Internationalization Strategies of Russian non-energy companies

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ABSTRACT

The article is devoted to the generalization and descriptive analysis of foreign market entry strategies used by Russian non-energy companies. According to the research results, in most cases, the companies use either the replication strategy of offering a standardized product in all countries, or a strategy of limited adaptation products by local business units to local conditions. In addition, the author assesses the impact of the liability of foreignness effect on internationalization process of Russian non-energy companies.

KEYWORDS:
internationalization strategies, Russian non-energy companies, liability of foreignness, competitive advantages.

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1. INTRODUCTION

The current state of the export activities of the Russian Federation is characterized by a high share of commodity exports, which is about two-thirds of the total exports. Russia’s exports for three quarters of 2018, according to the Russian Federal Customs Service, amounted to $323.6 billion (Figure 1), non-energy exports increased to $105.3 billion according to the REC’s estimates. The growth of total exports compared to 3 quarters of 2017 was 28% (+71.3 billion dollars), the growth of non-energy exports was 16.5% (+$14.9 billion). Positive dynamics of total exports and for non-energy exports are recorded for the eight hand the ninth quarter in a row. At the same time, the quarterly growth rate of total exports for seven quarters does not fall below 20%. The main contribution to the increase in total exports was made by fuel (77% of cumulative growth) and metals (10%). In non-energy exports the main contributors in growth were metal products (44%), food (23%), chemical products (15%) and wood and paper products (11%).

In the structure of non-energy exports of Russia, the overwhelming majority steadily fall on 5 product groups, primarily metal products, engineering products, chemical goods and foodstuffs, and also paper and paper products. For 3 quarters of 2018, their exports were characterized by the following values: • Metal products – $31.7 billion, 36.1%; • engineering products – $20.3 billion, 19.3%; • chemical goods – $19.8 billion, 18.8%; • food – $16.4 billion, 15.5%; • wood and paper goods – $8.64 billion, 8.2% (Figure 2). Precious metals and stones have a notable weight in the export structure ($4.19 billion, or 4%). The value of the other groups is small: • various industrial products – $1.57 billion, 1.5%; • textiles, clothing, shoes – $0.92 billion, 0.9%; • non-food agricultural products – $0.59 billion, 0.6%. The highest weight in non-energy exports of Russia for 3 quarters of 2018 were semi-finished unalloyed steel, wheat (5.7% each), aluminum and its alloys (3.6%), sawn timber (3.2%), refined copper (2.9%), metals of the platinum group (2.5%), hot-rolled non-alloyed sheet metal (2.4%) and mixed fertilizers (2.3%), as well as aircraft. Nitrogen fertilizers (1.9%), frozen fish (1.7%), cast iron (1.5%), turbo engines and gas turbines (1.4%), nickel (1.3%), synthetic rubber and potash fertilizers (1.2% each), as well as weapons and ammunition, radioactive materials.

Drivers of internationalization are opportunities for companies to diversify their activities, expanding their geographic presence, access to resources and markets of other countries, commercialization of innovations, and so on. At the same time, many studies confirm the positive relationship between entering the international markets and increasing the effectiveness of its activities (Barnard, 2010; Collinson, Rugman, 2007; Luo, Tung, 2007; Hobdari, 2012; Mihailova, Panibratov, 2012; Trachuk, Linder, 2018 and others).

In this context, the aim of the current article is a synthesis and descriptive analysis of internationalization strategies used by Russian non-energy companies.
2. CLASSIFICATIONS OF INTERNATIONALIZATION STRATEGIES

In most studies (see, for example, Katkalo, Medvedev, 2011) two groups of factors causing the company’s competitive advantages in foreign markets are identified: the advantages both due to the country characteristics and the specific characteristics of the company itself.

The country’s advantages characterize its political, economic, legal, financial infrastructure, the skill level of the labor force, cultural traditions, availability of resources, etc. However, there are studies on the specific benefits of working in countries with growing markets (see, for example, Ramamurti, 2009).

At the same time, companies that access foreign markets, as a rule, rely on the advantages of internationalization to realize their specific advantages and key competencies. These include product, process and management innovations, knowledge, brand, the ability of companies to work in growing markets. The papers (Ramamurti, 2009) indicated such a specific advantage for companies from countries with developing economies as government support.

To classify the strategies used by companies to access external markets in Ruzman proposed CSA/FSA matrix (Ruzman, 2005), according to which the strategy is determined by the interaction of country-specific advantages and firm-specific advantages (FSA). The combination of “strong CSA – weak FSA” shows the place of oil companies and/or companies from mature industries, oriented to the external market. As applied to Russian practice, all companies from the commodity sectors, as well as large companies operating in the metallurgical, chemical, etc., fall into this square. The “weak CSA – strong FSA” square characterizes companies with strong brands and with developed ability to adapt products to local market demands. For such companies, local market conditions are not decisive. There aren’t yet large Russian companies that meet these conditions.

Butler and Goshal (Harzing, 2008) classify strategies for accessing external markets according to the degree to which a company should take into account local conditions and the need for integration to run a business, starting from replication, when there is no need to take into account local conditions of activity and a high degree of integration, transnational, characterized by a high degree of need for local business conditions and integration. Jennet and Hennessy (Jennet, Hennessy, 2004) develop a classification of strategies based on market-orientation and identify intra-national (ethnocentric), regional (regional-centric), multinational (polycentric) and global (geocentric) strategies.

Depending on the level of risk that companies conduct foreign operations in the work of Finkelstein, Harvey and Lawton (Finkelstein, Harvey, Lawton, 2007), strategies are considered:

- “Expand the horizons”, involving the rapid expansion of the company to foreign markets on the basis of products and services that have proven effective in the existing markets (the least risky strategy);
- “Business model changes” is an expansion strategy by transforming the business model of a company that does not affect its main product;
- “From lagging behind into leaders”, gaining a leadership position due to a change in the management paradigm and the formation of a new strategy;
- “Taking by storm” is a breakout strategy when new unknown companies become market leaders for several years.

Works over the past two years (for example, Kotler, Berger, Bickhoff, 2010; Knight, Liesch, 2016; Cerrato, Cossato, Depperu, 2016) suggest classifications of strategies based on the company’s behavioral aspects in the external market. For example, it proposes a classification of strategies based on the degree of portfolio diversification, consolidation through mergers and acquisitions, the formation of partnerships and networks, as well as competitive tactics, imposing “their” game rules on other market participants, continuous innovation, branding, etc. (Kotler, Berger, Bickhoff, 2010).

Knight and Liesch (Knight, Liesch, 2016) consider the classification of internationalization strategies according to the degree of success in entering foreign markets, and it is proposed to consider companies depending on the type of their internationalization: market-oriented (Marketer), investment-oriented (Investor), network enterprises (Networker), enterprises that have little focus on internationalization (Weak internationalizer) (Cerrato, Cossato, Depperu, 2016).

Table 2 Characteristics of a sample of innovatively active companies operating in foreign markets

| Company | Field of activity | Expert share in revenue, % | Form of entering the foreign market | Number of countries | Region of presence | Competitive advantages in the foreign market | R & D costs, % of sales revenue |
|---------|------------------|---------------------------|------------------------------------|--------------------|------------------|---------------------------------------------|-----------------------------|
| Technocol | Roofing, waterproofing, heat-insulating materials | 20 | Export, subsidiary | 13 | Europe | Half radical innovation (innovation in technology). Canadian expansion of the product range. Favorable geographical location of the plant of the company compared to suppliers from other countries. The unique build-up roofing material tinhakobsk with protective layers of different color | 4 |
| Splat-Global | Oral Care Products | 20 | Export, subsidiary | 70 | Europe, South-East Asia, Middle East, Commonwealth of Independent States (CIS) countries | Radical innovation. Lack of analogues developed product in the world. Complete restart of product recipes every two years. Own innovative high-tech developments | 10–15 |
| Lighting Technologies | Lighting | 15 | Export, subsidiary | 23 | Europe, South-East Asia | Radical innovation. There are no analogues of technical solutions of the enterprise. Large production capacity. Energy efficient lighting and lighting solutions | 10 |
| Smart solutions | IT field | 18 | Export, joint venture | 5 | Europe | Radical innovation. The development of a revolutionary technology to significantly improve the efficiency of resource use in real-time. Network centric intelligent system of coordinated management of workspaces | 17 |
| Perestroika-Russia | Building | 20 | Export, subsidiary | 19 | Europe, CIS countries | Radical innovation. Advanced innovative technology. Production of non-traditional products. Unique waterproofing material patented in Russia | 8 |
| Natura Siberica | Cosmetics | 10 | Export, subsidiary | 35 | USA, Europe, South-East Asia, CIS countries | Half radical innovation (innovation in technology). Own, unique in the territorial location of the resource base. A wide range of products. Reliable brand history. Natural and organic cosmetics | 12 |
| Diakont | High-tech equipment for nuclear facilities | 25 | Export, subsidiary | 13 | Europe, North America, South-East Asia | Radical innovation. Production of exclusive equipment. Continuous technological development. Effective innovative technologies. Monitoring and control systems of high radiation resistance | 15 |
| Nova Metal Tableware | Manufacture of metal dishes | 7 | Export | 2 | CIS countries | Radical innovation. Technologies to produce products with the highest class of safety for consumers | 1.3 |
| Sady Pri-donia | Juice and baby food production | 12 | Export | 8 | Belarus, Kazakhstan, Kyrgyzstan, China, Turkmenistan, Tajikistan, Moldova, Ukraine | Radical innovation. Innovation in technology. Development of its own resource base. High technological level. Metal products. Continuous technological update | 21 |
| Kontur | Software development | 15 | Export | 4 | Belarus, Kazakhstan, Kyrgyzstan, China | Radical innovation. Unique products exceeding the power of foreign analogues | 8–10 |

3. THE CAUSES OF LIABILITY OF FOREIGNNESS

There is ample empirical evidence in the literature that companies entering foreign markets experience a range of difficulties that foreign companies do not encounter (see, for example, Mezas, 2002). The primary sources and nature of the problems that companies face in foreign markets were first described in (Zaheer, 1995) as the concept of “liability of foreignness” (LOF). According to this theory, a company entering foreign markets incurs additional costs, similar to transactional ones, that domestic companies do not have. At the same time, the costs themselves are both economic and non-economic (Denz, 2011).
Kauffmann, Roesch, 2012). At the same time, Russian companies are more likely to incur more non-economic costs than economic ones (Panibratov, 2012). Factors that increase the impact of LOF effects include spillover-learning effects, savings due to the increasing scale of activities, the formation of specific business skills in different conditions and the accumulation of experience in competing in international competition (Zaheer, 1995).

The goal is to identify the effects of the “liability of foreignness” arising in the process of internationalization of Russian industrial enterprises in the CIS countries. In this case, the greatest interest in this study is the question of the impact of the country of origin effect on the internationalization of Russian companies and the definition of mechanisms neutralizing the effects of the country of origin.

For the first time, the concept of additional costs incurred by foreign companies entering foreign markets was introduced by Hymer (Hymer, 1976), while using the term “Costs of doing business abroad” (CDBA). Hymer presented these costs only as direct one-time financial costs, without addressing the problems of overcoming national barriers, the costs of adaptation to a new market (associated, for example, with a lack of knowledge about the market and experience).

For the first time in the presence of the non-economic costs associated with internationalization and labeled as problem of LOF effects was written by (Zaheer, 1995), and was subsequently clarified as “additional costs that can be incurred by a company operating abroad, compared to local firms due to the large distance between the parent company and the market where its operations are conducted” (Yu, Kim, 2010).

The causes and level of LOF effects are described in (Mezias, 2002; Eden, Miller, 2004). It provides strategies for overcoming international competitive advantage in foreign markets (Zimmermann, 2008). The relationship of LOF effects depending on the industry and the level of development of the country of origin was described in (Gaur, Kumar, Sarathy, 2011).

Most researchers emphasize the fact that there are a large number of factors that influence the extent of the LOF effect (related to the characteristics of host countries and countries of origin, the sphere of activity and ownership structure) and make it difficult to accurately measure this effect and compare it with the example of companies from different industries. This explains the qualitative nature of most empirical studies of the LOF effect.

The causes of LOF effects are divided into two groups: those related to the internal characteristics of the company and the external environment of the business (Gaur, Kumar, Sarathy, 2011). The characteristics of the company include the ability to learn, the availability of specific resources, ownership structure, etc. The second group of reasons may, in turn, contain two categories of characteristics: inherent in the country of origin and related to the receiving market. Since in this study the country of origin is unchanged (we consider the internationalization of only Russian firms), it is essential to study the diversity of the effects of the business environment of the host countries.

The concept of country of origin for the first time was presented in the article of Scholer (Scholer, 1965) and has since become widespread. Traditionally, the country of origin is defined by the “country where the parent company and the host country is described in (Gaur, Kumar, Sarathy, 2011).”

The influence of the country of origin of the company on its activities can manifest itself in the process of internationalization, the development of a new market, with a staff member, etc. (Yu, Zaheer, 2010). The results of many studies also indicate a strong correlation between the company’s actions and the institutional environment of the country of origin (Deephouse, Suchman, 2008).

Most of the traditional studies on the impact of the country of origin on the performance of companies analyze the perception of the product (Newbury, 2012).

4. CHARACTERISTICS OF INTERNATIONALIZATION STRATEGIES USED BY RUSSIAN NON-ENERGY COMPANIES

To achieve the goal of the study, we selected 10 Russian innovation-active companies operating in foreign markets. Characteristics of the companies are presented in Table 2.

Among the selected companies, only 20% carry out their activities everywhere and develop due to foreign expansion, 30% have a high level of internationalization, and 50% have a low level. The main form of entry into foreign markets is export. Most companies used the “horizontal expansion” strategy, i.e., promote products abroad that are successful in the domestic market. At the initial stage, the companies concentrated mainly on the purchase of imported components and for a long time linked the prospects of the development with the domestic market. Then they started to sell competitive products on other markets.

As an example, we can look at Splat Global. The company is engaged in the production of toothpaste and related products. Having received recognition in the domestic market, the company moved to the internationalization of business in the

| Company | Characteristic strategy for (Kotler, 2011) | Characterization of strategy by (Barlett, Goshen, 2004) | Characterization of strategy by (Bgleur, Bikhoff, 2007) | Characterizations of the strategy for (Hunt, Crosettis, Dopke, 2016) | Characteristics of the strategy for (Chin, Hong, 2005) | Characteristics of the strategy for (Cerrato, Woll, Harvey, 2014) | Characteristics of the strategy for (Knight, Hu, 2011) | Characteristics of the strategy for (Cerrato, Wol, Harvey, 2014) | Characteristics of the strategy for (Kotler, 2016) |
|---------|------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------|
| Techniocol | Multinational strategy | Strategy of polycentric orientation | The development of strategy of the two regions | The strategy of “streaming” in the “old” market | Focused portfolio strategy | Born global | Network Enterprise | Incremental internationalization | Investment oriented strategy |
| Splat-Global | Replication strategy | Strategy of ethnocentric orientation | Global strategy | Strategy of “streaming” in the new market | Strategy of innovation and branding | Incremental internationalization | born global | Network Enterprise | Investment oriented strategy |
| Lighting Technologies | Multinational strategy | Strategy of polycentric orientation | Global strategy | The strategy of “taking by storm” in the new market | Strategy of innovation and branding | Incremental internationalization | born global | Network Enterprise | Incremental internationalization |
| Smart solutions | Multinational strategy | Strategy of polycentric orientation | Global strategy | The strategy of “streaming” in the “old” market | Strategy of innovation and branding | Incremental internationalization | born global | Network Enterprise | Incremental internationalization |
| Penetron-Russia | Multinational strategy | Strategy of polycentric orientation | Global strategy | The strategy of “streaming” in the new market | Strategy of innovation and branding | Incremental internationalization | born global | Network Enterprise | Incremental internationalization |
| Natura Siberica | Replication strategy | Strategy of ethnocentric orientation | Global strategy | The strategy of “streaming” in the “old” market | Focused portfolio strategy | Born global | Network Enterprise | Incremental internationalization | Investment oriented strategy |
| Diakont | Multinational strategy | Strategy of polycentric orientation | Global strategy | The strategy of “streaming” in the “old” market | Strategy of innovation and branding | Incremental internationalization | born global | Network Enterprise | Incremental internationalization |
| Neva Metal Tableware | Replication strategy | Strategy of ethnocentric orientation | Home region strategy | The strategy of “streaming” in the new market | Focused portfolio strategy | Born global | Network Enterprise | Incremental internationalization | Investment oriented strategy |
|saida Prudnia | Multinational strategy | Strategy of polycentric orientation | Development strategy of two regions | The strategy of “streaming” in the new market | Strategy of innovation and branding | Incremental internationalization | born global | Network Enterprise | Incremental internationalization |
| Kantal | Replication strategy | Strategy of ethnocentric orientation | Home region strategy | The strategy of “streaming” in the new market | Focused portfolio strategy | Born global | Network Enterprise | Incremental internationalization | Investment oriented strategy |

The effect of the country of origin may also vary depending on the category of goods or services associated with the country of origin of their producer. Sometimes this phenomenon is defined as “product-country image” (Knight, Holdworth, Mather, 2007).

Table 3: Characterization of international strategies used by non-resource sector companies.

Table 4: Potential sources of LOF for Russian oil-energy exporting companies.

| Company | Specifc resources | Internationalization model | Regions of presence |
|---------|------------------|---------------------------|---------------------|
| Techniocol | Favorable geographical location of the plant of the company | Export, subsidiary | Europe |
| Splat-Global | Lack of analogues developed product in the world | Export, subsidiary | Europe, South-East Asia, Middle East, CIS countries |
| Lighting Technologies | There are no analogues of technical solutions of the enterprise | Export, subsidiary | Europe, South-East Asia |
| Smart solutions | Network multi-agent system for coordinated workshop management | Export, jointventure | Europe |
| Natura Siberica | Unique waterproofing material patent | Export, subsidiary | Europe, CIS countries |
| Diakont | Production of exclusive equipment based on effective innovative technologies | Export, foreign branch | Europe, North America, South-East Asia |
| Neva Metal Tableware | Technologies to produce products with the highest class of safety for consumers | Export | CIS countries |
| saida Prudnia | Advance development of its own resource base. High technological level of production (O-plant). Continuous technological updating | Export | Belarus, Kazakhstan, Kyrgyzstan, China, Turkmenistan, Tajikistan, Moldova, Ukraine |
| Kantal | Unique products exceeding the power of foreign analogues | Export | Belarus, Kazakhstan, Kyrgyzstan, China, Turkey, etc. |
form of exports. Now Split Global owns more than 10 Russian and foreign patents that testify very high competitiveness of products on a global scale.

Most of the companies prefer using a global strategy, i.e., conduct operations in all countries of the world, however, about a third of companies use the strategy of the region of basing or mastering only two regions, i.e., conduct operations in the market of two specific regions. These companies try to take a position when other market participants are in a position to catch up with the company. Split Global demonstrates an example of such a strategy. It brings to the market products that have no world peers, whose export share is about 20% of the total revenue. Another example of such a strategy may become the Diakont, the share of revenues from export activities of which is more than 25%. The company is a developer of high radiation resistance monitoring and control systems for nuclear power plants, and Diakont products are in demand among foreign customers – the world leaders in nuclear energy. It is successfully operating, demonstrating high reliability and, according to experts, it outperforms its competitors.

Finally, most of the companies reviewed are focused on concentrating on network resources with an average level of overseas sales.

Thus, despite the unfavorable situation for internationalization, the lack of significant state support, which can be used by competitors in other countries, Russian innovative and active companies manage to stand out from the crowd and exploit their specific market niches, especially in the field of defense. It is due to the fact that the state plays a significant regulatory role in the field of defense, which provides the companies with certain advantages in comparison to foreign competitors.

According to the results of the study, several conclusions can be drawn regarding the impact of the “liability of foreignness” factor on the internationalization of Russian companies in the non-energy sector.

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