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.

FOR CITATION:

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 $305.3 billion according to the REC's estimates. The growth of total exports compared to 3 quarters of 2017 was 28.2% (+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%).

Figure 1. Dynamics of Russian exports, billion dollars

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 food stuffs, 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 products – $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.

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

So, the internationalization of Russian companies becomes one of key conditions for the successful growth and development business (Alexanyan, 2014; Lukashenko, 2009; Shirokova, Tsukanova, 2013; Uvarov, 2013; Bukhvalov, Alekseeva, 2015; Katkalo, Medvedev, 2011; Knight, Liesch, 2016; Rugman, Verbeke, 2004; Tseng, Tamulahj, 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; Gammehoff, Filatotchev, Hokdari, 2012; Mihailova, Panisbratov, 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; Demirbug, Togolu, Glasier, 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.

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...
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 companies face in foreign markets were first described in (Zahra, 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, Kauffman, 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 spill-over-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 the basis of products and services that have proven effective in the existing markets (the least risky strategy);

• “Business model” involves a rapid expansion strategy by transforming the business model of a company that does not affect its main product;

• “From lagging behind 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 breakthrough strategy when new unknown companies enter the market for several years.

Works over the past two years (for example, Kotler, Berger, Bickhoff, 2010; Knight, Liesch, 2011; Cerrato, Croato, Deppe, 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 competitive 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, 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 (Marketster), investment-oriented (Investor), network enterprises (Networker), enterprises that have little or no experience with foreign markets from different industries (Cerrato, Croato, Deppe, 2016).

3.2 Characteristics of a sample of innovatively active companies operating in foreign markets

<table>
<thead>
<tr>
<th>Company</th>
<th>Field of activity</th>
<th>Export share in revenue, %</th>
<th>Form of entering the foreign market</th>
<th>Number of countries</th>
<th>Region of presence</th>
<th>Competitive advantages in the foreign market</th>
<th>K &amp; D costs, % of sales revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technoconcept</td>
<td>Roofing, waterproofing and heat-insulating materials</td>
<td>20</td>
<td>Export, subsid.</td>
<td>13</td>
<td>Europe</td>
<td>Half radical innovation (innovation in technology), Constant expansion of the product range. Favorable geographic location of the plant of the company compared to suppliers from other countries. Unique built-up roofing material Tektonik with different color</td>
<td>8-10</td>
</tr>
<tr>
<td>Splat-Global</td>
<td>Oral Care Products</td>
<td>20</td>
<td>Export, subsid.</td>
<td>70</td>
<td>Europe, South Asia</td>
<td>Radical innovation. Lack of analogues developed product in the world. Complete control of product development. Own innovative high-tech developments</td>
<td>10-15</td>
</tr>
<tr>
<td>Lighting Technologies</td>
<td>Lighting</td>
<td>15</td>
<td>Export, subsid.</td>
<td>23</td>
<td>Europe, South Asia</td>
<td>Radical innovation. There are no analogues of technical solutions of the enterprise. Large production capacity. Energy efficient lighting and lighting solutions</td>
<td>10</td>
</tr>
<tr>
<td>Smart solut.</td>
<td>IT field</td>
<td>16</td>
<td>Export, joint venture</td>
<td>19</td>
<td>USA, Europe, Southeast Asia, CIS countries</td>
<td>Radical innovation. Advanced innovative technology. Production of non-traditional products. Unique waterproofing material penetr</td>
<td>8</td>
</tr>
<tr>
<td>Pemen-Russia</td>
<td>Building materials</td>
<td>20</td>
<td>Export, subsid.</td>
<td>35</td>
<td>Europe, CIS countries</td>
<td>Half radical innovation (innovation in technology). Emphasis on performance, energy efficiency, and organic materials</td>
<td>12</td>
</tr>
<tr>
<td>Siburica</td>
<td>Cosmetics</td>
<td>10</td>
<td>Export, subsid.</td>
<td>28</td>
<td>USA, Europe, Southeast Asia, CIS countries</td>
<td>Radical innovation. Production of exclusive equipment based on effective innovation technologies. Manufacturing and control systems of high radiation resistance</td>
<td>15</td>
</tr>
<tr>
<td>Diakont</td>
<td>High-tech equipment for nuclear facilities</td>
<td>25</td>
<td>Export</td>
<td>13</td>
<td>Europe, North America, South America, CIS countries</td>
<td>Radical innovation. Technologies to produce the highest class of products for nuclear facilities. High technological level of production (1-plant). Continuous technological update</td>
<td>13.3</td>
</tr>
<tr>
<td>Neva Metal Electro</td>
<td>Manufacture of radiators</td>
<td>5</td>
<td>Export</td>
<td>2</td>
<td>CIS countries</td>
<td>Radical innovation. Technologies to produce the highest class of products for nuclear facilities. High technological level of production (1-plant). Continuous technological update</td>
<td>21</td>
</tr>
<tr>
<td>Sady Pri-Kon</td>
<td>Juice and beverage production</td>
<td>12</td>
<td>Export</td>
<td>8</td>
<td>Belarus, Kazakhstan, Kyrgyzstan, China, Turkmenistan, Tajikistan, Kyrgyzstan, Maldives, Ukraine</td>
<td>Radical innovation. Unique products exceeding the power of foreign analogues</td>
<td>1.1-10</td>
</tr>
</tbody>
</table>

The concept of country of origin for the first time the country was presented in the article of Schooler (Schooler, 1965) and has since become widespread. Traditionally, the country of origin is defined as the country, in which a company was established, which markets a product or brand (Johnsson, Douglas, Noanka, 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 place of production effects the evaluation of the product” (Gurhan-Cakil, Maheswaran, 2000). Besides, there is a separate line of research that studies the effect of the nature of specific resources, ownership structure, etc. The second group of reasons may be, 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.

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

3.3 The causes and level of LOF effects are described in (Mezias, 2005), according to which the strategy is determined by the interaction of country-specific advantages and firm-specific advantages (FSAs) (Rugman, 2010). The CSA - weak CSA 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 from the 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. Jennen and Henemans (Jennet, Henemans, 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 companies conduct foreign operations in the work of Finkelshtein, Harvey and Lawton (Finkelshtein, Harvey, Lawton, 2007), strategies are classified as:

• “Expand the horizons”, involving the rapid expansion of the company to foreign markets in the basis of products and services that have proven effective in the existing markets (the least risky strategy);

• “Business model” involves a rapid expansion strategy by transforming the business model of a company that does not affect its main product;

• “From lagging behind leaders”, gaining a leadership position due to a change in the management paradigm and the formation of a new strategy;

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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% focus on a global scale. The strategy of innovation-active companies operating in foreign markets. Characteristics of the companies are presented in Table 2.

The strategy of innovation-active companies operating in foreign markets. Characteristics of the companies are presented in Table 2.

Most of the reviewed companies prefer using a global strategy. However, to make an effective decision, it is necessary to consider the specifics of each market and the company's strategy. In the future, companies can focus on developing new markets and expanding their presence in existing markets.

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 to local conditions. However, in the presence of high competitive pressure, companies strive to repeat the basic business principles in each region or in two regions. 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 and the formation of its own set of activities to create value.

All the findings lead 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 foreign 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 companies to 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, of exports. A little interationalized company is Splat Global. For example, the company's strategy is to focus on a global scale. The strategy of innovation-active companies operating in foreign markets. Characteristics of the companies are presented in Table 2.

- There are no analyses of technical solutions of the enterprise
- Large production capacity

- Natura Siberica
  - Own, unique in the territorial location of the resource base. A unique waterproofing material that protects all parts of the plant from the environment.

- Penetration of other regions
  - Two-thirds of the companies reviewed use the strategy of the region of basing or in two regions, i.e., conduct operations or only in one region, i.e., in the region of basing or in two regions.

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Most of the reviewed 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.
internationalization of Russian companies is determined by the in-
plexity of the domestic market to enter the most complex and
companies of non-energy sectors manage to use a number of
competitors in other countries, Russian innovative and active
is a way to minimize the negative consequences of the liability of
firms and their development in the process of internationalization
Thus, the identification of the sources of advantages of Russian
ages that help Russian companies to overcome the LOF effect.

In this regard, the impact of the country of origin effect on the
by a high degree of politicization of the process of internation-
ialization of Russian companies is determined by the indus-
try in which these companies operate. The variety of economic
and non-economic mechanisms that influence the country of or-
ign allows them to compensate for the impact on each other, as,
for example, in the case of overcoming the adverse effect caused
by a deep degree of politicization of the process of internation-
ization of Russian companies in the non-resource sector, a posi-
tive 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 competitive advantage
helps that 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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Решения


