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Internationalization Strategies of Russian non-energy companies

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ABSTRACT

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

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

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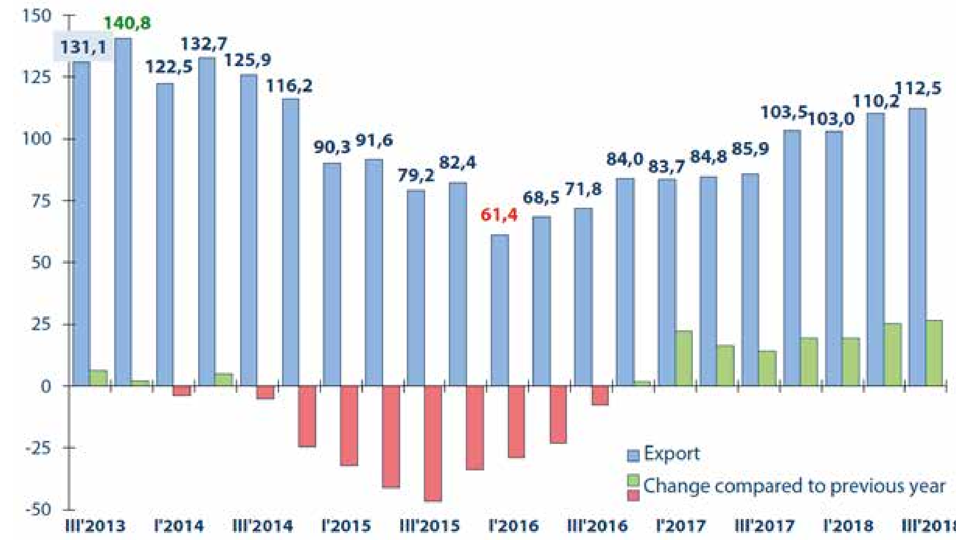

Figure 1. Dynamics of Russian exports, billion dollars[1]

1. INTRODUCTION

The current state of the export activities of the Russian Federation is characterized by a high share of commodity exports, which is about two-thirds of the total exports. Russia's exports for three quarters of 2018, according to the Russian Federal Customs Service, amounted to $ 325.6 billion (Figure 1), non-energy exports increased to $ 105.3 billion according to the REC's estimates. The growth of total exports compared to 3 quarters of 2017 was 28% (+71.3 billion dollars), the growth of non-energy exports was 16.5% (+$ 14.9 billion). Positive dynamics of total exports and for non-energy exports are recorded for the eight hand the ninth quarter in a row. At the same time, the quarterly growth rate of total exports for seven quarters does not fall below 20%. The main contribution to the increase in total exports was made by fuel (77% of cumulative growth) and metals (10%). In non-energy exports the main contributors in growth were metal products (44%), food (23%), chemical products (15%) and wood and paper products (11%).

In the structure of non-energy exports of Russia, the overwhelming majority steadily fall on 5 product groups, primarily metal products, engineering products, chemical goods and foodstuffs, and also paper and paper products. For 3 quarters of 2018, their exports were characterized by the following values:

- Metal products – $ 31.7 billion, 30.1%;
- engineering products – $ 20.3 billion, 19.3%;
- chemical goods – $ 19.8 billion, 18.8%;
- food – $ 16.4 billion, 15.5%;
- wood and paper goods – $ 8.64 billion, 8.2% (Figure 2).

Precious metals and stones have a notable weight in the export structure ($ 4.19 billion, or 4%). The value of the other groups is small:

- various industrial products – $ 1.57 billion, 1.5%;
- glass, ceramics, stone products – $ 1.24 billion, 1.2%;
- textiles, clothing, shoes – $ 0.92 billion, 0.9%;
- non-food agricultural products – $ 0.59 billion, 0.6%.

The highest weight in non-energy exports of Russia for 3 quarters of 2018 were semi-finished unalloyed steel, wheat (5.7% each), aluminum and its alloys (3.6%), sawn timber (3.2%), refined copper (2.9%), metals of the platinum group (2.5%), hot-rolled non-alloyed sheet metal (2.4%) and mixed fertilizers (2.3%), as well as aircraft. Nitrogen fertilizers (1.9%), frozen fish (1.7%), cast iron (1.5%), turbo engines and gas turbines (1.4%), nickel (1.3%), synthetic rubber and potash fertilizers (1.2% each), as well as weapons and ammunition, radioactive materials.

So, the internationalization of Russian companies becomes one of key conditions for the successful growth and development business (Aleksanyan, 2014; Lukashenko, 2009; Shirokova, Tsukanova, 2013; Uvarov, 2013; Bukhvalov, Alekseeva, 2015; Katkalo, Medvedev, 2011; Knight, Liesch, 2016; Rugman, Verbeke, 2004; Tseng, Tansuhaj, Hallagan et al., 2007; Trachuk, Linder, 2018 and others).

Drivers of internationalization are opportunities for companies to diversify their activities, expanding their geographic presence, access to resources and markets of other countries, commercialization of innovations, and so on. At the same time, many studies confirm the positive relationship between entering the international markets and increasing the effectiveness of its activities (Barnard, 2010; Gammeltoft, Filatotchev, Hobdari, 2012; Mihailova, Panibratov, 2012; Trachuk, Linder, 2018), and in some works, internationalization is seen as a strategy for increasing the competitiveness of a company in the domestic market (Collinson, Rugman, 2007; Luo, Tung, 2007; Demirbag, Tatoglu, Glaister, 2009).

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

[1] Russian Federal Customs Service.

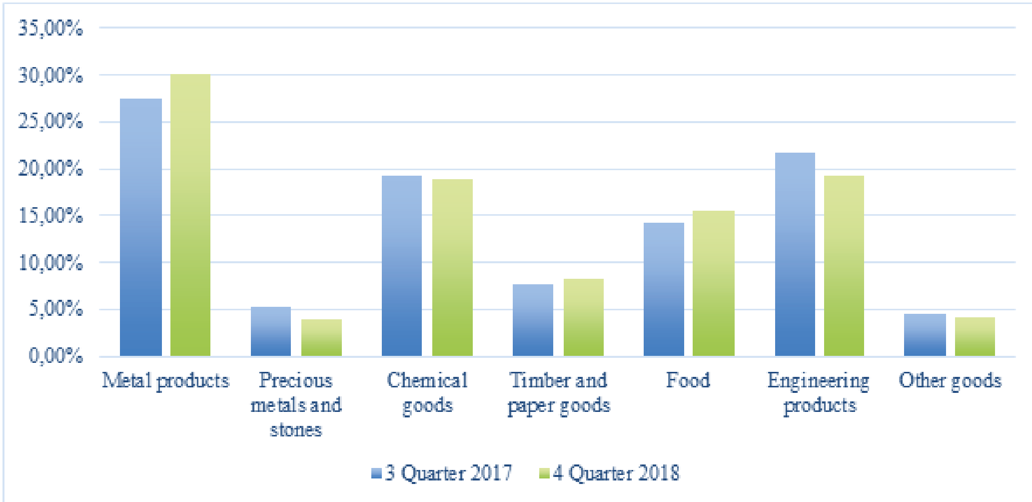

Figure 2. Russian non-energy non-commodity export, %[2]

2. CLASSIFICATIONS OF INTERNATIONALIZATION STRATEGIES

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

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

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

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

Barlet and Goshal (Harzing, 2000) classify strategies for accessing external markets according to the degree to which a company should take into account local conditions and the need for integration to run a business, starting from replication, when there is no need to take into account local conditions of activity and a high degree of integration, transnational, characterized by a high degree of need for local business conditions and integration. Jennet and Hennessey (Jeannet, Hennessey, 2004) develop a classification of strategies based on market-orientation and identify intra-national (ethnocentric), regional (regional-centric), multinational (polycentric) and global (geocentric) strategies.

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

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

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

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

[2] Russian Federal Customs Service.

3. THE CAUSES OF LIABILITY OF FOREIGNNESS

There is ample empirical evidence in the literature that companies entering foreign markets experience a range of difficulties that local firms do not encounter (see, for example, Mezias, 2002). The primary sources and nature of the problems that companies face in foreign markets were first described in (Zaheer, 1995) as the concept of "liability of foreignness" (LOF). According to this theory, a company entering foreign markets incurs additional costs, similar to transactional ones, that domestic companies do not have. At the same time, the costs themselves are both economic and non-economic (Denk,

Table 2
Characteristics of a sample of innovatively active companies operating in foreign markets[3]

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

[3] The data of the SPARK database, as well as (Prosnutsya eksporterom, 2015).

Kaufmann, Roesch, 2012). At the same time, Russian companies are more likely to incur more non-economic costs than economic ones (Panibratov, 2012).

Factors mitigating the negative impact of LOF effects include spillover-learning effects, savings due to the increasing scale of activities, the formation of specific business skills in different conditions and the accumulation of experience in conducting international operations (Li, 1995).

The goal is to identify the effects of the "liability of foreignness" arising in the process of internationalization of Russian industrial companies in non-energy sectors.

In this case, the greatest interest in this study is the question of the impact of the country of origin effect on the internationalization of Russian companies and the definition of mechanisms to neutralize the effects of the country of origin.

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

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

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

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

The causes of LOF effects are divided into two groups: those related to the internal characteristics of the company and the external environment of the business (Gaur, Kumar, Sarathy, 2011).

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

The concept of country of origin for the first time the county was presented in the article of Schooler (Schooler, 1965) and has since become widespread. Traditionally, the country of origin is defined as "the country where the parent company is located, which markets a product or brand" (Johansson, Douglas, Nonaka, 1985), and the production itself does not have to be located in the same country. Therefore, the effect of the country of origin is often defined as "the degree to which the place of production affects the evaluation of the product" (Gurhan-Canli, Maheswaran, 2000). Besides, there is a separate line of research that studies the effect of moving production from the country where the head office is located to another country on the company's brand image and consumer perception of product quality (Schweiger, Otter, Strebinger, 1997).

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

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

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

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

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

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

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

Table 3
Characteristics of internationalization strategies used by non-resource sector companies

Company	Characteristic strategy for (Barlett, Goshal, 2000)	Characterization of strategy by (Jeannet , Hennessy, 2004)	Characterization of strategy by (Rugman , Verbeke, 2004)	Characterization of strategy by (Finkelstein, Harvey, Lawton, 2007)	Characteristics of the strategy for (Kotler, Berger, Bikhoff, 2015)	Characteristics of the strategy for (Knight, Liesch, 2015)	Characteristics of the strategy for (Cerrato, Crosato, Depperu, 2016)
Technonicol	Multilocal strategy	Strategy of polycentric orientation	The development strategy of the two regions	The strategy of "expanding horizons" in the "old" market	Focused portfolio strategy	Born global	Network Enterprise
Splat-Global	Replication strategy	Strategyof ethnocentric orientation	Global strategy	The strategy of "storming" in the "old" market	Strategy innovation and branding	Incremental internationalization	Network Enterprise
Lighting Technologies	Multilocal strategy	Strategy of polycentric orientation	Global strategy	The strategy of "expanding horizons" in the new market	Strategy innovation and branding	Born global	Investment oriented strategy
Smart solutions	Multilocal strategy	Strategy of polycentric orientation	Global strategy	The strategy of "taking by storm" in the new market	Strategy innovation and branding	Born global	Network Enterprise
Penetron-Russia	Multilocal strategy	Strategy of polycentric orientation	Global strategy	The strategy of "storming" in the "old" market	Strategy innovation and branding	Incremental internationalization	Investment oriented strategy
NaturaSiberica	Replication strategy	Strategy of ethnocentric orientation	Global strategy	The strategy of "expanding horizons" in the "old" market	Focused portfolio strategy	Born global	Network Enterprise
Diakont	Multilocal strategy	Strategy of polycentric orientation	Global strategy	The strategy of "expanding horizons" in the new market	Strategy innovation and branding	Born global	Network Enterprise
Neva Metal Tableware	Replication strategy	Strategyof ethnocentric orientation	Home region strategy	The strategy of "expanding horizons" in the new market	Focused portfolio strategy	Incremental internationalization	A little internationalized enterprise
SadyPridonia	Multilocal strategy	Strategy of polycentric orientation	Development-strategy of tworegions	The strategy of "expanding horizons" in the new market	Strategy innovation and branding	Incremental internationalization	Network Enterprise
Kontur	Replication-strategy	Strategy of ethnocentric orientation	Home region strategy	The strategy of "expanding horizons" in the new market	Focused portfolio strategy	Incremental internationalization	A little internationalized enterprise

Table 4
Potential sources of LOF for Russiannon-energy exportingcompanies

Company	Specificresources	Internationalization-method	Regions of presence
Technonicol	Favorable geographical location of the plant of the company compared to suppliers from other countries The unique built-up roofing material technoelast with protective layers of different color	Export, subsidiary	Europe
Splat-Global	Lack of analogues developed product in the world. Complete restart of product recipes every two years. Own innovative high-tech developments	Export, subsidiary	Europe, South-East Asia,Middle East, CIScountries
Lighting Technologies	There are no analogues of technical solutions of the enterprise. Large production capacity	Export, subsidiary	Europe, South-EastAsia
Smart solutions	Netcentric multi-agent system for coordinated workshop management	Export, jointventure	Europe
Penetron-Russia	Unique waterproofing material penetron	Export, subsidiary	Europe, CIS countries
Natura Siberica	Own, unique in the territorial location of the resource base. A wide range of products.	Export, subsidiary	USA, Europe, South-East Asia, CIS countries
Diakont	Production of exclusive equipment based on effective innovative technologies. Monitoring and control systems of high radiation resistance	Export, foreign branch	Europe, North America, South-East Asia
Neva Metal Tableware	Technologies to produce products with the highest class of safety for consumers	Export	CIS countries
Sady Pridonia	Advance development of its own resource base. High technological level of production (I-plant). Continuous technological update	Export	Belarus, Kazakhstan, Kyrgyzstan, China, Turkmenistan, Tajikistan, Moldova, Ukraine
Kontur	Unique products exceeding the power of foreign analogues	Export	Belarus, Kazakhstan, Kyrgyzstan, China,

form of exports. Now Splat Global owns more than 10 Russian and foreign patents that testify very high competitiveness of products on a global scale.

Many of the companies carried out a step-by-step model of internationalization: first, they made expansion to other regions of Russia (not internationalizing, but gaining experience in conducting operations in unfamiliar markets, forming specific competencies in the conditions of high competitive pressure and/or national characteristics of certain regions), then these companies penetrated the markets of the CIS countries and later into other countries. An example of this is a turn-based internationalization of Sady Pridonia, which is a food producer and specialize on juice and baby food production. After gaining success in the domestic market, the company began to focus on exporting, which until recently was limited by the CIS country markets. However, in the recent past, deliveries of products to China began. The strategy of Sady Pridonia is aimed at the advanced development of its own raw material base and constant technological renewal. The company is among the first in the world committed to the creation of I-plant system-fully automated production, which can be controlled by one person online.

Most companies use such competitive advantages as technological leadership, leadership in the domestic market, which allows them to accumulate financial resources and managerial competencies that ensure successful operations in foreign markets.

Table 3 presents the characteristics of the internationalization strategies used by selected companies.

Since LOF sources are equally related to the company's external and internal environment, we combine the specific features of Russian companies in the non-energy sector and the way they are internationalized in Table 4. At the same time, we rely on the theory of D. Dunning (Dunning, 2009), indicating the presence of three types of sources of competitive advantages: 1) specific resources and competencies; 2) regions of presence; 3) the way of internationalization.

5. CONCLUSIONS AND PRACTICAL APPLICATION OF RESEARCH RESULTS

Despite the limited size of the sample of companies, with some caution, the analysis carried out allows us to draw some conclusions regarding the critical tools of the internationalization strategy used by Russian companies in non-energy sectors.

In most cases, companies use a replication strategy, which is to offer a standardized product in all countries. Some of the companies reviewed, use a strategy of limited adaptation of products by local company departments to local conditions. However, an absolute majority of companies strive to repeat the basic business principles in each country or region of the world where it operates. Another part of the surveyed companies uses a multi-local strategy which implies a concentration of core competencies of the corporation in the field of research and development, product development and marketing in the country parent company. However, at the same time, companies adapt their products and services to the requirements and tastes of consumers in each country where the company operates. Most of the reviewed companies observe the autonomous functioning of each subsidiary and the formation of its own set of activities to create value.

Most of the reviewed companies prefer using a global strategy, i.e., conduct operations in all countries of the world, however, about a third of companies use the strategy of the region of basing or mastering only two regions, i.e., conduct operations or only in the region of basing or in two regions.

All this testifies to the initial stage of the internationalization of Russian companies in the non-energy sector, the tendency of companies to conduct simple operations in international markets, and the use of the least risky strategies of internationalization.

Two-thirds of the companies reviewed use the strategy of innovation and branding, which implies continuous product development and the introduction of more modern versions of the product to the market. Companies try to take a position when other market participants are in a position to catch up with the company. Splat Global demonstrates an example of such a strategy. It brings to the market products that have no world peers, whose export share is about 20% of the total revenue. Another example of such a strategy may become the Diakont, the share of revenues from export activities of which is more than 25%. The company is a developer of high radiation resistance monitoring and control systems for nuclear power plants, and Diakont products are in demand among foreign customers – the world leaders in nuclear energy. It is successfully operating, demonstrating high reliability and, according to estimates, surpassing competitors' analogs.

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

Thus, despite the unfavorable situation for internationalization, the lack of significant state support, which can be used by competitors in other countries, Russian innovative and active companies of non-energy sectors manage to use a number of competitive advantages: a reputation of technological superiority of the world level in specific industries, the capacity and complexity of the domestic market to enter the most complex and promising markets.

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

Concerning companies from emerging countries, it is critical for the effect of country of origin, which plays a part of the factor as a whole LOF and having a considerable weight for Russian companies in particular.

In this regard, the impact of the country of origin effect on the internationalization of Russian companies is determined by the industry in which these companies operate. The variety of economic and non-economic mechanisms that influence the country of origin allows them to compensate for the impact on each other, as, for example, in the case of overcoming the adverse effect caused by a high degree of politicization of the process of internationalization of Russian companies in the non-resource sector, a positive effect associated with the reliability and high quality of their products and services. The positive effects of the country of origin are determined by the existence of appropriate competitive advantages that help Russian companies to overcome the LOF effect. Thus, the identification of the sources of advantages of Russian firms and their development in the process of internationalization is a way to minimize the negative consequences of the liability of foreignness and the effects associated with their country of origin.

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