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# **RUSSIAN BUSINESS INTERNATIONALIZATION**

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# **ИНТЕРНАЦИОНАЛИЗАЦИЯ РОССИЙСКОГО БИЗНЕСА**

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В настоящем пособии изложены учебно-методические материалы по курсу «Интернационализация российского бизнеса» для иностранных студентов, обучающихся в ННГУ по направлению подготовки 38.04.02 «Экономика» (бакалавриат).

Учебно-методическое пособие может быть использовано студентами финансово-экономических специальностей, изучающим английский язык для профессиональных целей.

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## **Unit 1. Evolution of Russian economy's internationalization**

*Phases of Russian enterprise business development and internalization. Russia's place among emerging markets.*

The outward move of Russian multinational enterprises is an increasingly important global phenomenon. The internationalization of Russian companies now ranges from oil and gas sector to information technology (IT), from CIS countries to Australia. While Russian market itself is a huge profitable and growing, Russian companies follow an international expansion policy and now Russia accounts for the top positions in the global rankings on FDI outflows, outperforming sometimes other BRIC countries. Russia is the second-largest country in outward foreign direct investment, with affiliates almost all over the world [Panibratov, 2012]. Russian firms pursue an unusually wide range of strategies in internationalising and thus invite examination on that score alone.

The Russian economy internationalization has started with the foreign trade originating in the middle ages. The trade relations reached both the West and the East because the position of Russian earths on the crossroad of commercial ways. The possibility of fur animals trapping gave to a country a convertible currency, hence the fur was a one of 'international currencies' of the period. Later on, the Russian international trade was mostly concentrated on the export of raw materials and agricultural products. Before World War I there was a sharp development of the country's economy, the country developed a strong industrial base.

The Great October revolution, the introduction of the centrally planned economy and the autarchic development in a hostile environment led to a country's further forced industrialization and to an independent technological position. During the period of the Revolution of 1917, when a regime of so-called War Communism was imposed, large enterprises were nationalised. The necessity to recover the economy after the destructive civil war was conceptualized in the New economic policy of the 1920s, next historical period, aimed to dismantle the War Communism system and characterized by almost free market economy. As the end of 1920s, the liberalization as a process damaging to the creation of classless society was stopped, and a centrally planned economy was launched. It created monster industries and monstrous agriculture, but at the same time the industrial base of the country, mostly in metallurgy, construction and defense industry, was invigorated.

When Germany attacked the USSR in June 1941, the Soviet government evacuated some 1,500 industrial enterprises. Heavy industry, built in the 1930s in western Russia, now produced armaments in the Urals. And, by 1945, over half of the country's metallurgical output came from the Urals. Upon cessation of hostilities, a reconversion of war factories to civilian production was begun. In the 1950s the Soviet government turned its attention to agriculture. Foreign trade and the economic cooperation between the Soviet bloc countries expanded sharply, and between 1950 and 1958 the volume of Soviet foreign trade almost tripled.

In 1965, a new development programme was adopted which sought to shift operative decision-making from the syndicates and trusts to newly created industrial ministries. These, in turn, were

expected to find ways to implement the government's industrial policies.

During the 1970s there was a move to merge enterprises into larger corporations, or associations, within the ministries. From the late 1960s, industrial growth in the Soviet Union slowed. The period beginning in 1970 and extending through the first half of the 1980s was called stagnation. From 1981 to 1985 the rate of growth of machinery and equipment production, as well as the rate of investment, substantially declined. Technological progress slowed and imbalances flourished throughout the economy.

The transition to a market economy have been started in 1985. A programme concerning industrial enterprises came into force in 1987. Legislation followed, obliging enterprises to finance all their activities from internally generated funds. Therefore, the perestroika freed the economy by permitting limited private ownership of assets and land. A large-scale transfer of assets into non-state hands began in 1989. Joint ventures with foreign firms were allowed from January 1987. In May 1991 the Law on Foreign Investments enabled foreign firms to set up wholly owned companies. But joint ventures in manufacturing lagged behind those in other sectors and their volume of output remained low. Systematic privatisation, which can be broadly understood as all measures contributing to the de-statisation of economic activity, began in 1991. Its legislative framework was laid down in 1992. The core 'technology' of privatisation in Russia was the 'corporatisation' of large and medium-sized enterprises by converting them into joint stock companies prior to their restructuring. The aims were to make enterprise independent of state administration, delimit the size of its ownership and separate shareholders from management. The 1992 privatisation programme divided lines of business into several groups:

- Natural resources, television and radio were barred from privatization;
- Mining and energy, transport companies and very large enterprises, city transport networks and pharmacies, among others, required special permission to privatise.
- The last group consisted of enterprises whose privatisation was made obligatory, including retail and wholesale trade, construction and light industry, unprofitable enterprises and unfinished construction.

By 1995 most industrial enterprise had been privatised, but it all still needed restructuring. Access to capital for the development of existing companies and for new investments remained tight. This directed restructuring into crisis.

The Russian financial crisis, also called 'Rouble Crisis', hit Russia in August 1998 was partly due to the contagion from Asian markets. Given the ensuing decline in world commodity prices, countries heavily dependent on the export of raw materials, such as oil, were affected. As commodities accounted for more than 80 per cent of Russian exports, the sharp decline in its price meant a shortfall of taxes paid by energy and manufacturing industries to the state. This helped to bring about Russia's default on its debt obligations in August 1998. In reply to the crisis, the Russian government proclaimed a moratorium on new debt and converted short-term GKO's into longer-term debt instruments. The consequences of the crisis notably included a lapse of confidence among external and internal investors.

In the event, the recovery of Russia itself did not take long. As 1999 began, international

interest in the Russian stock market remained low and trading sluggish. In fact, though, the low turnover was soon seen to undervalue Russia's natural wealth.

Indeed, the precipitous rise in world oil prices in 1999 –2000 contributed massively to large trade surpluses in those years. Also of help was the devaluation of the rouble. The devaluation fostered substantial import-substitution and export-promotion, placing Russia in step with global business. The following growth of the Russian business was determined by the FDI. Both kinds, outward and inward, performed wonders, both in reviving the Russian economy and in setting its noteworthy growth pace in the period 2001 –2007.

The impact of the world's financial crisis of 2008–2009 has been dramatic. The reasons for the transfer of crisis to Russia in 2008–2009 were multiple [Panibratov, 2012]: (1) the overheating of the consumer market, (2) the loss of competitiveness of Russian goods due to the strengthening of the rouble caused by aggressive foreign investment in Russia; (3) trouble with savings and loans; (4) the rapid purely reasoned growth based on the wide recourse to loans; (5) the sudden flight of foreign capital as a result of the armed conflict with Georgia, which caused a liquidity and banking crisis in Russia.

As for the consequences of the world financial crisis for Russia, the positive ones were a renewal of the economy, the revival of entrepreneurial initiative, the increase in purchase of domestic goods and the development of competitive enterprise. Market competition picked up, resulting in lower prices for some goods. On the negative side were shrinkage of incomes, the devaluation of the rouble, the substitution of a considerable amount of private capital by public capital, a reduction in public infrastructure as well as construction, investment and mortgage programmes, plus aggravation of all this by a rise in interest rates for loans. Surprisingly, despite the global crisis, large multinational corporations did not shun investment in Russia.

The stages of above-described evolution are highlighted in Table 1.1

Table 1.1

Different phases of Russian enterprise development in the twentieth and the twenty-first centuries

Year	Stage, sub-stage	Characteristics
<b><i>The onset of industrialization</i></b>		
1900-1916	Fast industrialization	Developed of strong industrial base
<b><i>Shaping essentials of planned economy</i></b>		
1917-1920	Nationalization and War Communism	Nationalization of large enterprises Destruction of the economic system
1921-1928	New economic policy	Liberalization of the economy in front of the political restrictions
<b><i>The life cycle of the planned economy</i></b>		
1929-1941	Foundation of centrally planned economy	The increase of the agricultural and industrial enterprises in scale
1941-1945	War economy	Creation of industrial base in the Urals
1946-1954	Recovery	Reconversion to the civil economy Development of agriculture
1955-1964	Economic growth	Sharp growth of GDP Foreign trade and the economic cooperation between the Soviet bloc countries

Year	Stage, sub-stage	Characteristics
1965-1984	Stability and stagnation	The slowdown in the growth of main industries and technological progress
<b><i>Transition to market economy</i></b>		
1985-1991	Perestroika	Major autonomy of enterprises Introduction of foreign element into the economy
1991-1994	Mass privatization	Deregulation De-statisation
1995-1998	Restructuring and adjustment	Shortage of financial resources Slow growth
1998	National economic crisis (NEC)	Default Triple devaluation of rouble Banking collapse
1999-2000	Post-NEC recovery	Industrial recovery Improved conjecture on the raw materials market
2001-2007	FDI-based growth of economy	Display of the Russian market potential
2008-2009	World financial crisis (WFC)	Loss of industrial competitiveness Capital flight Sudden devaluation of rouble
2009-...	Post-WFC development of companies	Renewal of fragile growth

Source: from Panibratov (2012) adapted

The Russian multinationals that enjoy a global star rating operate in oil and gas, electricity, metallurgy and banking. An orientation towards the energy and commodities sectors is not the only similarity with other emerging MNEs.

Let us consider the Russian business internationalization in comparison to other countries. , Russia is a part of called 'BRIC' group. The term BRIC has been used since 2001 to refer to the countries of Brazil, Russia, India and China. They were considered to be at similar stages of economic development and some experts were arguing that, owing to population size, abundance of resources and speed of progress, they would in the next decades become more important power centres than current global leaders, outperforming members of the G7. The place of Russia among other BRIC countries is reported in table 1.2.

Table 1.2

Foreign direct investment (FDI) overview: BRIC, selected years (Millions of dollars and percentages)

	Brasil	Russia	India	China
Inward investment, millions of dollars				
2005-2007 (Pre-crisis annual average)	22 824	36 325	17 766	76 214
2010	48 506	43 168	27 431	114 734
2011	66 660	55 084	36 190	123 985
2012	65 272	50 588	24 196	121 080
2013	64 045	79 262	28 199	123 911

End of Table 1.2

	Brasil	Russia	India	China
Inward investment, as a percentage of gross fixed capital formation				
2005-2007 (Pre-crisis annual average)	12.3	18.2	5.4	6.8
2011	14.0	13.4	5.6	3.7
2012	16.0	11.3	4.0	3.1
2013	15.7	17.0	4.7	2.9
Outward investment, millions of dollars				
2005-2007 (Pre-crisis annual average)	12 595	30 891	11 501	19 977
2010	11 588	52 616	15 933	68 811
2011	- 1 029	66 851	12 456	74 654
2012	- 2 821	48 822	8 486	87 804
2013	- 3 496	94 907	1 679	101 000
Outward investment, as a percentage of gross fixed capital formation				
2005-2007 (Pre-crisis annual average)	6.8	15.5	3.5	1.8
2011	- 0.2	16.3	1.9	2.2
2012	- 0.7	10.9	1.4	2.3
2013	- 0.9	20.4	0.3	2.4

Source: World Development Report (2014)

## Unit 2. Macroeconomic and microeconomic drivers of Russian business internationalization

*Multinational genesis. External factor of Russian business international competitiveness.*

In a course of transition, Russia has become a leading outward-investing country on the global stage. A number of Russian firms, such as Gazprom, Lukoil, Rusal and Severstal, have already attained global status. Others, such as Alfa Bank, Sitronics, Wimm-Bill-Dann and Yandex, are incipient MNEs. Despite the fact that such Russian firms represent different industries and display divergent motivations and strategies, they do share at least two key characteristics. One is that they mostly deal in natural resources. The other is that they are strongly linked to the Russian government and thereby profit from the growing supportive role of the Russian State.

MNEs from developed economies concentrate on advanced technology and marketing skills to lend distinction to their products and to buttress their struggle for competitive advantage. EMNEs, in contrast, rely mostly on tweaking technologies originally developed in Western countries. EMNEs appear to attain a competitive edge by application of appropriate managerial skill. Countries in transition, in many respects, appear to be closer to developing, rather than developed, economies when it comes to their particular experiences with hosting FDI [Panibratov, 2013].

Outward FDI from Russia started to grow in the second half of the twentieth century. Its progress, however, was slow and its depth modest. At the end of 1983, Soviet firms had about 320

affiliates in foreign countries, a tiny figure considering the large size of Russia's economy [Liuhto, Vahtra, 2009].

Prototypes of today's multinationals date back to the time of the Soviet Union. The USSR exercised strict control of its multinationals, and usually owned them. It had them engage in supporting Russian exports (raw-resource marketing, infrastructure support, banking, insurance and so on). These first-generation Russian MNEs conducted their activities very intensively, selling more than 50 per cent of total Soviet exports [Panibratov, 2012].

After the crash of the Soviet Union, the Soviet enterprises, regardless their dimensions, were transformed, first, into the corporations Russian companies, then privatized and, finally, engaged in restructuring. Only after having done that did they set forth to explore foreign markets. In the early 1990s the most part of companies faced with the drastic reduction of home markets, in particular, of budget procurement, hence, the internalization meant the survival for them.

During the recovery of the 2000s, the Russian market became somewhat offering great opportunities to most potential entrants, and all the important Western MNEs entered the Russian market. Inward FDI from Western MNEs was principally based on the following models [Panibratov, 2012]: a foreign company with money to invest seeking transparent projects; a foreign investor entering the Russian market with its own project and own management but then going into business networking with local firm(s); a company studying the optimal entry mode to Russian market via a marketing office, sales subsidiary or modest export before more FDI-intensive projects; and, quite frequently, a Western company choosing a local partner to help in preparing to manufacture in Russia. The long after-transition recovery supported the development of new, in a sense of independence from the Soviet heritage, bold companies, mostly, in the sectors of consumer goods, telecommunications and IT. After the NEC's depreciation of rouble, these companies started the international expansion on the CIS markets as well as the other ones.

Let us consider the external competitive factors that play an important role in the internalization of the Russian business. The external competitive advantages at the macro-level of national economy determine the performance of the Russian enterprises in general as well as the regional and industrial drivers of development are responsible for the respective externalities that rise the profitability of business activities connected to a certain local or sectorial context. In a hierarchical (top-down) way, these factors are presented in Table 2.1.

In conclusion, we can say that there are many factors that facilitate the internalization of Russian enterprises and give them a chance to become true global leaders. The negative factors are connected to the regional inhomogeneity that cause the seclusion of single territories from the flows of goods, services and financial resources generated by the globalization forces. The same logic is valid for the low- and middle-tech industries. The national economy need an industrial policy alleviating such inequalities. But it seems that the positive factors of internationalization outweigh.

Table 2.1

External competitiveness factors of the Russian business

Hierarchy level	Factors
1) Macrolevel	Positive factors: <ul style="list-style-type: none"> <li>• market size that gives a chance to become global, unlike other Eastern European countries have;</li> </ul>

	<ul style="list-style-type: none"> <li>• developed human capital in refer to its educational level;</li> <li>• abundance of natural resources that may generate value chains of almost any type;</li> <li>• relatively low corporate and personal income taxes;</li> </ul> <p>Negative factors:</p> <ul style="list-style-type: none"> <li>• corruption;</li> <li>• expensive credit resources;</li> <li>• workforce deficit and its low productivity</li> </ul>
2) Industrial level	<p>Positive factors:</p> <ul style="list-style-type: none"> <li>• a few globally competitive industries such as sectors of oil and gas, basic metals sectors, fertilizers;</li> <li>• some partly competitive industries such as military, military aircraft in particular, aerospace and heavy transport, agricultural machine-building; IT and telecommunications software;</li> <li>• many single business competitive worldwide in light and food processing industries based on consumer preferences toward local products</li> </ul> <p>Negative factors:</p> <ul style="list-style-type: none"> <li>• low competitiveness of labor-intensive industries;</li> <li>• the absence of some important middle- and high-tech industries</li> </ul>
3) Regional level	<p>Positive factors:</p> <ul style="list-style-type: none"> <li>• presence of “global regions” which are called global because the production forces in the global era are situated in such territory, among them: <ul style="list-style-type: none"> <li>○ 15 cities with population over one million people;</li> <li>○ 37 regions washed by seas and oceans;</li> <li>○ 2-3 super-regions combined both parameters (S.Petersburg and Leningrad region, Krasnodar and Rostov regions)</li> </ul> </li> <li>• the regions of raw materials extraction characterized by the high per capita income, some social and infrastructural problems</li> </ul> <p>Negative factors:</p> <ul style="list-style-type: none"> <li>• the presence of old-industrial depressed regions</li> </ul>
4) Clusters	<p>The development of clusters occurs</p> <ul style="list-style-type: none"> <li>• in a natural way, in the global regions due to the foreign MNCs activity;</li> <li>• as a result of federal and regional industrial policy.</li> </ul> <p>The clusters are not displayed yet because of too short period of time followed the beginning of transition</p>
5) Enterprises	<p>Positive factors:</p> <ul style="list-style-type: none"> <li>• a few globally competitive industries such as sectors of oil and gas, basic metals sectors, fertilizers;</li> <li>• some partly competitive industries such as military, military aircraft in particular, aerospace and heavy transport, agricultural machine-building; IT and telecommunications software;</li> <li>• many single business competitive worldwide in light and food processing industries based on consumer preferences toward local products</li> </ul> <p>Negative factors:</p> <ul style="list-style-type: none"> <li>• low competitiveness of labor-intensive industries;</li> </ul> <p>the absence of some important middle- and high-tech industries</p>

Source: Trifonova, Gorbunova (2008)

### **Unit 3. Economic, financial, organizational and political factors affecting Russian Business internationalization**

*Russian multinationals' growth. Outward FDI from Russia: motives and destinations Russian multinationals like to invest abroad.*

Russian multinationals like to invest abroad. Many studies have covered this topic, and most of the research has focused on the interest of these MNEs in diversifying their holdings through international investment. Most of the companies analysed are in select industries (oil and gas, metallurgy and telecoms).

The motives of Russian outward investment vary significantly. It is not surprising that the most typical investment motives of Russian MNEs are the search for markets and resources. In addition, some investments are of the strategic-assets-seeking kind, and are rarely efficiency-seeking [Deloitte, 2008]. Sometimes, OFDI from Russia is driven by image-building concerns or domestic political risk prevention.

While some Russian MNEs have affiliates almost throughout the world, overall historical and cultural ties as well as geography significantly affect outward investments. It is tempting to thus explain the concentration of Russia's OFDI in the CIS region. Moreover, the pull of other continents on Russian investors is flimsy. Latin America is seen as a far-away underdeveloped region, with institutional barriers such as the lack of bilateral double-taxation and investment treaties. African countries are terra incognita to Russian companies. India and China, however, are more familiar and therefore attract more investment.

Starting in the early 1990s, Russia changed from a rigid centralised economy into an emerging-market one. This entailed a change in management styles from Eastern to Western trim and an adoption of international management standards. Some laissez-faire creep resulted. As a result, the grizzled successors of Soviet multinationals may now be doing business side by side with newbie private companies that began internationalising only yesterday, comparatively speaking. While the energy- and natural-resource-based companies own the bulk of Russian assets abroad, many other Russian industries, as noted above, have begun investing there. Companies in machinery, electricity supply, food, transport, telecoms, pharmaceuticals, electrical equipment and financial services are now to be found on the list of top Russian investors abroad. In this section we will deal with the variety of internationalisation in Russia. The selection of industries to be treated is confined to those with clear relevance to the topic, but which are not treated in the subsequent chapters; and, in the interests of clarity, discussion is confined to three groups of industries, all of which enjoy a high degree of internationalisation. The first group is manufacturing (automotive and pulp and paper); the second is services (air transport and logistics); and the third a 'virtual' group (media and education) – so termed because it covers enterprise without kickable assets. Of these, airlines, carmakers and media tend to be highly outward-drawn, while paper companies, supply chain companies and universities tend to be stay-at-homes. Special attention, moreover, will be paid to the construction industry, which is unique in that it likes to wander as well as stay at home. Significantly, it both manufactures and services.

#### **Unit 4. Strategic and operational Russian business choices in international trade and investment activities**

*Main directions of Russian business internationalization. Giving back former USSR foreign markets. Feasible export. Technology commercialization. Participation in the international*

cooperation. National competitive advantages' exploitation. Raw materials' processing and additional value-added creation. Intergovernmental cooperation opportunity.

The international business strategies may be classified in the following way:



Fig. 4.1. The taxonomy of international business strategies [Nozdreva (1999), adapted]

(1) Strategies for the search for of a foreign market to enter

(\*) *The strategy for the concentrated search of foreign markets or an ant's strategy.* This strategy implies a consistent research work from one market to another, from one segment to another: there is one market to be explored at any single moment of time. The transfer to the next market happens if the first market is successfully mastered. The process stops when the optimal set of target profitable foreign markets is composed. This strategy for the search of target market is based on care and competence in the selection of the segments in order to eliminate eventual errors in the development of new market areas, it does not require a significant investment, but accepts a certain slowness of the results.

(\*) *The strategy for the unconcerned search for foreign markets or a dragonfly's strategy.*

This strategy implies a sequence of trials and errors, when the company is trying to sell the goods directly to the greatest possible number of foreign markets. It easily leaves those markets where the trade develops poorly proceeding gradually to a reduction in the number of foreign markets to a certain optimum of effective target markets. In this case, the firm gains considerably in time, but such a development is problematic in a case of absence of qualified personnel, additional financial resources, etc., because this method is associated with significant costs and can damage the prestige of the company in the markets which it leaves because of the fail to master the market.

#### (2) Strategies for the conquest or expansion in the foreign markets

Having decided which foreign market to enter, the firm should decide on the type of strategy and tactics of conquest or expand on the selected market:

(\*) *The strategy of expanding the boundaries of the market* or the strategy of 'old goods to a new market'. The company enters the market selling existing products on new geographic market. The entrepreneurial activity is provided by the exploration of new markets, new market segments, consumer groups, present in different countries, etc.

(\*) *The active expansion strategy* or the strategy of 'new product to a new market'. The strategy is the most dynamic and complex line of market behavior, which requires considerable effort and cost to the company, its management and staff. At the same time, it is quite common strategy of penetration and conquest of foreign markets. It allows you to search within unexplored foreign market creating a demand for new products, product types and models, the new range of products. The takeover of new segments on the old foreign markets also demand new products.

(\*) *The strategy of the laser beam.* The process of conquering foreign markets occurs through move from simple markets to more complex ones. The firm implements and checks the efficiency and effectiveness of new methods of marketing and management at a more accessible market. This strategy allows a firm to save on costs and to ensure success as each subsequent market in its characteristics is similar to the previous market. In particular, this strategy recommends to use all the available opportunities in the domestic market, and then to penetrate foreign markets in order to face a higher competition from the local manufacturers.

(\*) *The strategy of direct attack.* This strategy assumes an active, aggressive action and firm pursues primarily aim to conquer and expand market share and foreign markets. The company might choose such a strategy in several cases:

- if the home market's share is below the required minimum or optimum or declined sharply as a result of the actions of competitors and does not provide a sufficient level of profits;
- if it releases a new product on the market;
- if is expanding production, which will be repaid only if a significant increase in sales;
- if competing firms are losing their positions and created a real opportunity for a relatively small cost to expand market share, etc. The business experience shows that the pursuing such a strategy is complicated on the markets with a high degree of

monopolization and low potential to differentiate.

(\*) *The strategy of 'accumulation of military equipment'*. The company is preparing an attack on the foreign markets accumulating resources, competences and capabilities on the internal market. It conducts a thorough study of the business environment of the foreign market, its environment, the specifics of consumer needs, preparing the staff.

(\*) *The strategy of 'conquest of the bridgehead'*. The company began the preparatory penetration of a market of interest. It acquires distribution networks and warehouses, collects primary data; it may also create joint ventures. In some cases, the company realizes market by market penetration into neighboring countries or repeat standard methods of penetration in markets with similar conditions, but with a lesser degree of competition.

(\*) *The strategy of 'frontal assault or attack'*. It is assumed a penetration in difficult markets characterized by vigorous competition. To implement this strategy, the significant resources are required. Furthermore, the firm should be ready to oppose a rigid defensive strategy on the part of the competitors.

(\*) *The strategy of 'grip' or the blockade*. The company is taking offensive action simultaneously on a large number of markets on the outskirts of the main market competitors. This strategy provides a high level of internationalization of the firm.

(\*) *The strategy of 'rake'*. The company fulfills active offensive and aggressive market action in the markets major competitors, in all major segments. This strategy can be called a strategy of global leadership, it is common for leading international companies.

### (3) Strategy for the preservation of existing foreign markets

(\*) *The strategy of deep market penetration* or the strategy of 'old goods to the old market'. It is a kind of defensive strategy and assumes a relative minimum international expansion of business, when the known product is to be sold in the old market. In this case, it is expected an increase in the market share by reducing production costs and, the, prices.

(\*) *The strategy of developing a new product* or strategy of 'new goods - the old market'. It is expected to expand business activities mainly due to product policy within the framework of market development, i.e. by improving the product and/or its functionality, expanding the range, empowering quality of new products, etc.

(\*) *Strategy of home market defense*. The strategy is realized when the level of domestic production internationalization is insufficient. It implies the active recourse to tariff and non-tariff barriers lobbying in order to protect the home market from foreign goods, services, capitals, etc. This strategy is typical for business communities of developing countries and countries experiencing economic difficulties.

(\*) *The strategy of 'defense perimeter'* is likely to be realized within a trading bloc. It implies a certain level of internationalization of economic relations with other countries, the company and the expansion of defensive action beyond the market of their own country to the borders of the markets of trading-bloc's member states. This action creates a firm's cordon sanitaire that does not allow the foreign competitors to penetrate or to be closer their domestic markets. Sometimes, this strategy may be seen in the former colonies that remain to be a zone of the

metropolitan state.

(\*) *The strategy of 'fight in the rear'* takes place when a firm tries to conquest irrelevant markets in the coming rears of its main competitors in order to display nonetheless defensive logic.

(\*) *The strategy of 'guerrilla warfare'* implies the implementation of planned trade attacks that create an anxiety in competitors in their own markets. In such a way, the firm expresses its competitive strength and prevent their desire to penetrate the company's position in the neutral and domestic markets, and to encourage competitors to go to an agreement with them on the division of the market, to market compromises and coordination of trade action.

(\*) *The strategy of diversification of foreign markets* assumes that a company enters a significant number of foreign markets in order to protect themselves from possible risks and depending on the nature and state of the market demand of individual countries and narrow segments.

#### (4) Leadership strategies

(\*) *The strategy of leader.* This strategy implies a pursuing the largest market share in the foreign market, the biggest profits and the highest prestige. The target market is covered completely. The firm offers the widest range of modifications of the product by the middle and high prices through the channels with respect to a well-developed distribution network with conducting advertising campaigns and stimulating high.

(\*) *The strategy of challenger* (surging forward). The main purpose of such a strategy is a penetration of foreign markets by the expansion of a company's market share. The challenger's strategic attitude is a positioning among other competitors that enables a sharp identification and individualization of the company's operations. The strategy differs from the business behavior of the market leader in order to make the company recognizable. It also provides almost complete coverage of the market under consideration.

(\*) *The strategy of nicher.* For companies that implement such a strategy, it is important to obtain profits and prestige. They concentrate their penetration in a narrowly circumscribed special market segment. It offers to the market a limited number of product lines, but all of them are distinguished by high quality and bright individualization at middle and high levels of prices. The distribution is done through a limited and specialized network, accompanied by special promotional and incentive programs.

#### (5) Dictated strategies

(\*) *Strategy of follower.* The penetration and conquest of foreign markets in this case represents a necessary measure to prevent the ruin of the company or find a way out of a difficult situation on the domestic market. The company is afraid of falling too much behind the leader. As a rule, in order to preserve profits, the firm by virtue of existing capacity copies action most successful companies in this market. It chooses the most affordable segment, giving the lowest possible efficiency by offering lower quality goods at low cost, using cheap marketing channels and the accompanying advertising and promotional activities to low-cost and quality.

(\*) *The strategy of survival.* The survival strategy has the minimum attraction among all above-mentioned strategies for penetrating foreign markets. This short-run strategy involves the

solution of a purely economic nature without further consequences of their actions and can cause irreparable damage to the subsequent activity of foreign firms.

(\*) *The strategy of retreat.* This strategy involves rapid in a case of the elimination of business or slow in a situation of phasing out operations withdrawal from some markets in order to strengthen a firm's position on more promising and lucrative markets. For example, firms prefer to leave the material-and labor-intensive industries in the field of high technologies. In some cases, such a strategy can be enforced when the company urgently needed financial resources, due to which she was forced to sell its market share.

(6) Strategies for localization of international business activities [Daniels, Radebaugh, 1998]:

(\*) *The strategy of centralization* assumes the localization of manufacturing in one country and further supply (export) of finished products to other countries. The competitive advantage is achieved through economies of scale, cost-reduction in the release of a new product, the use of uneven steps and various configurations of the curve of the life cycle of products in different countries.

One of the options of specialization is a focus on products or processes which provide to a particular company the highest profits. Challenges to this strategy consist of high transport costs, excess production scale that is difficult to manage.

(\*) *The strategy of decentralization* suggests performing various functions not only within a single country, but also in other countries. This system rationalization is used by organizations to take advantage of differences in the cost of labor, capital, raw materials in different countries. The international rationalization of production can take the form not only the production of individual components, but also the production of the finished product in a particular country. The strategy is appropriate to apply if the local needs are different. Furthermore, the transportation, communication and storage cost significantly affect the final price in the direction of appreciation. In this case, the firm draws attention to the segments of consumers, distributed throughout the geographic extent of the market. Despite the fact that these segments may be narrow located, the total volume of the regional and international levels can sometimes be considerable which brings savings in scale. There is a question of choice of the country-based activities.

(7) Foreign economic integration strategies

(\*) *The concentrated growth strategy.* It is not a strategy of integrated growth, however, it may be supplemented by policies of business transnationalization. The transnationalization of economic activity is a form of internationalization, in which not only product or service are internationalized, but the overseas production, sales or financial enterprises are established .

(\*)*The integrated growth strategy.* Along with the strategies of vertical integration, this strategy suggest allocating production cooperation, linking partners within a single production process in order to create a joint product. The industrial cooperation is efficient in terms of resource usage, cost and revenues, whereas from the organizational point of view is the most difficult. The conditions of inter-regional and international industrial cooperation is long-term, repeatable operations of economic interaction that focus on the actual production of material goods, technology to couple the production.

(\*) *The diversified growth strategy.* It is usually complemented by the creation of joint ventures or dedicated integrated enterprises. They operate as independent entities, which are not formally subordinated to parent companies realizing their long-term strategy. Such enterprises are traditionally involved into the distribution function or other services, recently into some production processes up to the final product.

(\*) *The outsourcing strategy.* It is another type of reduction strategies which act as a gentle and socially most productive form of reduction of non-core assets or those areas of the company in which they have not reached the level of technological competitiveness. Outsourcing strategy, on the one hand, a reduction strategy, on the other hand is a special form of operational and economic integration.

The Russian business has its own competitive advantages, this circumstance led to necessity to develop a pool of international strategies appropriate for Russian companies entering foreign markets and it has been proposed in [Pivovarov S., Tarasevich L., Rakhmatov, 2011]:

1. *Return to the old markets.*

To date, the CIS countries have lost more than half of the markets of the former USSR, and the majority of them can be explored by the Russian enterprises. In a case of heavy industry goods with long-term use, it has not yet been passed, markets have a memory in the respective countries (there are dozens) are working people who are familiar with this technique and working with our experts. There is a certain niche, which can operate successfully, but its capacity should not be overestimated. Its main advantage - a rugged simplicity - is still in the price. This strategy refers to the enterprises of the defense and heavy engineering services for the construction of power plants abroad.

2. *Commercialization of technology.*

This strategy refers to the use of opportunities to work with cutting-edge technologies developed in the USSR or in the new Russia, which are characterized by practically proven test results and confirmed interest from foreign manufacturers. Such proof of feasibility and commercial viability of a new technology may lead to a potentially successful implementation of this strategy. The enterprises and entities to implement such strategy are defense plants, independent small businesses and enterprise based in universities and research institutes.

3. *Feasible export.*

The Russian enterprises possesses an ability to export various kinds of goods that in foreign countries (primarily, in developed ones) competing there with the middle quality and cheaper goods of Asian, Latin American and African producers - light, rubber industry, etc. This concept is because the actual development of competitive industries in the manufacturing sector of the country begins when their products are really involved in international competition.

The expansion starts at the commensurate level in the low-income, but stable segments of the households (with goods from developing countries on all markets, including developed countries) on the well-structured markets, and secondly, obtaining the market experience and reputation on these markets, the enterprise will reach a new level of market.

4. *Integration into workflows foreign manufacturers.*

Russian manufacturer finds a certain foreign producers (preferably from a developed country), which he rightly offers delivery of certain parts, assemblies, components, suitable for a foreign partner produced the final product. As the co-operation - one of the most advanced and promising areas of industrial cooperation in the world, there is always the potential possibility of such integration. Many traditional markets included in the period of maturity, the growth rate of sales of finished products behind the growth rate of supply of components. Additional attractive moments are connected to the production of this or that detail requires only limited technical capacity (component suppliers of major American and Japanese corporations are represented by small enterprises). The enterprise does not take care about marketing on the market of foreign end products. The possible further development of the processing chain is associated with the increasing complexity of products, while achieving some success and reputation.

*5. The use of national benefits at the firm level.*

This method complements the above-presented strategies 1-4, but there may be cases of its independent use. Russian national benefits that can be used to enter foreign markets and international business are:

- Highly skilled and relatively inexpensive labor;
- A sufficiently high level of development in a number of industries;
- Experience of staff in Asia, Africa and Latin America during the Soviet period;
- Fixed assets acquired by enterprises during the years of growth which allow to the firm to produce export-competitive products.

*6. Usage features in-depth processing of raw materials and materials with a significant increase in the value added.*

The strategy can be displayed in oil refining, chemical industry, metallurgy. Analysis of market opportunities based on economic characteristics of the product deep processing.

*7. Membership in international business at the expense of state and regional opportunities.*

This refers to the constant pursuit of the company for the international, national and regional activity in the part of the international economic cooperation (agreements, programs, quotas, benefits and advantages, etc. Moreover, the company does not have to be a textile to effectively take advantage of the revision of export quotas textiles from Russia. It is necessary to demonstrate the strategic boldness with relevant Russian and / or foreign companies, to create the necessary alliances to invest in appropriate technology, etc.

The research of Russian leading economic journal 'Expert' on the Russian hidden champions in manufacturing led to creation a classification of strategies for foreign direct investment [Ruban, 2011]. When Russian companies actively acquire foreign assets. The purposes of this investment are to adopt modern technology, expand the product line, develop new markets and utilize the best brains to grow the business. Overseas expansion of Russian companies for a long time is not confined to bring products to foreign markets. The entrepreneurs create and buy production facilities, R&D-center, open subsidiaries logistics companies and so on. What motivates Russian companies engaged in industrial shopping outside the country? How to buy assets abroad contributes to the development of their business? And what problems they are cashing in this? The

three foreign investment strategies has been identified.

The first strategy is *'buy ready-made'*. It implies the acquisition of niche Western leaders that are specialized middle-size firms that have a very good and sometimes outstanding products and honed to perfection their production technology. Acquiring the reduction facilities for good and outstanding products, the Russian company is completing its product lines together with understanding of modern equipment and technical processes used to tighten the technological level of its Russian production to the level of developed countries.

The second strategy is called *'make a lot and cheap'* refers to the situation that the Russian entrepreneurs implement in China. It serves to buy a production base of China, its workforce and support of the Chinese state to grow your business. At the end of 1990s, the beginning of production in China has been the project characterized cost-effective in all respects.

The third strategy is *'get the best'* which is typical for high-tech business. This business to maintain its position in the global market high-tech need all the most advanced - from the most advanced materials and the most prominent manufacturers of components and competencies to the most brilliant brains of scientists. Provide access to these resources - the main function of foreign assets.

### **Unit 5. Basic Russian business strategy choices in international R&D sector**

*High-tech competitive strengths. High-exports and FDI. International expansion of Russian telecoms.*

Russia's share in the global high-tech industry, with its estimated 0.3 per cent of the global market, is considerably less impressive than its results in energy-based sectors. In contrast, the US and Japan together account for nearly 50 per cent. Yet, even by the end of 2000s, Russia was still spending comparatively little of its GDP on research and development.

The high-tech industries stimulate growth, productivity, competitiveness and the creation of new, well-paid jobs; a lack of it encourages industrial sloth. High-tech's nergy, inbuilt drive informs innovation, new products and new production processes. The sector is characterised by its high proportion of scientists, engineers and technicians, great expense on research and development, short product and technology lifecycles and strong international competition. Just how the high-tech sector breaks down into its parts is disputed. The view of the Organisation for Economic Co-operation and Development (OECD) recommends itself for being both authoritative and simple. According to the OECD, there are nine main product groups that comprise high technology manufacturing: aerospace; computers and office machines; electronics and telecommunications; pharmaceuticals; scientific instruments; electrical machinery; chemicals; nonelectrical machinery; and armaments. Relating to these groups, Russia has internationally competitive products in aerospace, software, nanotechnology, nuclear technology and military equipment. In the 1990s, as Russia began a transition to the market economy, many skilled software engineers left their low-paid jobs in state enterprises, research institutions and universities. Between 1988 and 1994, a massive departure of software developers from Russia to the West occurred, resulting in a

deterioration of Russia's intellectual base. Simultaneously there occurred a marked decline in funding for R& D in general.

Many of the professionals who stayed at home simply moved to new Russian start-ups in the software segment that emerged in the late 1990s. That brought growth. From 1994 to 1998 Russian high-tech began to internationalise as software development centres were opened by Motorola, Intel, LG, Sun Microsystems, Boeing and Samsung. The period 1998–2002 saw the consolidation of local firms, which progressively shifted from mere provision of outsourcing to specialised products and services and partnership. There was a drive to improve quality that included certification of skills and encouraged entry into a learning curve. One result of this was an incipient Russian infiltration of the US market. <sup>3</sup> Many Russian IT companies have science roots. In the early 1990s the Russian IT and software industry experienced incipient growth when a number of start-ups, staffed by refugees from Soviet-style science, started trying their luck in IT. Today, many of these early birds are well known to software users by their company labels. To name a few such Russian brands, there is ABBYY, Kaspersky Labs and Paragon Software, all of which were launched in the early 1990s.

The high-tech sector is not a traditional form of industry, at least not compared with oil or to metallurgy. It now directly affects the functioning of both big business and government because of the productivity leaps that it enables. Therefore, it has become a significant factor in the management of the economy and the state. Modernising Russian high-tech, with its increased vitality, does the country good. Since the state of Russia's economy changed from command to compete, so has the level of opportunity in the high-tech sector switched from doldrums to boom. And as Russia progressively opened up to foreign companies, fair practice seeped in to make for tidier ground rules. Somehow, in the process, the quality of Russian software was also improved. This favourable situation in Russian IT stymied the brain drain, thereby helping to underpin Russian know-how. Somewhat paradoxically, this situation also helped Russian big business to internationalise. With most Russian institutions and companies using domestic IT, Russian software had the funds to develop technically as well as in repute. That has led to lively export and in its train an increase in internationalisation. It is now Russian managers who have started going abroad, rather than Russian scientists and 'techies'. As internationalisation takes a grip, Russian industry seems to take heed and turns to its IT providers for systems that will let it compete on the international market. But currently foreign providers still dominate programming for mass-market (packaged) products. It is difficult to compete for the prime desktop icons when foreign providers have had decades to establish their wares. There is thus a split between domestic and international demand.

All software companies in Russia are privately held, and with Russian statistics being what they are, it remains difficult to estimate the market's size precisely, or even to identify the leaders in particular areas. But what can be gleaned is that there are about a dozen companies with 50 to 300 programmers which are partly or wholly foreign-owned. Most Russian companies in the IT industry do not restrict themselves to selling computers, but also provide system-integration services. When finally the low level of computer penetration in Russia encountered a sudden and explosive surge in

demand, Russia pulled up its socks and got with it. It encouraged foreign firms to move in by imposing only light regulation, and since then system integration has become one of the most profitable businesses in the IT market. 4 Many foreign enterprises in all sectors have by now established operations in Russia and demand the same quality of IT service as they get in their own countries. This has provided an incentive for purely Russian IT enterprises to update in order to become potential service providers for these foreign firms.

As about telecommunication sector, in its beginnings, the telecommunications sector was run as a monopoly. There are several reasons for this. First, it is a natural monopoly: the installation of a telecom network involves fixed costs, and the installation of two networks costs twice as much, more or less. Second, there is the 'cream-skimming effect'. During the opening of the market to competition, competitors will head into the segments where greater profit beckons (urban telecoms is more profitable than rural telephony). To keep non-urban areas supplied, a subsidy is required. A monopoly is best at cross-subsidising to create an equitable system. Third, there is strategy. Telecommunications carry important security and national strategic connotations. Government monopolies were therefore often entrusted with the initial roll-out of telecom services. On the other hand, competition has advantages. First, a monopoly means not only control of the prices (usually at a high level) and imposition of a quality level but also limits on innovation and reductions in incentives to provide up-to-date technologies. It limits the range of products and services and the motivation to make valid distinctions between all types of customers. As regards the security factor, nowadays there exist technical solutions to ensure security without having to rely on public ownership. And after the fixed high costs of installation of local loop services, the marginal costs of adding new subscribers is low. A context of high competition will ensure the best price for the customer.

At the beginning of the twentieth century, telecommunications consisted of a very few private companies under regulation. In the USA a private telephone company called the Bell Telephone System was set up to focus on innovation in the field of telecommunications. Since its establishment, similar systems have brought into public use inventions such as lasers, fibre-optics and transistors. The oligarchy of the oligarchy has been replaced by a competitive playing field, with most companies making a profit.

The telecoms industry comprises a wide range of services, including local telephone, long-distance telephone, wireless telephone, paging, Internet access, Voice-over-Internet and many others. Local telephone service providers are usually involved in maintaining local lines and providing switches with other telephone service providers. In most countries regulations have been developed to protect customers of telephone companies. Similarly, long-distance telephone service providers handle switches between local providers and those in remote areas. Wireless telephone service is based on different principles from fixed lines as it divides geographical areas into small units called cells. These cells have their own radio channels, transmitters and receivers that enable transmission. There was a particularly spectacular boom in this sector of the industry in the 1990s, when technological innovations within the industry were made and the price of the technology fell. Moreover, the decrease in price was accompanied by continual enhancement of quality.

All three leading companies were engaged in activities outside Russia. Their international involvement includes operational activities abroad, partial ownership of or by foreign enterprises, and/ or seeking financing abroad (for example, stock exchange listings). One of the unique features of the industry was that any international expansion required a direct investment or at least a strategic alliance with incumbent companies, since mobile services cannot be physically exported.

Panibratov, Andrei (2013-06-19). *Russian Multinationals: From Regional Supremacy to Global Lead* (Routledge Contemporary Russia and Eastern Europe Series) (p. 124). Taylor and Francis. Kindle Edition.

## **Unit 6. Characteristics of Russian MNCs**

*Comparative analyses with a BRIC corporation of the same industry. International results of Russian MNEs.*

This part of course consists of preparation of the group project ‘Analysis of international industry and its future potential’.

1. Macroeconomic factors of environment on the development of the sector (political, economic, social, technological, and so the overall impact factors).

2. Microeconomic factors affecting profitability: demand and competition.

3. Analysis of competition at the industry level (market structure, concentration of Porter's model - the barriers to entry into the industry when entering new markets, the threat of substitute products, threat of integration with suppliers and customers).

4. Forecast of profitability of the industry. Analysis of the current competitive dynamics (step lifecycle industry \* interconnection structures (perfect competition and so forth.) And profitability.

5. Identify the key success factors in the industry (the ratio of demand analysis - segmentation and positioning and analysis of the proposal - the direction of competition, intensity, etc.).

6. Prospective industry boundaries.

7. Strategic Opportunities of Russian companies in the industry.

Appendix. 2-3 short dossier on the global industry leaders in the scheme of history.

(1) The geographical structure of the organization.

(2) The situation in the industry and a comparison with other similar businesses.

(3) Features of the organizational structure. Alliances.

(4) Marketing Strategy (commodity, price, promotion).

(5) Policy in R & D and finance.

(6) Features of Human Resource Management.

(7) The presence in Russia.

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# **ИНТЕРНАЦИОНАЛИЗАЦИЯ РОССИЙСКОГО БИЗНЕСА**

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