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VECTOR OF THE HOME GOVERNMENT INFLUENCE UPON RUSSIAN MNES: BALANCING THE CONTROL AGAINST THE INTEREST

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Abstract: Influence of government is crucial for international operations of most emerging economies' firms. However, not all these firms have the same experience with government interventions: some benefit more, some less, and some make losses. The government roles vary among countries and industries. One pole is an absolute financial support and trade protection, while other is a restriction or too strict regulation. Firms react differently; some try preventing or at least predicting such behavior, while others do not put too many efforts to avoid this government enrolment in their business and projects abroad. With particular example of Russia, this paper answers on how the government influences an internationalization of emerging multinational enterprises, and what are the effects on their strategy and competitive advantages. It also analyzes the role the government plays to help these companies, particularly when they go internationally, answering questions how the government can shape an emerging MNEs' competitive advantage and at what level should it act to help company when expanding abroad. In addition, it argues how firms can protect themselves against the government intervention and what causes different experience.

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Content

Introduction

Emerging multinational enterprises (EMNEs) conduct their domestic business in a difficult environment characterized by inefficient or missing market mechanisms. Cuervo-Cazurra and Genc (2008) emphasize that this disadvantage can switch to an advantage, because the ability for the EMNEs to 'sail' in such environment makes them stronger against other type of companies when it comes to invest in countries which presents the same conditions. While underdeveloped institutions make it harder for companies to operate in terms of resource seeking, including knowledge and skilled labor force (Latukha 2014), this domestic experience helps EMNEs to develop specific sets of capabilities, which allow them to be more successful, than developed market firms in such environments (Gaur, Kumar, and Sarathy 2011).

While the literature on the competitiveness of EMNEs is expanding rapidly as is the amount of the EMNEs, sharp and definite conclusions are still missing on how these companies actually generate competitive advantages (CAs) over the more developed MNEs. Some effects arisen from properties of the home country or the effect that emerging market has on the company have been proven but the list will definitely lengthen by research done in near future.

The role of a government can be seen as both advantage and disadvantage in the internationalization process of national firms and turns out to be especially important determinant for EMNEs (Wang 2012). The strongest impact on this is the implementation of specifics policies, which orient and help the companies to start business in the international market. Gaur, Kumar and Singh (2014) posit that the institutional environment of emerging markets does not only affect the way resources can be acquired, developed or exploited domestically, but also influences the international operations of emerging market firms. Otherwise, an emerging market supposes a sensitive political structure as well, and the governments are not always democratic there. Hence, the role of a government can be the same as in the developed countries; however, the different context may dramatically change the implication of these regulations.

In order to provide an empirical support for investigating how the home government influences internationalization of domestically grown EMNEs we use Russian context, which has several explanations. First, Russia is the major outward investor among emerging economies with the second largest stock of OFDI before the global financial crisis (Panibratov and Kalotay 2009) and Russian firms have affiliates all over the world. Second, Russian MNEs demonstrate a wide range of strategies and, thus, represent a suitable ground to verify the validity of theoretical arguments for an examination of the government involvement in shaping strategies pursued by MNEs from a single national context. Third, Russia is one of the least examined economies in the emerging market literature and this paper would contribute to the knowledge of the specific features of Russian MNEs' international expansion.

Russia is an increasingly growing outward investor, with investment climate, corruption and administrative barriers being more problematic in Russia than in the rest of BRICS. Settles and Gurkov (2011) argue that Russia's state encourages firms to invest their surplus of capital in foreign business attempting to improve these firms image and to acquire more economic control in international market.

We provide evidence of Russian MNEs in different industries that have expanded globally over last decade and have become well-established players in a highly competitive international business arena. Although previous studies have started addressing this phenomenon in context of Chinese and Indian MNEs, Russian firms can offer a fertile ground for further theoretical extension.

During last decade, the number of Russian MNEs increased significantly (Panibratov 2012). In line with Jormanainen and Koveshnikov (2012), we argue that there is a need to better comprehend different types of competitive advantages of emerging market firms and their nature. Thus, in this paper we attempt to fill this gap and to reveal the nature and the source of Russian MNEs' competitive advantage with the special attention paid to the role of the home government in the internationalization process of Russian MNEs.

In this research, the main questions is: to what extent and how does the combination of the home government' interest and control influence Russian MNEs? To answer this question, we develop the framework that explains the existing heterogeneity in the government influence on the internationalization Russian firms.

The role of government in internationalization of EMNEs

Government involvement in outward internationalization of EMNEs

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. China is the most prominent example of this growth, which is why the most of research in this area explore the Chinese context. Other emerging countries have witnessed much less evidence of the international activity of domestic firms. This is why we will depart from the Chinese experience.

Gugler and Boie (2008), trying to explain how Chinese government explores OFDI to develop the national economy, found that most of these investments were made by state-owned enterprises (SOE) and this trend is growing. The government of China plays a strong role in the outward investments (particularly, OFDI have to be approved by the government in order to be in line with the national policies), as well as in the internationalization of Chinese firms.

Lu, Liu and Wang (2010) found that the government support has direct and indirect effects on the motives of Chinese firms towards OFDI. Generally, the findings indicate that the institutional environment formed by government should be considered as an important determinant of OFDI. More specifically, although supportive policies and upgrading institutional framework can positively influence Chinese companies to involve in OFDI, political interests and financial support can have negative consequences. Luo, Xue and Han (2010) also noted the significance of government actions - rules and regulations - in providing a steady and supportive institutional setting for OFDI.

Goldstein and Pusterla (2008) argue that FDI mainly driven by opportunities and challenges (e.g., cost of operations, trade conditions) and by the home country's characteristics (e.g., government policies). The retrospective view shows that 'BRIC' governments have different influence on the OFDI dynamics. One pole here is China where an outward expansion is impossible without the state's approval and even WTO recently tried to convince China to facilitate the companies to go abroad. Another pole is Brazil, where the government has not managed for an efficient OFDI policy, but companies go abroad much easier. This better dynamic of Brazilian FDI is partly explained with the activity of APEX (export agency) which helps national firms to find their CA for foreign markets, and with new financing programs by a National Bank providing a better access for companies to the international market.

For Chinese firms the major institutional factors or changes in them, which have affected the internationalization process, have been the home government's industrial policy and the induction of China into the WTO in 2001. The Chinese government's industrial policy focuses on the organization of the inward FDI in such a manner, that state controlled enterprises (SCEs) received foreign capital, technology, management systems and other benefits through licensing agreements, joint ventures and other strategic alliances formed with western enterprises investing in the country. Via these alliances and contracts, the Chinese

SCE's were able to adopt the latest technologies, market knowledge, international contacts, networks and foreign capital to prepare for their own international operations. (Yang et al., 2009)

Yaprak and Karademir (2010) continue by noting, that the environmental uncertainties at home or target market, such as in economic policy orientation of the state, influence the competitiveness of a country's firms and therefore the internationalization process of these firms. They refer to Indian firms that are affected by the political, legal and societal changes in Indian institutions, and must develop their strategies accordingly. Especially in case of India, where formal institutions are underdeveloped, informal institutions such as personal relationships play a noticeably larger role in Indian companies' internationalization processes. As another example, they mention Turkish business groups and their internationalization process, compare it to some global competitors, such as Samsung, Tata and Haier, and explain why the Turkish firms have not been as successful. Firstly there have been several periods of economic and political turbulence and uncertainty in which the firms have evolved; secondly it is due to over-diversification and over-protection that they enjoyed due to the government protection, which caused the firms to not be internationally competitive (Yaprak and Karademir 2010).

In order to encourage the companies to internationalize, government may try to improve an investment climate domestically, acting ‘locally’ to help MNEs with ‘global’ achievements. In India, the government took the decision to raise the state employees pay, erase the debts of small farmers and develop the rural-workfare. Despite these actions cost a lot and are focused internally, it improves an image of a country and reassures the Indian MNEs.

From this analysis, we can reason that in case the government is over protective of the national companies and competition, a situation can arise where the national firms lack the knowledge and capabilities for being successful operators in an international setting. However, when the home government accepts and patronizes foreign competition, the national companies have to adapt and learn and will therefore be better equipped for international operations of their own.

Russian context

Russia is relatively young outward investor and the government policies are not clear yet. The investment climate, the corruption and the administrative barriers are more problematic in Russia than in the rest of BRIC. Settles and Gurkov (2011) argue that Russia’s state encourages firms to invest their surplus of capital in foreign business attempting to improve these firms image and to acquire more economic control in international market.

At the end of the 2000s, Russia had the second largest stock of OFDI among the emerging economies (USD 203 billion in 2008) (Panibratov and Kalotay 2009). The prototypes of Russian multinationals already existed in the times of the Soviet Union (so called ‘red multinationals’), and the government exercised strict control upon these enterprises, which were all state owned. A majority of these firms was involved in supporting country’s exports abroad (raw resources marketing, infrastructure support, banking, insurance, etc.). After the collapse of the USSR in the early 1990s, these companies were mostly privatized and restructured, and their assets were consolidated inside the country. These transformations made possible a further interest of these firms in an oversea expansion.

The second wave of the internationalization of Russian firms started at the end of the 1990s, with cross-border M&A being the most popular form. However, there were also large greenfield projects as well as brownfield deals. Compared to cross-border M&A, greenfield projects conducted by Russian firms were smaller in both size and scope (Kalotay and Sulstarova 2010).

As the most common destinations for Russian OFDI are CIS and Eastern European countries (Filippov and Duysters 2011) there is a possibility of Russian MNEs having an advantage of originating from developing economy and operating in a familiar environment, hostile to developed countries MNEs (Cuervo-Cazurra and Genc 2008). Western MNEs that invested to Russia within two last decades, conducted orientation to high quality of production and services, the effective marketing policy adapted for Russia, and local partnerships (Panibratov 2009). Hence, benefits from their operations were not only financial but also of knowledge character for Russian MNEs.

Motives of EMNEs internationalization are considered to be the same as those of companies from developed economies with market, labor, resource and technology seeking prevailing over the rest (Rasiah, Gammeltoft, and Jiang 2010), although again, in case of Russia resource and market seeking motives are most often stated as the main ones, but with little respect to industry specifics (Panibratov and Verba 2011). OFDI from Russia is both 'exodus' and 'expansion' in terms of the role of both home-country factors that encourage firms to invest abroad and the attractiveness of foreign locations for Russian firms (Vahtra and Liuhto 2006). Exodus was strong in early 1990s (at the beginning of the transition), followed by less escape in the mid-1990s; the crisis of 1998 prompted a rise in capital escape, and then normalization again; the crisis of 2008 increased the motivation of exodus once again.

The international expansion of Russian firms is closely connected with reforms implemented during the last two decades: privatization and attempts to implement industrial restructuring to catch-up with technological developments are amongst the most important. Sector development has not been equal while the state has supported some industries, leaving others without incentives and possibilities for growth. In Russia, mass privatization has led only to a gradual transformation of production networks. The core 'technology' of privatization in Russia was the 'corporatization' of large and medium size enterprises by converting them into joint stock companies prior to their restructuring.· The aim was to make enterprise independent of state administration, delimit the size of its ownership, and separate shareholders from management. In the privatisation program, large and medium-sized enterprises have played the main roles.

The state has played an important role in the emergence of Russian OFDI. State-owned enterprises possess a set of advantages (financial capabilities, access to loans from the central bank, administrative support, etc.) that facilitate their internationalization. At the same time, even in fully or partly privatized enterprises, state influence remains, sometimes directly (for example through residual ownership) and sometimes indirectly, significant. However, the state influence varies across industries, being particularly strong in the energy sector and taking only indirect form in others through incentivizing their development.

While an official explanation of the current motives of Russia's OFDI is the search for markets and resources (Vale Columbia Centre 2009), such a drive as seeking strategic assets, image-building or insurance motives are also amongst the important reasons. The desire of Russian firms' owners and managers to mitigate the economic and political risks in their home market by holding assets offshore related to 'system escape' motives, which decreased sharply after 1999 but bounced back during the global crisis. Aspirations for a better global recognition and an improved image abroad have also been among the motives of Russia's OFDI (Panibratov and Kalotay 2009).

Methodology

Selecting industries and firms

The main objective of our research was to understand how the government could shape the competitive advantage for Russian companies. The logic behind our empirical study was to analyze the internationalization strategies of Russian companies in those industrial sectors that witness an expansion overseas and to draw conclusions on how they are influenced by home government involvement. In our analysis, we use the broad variety of data on internationalization strategies of firms in order to draw conclusions. Specifically, we followed three steps in the analysis. First, we examined sector-specific factors and institutional forces affecting the sectoral development (we have relied on secondary and primary data sources to make this examination). Second, based on the results of this analysis we classified sectors included into this study into four groups according to two main criteria: the interest of the government in the development of the sector and the degree of state control of the firms in the sector (we have developed this framework based on the first step of the analysis). Third, we analyzed the strategies within each of these groups in order to verify an existence of certain similarities of internationalization strategies under the governmental influence and described the main features of revealed patterns of internationalization of firms in each group (mostly primary data have been used for this part of the analysis).

In this study, we analyzed the internationalization strategies of 35 firms in fifteen industrial sectors, representing three big groups. The first consists of large Russian MNEs appearing in top global rankings, and operating in the oil and gas, electricity, mining, metallurgy, and banking industries. The second group includes the companies servicing clients in IT, telecommunications, military, automotive, logistics and construction sectors, and implementing internationalization attempts, yet on a significantly smaller scale. The third group is represented by firms in mass media, education, sport and fast food sectors, which are rather 'virtual' than 'normal' internationalizers; despite having some experience of operating abroad these organizations are still carefully testing foreign waters.

The data has been collected during 2 years from several sources: secondary data analysis and observations (mass media, companies' reports, etc.) and personal in-depth interviews with CEOs and middle managers of selected companies. We have approached the top management teams in search for those CEOs who have been in charge of international decisions of companies. We were also interested in discussions with line managers who have taken part in the international projects. Nevertheless, our focus on top managers was proofed by their strategic position within a firm and direct impact on decision-making.

The sectors included in the analysis (in total fifteen) are: automotive, banking, construction, education, electricity, fast food, IT, logistics, media, metallurgy, military, mining, oil and gas, sport and telecoms. In each of these sectors we have selected two–three firms for the analysis of the governmental impact on the internationalization strategies. We have used a purposeful sampling approach in the final case selection by including those firms that were considered as being effective on international markets, and have shown significant internationalization results. The selected companies are most often mentioned in the official reports, research papers, and media as the prototypes of Russian MNEs or as active pretenders for status of 'internationalizers' – this was an additional argument for us to take this sample.

Developing theoretical framework

The data analysis allowed us to develop the theoretical framework reflecting an integrative influence of two critical determinants on the formation of the CAs of Russian MNEs. The discussion in this section describes the logic behind this framework. To evaluate the role of the state, we asked our respondents what they considered to be the most important criteria of this role. The two most frequent answers were *control* (which can be measured by the stake of the government in the company's ownership and by the status of the state representative in the company's board) and *interest* (primarily characterized by the number and quality of incentives provided to the companies). Asking our respondents how they evaluated these criteria, from 0 (no control/interest) to 10 (the maximum of control/interest), we received two ranks for each sector analyzed (Fig.1).

Figure 1 Evaluating the role of the state in different industries

Industry	*Control by the state*	*Interest of the state*
Automotive	4.8	3.3
Banking	4.9	8.2
Construction	3.1	4.6
Education	6.9	4.4
Electricity	9.7	9.9
Fast food	2.2	2.1
IT	3.4	5.9
Logistics	2.7	3.0
Media	8.3	5.7
Metallurgy	4.6	8.3
Military	8.8	9.6
Mining	8.6	9.6
Oil and gas	9.8	10
Sport	6.2	2.5
Telecoms	4.6	7.4

As we can see from the figure, some industries are of maximum interest to the state and highly controlled by the government (oil and gas, electricity, mining and military). This reflects both the economic and the political importance of these sectors for the Russian state. At the other extreme, automotive, construction, fast food and logistics are of minimal importance and do not require any significant control, with the exception of a few region-significant employers such as AvtoVAZ in Tolyatti or GAZ in Nizhniy Novgorod. We present a more detailed look at the above results in Fig. 2, and explain the two-sided role of the government for these groups of firms.

Using this framework, we also argue that the international strategy of Russian MNEs should be analyzed as an outcome of the influence of two groups of government-related determinants at the industry and the firm level.

Figure 2 Grouping of companies according the state role

		Interest of the state	
		High	Low
Control by the state	High	**1. Electricity; military; mining; oil and gas** The industries in this group are important strategically (from the economic and political standpoints) for the country, hence the interest of the state in these sectors is great. In these industries, the state strictly controls the operations of the companies. The capital requirements are extremely high due to the complications and extent of infrastructure, which is, in turn, also complicated and expensive.	**3. Education; media; sport** These industries are much more important politically and socially than economically, i.e. the state benefits from the opportunity to influence the home country's population, or other countries' governments. The state closely supervises these companies' activities, while an extensive and complicated infrastructure is not required. However, the capital requirement can be relatively high to assure growth. Technology requirements are relatively low.
	Low	**2. Banking; IT; metallurgy; telecom** The state is really interested in the development of these sectors of the economy due to the highly representative character of their image. The capital and infrastructure requirements are moderate. The government understands the self-sufficiency of these firms, which can invest in internationalization independently of the state. Hence, the government does not directly control the operations of firms in these sectors.	**4. Automotive; construction; fast food; logistics** The infrastructure and capital requirements are medium to low in these sectors. The state is not interested in the development of these sectors – although formally it often shows concern for companies in a particular industry (e.g. the automotive industry) – and avoids control of these firms' operations. The technology requirements are relatively high, the 'good' technology may compensate for the lack of financial resources for growth.

The integration of industry level determinants allows for addressing the limitations in the theorizing on the internationalization strategies of EMNEs as they shed light on logic behind the existence of certain patterns in EMNEs' strategies, which, in turn, help to comprehend their diversity and to implement a comparison across various national contexts. Indeed, firms in a particular sector experience similar resource, technology and institutional constraints and incentives, most of which are pre-determined by the high interest of the state in the development of the particular industry (e.g. of the strategic priorities such as energy or defense) or by the lack of such (examples are automotive or construction). Within this set of constraints and incentives, firms follow the strategy based on their own resources and capabilities and attempt to deal with other types of micro-level pressures originating from the government involvement in decision making and operations abroad.

This framework also accounts for another limitation associated with the mixed role of institutions by illustrating the different levels and types of institutional impact. The importance of integrating macro- and micro-institutions has been emphasized in other recent studies (e.g. Dunning and Lundan 2008), who make explicit integrated, institutionally based advantages into internationalization framework.

There are several important implications of this framework. First, it explains how multiple-level government-related influences result in different internationalization strategies within a single national environment. Second, it points to the fact that the patterns of strategic choice are defined at the sectoral level and modified according to firm-specific characteristics. This allows for a more informed comparison of strategy across contexts. Finally, the model suggests a more 'fine-grained' approach to the understanding of the government role in shaping the emerging market firms' competitive advantages and to explaining the existing heterogeneity in internationalization strategies of these firms on the basis of state-related drivers on the industry- and firm-level.

Results

The results of our analysis enable understanding of the vectors of the government influence on the CAs of Russian MNEs on the basis of grouping them in the empirically grounded framework (fig. 3).

Figure 3 Empirically proved CAs of Russian MNEs explained by the government involvement

Sectors in the group	*Interest of the state: how it shapes CAs*	*Control of the state: how it shapes CAs*	*Other influences of the state on CAs*
Electricity; military; mining; oil and gas	<u>Interest is high</u> CAs are based on the domestic monopolistic position of these sectors' firms, which is supported by the state.	<u>Control is high</u> CAs are based on the prevention of domestic competition and protection of the foreign operation through political tools.	Government representatives often participate in the boards of these companies, which provides these firms with direct 'contact' with the state.
Banking; IT; metallurgy; telecom	<u>Interest is high</u> CAs are based on the attempt to develop (or rather initiate the self-development of these sectors' firms) and limited support (financial or technological) where possible.	<u>Control is low</u> CAs are based on non-intervention domestically and the relatively free market guaranteed at home.	These firms demonstrate the most obvious international results, moving abroad on their own. This is why the state does not prevent their expansion, since their global integration is in line with state policy, while not providing any significant support.
Education; media; sport	<u>Interest is low</u> CAs are based on the development by these sectors' companies (where significant physical investment is not necessary) of managerial and marketing competencies and skills as opposed	<u>Control is high</u> CAs are based on the willingness of the state to manage what happens in these sectors, and hence on the companies' chance to benefit from government support (mostly in image-building and management	While the development of these sectors is crucial socially, the state is not really interested in these firms' development, where short-term profits are low or absent. Internationalization may help to improve these sectors, without the state investing.

Automotive; construction; fast food; logistics	<u>Interest is low</u> CAs are based on the need to develop the companies' own marketing mix and brands, which may compensate for the lack of state interest.	<u>Control is low</u> CAs are based on the chance to attract investment (which is needed in these sectors) and to co-operate internationally, without any serious government restriction.	These firms are potential profit-makers through partnerships. Domestic investors are not interested (as a rule) in these sectors, and the state promotes the international collaboration of these firms.

What justifies this answer is that, while official statistics show a decline in state ownership, there is also strong evidence of a considerable increase of control by the Russian government over the largest enterprises of the country. The Russian government justifies this by claiming to create large, vertically integrated structures that are fit to survive international competition, as well to foster diversification of industry away from its present dependence on natural resources.

Comparing Russia's performance in international competition with other emerging multinationals is something of a rarity. Broad conclusions tend to be seen as premature because internationalizing is not yet an established discipline in Russia, and this generalizing on the international results of Russian MNEs remains limited.

Conclusion

This article contributes to analysis in this area by highlighting government-related aspects of the competitiveness of Russian MNEs. Even when they go abroad with strong product capabilities and a proactive managerial style, they still benefit from home-country institutional resources for building competitive advantages. We see the strength of our empirical findings in the ability to facilitate understanding of the origins and prospects of CAs of emerging MNEs. Further analysis can be based on the placing (or re-placing) of new companies from other industries in the four sections of the matrix we have developed in this paper.

We also see this paper having a number of theoretical contributions. First, we extend the theorizing on international competitiveness of emerging multinationals by outlining the nature of competitive advantage of Russian MNEs. Hence, we contribute to the debate on whether EMNEs are distinctive in the manner of building international competitiveness or follow a similar logic to developed market MNEs. Second, while the literature emphasizes that institutional forces shape the internationalization of EMNEs, they have not been comprehensively linked to explaining the nature and origin of competitive advantages. We address this gap by examining an integrated influence that home government factors (namely, control and interest) exert in enabling firms to compete abroad. Finally, we contribute knowledge about the behavior of Russian firms, which is one of the less researched areas in the field of international management.

Third, this paper makes an attempt to illustrate the value of multi-level research by integrating macro- and firm-level determinants and including industry-specific determinants that allow for more comprehensive conclusions. This approach enables for a better understanding of the variety of EMNEs' strategies and of government forces influencing competitive advantages of these firms. Finally, we bring more knowledge about the behaviour of Russia firms that is currently one of the less researched contexts in the field of international management.

Overall, with reference to the debate about the distinctive nature of EMNEs' strategies, we stress that scholars need to differentiate more systematically between the existing approaches to internationalization strategies with the objective of explicitly addressing the variety in these approaches. The paper also has value for companies' strategists as it provides them with understanding of the complexity of government-related determinants influencing the internationalization process of their firms and the types of competitive advantages to be developed or supported. It also provides a practical tool for modeling their strategy formation and accounting for different types of state influences on competitive position in the global marketplace.

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