

# From national leaders to global players: evidence from Russian MNEs in the high tech sector

Andrei Panibratov

Cyril Verba

## *Affiliation:*

Graduate School of Management, St.-Petersburg State University, Volkhovsky  
Per. 3, St. Petersburg, 199004, Russia

Tel: +7 (812) 323 8456, fax: +7 (812) 329 3234

Email: [panibratov@gsom.pu.ru](mailto:panibratov@gsom.pu.ru), [cyrilverba@ya.ru](mailto:cyrilverba@ya.ru)

## *Corresponding address:*

Bolshaya Raznochinnaya 3–20, St. Petersburg, 197110, Russia

Tel: +7 921 392 94 40, email: [panibratov@mail.ru](mailto:panibratov@mail.ru)

## **1. Introduction**

This paper investigates the process of internationalization of Russian high tech MNEs with the focus on the activities of telecom and IT companies, expanding abroad. Of particular interest are the choices made when facing environmental constraints and investment challenges.

While the theory of firm internationalization has been built to explain the motivations and strategies of firms from developed countries (mostly European and U.S.), expanding to developing markets, there have been several attempts to test the applicability of the established concepts to explain internationalization of companies from less developed markets. MNE and FDI from emerging economies were investigated in the early pioneering studies of Heenan and Keegan (1979), Lall (1983), Lecraw (1983) and Wells (1983), and in more recent works of Benito & Narula (2007), Globerman & Shapiro (2006), Goldstein & Shaw (2007), Luo & Tung (2007), and Sethi (2009).

Despite the interest and novelty of the topic of emerging multinationals, the focus of most studies has been on Chinese, Indian, and Brazilian MNEs, overlooking their Russian counterparts. While a range of studies on Russian MNEs was developed since end of 1990s (Bulatov, 1998, 2001; Crane et al., 2005; Filatotchev et al., 2007a; Heinrich, 2003, 2006; Kalotay, 2008; Kets de

Vries et al., 2004; Liuhto & Vahtra, 2007) the research in this field remains scarce.

Previous research showed that FDI legislation varies across industries even in the same host country (Beamish, 1993; Zaheer & Zaheer, 1997). Gaining a firm legal station is considered as particularly important for MNE in the context of developing economies due to frequent government interference and strong environmental volatility (Hoskisson et al., 2000; Zhou & Li, 2008). In governmentally encouraged industries, as infrastructure and telecom, foreign firms face relatively favorable or stable policies (Luo, 2005), in sectors where government has a strong tendency to protect local companies, however, MNEs face an unfavorable regulatory environment.

According Luo and Tung (2007), emerging MNEs use international expansion as a springboard to compensate for their competitive disadvantages, counter-attack global rivals in their home country market, alleviate constraints and explore preferential treatment from home market, and exploit their competitive advantages in other developing markets. The application of these motivations toward Russian MNEs may be promising in terms of the understanding their results and prospects.

Specifically for our article, we consider environmental factors such as state policy and legal constrains, each of which has been considered to exert an

important impact on the success of investment decisions of Russian MNEs (Kostova & Zaheer, 1999; Luo, 2007).

The Russian MNEs will be investigated along with three main questions: 1) how do they internationalize; 2) what investment approaches do they use; 3) what competitive advantages do they leverage. Answering these questions will reveal the industry- and country-specific features that distinguish Russian high-tech companies and allow future comparison and studies. Both foreign market entry strategies and international operation modes of Russian companies in telecom and IT industries will be considered and discussed in the paper.

The paper structure follows its objectives. Firstly, the literature of emerging multinationals and Russian MNEs' outward FDI (OFDI) is analyzed. Next, the case study based methodology is introduced and explained. The main part consists of the case studies of four MNEs in Russian high tech sector. In the end of the article we conclude by discussing how our theoretical approach and supportive findings can advance new research on Russian MNEs and their OFDI.

## **2. Conceptual framework**

### *2.1. Earlier studies on emerging multinationals and Russian MNEs*

While MNEs from developed economies concentrate on advanced technology and marketing skills to differentiate their products (Wells, 1983), and see their competitive advantage in having a large variety of assets, as well as in integrating operations across national boundaries (Bartlett & Ghoshal, 1989), EMNEs have been considered to rely mostly on maturing technologies, originally developed in the Western countries.

The prototypes of Russian MNEs existed already in the times of the USSR. In Russia as well as in China, most of the leading EMNEs had roots going back to the Communist days, long before they were partially or wholly privatized (Ramamurti, 2008). In his study of foreign operations of soviet firms (which all were state-owned), Hamilton (1986) referred to these companies as “red multinationals”. His observation showed that in most cases these firms carried out only marketing and sales operations. Few of “red multinationals” showed signs of developing as Western multinationals had done (McMillan, 1987).

The USSR exercised strict control upon these companies, and they were usually majority-owned by their Soviet parents (Vahtra, 2006). A majority of these firms were involved in supporting Russian exports abroad (raw resources marketing, infrastructure support – banking, insurance, etc.). These companies conducted their activities very intensively, selling more than a half of 50% of Soviet products abroad.

After the collapse of the Soviet Union in the end of 1980s, Russian companies were mostly involved in restructurization and consolidation of assets inside the country; after having gained enough power, they started to look onto foreign markets. Several studies documented the process of transformation of these former state-owned enterprises (Filatotchev et al., 2007b; King et al., 1995).

A wave of the FDI from Russian economy started to grow much faster at the end of the 1990s, the main share of which took form of cross-border mergers and acquisitions, greenfield investments being present but in much smaller forms, which reflects preference of Russian investors to go for quick returns and lack of the from-the-bottom experience.

With time, outward investment policy of Russian firms had changed. Kuznetsov (2010) points out a special type of Russian MNEs. These are companies with foreign capital participation. Thanks to these inward investments, Russian companies can reinforce their own investment activities.

Despite most of Russian MNEs are believed to rise exclusively from the natural resource based industries, the pioneer study of Elenkov (1995) helps to understand roots of technology based internationalization of Russian companies. He highlighted and investigated the importance of the military sector in the context of the coopetition of Russian and Western technologically developed firms in the airspace industry. While the non-military sector was technologically obsolete, due to the lack of strong technical staff, close linkages with advanced

R&D institutes and modern equipment, the strong Russian military industry was nurtured at the expense of the largely neglected civilian sector (Elenkov, 1995). Although promising, the military sector, more than any other high-tech industry, suffers from serious expansion related restrictions based on the sensitive nature of knowledge and technology transfer in these sectors.

The Russian aerospace MNEs have also introduced a new dimension of competition in their industry which was characterized by aggressive R&D development, effective implementation of new technology to produce advanced aircrafts and related products and consistency in keeping the total cost down (Elenkov, 1995).

International springboard perspective, provided by Luo & Tung (2007), generalizes several strategies, undertaken by emerging MNEs: cumulative benefits from inward investment before undertaking OFDI; leapfrog trajectory; and cooptation with global players.

As the most common destinations for Russian OFDI are CIS and Eastern European countries 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).

Also, the strategies and features of emerging markets' MNEs on the example of Chinese companies were discussed by Child & Rodrigues (2005). According to the authors, emerging markets' MNEs have stronger catch-up

capabilities than it was expected. The features of Chinese companies such as government involvement in large companies' business activities and the necessity to overcome latecomer disadvantages, can be recognized in Russian economy as well.

Western MNEs which 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.

## *2.2. Previous research on OFDI from Russia: motives and destinations perspective*

OFDI from Russia have been examined by Filatotchev (2007b), Kalotay (2001, 2005, 2005), Kuznetsov (2010), Liutho (2001, 2005), Liutho & Jumpponen (2003), Liutho & Vahtra (2007), Sauvant (2005). The subject of most research (despite broadly analyzed) was the interest of Russian companies to diversify their holdings through international investment, the object – more or less constant range of companies in a couple of industries (predominantly oil and gas, metallurgy, and telecom).



The mainstream research in the field of EMNEs has focused on the amount of OFDI. Moreover, FDI outflows from emerging economies have been often taken as a proxy of activities of emerging multinationals (Filippov, 2008). Such approach should be challenged since the particular business motives and corporate strategies are neglected if studying Russian MNEs primarily from the perspective of their OFDI. Business motives of Russian MNEs have been indeed questioned in several works, but an increase of market-driven OFDI was expected in ‘pre-crisis’ literature, as well as an increase of non-resource-based (NRB) companies’ share in total amount of outward investment (Vahtra & Liuhto 2005).

Motives of EMNEs internationalization are considered to be the same as those of companies from developed economies with market, labour, resource and technology seeking prevailing over the rest (Rasiah, Gammeltoft, 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.

OFDI from Russia are often seen as similar to system escape, when firms driving OFDI are investing abroad due to the negative characteristics of the Russian business environment. Despite this phenomenon was discussed toward MNEs based in developed economies, where institutional barriers in the home country express avoidance by firms of political constraints with escape through international investment (Witt & Lewin, 2007, Boddewyn & Brewer, 1994), it also applicable to the case of Russian firms with free cash flow and retained

earnings find investing abroad to provide a higher rate of expected returns (Kalotay, 2001).

OFDI flows reached US\$10.3bn in the first quarter of 2010, and amounted to US\$46.1bn in 2009 (Bank of Russia, 2010). At the same time, over one-half of OFDI by non-banking corporations went to offshore (Cyprus, the Netherlands, Gibraltar, Luxembourg, Switzerland, and the British Virgin Islands) what makes this part of foreign investments a pseudo-FDI. This may illustrate the reverse to the “capital flight” related to “system-escape” motives, which decreased sharply after 1999 but bounced back during the global crisis.

The paradox is that it is the hostility of the home country business environment (rapidly changing legislation, weak law enforcement, corruption, political pressure), on the one hand, and the home government incentives expected, on the other hand, that stimulates the Russian capital to go abroad (Panibratov & Kalotay, 2009).

The motives of Russian OFDI vary significantly. It is not surprising that the most typical motives of Russian MNEs are the search for markets and resources. Besides, some investments are of the strategic-assets-seeking character, and are rarely efficiency-seeking. Sometimes, OFDI from Russia are driven as well by image-building motives or domestic political risks prevention considerations (IMEMO-VCC, 2009).

The effects of the historical and cultural ties as well as physical proximity are evident in the geographical distribution of Russian OFDI. This may serve as another explanation of the focus of Russian OFDI on the CIS region. Fluctuation of the geographical priorities of Russian OFDI is very interesting (table 1). According to Kuznetsov (2010), these firms evolve from intra-regional multinationals (which operate within the CIS area) or bi-regional multinationals (the CIS plus the European Union) to global multinationals.

**Table 1**

Russian OFDI to “western” and “eastern” economies (USD million).

Destination	2007	%	2008	%	2009	%
All the world	45,211	100	54,202	100	44,868	100
Non-CIS countries	41,967	92,82	51,789	95,55	41,760	93,07
CIS countries	3,244	7,18	2,413	4,45	3,109	6,93

*Based on:* Bank of Russia 2010

### 3. Research methodology

The success of Russian MNEs when expanding abroad is difficult to evaluate in quantitative terms, unless studied in the context of a systematic

questionnaire survey of managers. Even then respondents may be reluctant to disclose political strategies such as attempts at bribery (we discovered it when tried to reveal the success factors of Russian subsidiaries of MNEs outside current research).

However, this research is not aimed at analyzing merely managerial perceptions but rather at determining the actual sources of competitive advantage of Russian firms. We were also interested in possible political influences as well as in the impact of competitors when approached to the study. This endeavor would be very difficult, if not impossible, using statistical analysis. Case study methodology lends itself better to investigating the significance of non-economical issues.

A further reason for adopting a case study approach is that the issue of the internationalization of the core sectors of emerging economies still requires a more careful conceptualization and theory building. As Eisenhardt (1989) argued, the case study approach is especially appropriate in new topic areas. Given the greatest activity of Russian MNEs in forming partnerships and alliances abroad, we can also refer to Halinen & Törnroos (2005) discussions of the opportunities of a qualitative/case study approach adoption to examine the international partnerships based strategies. For the above reasons, we adopted in our research a case study methodology.

Given our general interest in how Russian MNEs' success can be attained in both developed and developing economies, we aimed to study the process of these firms obtaining the market leadership via various investment decisions abroad. As our research focused on the process of foreign markets' entry and further operations development, we specified that our selected case studies had to be major firms which are said to have obtained a substantial competitiveness in a major Russian industries over local firms and other foreign players prior internationalization.

Since any case study research faces the problem of generalization, our research design attempted to ensure relatively broad geographic focus within one scope of Russian MNEs. We sought four case studies of about same time-span.

Our case studies – MTS, VimpelCom, Sitronics, and Kaspersky – fit our initial sample specifications, coming from two major high tech industries in Russia (telecommunication services and IT solutions), and all four firms are said to have obtained substantial success in entering the respective markets in developed and developing countries. Despite in one sector this sampling hopefully allows us greater generalizability of results due to the relatively large scale of these four MNEs international operations.

Our study combines multiple collection methods. We examined how the four MNEs benefited from their strategy in Russia. The primary data source for this research has been published material, supplemented with the interviews with

experts in the related industries in Russia. Senior managers of companies (foreign and Russian) being affiliated with the major players of Russian high tech sector were interviewed.

The important source was the own public data of case companies. The background and appearance of companies are presented through the most general figures and information from annual reports and websites of all four case companies.

The research relied heavily on the work conducted within several study projects at the St. Petersburg State University (Russia). The works of Sergei Sutyurin and his colleagues from Economic Department, and several research projects made in Graduate School of Management under supervision of author, contributed to the paper.

The recent events discussed in the cases relied heavily on interviews with the company managers and industries' experts. The most recent data was also partly obtained as an outcome of the VERA-2 project, being started in 2008, in which high tech sector players also take part.

Because of the diverse sources of information and data, we have constantly cross-checked information and data from different sources to increase the reliability and accuracy of our explanations.

The study combined several research methods besides case study. The research framework was founded on the industrial organization perspective and

the network perspective. The perspective for the enterprise to position itself in the industry is the industrial organization perspective. The network perspective gave the framework for analyzing the organization-environment interaction of companies.

#### **4. Case studies**

While the prominent examples of the internationalization have been demonstrated by Russian firms in various industries, several MNEs in the telecom and IT industries have selected international strategy as the cornerstone of their expansion. In this paper four Russian MNEs are analyzed with the focus on their entry strategy, approach to expansion, investment decisions, and role of the state.

##### *4.1. Telecom services providers*

The Russian telecommunications and technology sector has recorded extremely buoyant growth in recent years, which has been fuelled by initially low penetration levels, combined with strong growth in economic indicators, including real disposable incomes.

Few industries have reflected the consumer boom and growing middle class experienced by Russia in the pre-crisis years as much as telecoms. Total

telecom sector revenue amounted to US\$42.6bn in 2008—up from just over US\$27bn in 2006. The mobile market accounted for 57% of the market, or US\$24.2bn, and the fixed-line market accounted for the remaining 43%, or US\$18.4bn. The share of the fixed-line segment in the total telecoms market has fallen in recent years, owing to relatively slower growth than in mobile telephony.

Mobile telephony has experienced explosive growth in Russia in 2000s, and the market was the fourth-largest in the world in 2008-2009, after China, India and the US. It has been one of the most attractive sectors for Russian and foreign investors.

#### *Case study 1. MTS*

MTS is the largest mobile communications services company in Russia. The company began its foreign expansion in 2002 establishing a subsidiary in Belarus. By 2009 MTS had subsidiaries in five CIS countries – in Belarus, Ukraine (since 2003), Uzbekistan (2004), Turkmenistan (2005) and Armenia (2007). In 2007, MTS started its mobile telephone business in India, where it took over Shyam Telelink.

MTS started its internationalization in several neighboring CIS countries. The main reasons for choosing these target markets were related to historical and cultural traditions, common infrastructure network inherited from the Soviet era,



and relatively similar business practices. In addition to that one should take under consideration the geographical proximity, which clearly favored international expansion. Meanwhile, several target markets of the company (like Uzbekistan) are located relatively far from main Russian economic centers.

Despite all the difficulties, political relations between and within CIS countries tend to develop positively. Integration within the CIS seems to be a priority political target for Russia. Considering the significant role of the state in the mobile communications sector, this political issue favors co-operation, helps Russian companies to enter new markets. This plays especially important role in cases of Belarus, Uzbekistan and Turkmenistan.

Moreover, internationalization via expansion to CIS countries fits the 'follow your consumer' strategy of the company. Many Russian firms being MTS corporate clients have already entered markets of CIS countries and actively develop economic co-operation in this area. Human migration within the CIS is also an important reason, as it formed an initial basis as well as incentive for internationalization by enhancing co-operation between mobile operators from Russia and other CIS countries (supplying international roaming services).

The internationalization of MTS can be viewed through the table 2.

**Table 2**

Internationalization of MTS.

---

Key characteristics	Internationalization results
---------------------	------------------------------

---

Internationalization started	In 2002 with establishing a subsidiary in Belarus
Foreign destinations	CIS countries and India
Main assets abroad	Subsidiaries in Belarus, Ukraine (since 2003), Uzbekistan (2004), Turkmenistan (2005) and Armenia (2007)
Entry modes	Acquisitions of market leaders; the only exception is the joint-venture in Belarus
Major deals and projects	In 2007, MTS started its mobile telephone business in India, where it took over Shyam Telelink
Expansion approach	The 'follow your consumer' strategy. Russian firms being MTS corporate clients have already entered CIS markets and actively develop economic co-operation in this area
Role of the state	The political factor favored co-operation, and helped to enter new markets, being especially important in cases of Belarus, Uzbekistan and Turkmenistan

---

### *Case study 2. VimpelCom*

VimpelCom is the leading Russian company in the field of mobile communications, with over a quarter of the national market. VimpelCom Group provides voice and data services through a range of mobile, fixed and broadband technologies under the Beeline brand.

International expansion of the company began with the acquisition of large stakes by Norwegian Telenor (in 1998) and Russian Alfa-Group in 2001. Currently, VimpelCom has 30% and 44% of shares respectively. Companies of

the VimpelCom Group operates in Kazakhstan (since 2004, with 43% of the national market), Ukraine and Tajikistan (since 2005), Uzbekistan, Georgia and Armenia (since 2006), and Vietnam and Cambodia (since 2008).

In the internationalization process of VimpelCom, acquisitions always played the most important role. First it acquired the Kazakhstan mobile operator Kar-Tel in 2004.

In the end of 2000s the outlook of the company turned to Asia where it strived to build mobile networks: in 2008 it established a joint venture GTEL-Mobile in Vietnam in which it gained a 40% stake, and acquired a 90% stake in Sotelco in Cambodia.

In Russia, the market penetration was already at 136% level, and the average revenue per user can be raised hardly. On the contrary, the market penetration in Cambodia and Vietnam with the total population of 100 million people amounted just to 55%.

Apart from that, the company had also focused its resources on the CIS countries where the mobile coverage was still at a relatively low level and that could represent the right space for the future expansion.

Table 3 presents the main international results of VimpelCom

**Table 3**

Internationalization of VimpelCom.

Key characteristics	Internationalization results
---------------------	------------------------------

---

Internationalization started	In 1998 with the acquisition of the 30% stake of Norwegian Telenor
Foreign destinations & main assets abroad	Operates in Kazakhstan (since 2004, with 43% of the national market), Ukraine and Tajikistan (since 2005), Uzbekistan, Georgia and Armenia (since 2006), and Vietnam and Cambodia (since 2008)
Entry modes	Mainly acquisitions, but also IJV and licensing
Major deals and projects	Focus on Asia with the strive to build mobile networks: in 2008 it established a joint venture GTEL-Mobile in Vietnam in which it gained a 40% stake, and acquired a 90% stake in Sotelco in Cambodia. Investment in Laos was made in 2009
Expansion approach	Intentions to go global in a various forms not only to CIS countries but even further to Asia and Europe
Role of the state	Despite the telecommunication industry is highly regulated by the Russian government, VimpelCom has less support but also less interference in its business

---

#### *4.2. IT companies*

The Russian IT market generated total revenues of \$4.5 bn in 2008, representing a CAGR of 18.6 per cent for the period 2004-2008. Moreover, the Russian digital economy indicators (PC, internet, broadband penetration rates) have been steadily growing positively.

The major factor that affected the Russian IT industry in 2008 was the global financial crisis. The crisis led to some problems in the industry, primarily being the global decline in the IT market which caused difficulties in the overall demand. In 2008 exports of software and software development services decreased drastically (from 52% to 21%). The export target of 3 billion dollars, set by the Russian IT union Russoft was not attained, its volume only reaching the level of 2.65 billion dollars.

The most lucrative business for the Russian software market in 2008 was home use application software sales, generating total revenues of \$1.1 billion, equivalent to 23.6 percent of the market's overall value. The software market is expected to drive the market to a value of \$12.3 billion by the end of 2013.

### *Case study 3. Kaspersky*

Kaspersky Lab (Kaspersky) is a Russian IT company, founded in 1997 in Moscow. The company is the market leader in the development in anti-virus software. While Kaspersky offers anti-spyware, anti-spam, and anti-intrusion products, its most famous product is Kaspersky Anti-Virus, which is well praised within the industry as well as by the customer.

By the mid 2000s Kaspersky Lab had grown into an international company, employing over 1500 computer specialists. The company is present all

around the globe, in more than 100 countries. The company has headquarters in Moscow and regional offices in Europe (Netherlands, Germany, France, UK, Poland, Romania, Sweden), Asia (Japan, China, South Korea) and United States.

While the majority of businesses in the IT industry grow through mergers and acquisitions, Kaspersky follows a path of organic development. As Kaspersky aims for global growth, the main strategy remains to be new enterprise-oriented solutions, regional expansion and increased partners. In order to better serve its customers, Kaspersky established relationships with distributors in other countries, starting its international expansion with an export.

One key step in the company internationalization was engaging in partnerships in order to conquer the U.S. market. In 2001, Kaspersky Lab announced a partnership with Itamigo, a developer of internet security services. This enabled the company to launch the first Kaspersky anti-virus products to the customers in the U.S. market. Exploring partnerships has the advantage of low costs and a shared risk.

The European market was entered via the launch of European retail sales in 2001. The company made use of local retail and distribution networks in order to provide its products to the European market. These developments were followed by opening regional offices in European countries.

In 2003 a regional office in Beijing, China was opened which was the beginning of its exploration of the less developed markets. After the company

established its presence in the East, it continued to expand into the African market.

Kaspersky has established several strategic partnerships with the top of the software industry. Among its strategic partners were Microsoft, Intel, IBM, Novell, Check Point and Linux Solutions. For Microsoft, Kaspersky was a so called Gold Certified Security Solutions Partner. Furthermore, the two companies were working on several joint projects. Regarding its partnership with Intel, Kaspersky has optimized its systems for Intel products.

Internationalization results of Kaspersky are presented in the table 4.

**Table 4**

Internationalization of Kaspersky.

Key characteristics	Internationalization results
Internationalization started	2001
Foreign destinations / Main assets abroad	Regional offices in Europe (Netherlands, Germany, France, UK, Poland, Romania, Sweden), Asia (Japan, China, South Korea) and United States
Entry modes	Starting with an export to establish relationships with distributors in other countries. Establishment of multiple strategic partnerships with the top of the IT firms
Major deals and projects	The launch of European retail sales and partnership with Itamigo (a US developer of internet security services) in 2001. Strategic partnerships with Microsoft, Intel, IBM, Novell, Check Point and Linux Solutions. In 2003 a regional office in Beijing, China was opened. After the company established its

	presence in the East, it continued to expand into the African market
Expansion approach	Opening regional offices in European countries
Role of the state	Low

---

#### *Case study 4. Sitronics*

Sitronics is one of the largest national players in the high tech industry. Established in 2002, the company was set up as a scientific center, directed at microelectronics and telecommunications equipment and software. In 2004, the company established a business line related to IT-services. The company gained stakes in several companies, among which the largest IT company in Ukraine (Kvazar-Mirco). Now, Sitronics says to be the largest high-tech company in Eastern Europe operating in the field of IT, telecommunications solutions, system integration and consulting, and the development and manufacture of microelectronics products.

The company is a key partner for the states and governmental institutions in the field of infrastructural transformations in the Russia and CIS countries. Sitronics often implements strategy of public private partnership, taking part in scientific research backed up by government.



The company has subsidiaries in over 30 countries and employs over 10,000 people, and is ranked as a top 3 Russian IT-company. Major international competitors are Microsoft, IBM and SAP AG.

Having over 3,500 clients around the globe, the company exports to over 60 countries in Western and Eastern Europe, Middle East, North America, North Africa and Central and South-East Asia. Manufacturing is done in Russia, Greece, Czech Republic, Romania and China. The major enterprises of Sitronics are located in Prague and Athens for Telecommunications Solutions, in Kiev for IT, and in Zelenograd and Moscow for Microelectronics Solutions.

Sitronics focuses on Russia, CIS, Greece, Eastern Europe, Middle East and South-East Africa (markets with the highest growth rates). The company participates in joint projects in the telecommunications area with Ericsson (3G network designs) and Cisco Systems (network solutions for fixed and mobile communications).

The expansion strategy of Sitronics is based on strong partnerships with key global and regional players. Sitronics has developed strategic alliances with Cisco Systems, STMicroelectronics, Infineon and Giesecke&Devrient in relation to most important products and services. Sitronics has vendor relationships with Siemens, Ericsson, Motorola, Oracle, Intel, Sun Microsystems and Microsoft. Key customers are both local companies (MTS, Comstar-UTS and MTT), and

international firms (OTE, Cosmote, Vodafone, Ericsson, Arcelor Mittal and TCL).

Sitronics uses strategic partnerships and joint venture modes in order to get inside new attractive markets, enjoying the benefits of the concepts such as established networks and lower risks. One recent strategic partnership was established with Nokia Siemens Networks, a global enabler of communications services. Within the framework of this partnership, the agreement was signed, according which Sitronics Microelectronics (subsidiary of Sitronics) became the official global supplier of analogue power management electronic components for Nokia Siemens Networks products.

The most important international results of Sitronics are presented in the table 5.

**Table 5**

Internationalization of Sitronics.

Key characteristics	Internationalization results
Internationalization started	Mid 2000s
Foreign destinations	CIS, Greece, Eastern Europe, Middle East and South-East Africa. The major enterprises are located in Prague and Athens for Telecommunications Solutions, in Kiev for IT
Main assets abroad	Subsidiaries in over 30 countries
Entry modes	Strategic partnerships and joint ventures
Major deals and projects	Strategic partnership with Nokia Siemens Networks. Joint projects in the telecommunications area with Ericsson (3G

---

	network designs) and Cisco Systems (network solutions for fixed and mobile communications). Strategic alliances with Cisco Systems, STMicroelectronics, Infineon and Giesecke&Devrient in relation to most important products and services. Vendor relationships with Siemens, Ericsson, Motorola, Oracle, Intel, Sun Microsystems and Microsoft
Expansion approach	Exporting to over 60 countries in Western and Eastern Europe, Middle East, North America, North Africa and Central and South-East Asia. Manufacturing in Russia, Greece, Czech Republic, Romania and China. Key customers abroad are OTE, Cosmote, Vodafone, Ericsson, Arcelor Mittal and TCL
Role of the state	Average to high

---

## 5. Results and discussion

### 5.1. Findings of the research

We see our study as having important implications on the literature of Russian multinationals. In this study, we advance the notion that in strategic sectors of the Russian economy motives of internationalization of national firms may be explained with the fast growth of the local market, low cost opportunities, and home government incentives.

The table 6 may explain the benefits which motivate the international expansion of Russian companies.

**Table 6**

General sectoral features of Russian high tech MNEs.

Sector	Russian firms' possible benefits
Telecom	The market in Russia was the fourth-largest in the world in 2008-2009, after China, India and the US. It has been one of the most attractive sectors for Russian and foreign investors. Hence, the development of local market stimulated further OFDI from Russia.
IT	Russian companies benefit abroad with the high level of staff education which provides for better manpower at relative low cost. Incentives for the local IT enterprises to improve their operations to become potential service providers for these foreign firms.

The study has implication on the entry strategy focus. The relatively fast development of high tech sector in Russia led to the rise of advanced technologies and highly skilled labor force. Hence, while obtaining technology and upgrading the technological capabilities through collaborations with foreign companies are the primary objectives of both local companies and the governments in developing countries (Beamish, 1993; Meyer, 2004), the high tech companies from Russia are more focused on acquisition of customers than of technologies when expanding abroad.

With regard to the geographical distribution of case companies' international activities, data show that despite high interest to the developed economies' markets, Russian high tech firms have generally targeted developing country firms, particularly in CIS and Asia. Meanwhile, the expansion of Russian MNEs sometimes began in other CIS countries.

The study has also implication on the investment decisions of case companies. A higher investment cost of greenfield strategy makes acquisition more attractive (Muller, 2007). Hence, partnerships (IJV and alliances) can be considered as the easiest mode of the start of acquisition strategy since it allows quick access to infrastructure. This is highly important for the telecom sector which is sometimes strongly protected by local governments.

From the standpoint of technology differences the greenfield strategy can be advantageous only if the significant technological gap between key competitors exist. As the technological sophistication of both Russian and foreign firms in the high tech sector is about equal (if compare with natural recourse based enterprises), the partnership oriented strategy is more appropriate.

When expanding internationally, Russian telecom MNEs often acquire an equity stake in an existing local firm, the stake being ranged from minority to equal ownership. At the same time, as most of the key industries in different countries are under the high governmental protection and surveillance, the rise of the share in the ownership up to 100% may be difficult or even impossible.

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 & 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. Nevertheless, Russian high tech MNEs seem to be less “exodus” and more “expansion” oriented due to their non natural resource nature.

Our study also has important implications on the Russian MNEs’ strategies dependence of both Russian and host governments. Russian state imposes ownership restrictions on foreign firms in high tech industries in order to protect the dominant position of local companies, which generate profits sufficient to finance acquisitions abroad. Host countries governments are often interested to attract Russian investments or to serve Russian policy (some CIS countries both), which may facilitate international expansion of Russian firms.

The generalization of the international results of case companies, being presented in the table 7, may be of the interest for the further studies of the phenomenon of Russian multinationals.

**Table 7**

International results of Russian MNEs in high tech sector.

Foreign	Entry modes	Expansion approach	Role of state
---------	-------------	--------------------	---------------

	destinations			
Tele-com	CIS countries, Eastern Europe, and Asia (with the focus on India)	Acquisitions of market leaders and strategic partnerships; more rarely IJV and licensing	'Follow the customer' strategy. Expansion in various forms not only to CIS countries but even further to Asia and Europe	The whole sector is under the attention of the government. Forms and extent of the interference may vary. Support helps in cases of expansion to CIS
IT	CIS, Europe, Asia, Middle East, South-East Africa	Strategic partnerships and IJVs as the core mode; exporting	Manufacturing in the countries with the cheap labor force; opening regional offices in Europe and CIS	Despite support is provided by government, the sector seems to be less dependent on the state than telecom

## 5.2. *Validity and limitations of the research*

In this research, the evaluation of motives and preconditions, and the study of entry decisions and investment strategies of case companies, was by nature a qualitative process. The main sources of the primary data were the managers of Russian firms and of foreign companies' subsidiaries in Russia in the high tech related industries. To minimize the effects of subjective biases in the interviews the most important issues were discussed from several angles. The data were combined from the interviews of the top management and the middle

management, and from the information of the experts of the selected industries. Some conclusions were based on the general understanding and general view resulting from the whole investigation process.

The validity of the results of this study is limited by the choice of cases. The sampling was theoretical not statistical. The case companies were represented by their status of the leading in Russia and top investors abroad. The target sector was high tech, but the telecom industry dominated as two of four companies are telecom services providers and one is partly involved in telecom business.

Two vectors differently shape the validity of the research findings from the standpoint of the effects of financial crisis to the selected industries. First, even huge international investors withdraw from the announced projects, and though the general activity of internationalization may fall. Second, taking into account the rise of uncertainty related to crisis, the OFDI became the kind of panacea (we may refer again to “exodus” by Vahtra & Liuhto 2006) in case of the persevering belief of Russian MNEs’ management in necessity to continue oversea expansion.

## **6. Conclusions**

The common threads among motives of Russian MNEs’ international expansion are following.



The fast development of Russian high tech sector led to the rise of advanced technologies and highly skilled labor force; hence, the Russian MNEs in are more focused on acquisition of customers than of technologies when expanding abroad.

Increasing OFDI diversification provides Russian MNEs with capabilities to match the moves of their global counterparts. Domestic economic growth, low cost opportunity, and large human potential are likely to continue to drive Russian companies' expansion abroad.

As the greenfield strategy is preferable when significant technological gap between major players exist, in the high tech sector the sophistication of Russian and foreign firms is about equal, and the partnership based strategy may be more appropriate. Moreover, as the national telecom industries are in most cases strongly protected by local governments, partnerships abroad became therefore one of cornerstones of these companies entry strategy.

Despite Russian MNEs are generally highly dependent on both Russian and host governments, high tech companies from Russia are relatively less influenced by home state, being shaped more by economical than political vector in their international expansion. Hence, they seem to be less 'escaping' and more 'investing' if comparing with their natural resource dependent counterparts.

Finally, while the global crisis has not been destructive for Russian MNEs, the profound analysis of how the Russian companies might raise their

competitiveness during the periods of crisis would require expansion of discussion beyond aggressive acquisitions, capital escape, and role of the government.

## References

- Bank of Russia (2010) *Russian Federation: Outward Foreign Direct Investments of Nonbanking Corporations, by Country*, <[http://www.cbr.ru/eng/statistics/print.aspx?file=credit\\_statistics/inv\\_out-country\\_e.htm](http://www.cbr.ru/eng/statistics/print.aspx?file=credit_statistics/inv_out-country_e.htm)>, updated May 13, 2010.
- Bartlett, C., Ghoshal, S. (1989) *Managing Across Borders*, Boston, MA: Harvard Business School Press.
- Beamish, P.W. (1993) The Characteristics of Joint Ventures in the People's Republic of China, *Journal of International Marketing*, 1(2): 29–48.
- Benito, G. and Narula, R., eds. (2007) *Multinationals on the Periphery*, London: Macmillan.
- Boddewyn, J.J. and Brewer, T.L. (1994) International-business political behavior: new theoretical directions, *Academy of Management Review*, 19 (1): 119-143.
- Bulatov, A. (2001) Russian direct investment abroad: history, motives, finance, control and planning, *Economics of Planning*, 34(3): 179-194.
- Bulatov, A. (1998) Russian direct investment abroad: main motivations in the post-Soviet period, *Transnational Corporations*, 7(1): 69-82.
- Child, J., Rodrigues, S. (2005) The Internationalization of Chinese Firms: A Case for Theoretical Extension?, *Management and Organization Review*, 1(3): 381-410.
- Crane, K., Peterson, D.J., Oliker, O. (2005) Russian investment in the Commonwealth of Independent States, *Eurasian Geography and Economics*, 46(6): 405-444.

- Cuervo-Cazurra, A., Genc, M. (2008) Transforming disadvantages into advantages: developing-country MNEs in the least developed countries, *Journal of International Business Studies*, 39(6): 957-979.
- Economist Intelligence Unit (2010) Russia, Country Report.
- Eisenhardt, K.M. (1989) Building Theories from Case Study Research, *Academy of Management Review*, 14(4): 532–550.
- Elenkov, D.S. (1995) Russian Aerospace MNCs in Global Competition: Their Origin, Competitive Strengths and Forms of Multinational Expansion, *The Columbia Journal of World Business*, Summer: 66–78.
- Filatotchev, I., Buck, T., Wright, M. (2007a) Soviet all-union enterprises as new multinationals of the CIS, *The International Executive*, 35(6): 525-538.
- Filatotchev, I., Strange, R., Piesse, J., Lien, Y.-Ch. (2007b) FDI by firms from newly industrialised economies in emerging markets: corporate governance, entry mode and location, *Journal of International Business Studies*, 38 (4): 556-73.
- Filippov, S. (2008) Russian Emerging Multinationals: Trends and Issues, UNU-MERIT (United Nations University and Maastricht University), Working Papers, #062, Maastricht, the Netherlands.
- Globerman, S. and Shapiro, D. (2006) Outward FDI and the economic performance of emerging markets. *International conference on the rise of transnational corporations from emerging markets: threat or opportunity?* New York: Columbia University.

- Goldstein, A. and Shaw, T.M. (2007) *Multinational companies from emerging economies: composition, conceptualisation and direction in the global economy*, London: Macmillan.
- Halinen, A., Törnroos, J.-A. (2005) Using case methods in the study of contemporary business networks, *Journal of Business Research*, 58(9): 1285-1297.
- Hamilton, G. (ed.) (1986) *Red Multinationals or Red Herrings? The activities of Enterprises from Socialist Countries in the West*. St. Martin's, New York.
- Heenan, D.A. and Keegan, W.J. (1979) The rise of third world multinationals, *Harvard Business Review*, 57 (1): 101-109.
- Heinrich, A. (2003) Internationalisation of Russia's Gazprom, *Journal of East European Management Studies*, 8(1): 46-66.
- Heinrich, A. (2006) Russian companies in old EU member states: the case of Germany, *Journal of East-West Business*, 11(3-4): 41-59.
- Hoskisson, R., Eden, L., Lau, C.M., and Wright, M. (2000) Strategy in Emerging Economies, *Academy of Management Journal*, 43(3): 249-267.
- IMEMO-VCC survey (2009) *Russian multinationals continue their outward expansion in spite of the global crisis*, Moscow and New York, December 2.
- Kalotay, K. (2001) The Contribution of Foreign Direct Investment to Transition Revisited, *Journal of World Investment*, 2(2): 259-276.
- Kalotay, K. (2004) Will foreign direct investment take off in the Russian Federation? *Journal of World Investment & Trade*, 5(1): 119-138.

- Kalotay, K. (2005) Outward Foreign Direct Investment from Russia in a Global Context, *Journal of East-West Business*, 11 (3/4): 9-22.
- Kalotay, K. (2008) Russian transnationals and international investment paradigms, *Research in International Business and Finance*, 22: 85-107.
- Kets de Vries, M., Shekshina, S., Korotov, K., Florent-Treacy, E. (2004) The new global Russian business leaders: lessons from a decade of transition, *European Management Journal*, 22(6): 637-648.
- King, R., Hill, M., Cornforth, J. (1995) From “red multinationals” to capitalist entrepreneurs? *European Journal of Marketing*, 29(13): 6-22.
- Kostova, T., Zaheer, S. (1999) Organizational Legitimacy Under Conditions of Complexity: the Case of the Multinational Enterprise, *Academy of Management Review*, 24(1): 54–81.
- Kuznetsov, A. (2010) Industrial and geographical diversification of Russian foreign direct investments, *Electronic Publications of Pan-European Institute*, 7.
- Liuhto, K. (2001) Russian gas and oil giant conquer markets in the West: evidence on the internationalization of Gazprom and LUKoil, *Journal of East-West Business*, 7 (3): 31–72.
- Liuhto, K. (Ed.) (2005) *Expansion or Exodus: Why Do Russian Corporations Invest Abroad?* Haworth Press, Binghamton, NY.
- Liuhto, K., and Vahtra, P. (2007) Foreign operations of Russia’s largest industrial corporations – building a typology, *Transnational Corporations*, 16 (1): 28-36.

- Liuhito, K., Jumpponen, J. (2003) The Russian eagle has landed abroad: evidence concerning the foreign operations of the Russian Federation's 100 biggest exporters and banks, *Research Report No. 141, Lappeenranta University of Technology*, Lappeenranta.
- Luo, Y. (2005) Transactional Characteristics, Institutional Environment and Joint Venture Contracts, *Journal of International Business Studies*, 36: 209–230.
- Luo, Y. (2007) Are Joint Venture Partners More Opportunistic in a More Volatile Environment? *Strategic Management Journal*, 28(1): 39–60.
- Luo, Y., and Tung, R.L. (2007) International expansion of emerging market enterprises, *Journal of International Business Studies*, 38: 481–498.
- McMillan, C. (1987). *Multinationals from the Second World: Growth of Foreign Investment by Soviet and East European Enterprises*, St. Martin's Press, New York.
- Meyer, K.E. (2004) Perspectives on Multinational Enterprises in Emerging Economies, *Journal of International Business Studies*, 35: 259–276.
- Müller, Th. (2007) Analyzing Modes of Foreign Entry: Greenfield Investment versus Acquisition, *Review of International Economics*, 15(1): 93-111.
- Panibratov, A. (2009) Internationalization Process of Russian Construction Industry: Inward Investments Perspective, *Journal for East European Management Studies*, 2: 210-228.
- Panibratov, A., Kalotay, K. (2009) Russian Outward FDI and its Policy Context, in *Columbia FDI Profiles, Vale Columbia Center on Sustainable International Investment*, Columbia University, 1.

- Ramamurti, R. (2008) What have we learned about emerging-market MNEs? In Ramamurti & Singh (eds.), *Emerging Multinationals from Emerging Markets*, Cambridge U. Press.
- Rasiah, R., Gammeltoft, P., Jiang, Y. (2010) Home government policies for outward FDI from emerging economies: lessons from Asia, *International Journal of Emerging Markets*, 5(3/4): 333-357.
- Sauvant, K.P. (2005) New Sources of FDI: The BRICs. Outward FDI from Brazil, Russia, India and China, *Journal of World Investment and Trade*, 6 (5): 639-709.
- Sethi, D. (2009) Are multinational enterprises from the emerging economies global or regional? *European Management Journal*, 27: 356-365.
- Sutyurin, S. (2009) Internationalization of Russian Economy: threats and opportunities in time of crises, *Electronic Publications of Pan-European Institute*, 4
- The Russians are Coming: Understanding Emerging Multinationals* (2006) The Economist Intelligence Unit.
- Vahtra, P., Liuhto, K. (2005) Russian corporations abroad—seeking profits, leverage or refuge? In: Liuhto, K., Vincze, Z. (Eds.), *Wider Europe*. Turku School of Economics and Business Administration, Turku: 225–254.
- Vahtra, P., Liuhto, K. (2006) An overview of Russia's largest corporations abroad, in: Liuhto, K. (Ed.), *Expansion or Exodus – Why do Russian Corporations Invest Abroad?* International Business Press, New York.
- Vahtra, P. (2006) Expansion or Exodus? – The new leaders among the Russian TNCs. *Electronic Publications of Pan-European Institute*, Turku School of Economics, Finland.



- Wells, L.T. (1983) *Third World Multinationals: The Rise of Foreign Direct Investment from Developing Countries*, MIT Press: Cambridge, MA.
- Witt M. A., Lewin A.Y. (2007) Outward foreign direct investment as escape response to home country institutional constraints, *Journal of International Business Studies*, 38: 579–594.
- Zaheer, S., Zaheer, A. (1997) Country Effects on Information Seeking in Global Electronics Networks, *Journal of International Business Studies*, 28(1): 77–100.
- Zhou, C., Li, J. (2008) Product Innovation in Emerging Market-Based International Joint Ventures: an Organizational Ecology Perspective, *Journal of International Business Studies*, 39(7): 1114–1132.

Websites of Russian multinational companies.