

St. Petersburg University
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Master in Management Program

**THE ROLE OF GOVERNMENT FOR INTERNATIONALIZATION OF
EURASIAN ECONOMIC UNION FIRMS**

Master's Thesis by 2nd year student
Concentration — Master in Management
Ekaterina Osipova

Research advisor:
Professor, Andrei Yu. Panibratov

Reviewer:
General Director of JSC “Imperial Porcelain Manufactory”
Tatiana A. Tylevich

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ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ
ВЫПУСКНОЙ КВАЛИФИКАЦИОННОЙ РАБОТЫ

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Аннотация

Автор	Осипова Екатерина Ивановна
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Описание цели, задач и основных результатов	<p>Данное исследование фокусируется на изучении феномена мультинациональных корпораций стран Евразийского экономического союза и изучает влияние государства на их интернационализацию. Основной целью магистерской диссертации является анализ влияния государства на интернационализацию мультинациональных корпораций из стран ЕАЭС. Для выполнения этой задачи был проведен регрессионный анализ.</p> <p>Результаты статистического анализа показали, что политическое участие в различных формах, а именно: государственная собственность, наличие политиков в составе совета директоров и топ-менеджмента компании, а также государственные контракты, положительно влияет на интернационализацию компаний стран ЕАЭС.</p> <p>Основываясь на результатах анализа, были предложены практические рекомендации по применению результатов исследования на практике.</p>
Ключевые слова	Евразийский экономический союз, мультинациональные компании, интернационализация, политическое участие

Abstract

Master Student's name	Ekaterina Osipova
Master Thesis Title	The role of government for internationalization of Eurasian Economic Union firms
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Description of the goal, tasks and main results	<p>The following work focuses on researching of the phenomenon of multinational corporations in the countries of the Eurasian Economic Union and investigate the influence of the state on their internationalization. The main goal of the master's thesis is to analyze the role of the state for internationalization of multinational corporations from the EAEU countries. To accomplish this task, a regression analysis was performed.</p> <p>The results of the statistical analysis showed that political participation in various forms, namely: state ownership, the presence of politicians on the board of directors and top management of the company, as well as government contracts, has a positive effect on the internationalization of companies in the EAEU countries.</p> <p>Practical recommendations were proposed for the application of the research results in practice.</p>
Keywords	Eurasian Economic Union, multinational corporations, internationalization, political participation

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ABBREVIATIONS

MNC	Multinational corporation
MNE	Multinational enterprise
FSTS	Foreign sales to total sales
ROA	Return on assets
EAEU	Eurasian Economic Union
FDI	Foreign direct investment
CIS	Commonwealth of Independent States

INTRODUCTION

In modern world multinational enterprises (MNEs), with huge capital, are the main participants in trade and economic relations in the international market. They account for over 50% of all industrial production and 70% of international transactions. MNEs have a great influence on the development of the world economy, contributing to the growth of production efficiency and improving product quality, giving impetus to the development of science and technology. Therefore, nowadays the topic of multinational companies is very relevant among scientists. In order to develop relations between countries and improve conditions for entering new markets, many countries create various international platforms for organizing negotiations. One such formation is the Eurasian Economic Union.

This organization has become a platform for the development of cooperation, modernization and competitiveness in the field of industry and logistics. The creation of the Eurasian Economic Union (EAEU) and its activities towards the conclusion of free trade agreements introduce adjustments to existing trade relations. The business of the EAEU member states has the opportunity to diversify its supply: reorient the sales markets, develop new joint ventures and integrate into international production chains (Russian International Affairs council, 2019).

Based on the concluded agreements between the countries of this union, companies from Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia with state support try to work out different internationalization strategies, entry and consolidation models that will help them become significant players in the international market.

It should also be considered that the EAEU members are developing countries. Multinational companies from developing countries in most cases depend on the government, which is involved in the development of strategies for entering the international market, as well as control their activities both within country and abroad. These factors lead to the fact that MNEs need to correctly build relations with the state in order to be implemented in foreign markets.

Emerging economies exhibit many examples of competitive companies with state participation, which contradicts the widespread perception of them as relic forms of enterprises, living out their days and concentrated in the domestic market. On the contrary, the close interaction of the company with the state becomes a driver of international expansion (Panibratov, Mikhailova, 2019).

Research gap and topicality

This master's work is devoted to the role of EAEU member states in the process of internationalization of their multinational companies. In the context of the post-Soviet institutional environment that currently exists in the CIS countries, this topic is very relevant, especially in the case of MNEs of strategic interest to the state in the international arena. Therefore, it is important to understand the relationship between the governments of the EAEU countries and the largest companies in order to understand the patterns and features of their internationalization process.

Object of study: ways of entering new markets by companies from countries with developing economies.

Research subject: the impact of state participation in the process of internationalization of companies on the example of the EAEU countries.

Research problem

Research problem can be identified as «How the governments of EAEU member countries influence the internationalization process of their multinational companies».

Previous studies have not considered internationalization within an international organization such as the EAEU. This work also analyzes the relationship, which was not previously discussed, between the internationalization of companies and the institutional features of the countries. Moreover, existing works that somehow relate to the topic of government relations and internationalization do not pay enough attention to the various levels of political participation in multinational companies. This study will identify various types of political inclusion in the international activities of companies, as well as identify the results of government intervention in internationalization processes.

The master's thesis contains an analysis of the theoretical basis and previous empirical research. Theoretical articles and other foundations consider various aspects of the research problem. Confirmation or rejection of hypotheses will be used to consider the problem, achieve the goal and objectives of the study, and answer the questions that were formulated in the second chapter.

Structure of paper

The main part of the study is divided into four sections. The first section is devoted to reviewing the literature on the internationalization of MNCs, analyzing the interaction of countries

within the EAEU, indicators of internationalization, direct and indirect mechanisms of state influence on firms in these countries, and the role of political ties in the process of internationalization of companies. The second part includes a description of the design and methodology of the research, the main goals of the master's thesis and research questions.

The third part consists of an explanation of the study and a description of the results of the analysis. The fourth part consists of summaries, discussions and suggestions for further research and, finally, practical management recommendations.

CHAPTER 1. THEORETICAL PART

Defining multinational companies

A multinational corporation (MNC) also called multinational enterprise (MNE), is a corporation or an enterprise that manages production or delivers services in more than one country. It can also be referred as an international corporation. Therefore, in this paper, the concept of a multinational corporation will mean the same as a multinational enterprise.

Business organizations have their own relationship with the changing environment of the business. Organizational survival, growth and success require an effective adjustment with the environment. Regulatory framework of business within the country, promotional support and participation of the government also decides the fate of the multinational organization.

Continuous increase in the size of organizations is the law of the day. It is the direct result of improvement in organizational operation's viability and effectiveness. Structural changes in organizations are effected by the requirement of the business environment (Stobierski, 2020).

Movement of organisation from one region to another region and from one country to another country actually governed by the viable opportunities available in that particular region or country. Availability of large customer base, cheap labour force, supply of raw materials and other natural resources actually motivate the business organizations to undertake business operations in that particular country (ILO, 2020).

Availability of productive and trading facilities and opportunities basically encourage and motivate the foreign companies to exfoliate them in the host countries (Atkin et al., 2019).

The multinational corporation (MNC) has now become a household word. Although its definition is still the subject of debate what distinguishes an MNC from its predecessors, companies with foreign subsidiaries or affiliates, is direct investment abroad and direct interest in the business environment in which it has such investments.

In this context, it is important to say that the hallmarks of an MNC are control and integration of affiliates. In practice, the concept of multi-nationality has different dimensions and due to this there is a problem in having a simple universally agreed definition of the term multinational corporation (Sageder and Feldbauer-Durstmüller, 2019).

However, direct investment is characterized by an active involvement in the management of foreign investments typically through a multinational enterprise (MNE), a large corporation with

operation and divisions spread over several countries but controlled by a central headquarter (Comotti, Crescenzi, and Iammarino, 2020).

The essential nature of the multinational enterprise lies in the fact that managerial headquarter is located in one country (referred to for convenience as the home country) while the enterprise carries out operations in a number of other countries as well (host countries) (Hans and Kavitha, 2020).

Leonard Gomes (2019) also defined MNCs as “a corporation that controls production facilities in more than one country and such facilities having been acquired through the process of foreign direct investment. Firms that participate in international business, however large, they may be, solely by exporting or by licensing technology are not multinational enterprises.”

James C. Baker (2018) defines a multinational corporation as a company- (i) which has direct investment base in several countries; (ii) which generally derives 20 to 50 per cent of its net profit from foreign operations; and (iii) whose management makes policy decisions based on the alternatives available anywhere in the world.

According to Bartlett and Ghoshal (2018) “the multinational organization is defined by the following characteristics- a decentralized federation of assets and responsibilities, a management process defined by simple financial control system overlaid on informal personal coordination and a dominant strategic mentality that viewed the company’s worldwide operations as a portfolio of national business. In a multinational organization the decision obviously are decentralized.”

Thus, on the basis of above definitions Multinational Corporation can be defined as a corporation that produces goods or services in several countries and manages its global activities from organizational headquarter located in one country.

Internationalization of emerging market MNEs

For the following research we have to define the concept of internationalization. In the context of economics, today internationalization can refer to a company that takes steps to increase its footprint or capture greater market share outside of its country of domicile by branching out into international markets. The global corporate trend toward internationalization has helped push the world economy into a state of globalization, in which economies throughout the world become highly interconnected due to cross-border commerce and finance. As such, they are greatly impacted by each others' national activities and economic well-being.

The globalization of multinational enterprises is upon us, with a profound impact on the value-added activities and competitiveness of multinational enterprises (Alon et al., 2018). Two of the main puzzles regarding the internationalization of emerging market multinationals (EMNEs) are

the large volume of outward foreign direct investment (FDI) and their early expansion into mature markets (Buckley et al. 2007; Cuervo-Cazurra 2012; Ramamurti, 2012). Emerging economies have become a major source of outward FDI over the past two decades (UNCTAD, 2020). Traditional internationalization theory (Buckley and Casson 1976; Dunning, 1993) has not predicted the rise of multinationals because EMNEs usually lack firm-specific advantages (FSA) regarded as a prerequisite for internationalization (He and Lyles 2008; Mathews 2006; Narula, 2012). Firm specific non-location bound advantages are especially important when moving into mature markets where EMNEs must overcome the disadvantages of large psychic distance and the liability of foreignness (Buckley and Casson 1976; Cao and Alon 2021; Dunning 1993; Lall 1983; Vernon 1966; Wells, 1977). In Dunning's (1993) eclectic paradigm, firms are expected to internationalize only after accumulating a significant market share and market power in their home country and after developing considerable firm-specific competitive advantages, such as proprietary technology or brands. Furthermore, companies are expected to expand first into economies where the psychic distance from their home environment is limited, before investing in economies where psychic distance is greater.

However, EMNEs appear to internationalize earlier, faster, and to more psychically remote countries than traditional theory would predict (Enderwick and Buckley 2021; Luo and Tung 2018; Ramamurti 2018). Their strategies therefore seem to differ from the well-trodden path followed by multinationals from advanced economies (AMNEs). Rather than focusing their early expansion in those markets that are most similar to their home base, they often enter developed economies with very different characteristics than their domestic market.

Luo and Tung's (2018) springboarding theory provides one explanation for the internationalization of EMNEs. According to this theory, the internationalization goes through stages. It starts with opening the market for inward internationalization, usually in the form of inward FDI that allows local firms to create links with global competitors and learn from them (Child and Rodriguez, 2018). The next stage is radical outward FDI, the transfer and upgrading of capabilities to the home market and, finally, global catapulting with stronger capabilities (Hertenstein, Sutherland, and Anderson 2017). The government of the countries with emerging market supports the development of internationalization through subsidies and facilitative laws and policies (Alon, Elia, and Li 2020; Sutherland et al., 2020).

Internalization theory and its successor, the eclectic theory, assume that multinational companies possess FSA and ownership advantages through technology, know-how, or intellectual property that they can exploit through investment in countries with institutional voids to deal with

market imperfections. However, this assumption is, in fact, often wrong when it comes to EMNEs (Peng, 2017). EMNEs have stirred calls for new theories or the extension of existing theories to better explain the behavior of these new entrants in the global economy (Child and Rodriguez 2018; Cuervo-Cazurra, 2020).

Luo and Tung (2007) maintained that springboarding involves: (a) internationalization, (b) proactive international M&A and greenfield investments to seek strategic assets (radical internationalization), (c) outward FDI to bypass national protectionism, (d) overcoming domestic institutional voids, (e) obtaining national and governmental support, (f) reverse investment back into the home country, (g) exploiting local competitive advantages, such as low cost manufacturing, (h) obtaining capabilities from international partners through joint ventures, inwards investment, and cooperative agreements, and (i) achieving national champion status.

Despite being widely recognized as the general characteristic of all the economies that are quickly growing, being recently at the low stage of the development, the term ‘emerging economies’ is often related to markets that are in transition process from centrally planned to market economy.

Role of the state in internationalization process of MNEs

A multinational corporation, or multinational enterprise from emerging (EMNE) and advanced markets (AMNE) have different behaviors regarding market access when investing in host-countries with high institutional distance (Panibratov ,2018). The one of the main differences is the fact that the development of internationalization of multinational corporations in developing countries, political ownership plays one of the key roles. Issues of politics, policies and institutions are often especially pronounced, both in home and host countries, when we consider EMNEs relative to multinationals from advanced economies.

Emerging economies exhibit many examples of competitive companies with state participation, which contradicts the widespread perception of them as relic forms of enterprises, living out their days and concentrated mainly on the domestic market. On the contrary, state ownership in companies becomes a driver of international expansion (Panibratov and Michailova, 2019).

The strategies of EMNEs with state ownership are entwined with those of governments, political parties, lobbyists, and other formal and informal institutions, in a variety of constellations. In emerging-economy home countries, where market failures and institutional voids tend to be widespread, the state more often than not plays a relatively active role in the economy and EMNE

strategies and operating modes are more conditioned by politics, policies and non-market considerations. In advanced-economy host countries, there are often more sensitivities associated with EMNEs than with AMNEs, and political and regulatory responses are more pronounced. In emerging economy host countries, it is not uncommon for EMNE activities to be underpinned and conditioned by formal or informal interactions between home and host country governments (Panibratov, 2020).

Governments of the countries with emerging market use tools of direct and indirect effects of impact to create the most favorable conditions for further internationalization of their corporations. In particular, through negotiations with the governments of other countries for a number of issues, for example, to ensure access to their natural resources or directly, by providing them with loans through state banks. Moreover, many companies directly or indirectly affiliated with the state receive subsidies and benefits to conduct transactions with foreign companies.

In addition, in such countries, the international competitiveness of national firms is more and more becoming a government rather than just a private concern, in particular of course where state-owned companies are involved (Cuervo-Cazurra et al., 2018; Panibratov and Michailova, 2019). The ability to leverage politics is becoming more important for the competitive advantage of EMNEs and firms are increasingly engaging in and formalizing political activities (Doh, Lawton, and Rajwani 2018; White et al., 2018).

The government ownership in EMNEs adjust their strategies to better deal with the new and more volatile political and regulatory environment and attendant risks and uncertainties (John and Lawton 2019; Globerman, 2019).

Eurasian Economic Union

The Eurasian Economic Union is an international organization of regional economic integration with international legal personality and established by the Treaty on the Eurasian Economic Union (EAEU, 2015).

In the EAEU, freedom of movement of goods, services, capital and labor is ensured, as well as the implementation of a coordinated, coordinated or uniform policy in economic sectors. Member States of the Eurasian Economic Union are the Republic of Armenia, the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic and the Russian Federation.

All EAEU member countries are developing countries.

Internationalization of companies from EAEU countries and role of the government

State-owned multinational corporations

Research on the level of internationalization was primarily aimed at understanding whether and how state ownership helps internationalization. Most researchers agree that, in one way or another, state ownership plays a crucial role in the degree of internationalization (Alvaro Cuervo-Cazurra, Cheng Li, 2020). Some researchers of this field propose that state ownership hinders the internationalization of MNCs. Mazzolini (2020) emphasizes that bureaucratic constraints can be found in both state- and private-owned firms, but that state ownership compounds such restrictions, which leads to a lower likelihood of state-owned firms' internationalization. More recent research agrees on the hindering role of the state and identifies further mechanisms and subtleties. For instance, Li et al. (2018) point out the negative impact of state ownership on the number of foreign subsidiaries, but clarify that strong home country institutions can offset this negative impact. MNCs have a lower degree of internationalization because of their dependence on the home country government (Deng, Yan, & van Essen, 2018; Huang et al., 2017). Deng et al. (2018) discuss how MNCs, compared to privately owned MNCs with political connections, are less likely to invest abroad; this idea is reflected in Huang et al. (2017). Xie et al. (2018) find that state ownership reduces the effect of symbolic, competitive, and partner interdependence on emerging market multinationals' outward FDI. Duanmu, 2017 and García-Canal and Guillén, 2018, indicate that state-owned firms are less affected by expropriation risk. Cuervo-Cazurra and Dau (2019) argue that state ownership reduces the impact of pro-market reforms on exports, reinforcing the lower exporting rates of state-owned firms.

In countries such as members of the Eurasian Union, state ownership continues to play an important role in the activities of their companies, because after the collapse of the Soviet Union in its former territories, most of the large companies were transferred under the control of state ownership. After a period of active denationalization and privatization in the 90s of the last century, as a result of the creation of a number of large state development institutions and holdings with state participation, the role of the state began to increase again. Thus, among the MNCs from the EAEU countries, structures with a share of the state ownership predominate, therefore, their activities are mainly carried out in the interests of the country. Some sectors of the EAEU countries are of maximum interest to the state exercising strict control over them (oil and gas industry, electricity, mining, etc.), which reflects both the economic and political significance of these sectors for the states. But there is also a presence of the state in the companies of the non-resource market. State

ownership infringes on the rights of such companies, does not allow them to develop at full strength in the free market. Against this background, there are a number of difficulties in increasing the non-resource export opportunities of the economies of the EAEU countries. At the moment, most of the goods and services produced in the EAEU are not competitive in world markets. Today, the following criteria for the quality of manufactured products have been established on the world markets, these are: its demand and liquidity, which allows increasing the possibilities of selling manufactured products in world markets. But, the analysis of expenditures on development and research in the field of non-resource exports from the state, that the volume of domestic expenditures on research and development in the EAEU countries is much lower than in many other countries.

Thus, the following hypothesis was created:

Hypothesis 1. State ownership in EAEU companies is negatively associated with the internationalization level of companies in the non-resource sector.

In developing markets unstable political and economic structure significantly increases uncertainty and unpredictability of business operations that may create some difficulties for companies' operations and international expansion. In this situation one of the solution can be establishment of network connections (Önder, Simga-Mugan, 2018; Heath, Peng, 2017). If the the company cannot establish partnerships with the local government, and the likelihood of failure of this company in the international arena will increase significantly (Hong, Wang, Kafourous, 2018).

In contrast, companies that work closely with the local state often receive many bonuses that can be categorized as intangible assets of firms (Hoskisson, Eden, Lau, Wrihy, 2020). Previous research may come to conclusions about the benefits that collaboration with government can bring. For example, Faccio (2017) concluded that companies with political connections receive more loans and more help from the state during times of disasters. Another study by Wu, Chongfeng, Zhou, Wu (2018) showed that firms with government connections in many cases acquire a favorable tax rate and high market share.

These facts lead to the spread of the idea that the most important element of a company's success in emerging economies is the ability to form and maintain relations with the state by appointing managers and board members with political connections or experience (Peng, Luo, 2019; Khanna, Palepu, Sinha, 2018).

Speaking about the internationalization strategy, it is important to note that companies

usually use two ways of international expansion - export and foreign direct investment (FDI). Choosing a strategy requires a compromise between the high variable trading costs associated with the export strategy and the high fixed installation costs associated with FDI (Conconi, Sapir, Zanardi, 2019). In general, choosing an internationalization strategy is extremely difficult because internationalization is usually accompanied by a high level of uncertainty regarding the effectiveness and operations of foreign markets. Most researchers believe that companies, in order to gain market-specific knowledge, should begin their internationalization through export or, in some situations, switch to regional subsidiary sales (Johanson, Vahlne, 2017; Conconi, Sapir, Zanardi, 2018).

However, the company's internationalization strategy can be substantially changed if the government supports it through access to loans, special contracts with foreign governments, lower tariffs or taxes, and government contracts (Goldman, 2018; Faccio, 2017; Boubakri, 2019; Wang, 2019). In the case of state support, the company can begin its internationalization with the creation of foreign branches.

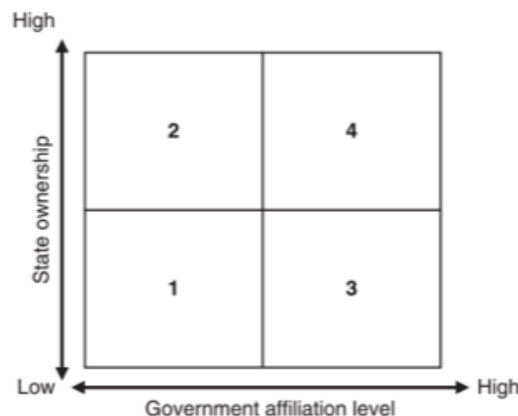
Thus, the following hypothesis was created:

Hypothesis 2. The more politicians in the companies of the EAEU countries, the higher the level of internationalization.

Government ownership and political connections differ greatly and influence decision-making process of MNEs differently. When the government is the owner or shareholder of the company, it uses direct mechanisms of influence MNEs but the influence the state affiliation on companies is indirect, it usually happens through networks.

The framework that explains how government ownership in the company and state affiliation level affect companies was created by Wang, Hong, Kafouros and Wright (2019).

Picture 1. Matrix of state ownership and government affiliation level



Source: Wang, Hong, Kafouros, Wright, 2019

The main idea is to show that when the degree of the government ownership in the company is high the state directly influences companies' international operations by assigning executives and creating regulations related to government-owned assets. In this situation the firms need to balance political aims and desires of the state and market demand and chose a strategy in accordance with public policy. It is also important to mention that managers who work in companies with a high state participation have chosen an internationalization strategy in line with the position of official structures, because career growth depends on whether they succeed in realizing the goals of the state (Ramamurti, 2018). In other words, the decision to internationalize state-owned enterprises or companies with a high level of state ownership is determined by political goals.

Thus, the following hypothesis could be created:

Hypothesis 3. The higher the level of political connectedness in the EAEU companies, the more government contracts it will receive.

Under institutional economics, state-owned firms enjoy institutional benefits that support their internationalization. State-owned companies benefit from a privileged relationship with the government that facilitates their transactions (Pan et al., 2018). The government can act not only as a referee in solving economic disputes among organizations, but also as a rule-maker in creating the regulations that are going to govern such relationships, favoring state-owned companies. State-owned companies also benefit from a better understanding of the institutions that govern relationships thanks to their direct relationships with politicians and government agencies. They have a superior ability to manage economic transactions and institutions, especially the uncertainties surrounding the application of laws and regulations in the adjudication of contractual disputes. State-owned firms further benefit from the government's budget, thereby strengthen its ability to take risks, as well as its patience as an investor (Kaldor, 2017). The cost of state ownership can come in the form of the additional uncertainty that state-owned firms may face in contracting because of the influence of politicians in decision makings. This contractual uncertainty can increase with the rotation of politicians in power, with the new political masters reneging on contracts signed by the previous administration. However, private investors that contract with state-owned companies may foresee such contingencies and design contracts that limit them. As a result, from an institutional economics viewpoint, state-owned companies enjoy an advantage of stateness in their internationalization driven by their institutional advantage. State-owned companies enjoy a higher level of internationalization and are able to enter more challenging countries due to their connection to the government (Cuervo-Cazurra, A. 2018).

As a result, from the point of view of institutional economics, state-owned companies take advantage of statehood in their internationalization due to their institutional advantage. State-owned companies have a higher level of internationalization and can enter the markets of more complex countries through their relationship with the government through government contracts.

The authors of the studies (Clegg, Voss, Tardios, 2018) argue that the international political strategies of the state are the driver that can explain why some state-owned companies internationalize, while others do not. The decisive factor in this case is the type of political regime, and the state-owned companies of autocratic countries are more inclined to international expansion into countries with similar regimes and to enter the markets of those industries that are of strategic importance for the national economy.

The implementation of the goals of the Eurasian Economic Union (EAEU) is closely related to the formation of common markets in various areas of economic cooperation. One of these areas is public procurement, which can have a significant impact on mutual trade between the member states as part of the functioning of the EAEU internal market. Companies of this type often receive government contracts, which in many cases contribute to their internationalization (Ramamurti, 2018).

Thus, the following hypothesis was created:

Hypothesis 4. The presence of political contracts in the companies of the EAEU has a positive effect on the level of internationalization.

To sum up, we have 4 hypotheses for testing, they are:

1. State ownership in EAEU companies is negatively associated with the internationalization level of companies in the non-resource sector;
2. The more politicians in the companies of the EAEU countries, the higher the level of internationalization;
3. The higher the level of political connectedness in the EAEU companies, the more government contracts it will receive;
4. The presence of political contracts in the companies of the EAEU has a positive effect on the level of internationalization.

CHAPTER 2. METHODOLOGY

The aim of the study is to develop the understanding of the government influence in internationalization process of emerging multinational enterprises from EAEU. This study has three main objectives:

- 1) to investigate empirically impact of home government in internationalization process of EAEU MNEs.
- 2) to evaluate the extent of government influences on internationalization process of MNEs from listed countries.

Research questions

The study aims to answer on the following questions:

- What demarcates the involvement of the government in the internationalization process of emerging market MNEs on the example of companies from EAEU countries?
- How the internationalization process of MNEs from EAEU depends on the type of the government impact?
- What is the effect of political connections on internalization process of MNEs?

Answers on these questions can help to overview the topic in detail and achieve the main goal of this research. Theoretical aspects of the issues were considered in the first chapter, in the second part practical aspects of the problem will be discussed.

Research method

This research consists of several scientific methods that help to investigate the problem deeply and achieve the main goal of the research. Generally, this work is a quantitative study that based on the secondary data from databases, international journals and corporate websites.

In order to investigate the correlation between government role and political connections of top officials and internationalization process of firms EAEU countries the explanatory type of research was used. This type of the research helps to explain why something is happened and forecast similar phenomenon in the future.

The main model that was used in this study is regression analysis because this method allows to statistically estimate relationships between variables.

Data collection process

The empirical setting of the current work is largest companies from countries, participating in EAEU. The selection was made from «The list of industrial enterprises of the EAEU Member States, selected for monitoring in order to identify barriers to the development of foreign economic activity of industrial enterprises of the Member States of the Eurasian Economic Union». The initial sample consisted of 3385 enterprises working in cooperation on the EAEU platform. The next step was to identify among these companies multinational companies that already have access to any foreign market. Following this, key representatives of each country were identified. The majority of MNCs were represented in the countries: Russia, Belarus and Kazakhstan. This is due to the fact that Armenia and Kyrgyzstan are less economically developed countries among the members of the EAEU.

Data from each company was collected for 3 years (2018-2020). It is during this period of time that the influence of the external environment (political and economic) is especially felt. Therefore, it is especially interesting to consider how companies, especially those with state participation, build their strategies in this turbulent time.

The study was conducted with usage of secondary data that was collected through such sources as Spark and Skrin databases, EAEU sources for the disclosure of information, companies' official websites, annual reports, Russian and international newspapers, magazines and other media. The databases were used in order to receive information about age, industry where companies operate, members of board of directors and CEOs, financial indicators. Most of corporate websites include firms' annual reports and biography of CEOs and board members that were also important for this study.

Regression model and variables

One of the objectives of this research is to explain the correlation between government influence on internationalization process of largest firms from 3 chosen countries (Russia, Kazakhstan and Belarus). Therefore, the main method of this study is regression analysis that helps to predict one variable from other variables. The study consists of three types of variables: control, dependent and independent variables.

Control variables: firm size, board size, total sales, intangible assets, industry, ROA

Following previous researches, we decided to control some risk factors that might impact on the objectivity of the research. The first control variable is firm size that measured by the logarithm

of total sales. Firm size was chosen as control variable because larger companies may be better positioned to access resources in the international markets and have more opportunities (financial and others) in their internationalization. The second risk- control variable is board size that also might have affect on companies's financial indicators and internationalization process. The last one is total sales that measures the total revenue of the company in 2018-2020.

Another control variable is administrative expenses that show how companies use operation expenses; intangible assets that represent non-physical long-term resources of an entity and ROA that shows how profitable a firm is relative to its total assets. These indicators represent the effectiveness of the company at a certain level of government influence (ROA), the expenses that include costs on board of directors and CEOs (administrative expenses), intangible value of the company, which is also formed by top officials of the company (intangible assets).

Dependent variables: FSTS, foreign countries, characteristic of foreign countries

The second group is the dependent variables, including the international degree. The first chapter discussed several indicators of internationalization. This study used criteria such as the ratio of foreign sales to total sales (FSTS) to measure the internationalization of companies. The number of countries in which the firm operates was used as the dependent variable to answer the question about the influence of political connections of senior officials on geographic choice. The characteristics of the countries are presented as regions for export, markets in which an already defined company is actively involved.

Independent variables: government ownership, politicians on the board of directors and among CEOs, level of political connections, government contracts

The third group is independent variables that show the level of political connections in companies. The first independent variable is the percentage of government ownership in the company. There are different views on the impact of government impact researcher. Some of them agree that high percent of government ownership is detrimental to company value (Borisova, Fotak, Holland, Megginson, 2018) while other believe that government ownership can help the companies to handle with external difficulties and uncertainties (Agrawal, Knoeber, 2019; Hillman, Withers, Collins, 2019). The previous research papers measure government ownership by calculating total percentage of shares that directly owned by the state or government companies (Luo, Yao, 2018). The same measurement was used in this research.

The second independent variable is the number of politicians that now work in different governmental structures. Members of the board and CEOs that are politically connected should held

such posts as minister, deputy minister, governor, major. The data that helped to access the political connectedness was found on the companies' corporate websites, Russian and international journals and magazines.

The third independent variable is the degree of political connections. Based on previous researches we decided to use four scoring system in order to assess the rank of these connections. The highest level of political connection is attributed to those who have held top positions in the central government. In this case we gave 3 points those who have close connections with former and present Presidents and prime-ministers of 5 countries. The close ties include friends, classmates and colleagues that can be considered as members of the team of president or prime-minister – for example, advisors (Fisman, 2018). If the person has present connections on the federal or high regional (exmp., governors) levels, the variable equals to 2. In the situation when the person has political connections on the federal or regional level in the past or political connections on municipal level (majors) it equals to 1 point. In the case when political connections were not found, the variable equals to 0 points.

The last one is amount of governmental contracts and revenue that the companies received from them. This variable helps to assess the level of government interest in the company, state's support and financial results that the companies receive from it. Access to state contracts, that measured by the total sum of contracts awarded by a company during the study period, is taken as indicative of close relationships to politicians. A binary model for assessing this indicator was chosen. 1- if the company makes more than 3% profit from government contracts; 0 - when it has a profit from such contracts of less than 3% or none at all.

Models

With the help of regression model it will be possible to identify which factors have the most influence on internationalization process. Models above are created for each dependent variable - main indicator of internationalization of this work - foreign sales to total sales. Others have also been used as helper function: number of foreign countries and characteristics of countries. Each model includes in different ways control variables, which are firm size, board size, firm age, total sales, intangible assets, administrative expenses, return on assets and firm industry.

Limitations

There are some to this study, among them:

- 1) non-transparency in the provision of information in companies - some information about the political connectedness of companies can be closed and carefully hidden;

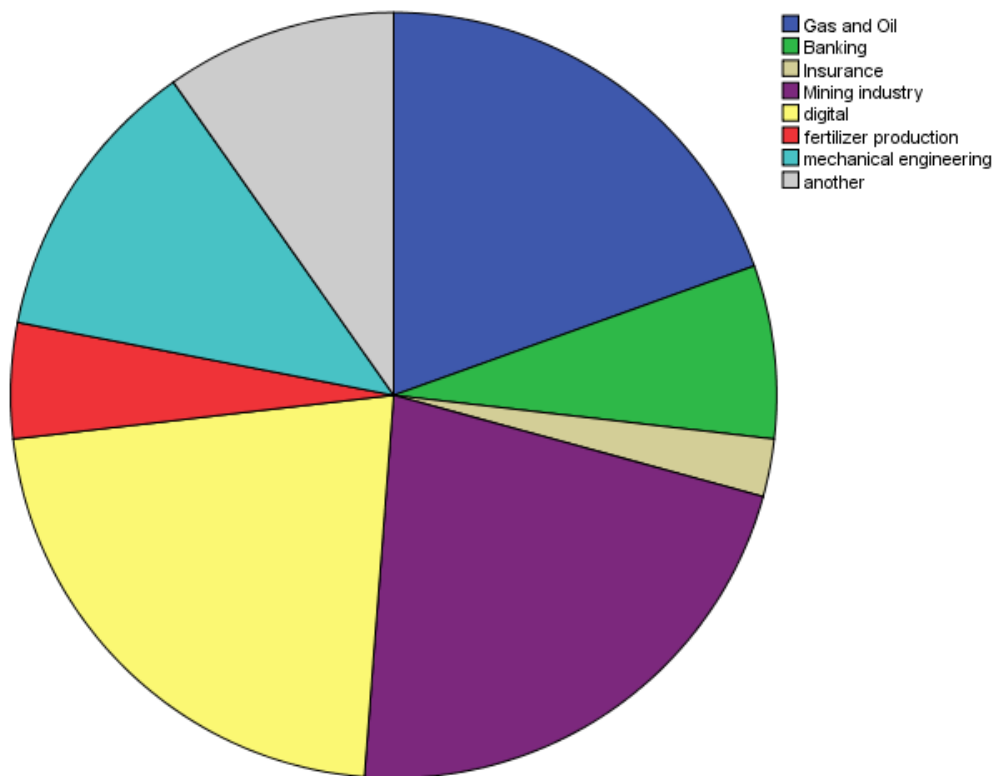
- 2) limited number of companies from the countries represented that correspond to the concept of "MNCs";
- 3) A limited number of large corporations in the territories of these countries. For example, there is no MNC in Armenia and just one in Kyrgyzstan.

CHAPTER 3. FINDINGS AND ANALYSIS

Descriptive analysis

When analyzing data by categories of territories of the company, qualitative and quantitative scales were obtained. According to one of the qualitative ones (Figure 1), it can be seen that a large share of large MNCs from the EAEU countries belong to 3 groups: gas and oil, digital and mining industries. Also, a significant share is occupied by the mechanical engineering industry and the banking sector. This choice is explained by the fact that such companies are more stable in the market and it is easier for them to go abroad, are limited by resources and cannot extract these resources for themselves.

Picture 2. Industries



Source: author

Therefore, in this case, entering new markets, it is very beneficial to take a favorable position for them in such environments as dealing with minerals. In addition, it can be noted that companies from these industries are most successfully developing from the countries we are considering and initially have the greatest development prospects with the least risks due to the historical factor of formation. Due to this, having achieved a successful start within the country,

with the support and patronage of the state, mining companies are more than comfortable to extrapolate to foreign markets without risking losing their positions in the domestic market.

Table 1. Descriptive statistics

Descriptive Statistics				
	Minimum	Maximum	Mean	Std. Deviation
Control variables				
Firm size	784,00	500000,00	73113,72	104750,84
Memb Siz	2,00	19,00	9,04	3,32
Firm age	5,00	97,00	36,56	24,98
TotSales	-140,00	112470,00	9617,87	20865,65
Inteng assets	1,00	6894,00	371,99	996,42
Expenses	0,00	12905,00	1731,65	3220,75
Dependent variables				
FSTS	0,58	0,85	0,67	0,87
Foreign countries	2,00	130,00	28,15	30,09
Independent variables				
Politic Siz	0,00	7,00	1,49	1,75
Pol connect	0,00	3,00	1,78	0,82
State ownership	0,00	1,00	0,61	0,49
Gov Contr	0,00	1,00	0,88	0,33

Source: author

Descriptive statistics (Table 1) in quantitative scales show that there is a very large size gap in the surveyed companies. This is obvious since most of the MNEs are owned by emerging economies. Moreover, MNCs in the EAEU countries are just beginning to enter new markets. And this still applies to countries such as Russia, Belarus and Kazakhstan, which are more confident in foreign markets.

The number of board members ranges from 2 to 19, with a mean of 9,04, which denotes that about 9 people on average own companies. The average number of political representatives among board members is 1,49, which indicates the fact that on average there is minimum 1-2 politicians in each company in these countries. The average value of political connections is 1,78, which means that most of companies have politicians participating in their work. Moreover, government ownership reaches 0,88 from 0 to 1, it means that most of MNC from EAEU are the companies with state ownership.

In the indicator of firm age, we see an average of 36 years, with a minimum age of 5 years and a maximum of 97 years. Thus, we can say that the majority of the companies under consideration began their journey in the 90s after the collapse of the USSR and on the basis of privatized enterprises. But at the same time, should be noted those companies that started their way back during the existence of the USSR, and after its collapse were able to transform into MNCs (Basically, this is typical for companies from Belarus).

The total sales indicator has an average value of \$ 112470,00 million, with a very wide range from the minimum value having a negative value (\$ -140 million) to the maximum value of \$ 9617,87 million. This is the result of a large difference in the level of development of the countries in which they are located, as well as the industry in which they are involved. The same is true for the indicators of Administrative expenses and Intangible assets. Administrative expenses vary widely with an average of \$ 1731,65 million. The Intangible assets have the same wide range from \$ 1million to \$ 6894,00 million, with an average of \$ 371,99 million.

The indicator of the number of foreign countries where the company is represented has an average of 28 countries. This shows that the process of most companies entering new markets is going well. At the same time, in this criterion, we also observe a significant scatter from the minimum 2 countries to the maximum 130. With this scatter, we can say that MNCs from the EAEU countries achieve various successes in internationalization, but on average get access to several regions. Initially, the companies under consideration enter the markets of other CIS countries, later, with successful integration into the CIS markets, they should enter the markets of Europe or Asia, depending on the geographical location of the MNC itself.

The FSTS indicator, which shows the ratio of sales in foreign markets to the number of sales in the home market, has a minimum of 0.58 and a maximum of 0,85, with an average of 0.67. Thus, we can say that despite the fact that some of the companies in question are clearly oriented towards their markets, there is a tendency for the majority to try to break out into the global economy.

Hypotheses testing

Correlation

To study the multicollinearity of variables, the following analysis was carried out - table 4. In the independent variables, as can be noted, there is almost no multicollinearity, which means that

they can be reliably used, in the control variables there are more correlations. After analyzing the distribution (variables are not always normally distributed), Pearson correlation was chosen.

Table 2. Correlation

	Firm size	Mem bSiz	Firm age	Tot Sale	Activs	Expen ses	Rent Activ	FST S	Foreign countries	Gos Sob	PoliticS iz	Polotoc Lvl	GosContr
Firm size	1												
MemS iz	,140	1											
Firm age	-.273*	-,029	1										
TotSale	.358**	.366*	-,167	1									
Activs	,101	.303*	-,143	,078	1								
Expens es	.260**	,138	-.335**	.230*	-,082	1							
RentActiv	-,048	,151	.237*	,126	-,086	,027	1						
FSTS	-,034	.281*	,071	.386**	.205*	-,078	,093	1					
Foreign countries	.279**	.325*	,058	-,057	,118	-.254**	,088	,154	1				
GosSob	,001	-,056	-.201*	-,078	-,009	.182*	-.292**	-.334**	-,088	1			
PoliticS iz	,157	.201*	,009	.272**	-,122	,007	,097	,048	-,043	,138	1		
Polotoc Lvl	,174	.300*	-.211*	.318**	-,015	,159	-,086	-,067	,024	.584**	.576**	1	
GosCo ntr	-,014	-,018	,014	,105	,001	,037	,003	,174	,120	.466**	,147	.266**	1

** . Correlation is significant at the 0.01 level (two-tailed).

* . Correlation is significant at the 0.05 level (two-tailed).

Source: author

Regression models (Mixed Model analysis)

Hypothesis 1. State ownership in EAEU companies is negatively associated with the internationalization level of companies in the non-resource sector.

Table 3. State ownership - internationalization

Information Criteria ^a		Type III Tests of Fixed Effects ^a					Estimates of Covariance Parameters ^a		
		Source	Numerator df	Denominator df	F	Sig.	Parameter	Estimate	Std. Error
-2 Restricted Log Likelihood	37,033						Residual	,045682	,008272
Akaike's Information Criterion (AIC)	39,033	Intercept	0						
Hurvich and Tsai's Criterion (AICC)	39,101	Firmageo oftheo mpanyo зрaстком лaнии	1	61	4,242	,044			
Bozdogan's Criterion (CAIC)	42,144	Firmsize Размерф ирмыеко личестве работн	0						
Schwarz's Bayesian Criterion (BIC)	41,144	Government ownership	1	61	2,302	,134			
The information criteria are displayed in smaller-is-better form.		Return on assets	1	61	9,101	,004			
a. Dependent Variable: FSTS .		finished_product	0						
		a. Dependent Variable: FSTS .							

Source: author

After conducting our research and evaluating the results presented in the table, we can conclude that the FSTS parameter is not related to the parameters of state ownership for companies in the non-resource sector (variable coefficient - government ownership > 0.05). In this case, state ownership does not matter for the development of internationalization in a particular industry.

The reason for this may be the relatively small number of MNCs themselves of the non-resource sector from the EAEU countries represented in foreign markets. It can also be said with certainty that state ownership is not something discrediting, and sometimes even acts as a guarantor of the company's stability in the eyes of the consumer. A negative effect on the internationalization of a company from state ownership can arise at the moment when an MNC becomes an instrument of its country's foreign policy. This, in turn, is almost never found among MNCs from the non-resource sector in the EAEU countries.

From the point of view of restrictive measures that the state can apply to a company whose share it owns, and which in turn can hinder the stable development of the company and its

subsequent internationalization, it is important to note the following. The governments of the EAEU countries view their commodity markets as strategically important for their economies. In this regard, in relation to companies in this sector, additional measures of both a positive nature and stricter regulation are introduced, which can directly affect their development. In turn, the non-resource sector and MNCs in it remain practically unaffected by such an instrument of state influence, even in cases where the company is partially or fully owned by the state.

Thus, according to the results of the study, the first hypothesis can be considered rejected.

Hypothesis 2. The more politicians in the companies of the EAEU countries, the higher the level of internationalization.

Table 4. Politicians - internationalization

Information Criteria ^a		Type III Tests of Fixed Effects ^a					Estimates of Covariance Parameters ^a		
		Source	Numerator df	Denominator df	F	Sig.	Parameter	Estimate	Std. Error
-2 Restricted Log Likelihood	19,562						Residual	,038616	,005093
Akaike's Information Criterion (AIC)	21,562	Intercept	1	115,000	53,101	,000			
Hurvich and Tsai's Criterion (AICC)	21,597	Politician on the board of directors and top management	6	115,000	5,234	,000			
Bozdogan's Criterion (CAIC)	25,306	Foreign countries	1	115	51,539	,000			
Schwarz's Bayesian Criterion (BIC)	24,306	Firm age and company's status in the market	1	115	6,141	,015			
The information criteria are displayed in smaller-is-better form.		Firm size	0						

a. Dependent Variable: FSTS .

Source: author

In our study, presented in this table, the dependence of the FSTS parameter with the parameter of the number of politicians in the board of directors and top management of the company was revealed. Based on this data, we can conclude that the representation of politicians in the company's management has a direct impact on the level of its internationalization (variable coefficient - politicians on the board < 0,05).

This is primarily due to the fact that politicians with a direct interest in the successful development of the company they represent can exert their political influence to ensure that the MNC is in optimal conditions in the home market. This can be expressed in the provision of concessional loans from the state, in a loyal customs policy or in the provision of government contracts. In any of these cases, the company receives additional resources that give it a competitive advantage in the home market of its member country of the EAEU. As a result, such companies have more resources and better starting positions for entering new markets and successful internationalization.

According to the results of this study, hypothesis number two can be considered confirmed.

Hypothesis 3. The higher the level of political connectedness in the EAEU companies, the more government contracts it will receive.

Table 5. Political connectedness - government contracts

Model Dimensiona		Number of Levels	Number of Parameters	Information Criteriaa	
Fixed Effects	Intercept	1	1	-2 Restricted Log Likelihood	96,772
	Level of political connections	4	3	Akaike's Information Criterion (AIC)	98,772
	FSTS	1	1	Hurvich and Tsai's Criterion (AICC)	98,807
	Firm age of the company in years	1	1	Bozdogan's Criterion (CAIC)	102,543
	Firm size (number of employees)	1	1	Schwarz's Bayesian Criterion (BIC)	101,543
Residual			1	The information criteria are displayed in smaller-is-better form.	
Total		8	8	a. Dependent Variable: Government contracts.	

Source: author

Table 6. Political connectedness - government contracts-2

Type III Tests of Fixed Effects ^a				
Source	Numerator df	Denominator df	F	Sig.
Intercept	1	118	49,608	,000
Level of political connections	3	118,000	4,192	,007
FSTS	1	118	26,008	,000
Firm age and geographical location of the company	1	118	,253	,616
Firm size (number of employees)	0			

Estimates of Covariance Parameters ^a		
Parameter	Estimate	Std. Error
Residual	,084279	,010972

a. Dependent Variable: Government contracts.

Source: author

Having carried out our research and received the results presented in the tables, we can say that this is indeed the case. We can observe the dependence of the variable government contracts on the variable of the level of the company's political connectedness (variable coefficient - level of political connections <0,05). The reason for this is the political and economic factors prevailing at the moment in the EAEU countries. Thanks to political connections, MNCs can afford to participate indirectly or directly in the political life of the state. Including lobbying such interests as obtaining the desired government contracts. For the company, this has a positive impact, both in terms of profit and in terms of internal financial stability in the home market.

Moreover, the largest MCSs in the EAEU countries are full-fledged actors in the domestic and sometimes foreign policies of their countries, which further strengthens their level of political ties and allows them to receive new government contracts due to this. The resulting advantage over competitors both in the domestic and foreign markets is converted into a more successful internationalization of the company.

or to strengthen its political ties, to further consolidate its position in the domestic market.

According to the results of the study, the third hypothesis was confirmed by us.

Hypothesis 4. The presence of political contracts in the companies of the EAEU has a positive effect on the level of internationalization.

Table 7. Political contracts - internationalization

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.411a	.169	.156	.227		
a. Predictors: (Constant), Government contracts, Level of political connections						
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1,280	2	.640	12,426	.000b
	Residual	6,285	122	.052		
	Total	7,566	124			
a. Dependent Variable: FSTS						
b. Predictors: (Constant), Government contracts, Level of political connections						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
		B	Std. Error			
1	(Constant)	.249	.066		3,763	.000
	Level of political connections	-.030	.026	-.100	-1,163	.247
	Government contracts	.323	.065	.427	4,982	.000
a. Dependent Variable: FSTS						

Source: author

According to this table, we see a significant dependence of the FSTS parameters with the parameters assessing the level of the company's political connectedness and the received government contracts. Based on the conducted research, we can assert that both government contracts of the company have a positive effect on the processes of its internationalization (variable coefficient < 0,05).

A company that receives financial support in the home market in the form of government contracts granted to it has the opportunity to more confidently redistribute its resources for sustainable development and subsequent entry into foreign markets. In turn, lobbying for government contracts is impossible without the company's high level of political connectedness.

That is why these two parameters are interdependent and in total have a positive effect on the processes of internationalization of MNEs from the EAEU countries.

Companies that have their representatives or connections at a high government level can take an active part in the distribution of government contracts, taking on that part of them that will make them feel financially stable, be protected from most crisis situations and gain a competitive advantage over competitors. In turn, the freed up resources are used to develop new foreign markets.

Thus, the fourth hypothesis can be considered fully confirmed.

Table 8. Results

Hypotheses		
H1.	State ownership in EAEU companies is negatively associated with the internationalization level of companies in the non-resource sector	rejected
H2.	The more politicians in the companies of the EAEU countries, the higher the level of internationalization	confirmed
H3.	The higher the level of political connectedness in the EAEU companies, the more government contracts it will receive	confirmed
H4.	The presence of political contracts in the companies of the EAEU has a positive effect on the level of internationalization	confirmed

CHAPTER 4. SUMMARY AND DISCUSSION

Summary

This paper analyzes the impact of state participation on the processes of internationalization of companies in the EAEU countries. So we tested the hypotheses and biases that government intervention in companies in these countries always has a positive effect. In order to conduct this study, goals and objectives were developed, as well as research questions. Analysis of the literature showed that this area has not yet been considered within the framework of the EAEU countries. That is why theoretical material on the topic of internationalization was used, and hypotheses were developed for testing. After the final data collection, statistical analysis was performed using various tests and the SPSS program. After the final data collection, statistical analysis was performed using various tests and the SPSS program. The analysis was held to understand the negative and positive influence of the state in the process of internationalization of the surveyed companies.

Significance for theory and practice

This master's thesis is an integral part of all research in business literature and economics, and also influences the field of international relations. The political resource has always been considered one of the most important in building the economies of developing countries. The study showed that state participation, state ownership and the presence of state contracts have a positive effect on the processes of internationalization of companies from the EAEU countries. Moreover, states and individual politicians affiliated with MNCs are interested in entering new foreign markets in order to increase the profits of their companies. The very presence of politicians on the board of directors of a company also has a positive impact.

Moreover, this work will be able to provide a suitable analysis for other companies in the EAEU countries that would like to become MNEs and would like to understand whether the use of the political resource will be effective.

This study provides an impetus for further exploring of the political and economic development, as well as their interdependence of the EAEU countries. And it will also serve as a reason for further research in the dynamically developing economic space of MNC from the countries that are part of the EAEU.

CONCLUSION

The main goal of the study was to develop an understanding of the state's influence on the process of internationalization of emerging transnational corporations from the EAEU. The analysis made it possible to achieve this goal, showing that in the case of TNCs from the EAEU, the state is able to significantly influence the processes of internationalization of companies.

The presence of government officials in management, as well as aspects such as state ownership of the company, cooperation and contracting with the government, were shown in the study to be significant in relation to the level of internationalization. Governments and politicians provide a comfortable operating environment for companies in the home market, create a competitive advantage that allows the resources of MNCs to be redirected towards the successful development of new markets.

Based on the foregoing and according to the results of the research done, we can state the presence of a positive influence of state relations on the internationalization of companies from the EAEU countries. The presence of politicians on the board of directors and senior management of MNCs can also have an impact. In addition, as part of the work done, a positive relationship was revealed between the presence of government contracts for a company and the level of its internationalization.

Summing up the current research, it can be noted that even despite the unstable economic situation in the EAEU region today, companies have the opportunity to enter foreign markets and successfully develop their internationalization processes and the role of state influence in these processes is positive in most cases.

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