsterdam, The Netherlands	Privately-owned: LetterOne (a Luxembourg-based holding company of Russian Altimo) 48 %, Telenor (a Norwegian state-controlled company) 24 %, The Stichting Foundation 8 %, and free float 20 % of the voting rights	5/9 Average age: 53 years. No female members	Gennady Gazin (US), Gunnar Holt (NO), Julian Horn-Smith (GB), Jørn Jensen (DK), Nils Katla (NO)
Rosneft, 1993, Moscow, Russia	State-owned: fully state-owned Rosneftegaz 50 %, BP Russian Investments Ltd 20 %, QHG Shares Pte 20 %, National Settlement Depository 10 %	4/9 Average age: 60 years. No female members	Robert Dudley (US), Donald Humphreys (US), Guillermo Quintero (US), Matthias Warnig (DE)
Evraz, 1992, London, Great Britain	Privately-owned: ultimate beneficial owners are Roman Abramovich 31 %, Alexander Abramov 21 %, Alexander Frolov 11 %, Gennady Kozovoy 6 %, Alexander Vagin 6 %, Eugene Shvidler 3 %, on free float some 22 %	3/8 Average age: around 57 years. One female member	Karl Gruber (AT), Deborah Gudgeon (GB) , Michael Peat (GB)
Sovcomflot (SFC), 1973/1988, St. Petersburg, Russia	State-owned: Russian Government 100 %	2/9 Average age: Some 59 years. No female members	Walid Chammah (LB), David Moorhouse (GB)
Rusal, 2000, Moscow, Russia	Privately-owned: En+ 48 %, Onexim Group 14 %, SUAL 16 %, Amokenga Holdings 9 %, Rusal management 0.25 %, free float 13 %	9/18 Average age: some 53 years. Four female members	Mark Garber (US), Ivan Glasenberg (ZA), Philip Lader (US), Elsie Leung Oi-Sie (CN) , Marco Musetti (IT), Matthias Warnig (DE), Siegfried Wolf (AT), Daniel Lesin Wolfe (US), Bernard Zonneveld (NL)
Russian Railways (RZD), 1837/2003, Moscow, Russia	State-owned: Russian Government 100 %	1/12 Average age: some 52 years. No female members	Hartmut Medorn (DE)
TMK, 2001, Moscow, Russia	Privately-owned: TMK Steel Ltd 68 % (the main beneficiary Dmitry Pumpyanskiy, Chairman of Board), free float 32 %	2/12 Average age: 55 years No female members	Peter O'Brien (US), Robert Foresman (US)
Zarubezhneft, 1967, Moscow, Russia	State-owned: Russian Government 100 %	0/7 Average age: 54-55 years. No female members	No Foreigners
TOTAL 10	–	30/105 (28,6 %)	–

Note: Foreign female board members have been marked in bold in the table above.

Conclusion

The boards of Russia's 50 largest corporations are more international than generally believed, every fifth board member is a foreigner, born outside the former USSR. The respective share is 30% in Russia's biggest enterprises investing abroad. This finding is in line with the results of Oxelheim et al. [2013], who argued that there is a relationship between an outward FDI activity and the internalisation of the boards. In order to verify whether the outbound investments have caused the board internationalisation or vice versa, the entry dates of the foreign board members and the timing of the main FDI deals should be investigated. Even if further studies are required, the author would not be amazed, if the outward FDI was the driver for board internationalisation in the Russian context and not vice versa.

This research suggests that foreign board members exercise both a monitoring function and an advisory function in the Russian corporations. In other words, the foreign board members act as both the foreign owners' watchdogs and as the Russian owners' business advisors. In addition to these two conventional roles, some foreign board members, due to their political background, may be used for unofficial dialogues between Russia and foreign countries. In this context, it needs to be mentioned that Russia's largest state-owned enterprises usually have significant ministerial expertise and experience. The penetration of the former employees of the Russian security organs into the corporate governance of Russia's largest corporations would deserved a closer study.

When Russia's 50 largest corporations are analysed, it becomes evident that private firms have more foreigners on their boards than do the state-owned enterprises. Less than 10% of the board seats of Russia's largest state-owned enterprises have been offered to foreigners. The corresponding share in private firms is nearly 30%. Despite the aforementioned finding, one can find as many state-owned enterprises in Russia's 10 biggest investors abroad as in private firms. Thus, industry membership, i.e. the field of a firm's operation, may explain the outward FDI expansion more than the corporate governance characteristics do.

Women occupy around 5% of the board seats in Russia's 10 biggest investors abroad. The share of female directors in Russia's 50 largest corporations is more or less the same. This finding implies that the internationalisation of Russian companies has not improved the chances for women to enter the board of directors.

To end, under the political ice age between Russia and the West, it would be interesting to follow how the number of the Chinese board members, in Russia's most significant enterprises, develops in the future.

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Appendix. Russia's 50 largest corporations and foreigners in their board of directors

Rank	Company, field of business, main ownership	Turnover 2016 (\$ billion) *	Foreigners/total number of board members **	Foreign board members (assumed citizenship), excl. persons born in the ex-USSR **
1	Gazprom, oil and gas, state	87.4	0/11	No foreigners.
2	Lukoil, oil and gas, private	77.2	4/10	Toby Gati (US) , Richard Matzke (US), Roger Munnings (GB), Ivan Pictet (CH)
3	Rosneft, oil and gas, state	61.5	4/9	Robert Dudley (US), Donald Humphreys (US), Guillermo Quintero (US), Matthias Warnig (DE)
4	Sberbank, banking, state	39.8	4/14	Esko Aho (FI), Martin Grant Gilman (US), Alessandro Profumo (IT), Nadya Wells (GB)
5	RZD, rail transport, state	22.5	1/12	Hartmut Medorn (DE)
6	VTB, banking, state	17.9	2/11	Yves Thibault de Silguy (FR), Matthias Warnig (DE)
7	Surgutneftegas, oil and gas, private	15.0	0/9	No foreigners.
8	Magnit, retail trade, private	14.2	0/7	No foreigners.

Rank	Company, field of business, main ownership	Turnover 2016 (\$ billion) *	Foreigners/total number of board members **	Foreign board members (assumed citizenship), excl. persons born in the ex-USSR **
9	Transneft, oil logistics, state	12.2	1/8	Matthias Warnig (DE)
10	X5 Retail Group, retail trade, private	12.1	4/8	Christian Couvreur (FR), Stephan DuCharme (US & DE), Geoffrey King (GB), Pawel Musial (PL)
11	Inter RAO UES, electricity trading, state	12.0	1/11	Ronald James Pollet (US)
12	Rosseti, energy grid operator, state	11.4	0/15	No foreigners.
13	Sistema, conglomerate, private	10.6	4/11	Patrick Clanwilliam (GB), Jeannot Krecké (LU), Peter Mandelson (GB), Roger Munnings (GB)
14	Megapolis, logistics, private	8.7	0/7	No foreigners.
15	Tatneft, oil and gas, state	8.2	2/15	Laszlo Gerech (HU), René Steiner (CH)
16	Evraz, metallurgy, private	8.0	3/8	Karl Gruber (AT), Deborah Gudgeon (GB) , Michael Peat (GB)
17	Rusal, metallurgy, private	7.9	9/18	Mark Garber (US), Ivan Glasenberg (ZA), Philip Lader (US), Marco Musetti (IT), Elsie Leung Oi-Sie (CN) , Matthias Warnig (DE), Siegfried Wolf (AT), Daniel Lesin Wolfe (US), Bernard Zonneveld (NL)
18	Bashneft, oil and gas, state	7.6	2/10	Kasimiro Dide (BE), Kristof Nering
19	Norilsk Nickel, metallurgy, private	7.6	3/13	Robert Edwards (GB), Gareth Penny (ZA), Gerhardus Prinsloo (ZA)
20	NLMK, metallurgy, private	7.3	4/9	Benedict Sciortino (US), Franz Struzl (AT), Tomasz Veraszto (AT), Helmut Wieser (AT)
21	Novatek, oil and gas, private	7.1	3/9	Burckhard Bergmann (DE), Michael Borrell (GB), Robert Castaigne (FR)
22	Aeroflot, air transport, state	6.2	0/11	No foreigners
23	Gazprombank, banking, state	6.0	0/12	No foreigners
24	Severstal, metallurgy, private	5.7	3/10	Alun Bowen (GB), Philip Dayer (GB), Sakari Tamminen (FI)
25	Sibur, petrochemicals, private	5.7	1/10	Chang Zhenyong (CN)

Rank	Company, field of business, main ownership	Turnover 2016 (\$ billion) *	Foreigners/total number of board members **	Foreign board members (assumed citizenship), excl. persons born in the ex-USSR **
26	Sakhalin energy, oil and gas, private	5.6	4/12	Roger Hickman (ZA), Shota Kondo (JP), Olivier Lazare (FR), Kazumasa Miyazawa (JP)
27	VimpelCom, telecom, private	5.6	5/9	Gennady Gazin (US), Gunnar Holt (NO), Julian Horn-Smith (GB), Jørn Jensen (DK), Nils Katla (NO)
28	Magnitogorsk Iron & Steel Works, metallurgy, private	5.3	2/10	Valeriy Martsinovich (PL), Ralph Morgan (US)
29	United Aircraft Corporation, machine building, state	5.3	0/11	No foreigners
30	Rushydro, hydropower, state	5.2	0/13	No foreigners
31	Auchan, retail trade, foreign-owned subsidiary	5.1	Not applicable	Not applicable
32	UGMKZ, metallurgy, private	5.0	No data	No foreigners
33	Megafon, telecom, private	4.7	4/7	Robert Andersson (SE), Paul Myners (GB), Jan Rutberg (SE), Ingrid Maria Stenmark (SE)
34	T Plus, electric power, private	4.6	3/12	Dirk Beeuwsaert (BE), Peter O'Brien (US), Roger Wills (NZ)
35	Rostelecom, telecom, state	4.4	0/11	No foreigners
36	Stroygazmontazh, construction works for oil and gas industry, private	4.2	No data	No data
37	United Shipbuilding Corporation, machine building, state	4.2	0/11	No foreigners
38	Dixy, retail trade, private	4.1	2/9	Steven John Wellard (GB), Alexander Arthur John Williams (GB)
39	Metalloinvest, metallurgy, private	4.0	0/9	No foreigners
40	Rosenergoatom, electric power generation, state	3.9	0/5	No foreigners

Rank	Company, field of business, main ownership	Turnover 2016 (\$ billion) *	Foreigners/total number of board members **	Foreign board members (assumed citizenship), excl. persons born in the ex-USSR **
41	Metro cash and carry, retail trade, foreign-owned subsidiary	3.9	Not applicable	Not applicable
42	Otkritie, banking, private	3.8	0/5	No foreigners
43	Mechel, metallurgy, private	3.8	0/9	No foreigners
44	Lenta, retail trade, private	3.8	7/9	Jan Dunning (NL), Martin Elling (NL), Steve Johnson (GB), Jago Lemmens (NL), Michael Lynch-Bell (GB), John Olivier (GB), Stephen Peel (GB)
45	Alfa-Bank, banking, private	3.8	3/10	Andrew Baxter (ZA), Edward Kaufman (US), Petr Smida (CZ)
46	SUEK, coal producer, private	3.8	3/9	Klaus-Dieter Beck (DE), Stefan Judisch (DE), Iain Macdonald (GB)
47	TMK, production of metal pipelines, private	3.8	2/12	Peter O'Brien (US), Robert Foresman (US)
48	Phillip Morris, tobacco industry, foreign-owned subsidiary	3.5	Not applicable	Not applicable
49	Toyota Motor, car production, machine building, foreign-owned subsidiary	3.4	Not applicable	Not applicable
50	Alrosa, precious stones, state	3.4	0/15	No foreigners
Total 50	–	588.0	90/456 (19.7%) *	–

Note: The majority of Russia's 10 biggest outward investors can be found among the country's largest corporations. The biggest firms investing abroad have been marked with a yellow background colour, in the table above. Two of these companies, namely Sovcomflot and Zarubeshneft, did not qualify among Russia's 50 largest corporations. As two foreigners operate on the board of Sofcomflot, one foreign board member possesses a dual citizenship, and the nationality of one board member could not be identified, the total number of foreign board directors (90) in this table does not match with the total number of foreign directors in Table 4.

Foreign female board members have been marked in bold, in the table above.

The turnover figures were converted from RUR into USD, with an annual average rate from 2016, i. e. RUR 67.0 against USD 1 [Bank of Finland (2017) Russia statistics, BOFIT...].

Source: *Expert (2017) Эксперт 400 — рейтинг ведущих российских компаний; **company websites.