THE DEVELOPMENT OF RUSSIAN MULTINATIONAL ENTERPRISES FROM THE 1990s TO THE PRESENT

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Abstract: While the internationalization of Russian multinational enterprises (MNEs) has increased significantly since the early 2000s, this phenomenon has attracted limited attention among scholars. In the present paper we examine the key characteristics of Russian MNEs and use the literature on emerging market multinationals and Dunning’s OLI paradigm to trace Russian MNEs’ development from the 1990s to the present. We analyze this development, particularly in regard to ownership structure, location choices, entry modes, and motives to internationalize. We analyze how Russian MNEs have evolved into powerful entities and contributed to Russia’s modernization and integration into the global economy.

Key words: Russian MNEs, emerging market MNEs, temporal development, OLI paradigm.

1. Introduction

Recent literature has begun to emphasize the rise of MNEs from emerging economies (Pillania, 2009; Pillania & Fetscherin, 2009). Scholars call them emerging multinationals (Goldstein, 2007), emerging market multinational corporations (Deng, 2012), emerging market firms (Jormanainen & Koveshnikov, 2012) and “new” MNEs (Guillen & Garcia-Canal, 2009). This literature is inspired by the emergence of MNEs from different countries, including Spain, Portugal, South Korea, Taiwan, Brazil, Chile, Mexico, China, India, Russia, Turkey, Egypt, Indonesia, Thailand, United Arab Emirates, Nigeria, and Venezuela (Guillen & Garcia-Canal, 2009). These MNEs share common features, but also have distinct characteristics (Hong, Wang, & Kafouros, 2014), internationalization strategies, and paths (Jormanainen & Koveshnikov,
2012). In this article, we analyze the characteristics of Russian MNEs and trace their development from the 1990s until the present.

Russian MNEs have been important to Russia's economic development and have facilitated its integration into the global economy. Yet they have attracted less attention than MNEs from other large emerging economies have (Filippov, 2011; Deng, 2012; Michailova, McCarthy, & Puffer, 2013). Studies of emerging economies in mainstream journals focus mainly on Chinese, Indian, and Latin American firms (Jormanainen & Koveshnikov, 2012).

This neglect may be attributable to Russia's low rank on the global competitiveness index relative to other BRIC economies. In 2013-2014, China was in 29th place, followed by Brazil (56th place), India (60th place), and Russia (64th place) (Schwab, 2013). Further, there is little business innovation in Russia, institutional development is relatively slow, the legal and regulatory system is inefficient, and industrial development continues to depend heavily on the gas and oil sectors (Kuzin, 2007; Schwab, 2013; The World Bank, 2013). There are, however, some positive changes in Russia (Michailova et al., 2013). Despite uncertainty caused by institutional change (Kaartemo, 2007; Rutland, 2012), Russian MNEs are likely to continue to grow and internationalize (Kuznetsov, 2011). More research on them and their development is therefore justified (Panibratov, 2010, 2012).

When international business (IB) scholars have focused on Russian MNEs, they have looked primarily at Russia's engagement in international trade (Bulatov, 1998, 2001; Kalotay, 2005, 2008; Zashev, Vahtra, & Liuhto, 2007; Panibratov & Kalotay, 2009; Kalotay & Sulstarova, 2010; IMEMO, 2011). Few have examined the international activities of Russian MNEs (Deng, 2012; Jormanainen & Koveshnikov, 2012), so it is not surprising that there is little understanding of why they engage in outward foreign direct investment (OFDI) (Yakovlev, 2006; Vahtra, 2009; Kuznetsov, 2012). This article outlines and discusses issues that are important for understanding the internationalization strategies of Russian MNEs. We begin by outlining the theoretical foundation of our analysis, namely the eclectic paradigm and the literature on emerging MNEs.

2. Theoretical foundation: the eclectic paradigm and the literature on emerging multinationals

We use the OLI paradigm, which explains MNEs' cross-border activities, to examine how firms internationalize (Dunning, 2001). This paradigm proposes that for a firm to invest in another country, three types of advantages must exist: ownership (O), location (L), and internalization (I). Ownership assumes that the company needs to possess assets not available in the home country that it can exploit in the host country. Location denotes host-country specific resources that would benefit the MNE and are
not available in the home market. Finally, internalization occurs when a firm internalizes its business operations rather than outsourcing them to a third party (Dunning, 1988). Firms’ internationalization can also be influenced by structural and/or contextual variables, including the country of origin, the industry, and firm-specific factors (Dunning, 1981). MNEs’ may internationalize in order to seek resources, markets, efficiency, and strategic assets. These varied motives can influence a firm’s entry mode and production choice (Dunning, 1998; 1993).

Emerging market multinationals often internationalize in order to access country-specific advantages (Rugman, 2009), such as oil and gas in Russia, minerals in Brazil, and cheap labour in China and India. These country-specific resources can be complementary in MNEs’ ability to compete in foreign markets (Mathews, 2006). They might also possess firm-specific advantages that allow them to manufacture products at lower costs and distribute them overseas (Cuervo-Cazurra & Genc, 2008; Ramamurti, 2009). Further, they understand emerging market customers and can operate in unstable institutional environments (Ang & Michailova, 2008; Cuervo-Cazurra & Genc, 2008; Lessard & Lucea, 2009; Ramamurti, 2009).

MNEs usually operate in various institutional environments and must contend with multiple institutional logics in home and host environments (Kostova, Roth, & Dacin, 2008; Hong et al., 2014). Institutions consist of formal rules and informal constraints that define the rules of the game (North, 1990; Dunning & Lundan, 2008a). The stability of a host country’s formal institutional environment influences the entry mode and ownership structure that MNEs use in a particular location (Wang, Hong, Kafouros, & Wright, 2012). Because emerging markets often have unstable legal and political environments, the entry strategies MNEs typically use in these markets differ from those they use in developed markets.

Informal institutions such as beliefs and norms facilitate formation of institutional logics within a country. In a market where the formal institutional environment is weak, informal institutions fill the void (Crittenden & Crittenden, 2010; Puffer & McCarthy, 2011). Domestic networks are often important in such settings. Some firms in emerging markets have privileged access to complementary local resources (Hennart, 2012). For instance, the Brazilian company Vale has a monopoly on Brazil high-grade iron ore deposits and exports (Khanna, Musacchio, & Reisen de Pinho, 2010). In China, government restrictions on foreign ownership gave local companies significant advantages over foreign MNEs (Khanna & Palepu, 2006, 2010). The internationalization of the largest Russian telecommunication company, MTS, was facilitated largely by its cooperation with government officials, who had established connections in a number of CIS countries (Panibratov, 2010).

Agarwal and Ramaswami (1992) identified factors that affect O, L, and I advantages that influence the choice of entry mode into a foreign market. To be competitive in a foreign market, a company must own specific assets and skills that enable it to compete with firms in the host country. These advantages and the entry mode choice
are influenced by a firm’s size, multinational experience and the ability to develop differentiated products. Firm size is positively correlated with the choice of the location and type of entry mode (Buckley & Casson, 1976; Caves & Mehra, 1986). Larger firms are more likely to enter a foreign market via a wholly-owned subsidiary or joint venture (JV) (Agarwal & Ramaswami, 1992). The level of multinational experience of a firm also influences this choice; firms with less such experience may find it more difficult to manage foreign operations and thus choose a non-investment entry mode (e.g., exporting or licensing). There is also evidence that high levels of product differentiation influence a firm to choose an entry mode that requires a higher level of control (e.g., solo venture, JV) (Stopford & Wells, 1972; Caves, 1982).

Location advantages include market potential (size and growth) and investment risk (political and economic development, government’s FDI policies). Low market potential and high investment risk encourage firms to choose non-investment entry modes, whereas high market potential and low investment risk tend to be associated with investment entry modes. Agarwal and Ramaswami (1992) suggest internalization advantages involve contractual risk and conclude that firms are more likely to use exporting as an entry mode if contractual risks are low, and more likely to use a JV or a solo venture if contractual risks are high (Talaga, Chandran, & Phatak, 1985).

We use the eclectic paradigm and the literature on emerging market MNEs to examine how Russian MNEs have internationalized, especially in regard to their motives, ownership and location advantages, and their entry modes. We do so for two distinct phases – since the 1990s and since the 2000s. Before we analyze those strategies, we address some definitional issues and outline some important characteristics of Russian MNEs.

3. Russian MNEs

3.1. Definition

There is no consensus on what an MNE is (Shah, Yusaff, Hussain, & Hussain, 2012). Vernon (1971) defines an MNE as a company that has operations in at least six countries. According to Stopford and Wells (1972), MNEs have sales operations or production in at least three different countries. Dunning defines the MNE as “a corporation which owns and/or controls economic resources in two or more countries” (1981, p.3). We adopt the definition of Dowling, Liesch, Gray, and Hill who state that an MNE is “any business that has productive activities in two or more countries” (2009, p.21), that MNEs do not have to own resources in a foreign location, and that their productive activities may vary.

There is also confusion about how many Russian MNEs there are. For example, the Institute of World Economy and International Relations identified the top 20 Russian MNEs based on their foreign assets (see Kuznetsov, 2012). Kalotay (2010) focused on MNEs’ industrial competitiveness and ownership structure. Deloitte (2008) stated that
as of 2008, approximately 5,000 Russian companies controlled assets abroad. Further, the lack of transparency and withholding of information contributes to a lack of reliable data about Russian MNEs (Kalotay, 2005; Liuhto & Vahtra, 2007; Deloitte, 2008).

Because most internationalization by Russian firms is in the oil, gas, and metallurgy industries, most studies have focused on these sectors (Kuznetsov, 2011). For example, the leading Russian MNE in 2012, Gazprom, has received significant attention from academics and practitioners. More recently, however, Russian MNEs in the retail (X5 Retail Group), banking (Alfabank, Sberbank, Bank of Moscow), telecommunications (MTS, VimpelCom), beverage (Baltika), and tobacco (Phillip Morris Izora) industries have also engaged in rapid internationalization in both developed and developing countries (Liuhto, Pelto, & Lipponen, 2004; Liuhto & Vahtra, 2007; Vaatanen, Podmetina, & Pillania, 2009; Panibratov, 2010; 2012; Kalotay, 2010; Panibratov, & Verbá, 2011; Kuznetsov, 2011, 2012). These firms play a vital role in the development of Russia’s domestic and international markets.

3.2. Specific characteristics of Russian MNEs

Russian MNEs vary across industries and regions. Deloitte (2008) identified three types of Russian MNEs: “big six” global players (Lukoil, Gazprom, Severstal, RUSAL, Norilsk Nickel and Evraz group); “second tier” multinational investors (e.g., Alrosa NLMK group, MMK, MTS) that do not seem to have clear strategies for foreign development; and regional players in the post-Soviet space (TMH, GAZ, X5 Retail group) that focus on post-Soviet economies. We concentrate on firms in strategic industries – oil and gas, telecommunications and metallurgy, but do not offer a comparative analysis of these industries and the companies in them. In the following subsections, we consider MNEs’ relationship with the Russian government, relationships between the Russian government and business elite and MNEs’ response to formal and informal institutional environment as issues particularly relevant to Russian MNEs.

3.2.1. MNEs’ relationship with the Russian government

As mentioned earlier, most Russian MNEs are in the oil, gas, and metallurgical industries, which receive significant support from the Russian state. While this dependency can be seen as a disadvantage, it gives MNEs financial security and access to resources that enable them to compete internationally (Panibratov, 2010, 2014; Jormanainen & Koveshnikov, 2012) and to contribute to the economic development of the country (Yakovlev, 2006). It also helps Russian MNEs to preserve stability during financial crises (Panibratov, 2010), a feature that differentiates them from MNEs in developed economies (Jormanainen & Koveshnikov, 2012). Networking with government officials can, however, be risky and can lead to expropriation if companies enter the political arena (Grancelli, 2012).
The relationship between Russian MNEs and the Russian government is symbiotic (Panibratov & Verbá, 2011). Government officials have often been appointed to management positions in Russian firms. Other enterprises have explicit, formal affiliations with the state. In 1989, for example, the Soviet Gas Industry and Petroleum Refining Ministries were re-organized and amalgamated into a single Ministry. Gazprom was established as the sole state company in the gas industry, and nearly all personnel in the Soviet ministry became managers in the new company. Gazprom became responsible for all enterprises directly involved in the production, refining, transportation, and storage of natural gas (Holtbrügge & Kreppel, 2008; Victor, 2008). Ties with the government remain, but the internationalization motives of the company and the government differ, and often result in conflicts of interest.

Furthermore, the Russian government has always exercised some control over the appointment of top managers in companies of strategic importance. Before Russia underwent restructuring during the 1990s, federal authorities used to appoint top managers mainly in the oil and gas industries. Recently, however, they have done so for media companies, telecommunications firms, and some state-owned institutes. For example, in August 2012, Vladimir Putin decreed that the Kremlin has absolute autonomy to appoint the top managers of 12 state-owned enterprises, namely Kommersant (newspaper), Rosavtodor, ACB, Olimpstroy, JKH, NIC, The Kurchatov Institute, RIA Novosti, ITAR-TAS, Rossiiskaya Gazeta (newspaper), Golos Rosii (Russian Voice), Svyazinvest and Rostelecom (Butrin et al., 2012; Lenta.Ru, 2012). This increased state intervention is often seen as suspicious by domestic and international actors (Gel'man, 2011; Pastuhov, 2012).

The role of the government in the international activities of Russian MNEs is largely industry-driven, and the extent of this involvement differs across industries (Panibratov, 2014). For example, in the atomic industry, MNEs receive substantial financial and administrative support. The federal government retains a high level of control. It chooses the entry mode and selects both markets to enter and foreign partners. The government support and level of control provided to Russian MNEs in less strategic sectors is more administrative. For instance, metallurgical companies receive administrative support, help with negotiations, and introductions to foreign partners. The government does not, however, control the international activities of these firms.

The relationships between the federal government and firms in strategic sectors influence the likelihood a company will internationalize. The government is highly skilled in directing and redirecting resources as instruments to support or constrain companies’ internationalization. Furthermore, the government can change the domestic regulatory environment, which can restrict or enhance Russian firms’ ability to become MNEs.
3.2.2. Relationships between the Russian government and business elite

In the 1990s, the development of Russian companies was dramatically affected by the emergence of the oligarchs. As a result of privatization, this group managed to strip government-owned assets in the natural resource sectors for steep discounts (Puffer & McCarthy, 2007; Vahtra, 2009). The Russian oligarchs were originally the most competent members of the nomenklatura, a group of Communist party members appointed to key positions in the governance system. Oligarchs were often thought of as the “real government,” although they did not directly affect how Russia was governed (Kryshtanovskaya & White, 2005). Because of Russia’s economic disintegration during the 1990s, a younger generation of oligarchs emerged who were not members of the nomenklatura. Their influence over political and economic decision-making increased and their relationships with the government enabled them to exercise power and use it in the interests of the privatized firms.

Because of the privatization of a number of state-owned enterprises in the early 1990s and the re-election of Boris Yeltsin in 1996, the relationship between the oligarchs and state officials strengthened. The group of oligarchs was small: 15 wealthy magnates who had a very close relationship with government officials (Kryshtanovskaya & White, 2005) and who used these relationships to facilitate the development of their businesses. Some tried to engage in political activities: for example, Martin Shakhum and Viktor Bryntsalov ran in the presidential elections in 1991 and 1997, respectively.

The 1998 financial crisis and devaluation of the Russian ruble led to structural changes in the Russian market. Because Russia’s financial sector was destroyed, the business elite of the early 1990s suffered significantly. By 2001, only 15% retained their positions (Kryshtanovskaya & White, 2005). The rest ran businesses on a much smaller scale. Some sought personal security overseas, and two were killed (Kryshtanovskaya & White, 2005).

During the late 1990s, new businessmen emerged who were younger and often from provincial cities and towns. Although establishing relationships with government officials at all levels was important to them, they did not publicize this effort (Kryshtanovskaya & White, 2005). This group was not directly connected to the Soviet period nomenklatura, but it did have relationships with former members, which allowed the newly emerged firms to explore foreign markets. These businessmen do not necessarily have direct relations with the federal government, but build relationships with regional and local authorities (Gel’man, 2011), which provide them with support. Yakovlev refers to this as “any sort of non-financial aid, including help in making contact with Russian and foreign partners, assistance in getting in touch with other government authorities, aid in attracting investors” (2011, p.7).

In July 2000, Putin met with the business elite and presented his new ground rules regarding the relationships between the government and the oligarchs. He emphasized that in order to achieve economic development in Russia, business and
government should work together (Kryshtanovskaya & White, 2005). The message was straightforward: the state holds the power and should be respected by businessmen. From 2000 to 2003, the relationship between the state and business was somewhat collaborative, a situation that allowed Putin to enhance his control over resources and weaken business leaders’ position (Gel’man, 2011).

This relationship changed in 2003, as illustrated by the government’s attack of Yukos, where most of the shareholders were arrested and interrogated because of alleged tax evasion or embezzlement (Gidadhubli, 2003). This attack was followed by other controversies, such as the destruction of media businesses owned by Berezovsky and Gusinsky (Kryshtanovskaya & White, 2005). While most of the controversies were formally related to tax evasions, the government’s real intent was to show who held power in Russia (Sakwa, 2008). The state, by retaining some ownership of enterprises, particularly those in strategic sectors that were privatized, influenced and controlled the strategic decisions of these firms (Puffer & McCarthy, 2007). Business leaders who did not challenge the government and stayed out of politics have not been questioned and their cooperation has been rewarded. For example, Oleg Derepaska, the owner of RusAl, one of the leading aluminum producers in the word, was issued large state contracts for the manufacturing of arms (Puffer & McCarthy, 2007). Such cooperation can thus improve a firm’s ability to expand into new markets.

3.2.3. MNEs’ activities as a response to formal and informal institutional environment

The Russian constitution was changed in December 1993 as a result of a conflict between the Parliament and Yeltsin in October 1993. The most radical economic reforms were carried out earlier, partly under President Gorbachev before the collapse of the Soviet Union and mainly by Egor Gaidar. This restructuring is known as perestroika\(^1\) (Gel’man, 2011). Property rights, ownership regulations, and governance structures were transformed (Puffer & McCarthy, 2011; Gans-Morse, 2012; Marinova, Child, & Marinov, 2012) and this resulted in a formal institutional void, which created economic chaos in Russia (Puffer, McCarthy, & Boisot, 2009). The legitimacy of the legal system was undermined because the government could not implement the necessary reforms, leading to broad mistrust in formal institutions. Interestingly however, the weakening of the state facilitated the development and expansion of Russian MNEs (Yakovlev, 2006; Puffer & McCarthy, 2011). As the state’s involvement in Russian MNEs’ business activities decreased, the oligarchs, who then owned the majority of MNEs, took the opportunity to explore foreign markets.

\(^1\) Perestroika was partly initiated in 1985 by Mikhail Gorbachev, then leader of the Soviet Communist Party and President of the Soviet Union, to restructure the political and economic systems of the Federation and accelerate its modernization. Although Soviet citizens received some degree of freedom and access to information, the implementation of the proposed reforms failed, resulting in the disintegration of the Soviet Union (Reis, 1997).
The collapse of formal institutions increased the reliance on informal institutions, including personal connections and networks. These have been crucial for Russia's business development (Lebedeva, 2001; Michailova & Worm, 2003; Estrin & Prevezer, 2011) and have long facilitated business interactions with foreign partners (Ledeneva, 1998; Holtbrügge & Puck, 2009). Moreover, even the government uses informal institutions to enforce formal institutions such as laws and regulations (Lebedeva, 2001). In other words, formal and informal institutions are closely intertwined (Chavance, 2008), with both types of institutions trying to protect their own survival (Gel’man, 2011; Lebedeva & Shekshnya, 2011).

This institutional interplay influences the operations of Russian MNEs, which use both types of institutions to operate in an unstable environment. It also constrains their future development (Puffer & McCarthy, 2011). Gans-Morse (2012) analyzed property rights in Russia and their impact on ordinary business entities and found that firms are relying increasingly on lawyers and the courts rather than on informal organizations and criminal protection. Frye, Yakovlev, and Yasin (2009) also found that although some companies prefer not to use the state court in disputes with the regional authorities, they would do so if necessary.

4. Russian MNEs’ temporal development: from the 1990s to the present

4.1. 1990s – privatization era

In the 1990s, privatization fundamentally reshaped Russia's business and institutional environment (Filippov, 2008; Puffer & McCarthy, 2011; Kuznetsov, 2012; Marinova et al., 2012; Chadee & Roxas, 2013). As we have noted, while the main purpose of privatization was to increase the legitimacy of the formal institutions established during the 1990s, it also made informal institutions stronger and enabled oligarchs to emerge (Puffer & McCarthy, 2011). The oligarchs further internationalized Russian MNEs. Although these changes increased FDI flows and accelerated modernization, Russia's economic environment remained unstable (Liuhto et al., 2004; Kalotay, 2005) and increased the reliance on informal institutions.

4.1.1. Ownership and location

The oligarchs purchased state-owned assets at steep discounts and often behaved illegally (Vahtra, 2009; Puffer & McCarthy, 2011). For example, Mikhail Khodorkovsky bought a 78% share in Yukos, a company valued at $5 billion, for only $310 million. Yukos was later sold at auction to the state-run Rosneft in the 2000s. Boris Berezovsky and Roman Abramovich bought Sibneft, which was valued at $3 billion, for less than $100 million (Goldman, 2004). In the mid-2000s, Sibneft was acquired by Gazprom and restructured into a subsidiary, Gazprom Neft. Although MNEs possessed natural resources in the domestic market, they began to explore natural resources in foreign markets (Panibratov, 2012).
The increased uncertainty encouraged many Russian companies to establish overseas subsidiaries (Puffer & McCarthy, 2011) and to expand beyond the CIS and Eastern Europe (Liuhto et al., 2004; Kalotay, 2005). Early expansion of many Russian companies was often led by illegal capital flows to business entities across country borders (Bulatov, 1998; Liuhto & Vahtra, 2007; Vahtra, 2009; Kuznetsov, 2012).

4.1.2. Motives to internationalize

After the Soviet Union disintegrated in 1991, the internationalization of Russian firms was relatively slow because these firms had to restructure in the domestic market before they considered expansion abroad (Filatotchev, Strange, Piesse, & Lien, 2007; Panibratov, 2010). For many companies, the main motivator for capital flight was to protect their assets and finances from the volatile domestic economic and political environment (Filippov, 2008). Dunning and Lundan describe such investments as “escape investments” (2008b, p.74). Due to poor institutional development, escape investments enabled Russian companies to optimize their tax situation and seek efficiencies (Filippov, 2008; Marinova et al., 2012).

After they restructured, Russian MNEs began to internationalize more rapidly, mainly through mergers and acquisitions and greenfield investments. According to Dunning (1993) and Dunning and Lundan (2008b), MNEs commonly seek new markets first and strive to enhance their foreign operations later. In addition to seeking new markets, Russian MNEs generally expanded first into neighboring CIS countries (Panibratov, 2010) both because of their close geographic, political, and cultural proximity and to optimize taxes and seek efficiency (Marinova et al., 2012).

While some foreign political actors saw this increased OFDI as a threat (Gorenburg, 2011), internationalization allowed Russian MNEs to gain access to new markets, learn from and about those markets, and improve their technologies. Indeed, modernization of the domestic economy and Russia’s strong global presence can be partially attributed to this internationalization (Kuznetsov, 2012).

4.1.3. Entry modes

The privatization in the 1990s stimulated many companies to invest abroad, mainly to avoid weak formal institutions at home. Some Russian companies engaged in illegal capital exports (Vahtra, 2009; Kuznetsov, 2012), which should be considered when analyzing OFDI data. In addition, JVs continued to increase in the early 1990s and maintained a relatively high rate of success (Fey, 1995). In the late 1990s, Russian MNEs established foreign subsidiaries and made cross-border acquisitions that led to increased international expansion and economies of scale and scope. Indeed, MNEs’ gradual accumulation of multinational experience led to increased engagement in JVs (Agarwal & Ramaswami, 1992).

Russian MNEs’ expansion in this period was mainly in the natural resource sectors. For instance, 90% of Russia’s foreign assets belonged to Gazprom and Lukoil. The
accuracy of publicly available information has been questioned, however, due to illegal
capital flows and the lack of transparency of Russian companies (Kalotay, 2005; Vahtra,
2009). Russian MNEs may thus have more experience in foreign operations than these
data suggest.

4.2. 2000s – Russia goes global

There were important economic and political changes in Russia during the early 2000s.
When Vladimir Putin assumed power in 2000, he pushed to accelerate the transition
to a market economy. From 2000 to 2010, OFDI from Russia increased from US$ 20.1
billion to US$ 369.1 billion. Even during the financial crisis, Russian MNEs continued
to expand in strategic sectors (Filippov, 2011; OECD, 2011). Encouraged by Dmitry
Medvedev’s speech in 2008 to “copy China” and to buy foreign assets, Russian MNEs
in the natural resource sectors established a strong global presence (Belton, 2008;
Filippov, 2008; 2012).

Despite this rapid increase in international trade, Russia's institutional environment
remained unstable. In 2000, Putin announced that he wanted to end the oligarch era
(BBC, 2004). The state gained even more power, but formal institutions were not
strengthened. Moreover, informal institutions remained largely unchanged and their
resiliency created complex tensions between various actors (Helmke & Levitsky, 2004).

4.2.1. Ownership and location

The internationalization of Russian companies has increased substantially in the 2000s,
particularly in the resource-based sector (Vahtra, 2009; Kuznetsov, 2012). As the state
has nationalized some companies (e.g., Yukos, Sibneft) that the oligarchs owned, legal
capital flow across borders has increased. Pastuhov (2012) argues that one reason the
state has become more involved in Russian MNEs is to control informal institutions that
have induced many Russian companies and individuals to engage in illegal activities that
slowed down Russia’s modernization. In short, Russian MNEs’ internationalization has
been and continues to be heavily influenced by power struggles between the state and
the oligarchs.

In the early 2000s, Russia's OFDI continued to be dominated by large Russian oil
and gas MNEs that began to internationalize rapidly (Liuhto & Vahtra, 2007). Such
efforts were facilitated by the access to resources that these firms received from the
government (Hennart, 2012). For instance, in 1997, the Russian government gave
Gazprom a monopoly over the gas transportation system in exchange for Gazprom
providing cheaper gas domestically (Paszyc, 2012). This enabled Gazprom to accelerate
its development and gain additional considerable market power.

In the late 2000s, MNEs from the telecommunications, food, beverage, and retail
industries have been catching up to their counterparts in the energy sector (Panibratov,
2012). An example is MTS, the largest mobile communications services company
in Russia, which established a subsidiary in Belarus in 2002. Later, MTS acquired the Indian telecommunication company Shyam Teleslink and controlling shares of Uzbekistan’s Uzdunorbita. Its competitive advantage is access to networks with the government.

Although most Russian MNEs continued expanding into the CIS and Europe, they began entering other markets, including the USA, Africa, Australia, and other parts of Asia Pacific (Liuhto & Vahtra, 2007; Vahtra, 2009; Panibratov, 2010, 2012). Notable examples include MTS’ expansion into India and Alfa Bank, which expanded to the UK and the US.

4.2.2. Motives to internationalize

The integration of Russian MNEs into the global economy in the 2000s has often been viewed negatively (Filippov, 2008; Kuznetsov, 2012). For example, Gazprom’s expansion into Europe has been interpreted as an attempt to monopolize the European energy sector (Monaghan, 2008). However, Russian MNEs typically internationalize in order to enhance their global value chains (Liuhto & Vahtra, 2007; Kuznetsov, 2012). This development supports Dunning’s (1988) view that as MNEs gain more experience in their foreign activities, they engage in efficiency-seeking and asset-seeking investments. For example, RusAl began internationalizing by acquiring two bauxite mines in Guinea in the early 2000s. It did so because it could not expand into new markets unless it gained access to these mines (Liuhto & Vahtra, 2007; Panibratov, 2012). Nonetheless, the company needed to develop its production capabilities to become a global leader (Panibratov, 2012). Consequently, RusAl expanded its operations to new markets including Australia, China, Ukraine, and Italy (Liuhto & Vahtra, 2007; Panibratov, 2012). This pattern also explains why Russian MNEs often engage in vertical FDI – namely to diversify their business activities, as well as to gain control in other parts of the value chain (Panibratov, 2010).

4.2.3. Entry modes

After the state introduced changes that encouraged Russian companies to invest abroad, international expansion has increased significantly (Filippov, 2008; Kuznetsov, 2012; Panibratov, 2012). However, although strategic partnerships increased from 29 in 2000 to 89 in 2007, the number remains relatively small. Not surprisingly, Russian MNEs tend to prefer strategic alliances as an entry strategy to more sophisticated markets, as alliances facilitate learning and provide better access to new technologies. Greenfield investment has been relatively more popular among Russian MNEs than have mergers and acquisitions, with 156 and 121 deals respectively in 2006 (Filippov, 2008). However, mergers and acquisitions gained popularity between 2008 and 2010.

Most mergers and acquisitions after the 2008 crisis were in the oil and gas sector (Kuznetsov, 2011), which kept the total OFDI from Russia fairly stable (Panibratov,
MNEs from other industries also contributed to the increase in acquisitions. For example, MTS and VimpelCom, leading companies in the telecommunications and mobile sectors respectively, both began to acquire foreign firms. In their initial internationalization efforts, they sought greater control by using investment as an entry mode, a strategy that goes against Agarwal and Ramaswami’s (1992) argument that firms with low levels of multinational experience begin expanding abroad with non-investment entry modes. MTS aggressively sought to establish its presence in the CIS countries (Liuhto & Vahtra, 2007) despite the political tensions there (Panibratov, 2010).

The performance and market selection by Russian firms is influenced by the industry they operate in (Bertrand & Betschinger, 2012; Annushkina & Colonel, 2013). Panibratov (2010) examined entry modes of Russian MNEs in five different sectors, oil and gas, high tech, banking, metallurgy and telecommunication, and concluded that although companies have a preferred entry mode, most employ various modes. The main entry modes for companies in Russia’s strategic sectors are exporting, acquisitions, JVs and strategic partnerships. Oil and gas companies also use wholly-owned subsidiaries. IT and internet companies tend to begin expanding by exporting and then progress into strategic partnerships. Companies in the banking sector usually open subsidiaries in foreign markets and then engage in strategic acquisitions (Panibratov & Verbá, 2011). Telecommunications firms prefer acquisitions and strategic alliances, whereas the main entry mode of companies in the food industry is brownfield investment. In addition, companies from all sectors (except the military sector) chose the CIS and European countries as their initial foreign destinations. Although companies from the military sector export to approximately 44 countries, most of their sales are in India and China. Because of the clear differences among sectors, MNEs’ expansion should be examined in regard to the specificities of their respective industries.

4.3. Behavior patterns of Russian MNEs

The internationalization of Russian MNEs over the two periods, the 1990s and 2000s, is characterized by several behavioral patterns. Many Russian MNEs from strategic sectors, particularly oil, gas and metallurgy, began expanding in the 1990s, when the oligarchs privatized the major MNEs. Somewhat counter-intuitively, privatization helped Russian MNEs internationalize because the oligarchs had the financial resources to facilitate their firms’ relatively rapid internationalization. During the 2000s, when the dispute between the government and the business elite became evident, MNEs owned by oligarchs have suffered, and some had to undergo major restructuring. This impact is particularly relevant to companies in the oil and gas and metallurgical sectors because Russia’s economy has long depended on these industries. It is probably because of this dependence that companies’ association with the government often carries a negative connotation in these industries. In other industries (telecommunication and nuclear
power, for instance), association with the government is seen as a strategic advantage by foreign partners; these companies are perceived to be more reliable in terms of payments, meeting deadlines, and quotas.

In the 1990s numerous Russian companies possessed natural resources and human capital that helped them to internationalize. The motivation attributed to their expansion during this period was their desire to escape the unstable domestic institutional environment and to explore new, more stable and reliable markets abroad. During the 2000s, Russian MNEs that already had a foreign presence continued expanding. Some became more aggressive during this period, especially in regard to seeking efficiency and controlling their value chains. This explains why Russian MNEs engaged in vertical integration, a behavior particularly prevalent in strategic sectors.

The internationalization of Russian MNEs before the 1990s was largely export-driven. JVs and wholly owned subsidiaries gained popularity, particularly in the metallurgical, oil, and gas industries. The MNEs have gained experience through collaborating with foreign partners that has enabled them to develop and enhance their other operations. The patterns in their entry mode in the 2000s are somewhat similar to the 1990s. However, in the 2000s, companies from the telecommunications industry became more active in acquiring foreign companies and establishing subsidiaries. Furthermore, in the 2000s, many Russian companies began expanding beyond the CIS and European regions. Other companies that began internationalizing in the 2000s, however, entered these markets from the outset. There are several possible reasons for the latter firms’ more aggressive pattern of expansion, including their association with other companies in the natural resource sector and their opportunities to learn from their predecessors’ experience with expansion. The relationships among companies in the domestic market are an important factor in Russian MNEs’ international expansion and merit further scholarly attention.

5. Conclusion

In this paper, we examined Russian MNEs’ development in two periods. In the 1990s, because of rapid privatization, the ownership of most enterprises shifted from the state to the oligarchs, an emerging elite business group. In the 2000s, however, the Russian state started taking back the ownership of some strategic companies. While the state’s involvement in Russian MNEs is often seen as negative and politically motivated, we conclude that the relationship between the state and MNEs is multifaceted, and largely overlooked in the IB literature. This interplay merits further theoretical and empirical examination. Bearing in mind the call to take context and contextualization in IB research more seriously (Michailova, 2011), Russian MNEs provide a platform for studying the appropriateness of established IB theories and frameworks in contexts that are different from those where these theories were developed (Michailova, 2011; McCarthy & Puffer, 2013).
Furthermore, the investigation of Russian MNEs poses several challenges. Statistical data about the number of MNEs in Russia or their subsidiaries abroad during the 1990s and 2000s are not easily available. Also, the global financial crisis of 2008-2010 slowed down OFDI by Russian MNEs' in 2008. The discussion on the effects of the financial crisis on Russian MNEs foreign activities is, however, beyond the scope of this paper.

Finally, Russian MNEs in telecommunications, banking, food, and beverages are investing more in foreign markets. IB scholars should begin to study MNEs in these industries to investigate whether their strategic decisions and behaviour are different from those in the oil and gas industries. This research would provide a more nuanced and detailed understanding of Russian MNEs.

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