Russian companies: the rise of new multinationals

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Abstract

Purpose – The focus of this paper is the emergence of Russia's multinational companies. It aims to analyse their motives to internationalise as well as the approaches to internationalisation. While relevance of the theoretical perspectives is highlighted, the purpose of this paper is to contribute to the understanding of the present-day phenomenon of emerging Russian multinationals.

Design/methodology/approach – The paper relies on a qualitative approach for the analysis of the nature of Russian multinationals. The phenomenon of the emerging Russian multinationals is analysed through the prism and using insights from a number of subjects, namely transition studies, politics, innovation studies and international business studies.

Findings – The paper traces the evolution of Russian companies; the idiosyncratic path of their formation serves as a background for understanding of their internationalisation strategies. A special attention is devoted to the R&D activities of Russian multinational companies, and access to foreign technology is found to be an important driver of internationalisation.

Research limitations/implications – The paper highlights relevance of further research on Russian multinationals and outlines research avenues.

Practical implications – The paper is rich in its practical implications. Specifically, it elaborates on the European Union-Russian bilateral relations and the role of Russian multinationals in the European economies. The issue of political involvement is raised, and the paper seeks to identify whether Russian companies serve as tools of foreign policy, or they operate as business agents.

Originality/value – Despite their increasingly important role in the global economy, Russian companies have been largely overshadowed by the emergence of Indian and Chinese multinationals and not sufficiently addressed, even neglected, in the literature. Therefore, the objective of this paper is to fill in some gaps in the literature regarding this research area.

Keywords Multinational companies, International investments, International business, Emerging markets, Russia

Paper type Research paper

1. Introduction

Internationalisation of Russians companies, ranging from energy sector to mass media, unthinkable even a few years ago, has become a present-day reality. While Russian itself is a lucrative growing market, Russian companies pursue an active policy of expansion abroad and seek to strengthen their market position on a global stage. Russia accounts for the largest foreign direct investment (FDI) outflows relative to gross domestic product (GDP) among Brazil, Russia, India, and China (BRIC) countries, yet Russian companies have been largely overshadowed by the emergence of Indian and Chinese multinationals and not sufficiently addressed, even neglected, in the literature. Therefore, the objective of this paper is to fill in some gaps in the literature regarding this research area.

The mainstream research has focused on the amount of outward FDI and investment positions of home and host economies. FDI outflows from emerging economies have

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been often taken as a proxy of activities of emerging multinationals. Such approach can be challenged since the macro indicators conceal particular business motive and corporate strategies. Hence, the paper seeks to investigate what is behind the rising outward FDI from Russia, with reference to the idiosyncratic nature of Russian multinationals and specific way of their formation and development in the 1990s.

The subject has been under-researched. There are several explanations to this problem. First, Russian corporate invasion to abroad, and particularly, to Europe, caused concerns about the motives of their internationalisation, and contributed to creation of a wide-spread belief that they are tools of Russian foreign policy rather than economic agents. Second, Russian companies themselves are not prepared to disclose information about their activities and strategies, impeding further academic research. The complexity of this subject compels to adopt a multifaceted approach and a holistic view. The phenomenon of the emerging Russian multinationals is analysed through the prism and using insights from a number of subjects, namely transition studies, politics, innovation studies and international business studies. The aim is to identify and analyse the economic motives of Russian companies to internationalise, as well as their strategies and activities.

The paper is organised as follows. The next section traces the history of Russian multinationals' emergence. It serves as a general background for the Section 3, in which comparison with other emerging multinationals and analysis of strategies and motivations are presented. Section 4 looks at Europe as a new destination for Russian investment. Finally, Section 5 concludes.

2. Russian capitalism: politics and business intertwined

This section traces the development and evolution of Russian companies and their internationalisation path. By doing so, we highlight the specific nature of Russian multinationals and lay a foundation for further analysis.

2.1 Soviet capitalism

Strange as it may seem, several multinationals existed already in the times of the USSR. In his study of their operations in Germany, Austria, Sweden, Britain and Ireland, Hamilton (1986) refers to these companies as "red multinationals". He observes "shallow" transnationalisation of these companies meaning that in most cases they carried out only marketing and sales operations. Moreover, all of them were state-owned by definition. Not surprisingly, he concludes that few of these enterprises showed signs of development and growth as Western multinationals had done. Similar argumentation was provided by McMillan (1987). In the same year, in his article "Soviet capitalism: the last stage of imperialism", Guillén published a list of 72 Soviet multinationals with foreign investment holdings in 22 capitalist countries, arguing about internationalisation of Soviet enterprises.

Understanding of the organisation of the Soviet economy can be helpful in explaining the motives of internationalisation, at least in the Commonwealth of Independent States (CIS), a contemporary loose grouping of former Soviet republics. Most state-owned enterprises headquartered in Moscow had subsidiaries in various parts of the Soviet Union; and they were termed "all-union enterprises". When the Union was a single state and a common economic area, this fragmentation did not pose major problems, since it was coordinated by the Soviet Ministry for Central Planning (in a similar manner as a modern HQ coordinates activities of its subsidiaries). In fact, this fragmentation was intentionally created by policy-makers aiming at equal distribution of industrial objects across the Union. Furthermore, as the state promoted the "national champions" and competition was explicitly banned, most enterprises were assigned with specific suppliers and customer, i.e. the value chain was engineered by the government. Suppliers and customers quite often were also based in different Soviet republics.

Collapse of the Soviet Union entailed disintegration of state-owned enterprises whose assets now became located in sovereign and independent states (and even privatised according to national laws of newly established republics); and the links with suppliers and customers – based in different states too, protected by tariff and non-tariff barriers – got broken. A feasible way of re-establishing these links for corporate integration became the acquisition of these assets-based abroad in CIS. Restructuring and transformation of these former state-owned enterprises, "red multinationals", has been documented in several studies, including Filatotchev *et al.* (2007) and King *et al.* (1995) in the case of UK subsidiaries of these companies.

2.2 The 1990s: Russian cowboy capitalism

Another group of Russian multinationals are those that emerged from the privatisation deals. The collapse of the Soviet Union heralded the demise of most state-owned Soviet multinational companies. As in all transition economies, the period of the 1990s was the time of massive privatisation in Russia. Unlike in the Central and Eastern European economies, the reliance on FDI in Russia was minimal. While Russia witnessed the mass privatisation in the beginning of 1990s, it is widely acknowledged that it did not create a class of effective owners. On the other opposite, a cohort of owners, known as "oligarchs", was swiftly formed in the mid-1990s in the process of distribution of state property among a handful of businessmen hand-picked by the ailing president Yeltsin and his entourage in "loans-for-shares" auctions and other deals (Goldman, 2004).

These controversial deals within the "loans-for-shares" framework provided a ground for most emerging Russian multinationals and made their owners dazzlingly wealthy; Vladimir Putin referred to them later as "appointed billionaires" (Aron, 2004). Hence, the 1990s can be roughly described as the time of the initial formation of large Russian companies and their restructuring and consolidation within the national economies. The outward FDI did exist but it can be regarded as "the capital flight" from the unstable environment to offshore paradises and tax heavens rather than firms' internationalisation. The arrival of Vladimir Putin to the Kremlin in 2000 marked the end of the "oligarchs era" of the 1990s, or "cowboy capitalism", as he termed it (BBC, 2004).

2.3 The 2000s: Russia goes global

As a result of "cowboy capitalism", by 2000 the Russian economy had become largely concentrated in the hands of several corporations. In 2001, Troika Dialogue reckoned that around 70 large financial and industrial groups control 40 per cent of Russian GDP (Shekshina, 2001). While the "oligarchs" of the 1990s were mainly the owners of banks and other financial companies, the situation changed in the 2000s. Drastic rise in the prices of commodities (and specifically, oil and gas) has led to significant developments in the resource-based sectors and consequently to the growth of resource-oriented companies.

Most importantly, Russian companies (who have completed their restructuring on the domestic market) started venturing abroad. Whilst the motive of "the capital flight" still held, yet it can be argued that Russian companies started intentionally building their presence abroad. They emerged as an important source of outward FDI: whilst the annual average of outward FDI flows in the 1990s constituted around $1.6 bn annually, and it has reached some $52.4 bn in 2008. Likewise, outward FDI reached 14.5 per cent of the gross fixed capital formation in 2008 against an average of 3.0 per cent in the 1990s. Overall, Russia is a net receiver of FDI – $70.3 bn of inward FDI versus $52.4 bn of outward FDI in 2008 (Table I).

Four major emerging economies are often grouped in the so-called BRIC, a term coined in 2003 by Goldman Sachs to denote four economies with the strong economic growth: BRIC. The forecast suggested that the aggregate GDP of these four countries would surpass the aggregate GDP of G7 by 2035. The BRIC economies emerged as major destinations for FDI, and since recently they showed a clear trend of becoming sources of FDI too. Table II presents the dynamics of this process.

Russia emerges as the leader among the BRIC economies. In 2007, its stock of outward FDI equalled FDI stock of China, India and Brazil taken together. Moreover, the outward investments from BRIC economies and Russia in particular have shown impressive growth dynamics over the recent years. However, the 2008 witnessed substantial decrease of Russia's outward FDI stock caused by a sharp downward revaluation of assets held abroad. However, Brazil, China and India showed a remarkable growth.

	Inward FDI flows		Outward FDI flows	
	Million USD	Percentage of gross fixed capital formation	Million USD	Percentage of gross fixed capital formation
1990-2000 (annual average)	2,373	4.4	1,582	3.0
2005	12,886	9.5	12,767	9.4
2006	29,701	16.2	23,151	12.6
2007	55,073	20.2	45,916	16.8
2008	70,320	19.5	52,390	14.5

Source: UNCTAD (2008, 2009)

Table I.
Russia's FDI inflows and outflows

	2001	2002	2003	2004	2005	2006	2007	2008
Russia	14,412	18,018	51,809	81,874	120,417	156,824	255,211	202,837
Brazil	11,041	53,227	54,646	64,363	71,556	87,049	129,840	162,218
China	27,579	35,538	37,006	38,825	46,311	73,330	95,799	147,949
India	2,068	2,499	5,054	6,592	9,569	12,964	29,412	61,765

Notes: Million USD; for China – only mainland China is included
Source: UNCTAD, World Investment Reports of respective years

Table II.
BRIC countries' stocks of outward FDI

These numbers should be interpreted with caution. In each volume of World Investment Report, UNCTAD warns about possible inaccurate calculations of FDI statistics by national statistics agencies. In the case of Russia, the drastic growth can be explained by improved methodology and data registration system used by the Russian statistics bureau, which started accounting for cumulative investments actually made in previous years. Nevertheless, even improvement of statistical data cannot explain the dramatic growth of outward FDI. It is rather clear that international activities of Russian companies have been booming in the recent years. Specifically, companies in the resource-based sectors became responsible for the highest share of outward FDI from Russia.

As a result of economic transformations and privatisation, three groups of companies have been formed in Russia, namely, state-owned enterprises ("state corporations"), state-controlled enterprises (entities in which the state is a main shareholder) and private companies. The state control is strongly visible in the energy sector, and particularly in gas production (where state giant Gazprom enjoys nearly monopolistic position). Consolidation and re-nationalisation of private oil and gas companies has become a hallmark of Vladimir Putin's presidency, with the cases of Yukos bankruptcy and Sibneft's Government takeover as the most prominent ones. Even private companies can be viewed as entirely autonomous economic agents, particularly in comparison with their Western counterparts.

3. Internationalisation of Russian companies: motives and strategies

This section compares Russian companies with their counterparts from other emerging economies and frames this debate within the existing theoretical discourse. Particular attention is given to the role of knowledge and technology acquisition, as well as the state policy. The role of the state is crucial for understanding of the Russian economic and business environment.

3.1 Russian and BRIC multinationals

Multinational companies from BRIC economies are often grouped under the heading of "emerging multinationals". Yet, they differ in terms of their strategies, reflecting the idiosyncrasies of the home countries. Among BRIC economies, similarities can be found between Russian and Chinese companies due to a similar national context, i.e. a highly centralised government. While Chinese policies encouraging internationalisation of national companies have been strongly pronounced and explicit, Russian policy on this subject is rather implicit. However, there is an attempt to duplicate Chinese policies as it will be shown further. There is a tendency to view both Russian and Chinese companies as extensions of the state foreign policies, while look at their Indian and Brazilian counterparts more like economic agents.

Another similarity when comparing Chinese and Russian companies is underdeveloped financial centres in each home country. Access to capital in advanced Western markets is one of the common "push" factor for many emerging multinationals. In the case of China, Shanghai has laid a solid foundation for becoming an international financial centre, but it is still away from this objective. It is unsurprising many Chinese companies start their internationalisation from the neighbouring financial centre Hong Kong Special Administrative Region (SAR). As the paper elaborates further, due to the underdeveloped financial sector in Moscow, Russian companies seek access to capital in the west. The London Stock Exchange has become a vital route to foreign markets for Russian companies.

One thing in common is the appearance of BRIC multinationals in the global business rankings. For example, in the *Forbes* list of 2,000 global companies, in 2007 there were 109 Chinese (including Hong Kong), 48 Indian and 34 Brazilian companies, and 29 Russian companies. In 2009, the list featured 28 Russian companies with the aggregated annual sales of slightly below $0.5 trillion and assets of over $1 trillion. However, their aggregated market value is much less – $235 bn (Appendix 1, Table AI). That can be attributed to the consequences of the global economic crisis. Similarly, BRIC companies are present in the *Fortune* 500 list and other global rankings.

In fact, being a large company (in terms of assets, sales or profits) or having non-equity relations with foreign partners does not mean being a multinational company *per se*. In principle, a company may be uninational and generate all the revenues on the domestic market or by exporting its production abroad without any foreign presence (Kalotay, 2008). According to a conventional definition a company should be operating in at least two countries, or at least in one country outside of the home one, to be called a multinational company. The Boston Consulting Group aimed to identify global companies from emerging economies based on both criteria – size and internationalisation. It compiled a list of 100 Global challengers, based on both amount of revenues (over $1 bn) and the degree of internationalisation (foreign subsidiaries, sales networks, etc). In the BCG's (2008) list of 100 emerging multinationals, some 41 Chinese, 20 Indian, 13 Brazilian, seven Mexican and only six Russian companies can be found. Specifically, in Russia, a survey of the Skolkovo School of Management and the Columbia Program on International Investment identified 25 top multinationals in 2007; this list was further revised in 2008. The selection criteria include foreign assets, foreign sales and foreign employment. This study was conducted in a framework of the research on emerging multinationals coordinated by the Vale Columbia Centre on Sustainable International Investment (VCC). In 2009, such survey was conducted by the Institute of World Economy and International Relations (IMEMO) of Russian Academy of Sciences.

Appendix 2, Table AII, presents overview of appearance of Russian companies in all the four rankings – BCG 100, *Fortune* 500, *Forbes* 2000, Skolkovo 25 and IMEMO 20 for various time periods. Only two companies – energy giants Gazprom and Lukoil – appear in all four rankings simultaneously. Other companies are only in two lists or only in one of them. It entails that they might either too internationalised (but not large), or too large (but less internationalised). Energy companies TNK-BP and Surgutneftegaz, electricity grid operator InterRAO (formerly RAO UES of Russia) and Sberbank appear in the majority of rankings. Whist the Appendix presents the list of only the major Russian multinationals, Panibratov and Kalotay (2009) estimate the total number of Russian companies investing abroad (internationalising) as exceeding 1,000.

Orientation on the oil and gas and commodities is not the only similarity with other BRIC emerging multinationals. Companies servicing mass clients (electronics, telecommunications, retail and hardware) face with a challenge of serving low-income consumers. For example, in Russia companies start their operations with serving more affluent consumers in Moscow and St Petersburg, regions with the highest income per capita. As the market saturates and the competitive pressure intensifies, companies are forced to explore markets in other regions, and adopt their strategies to serve low-income consumers. In a way, the situation is reminiscent of the concept of "bottom of the pyramid" put forward by Prahalad (2004) and Hart (2005). By going into the provincial regions and expanding their markets, emerging companies encounter problems of underdeveloped infrastructure and distribution networks in all BRICS economies. Exposed to all these challenges and having grown in unstable economic environment (economic crises in the 1990s) made these companies flexible and resilient to shocks.

3.2 Theory of firm internationalisation and emerging multinationals

The theory has provided tools for the analysis of internationalisation of firms. The classical framework for the explanation of firm internationalisation is the OLI paradigm developed by Dunning (1977, 1988). According to OLI paradigm, in order to invest in another country a firm has to satisfy three conditions. First, a firm should possess Ownership advantages, i.e. should possess a technology or product that could compete on a domestic market. Second, there should be a reason to invest overseas rather than staying on the domestic market, meaning location advantages. And finally, investing overseas (and producing there) should be more profitable for a firm rather than exporting goods produced domestically, i.e. internationalisation advantages.

Overall, the internationalisation theory has been the object of long and extensive treatment in the literature, e.g. Williamson (1975), Buckley and Casson (1976) and others. A significant contribution to this strand of literature was made by Johanson and Vahlne (1977), widely known as Uppsala model. This is a model of incremental internationalisation overcoming "psychic distance". In other words, firms start their internationalisation from neighbouring markets with low-market commitment, and proceed from no regular export activities to the foreign production units, and later expand to more remote markets. Kalotay (2008) shows that Uppsala model can actually explain behaviour of Russian resource-based companies. First, they start internationalisation through export of products, at a later stage they acquire foreign assets and establish subsidiaries due to a variety of reasons (including avoidance of export duties).

Whilst the theory of firm internationalisation has been built to explain the motivations and strategies of firms from developed countries (expanding to developing markets), there have been several attempts to test the applicability of these theories to explain internationalisation of BRIC companies. Outward FDI and multinationals from emerging economies were investigated in the early pioneering studies of Heenan and Keegan (1979), Lall (1983) and Wells (1983).

The relationships between the structure and level of development of the economy of a nation and the nature of outward as well as inward FDI have been formalised by Dunning (1981, 1988) in his seminal work on the investment development path (IDP); its updated version was published in 1998 (Dunning and Narula, 1998). This model holds that outward FDI is a function of the development level of the country (GDP per capita). Regarding multinationals from emerging economies, the IDP suggests that they tend to initially invest in resource- and market-seeking activities in neighbouring countries and then expand their presence worldwide. In a way, these provisions of IDP are similar with the tenets of aforementioned Uppsala model.

A series of publications has been devoted to the topic of emerging multinationals, including (Matthews, 2005; Goldstein and Shaw, 2007; Benito and Narula, 2007; Sauvant *et al.*, 2010). Besides, international organisations have also paid considerable attention to the internationalisation of firms from emerging economies. In 2006, both OECD and UNCTAD published reports dedicated to emerging multinationals (UNCTAD, 2006; OECD, 2006).

An important message of this literature is that, contrary to multinationals from developed economies, emerging multinationals do not possess competitive advantage at the home base, well-recognised brands and lack international market experience (Zhang and Van den Bulcke, 1996). Their strategy of internationalisation can be explained by push factors, not traditional pull factors alone. Moreover, internationalisation of companies from emerging economies can be explained by the latecomer perspective (Child and Rodrigues, 2005; Jansson, 2007).

In the seminal paper on conceptualisation of the Chinese companies' internationalisation, Child and Rodrigues (2005) describe the intention to internationalise as a way to address relative disadvantages. Further, they argue that the main motives of this process include access to internationally experienced management or skilled human resources, increasing the technology content of own products, achieving international reputation and brand recognition, improving customer service, own product development and innovation ratio, cost efficiency in production and quality of products, as well as government support or finance. These motivations appear as generic for many emerging multinationals, including Russian ones.

Despite the interest and novelty of the topic of emerging multinationals, the focus of most studies has been on the Asian and Latin American multinationals, overlooking their Russian counterparts. Despite a group of studies (Bulatov, 2001; Crane *et al.*, 2005; Heinrich, 2003; Kalotay, 2002, 2004, 2005, 2008; Kets de Vries *et al.*, 2004; Vahtra and Liuhto, 2006; EIU, 2007) the research on Russian multinationals remains scarce. In his painstaking research on the applicability of conceptual models to explaining internationalisation of Russian companies, Kalotay (2008) concludes that Dunning's eclectic paradigm could be applied to Russian multinationals, although with some extension on home country basis. Yet, other theories would require more re-thinking for explanation of this phenomenon. This brief overview of theoretical foundations is helpful for further analysis, yet contribution to theory-building is beyond the scope of this paper.

3.3 Motives of internationalisation of Russian companies

In order to investigate motivation of Russian companies to expand overseas, we use the conventional classification of FDI motives put forward by Dunning (1993). Relevance of each of the four types of FDI is considered for the Russian multinationals. Despite seemingly clear-cut division between four types of FDI, however, it should be kept in mind that in many cases multinationals pursue several goals with the same acquisition, and hence FDI may have several motives at the same time.

First, resource-seeking motive refers to investment seeking to acquire factors of production or natural resources. Russian corporate expansion to the CIS can be to a large extent explained by the resource-seeking motives. Examples include Russian oil company Lukoil's operations in oil-rich Azerbaijan and Russian miner and steel maker Mechel's operations in Kazakhstan with the goal of securing access to valuable raw materials used in steel making.

Second, market-seeking motive refers to investments which aim at either entering new markets or maintaining existing ones. In the manner consistent with the tenets of the Uppsala model and IDP, Russian multinationals have been expanding their geographical presence in the neighbouring markets of the CIS. Classic examples include expansion of telecommunications companies MTS and Vimpelcom to the CIS markets. Russian companies benefit from the knowledge of local traditions and business practices as well as sharing common language. As for the advanced developed markets, Russian companies seemingly face challenges entering them, having to deal with tough competition (from both traditional and emerging multinationals) and regulatory impediments. Yet, these attempts may be successful. For example, Lukoil undertook downstream investments in the USA, Western and Eastern Europe. By accessing the end customers, resource-based companies aim to widen their profit margin, which remain limited as they sell raw materials at the low end of the product value chain.

Third, efficiency-seeking investment has as its goal to increase a firm's efficiency by exploiting the benefits of economies of scale and scope, or common ownership. In the specific case of Russian multinationals, the efficiency-seeking investment should be understood as an investment with the purpose of consolidation or re-integration of assets located in CIS countries and Eastern Europe, rather than the classic target of improving efficiency. Examples include acquisition of refining assets in Odessa (Ukraine) by Lukoil, acquisition of the Linos oil refinery in the Lugansk region (Ukraine) by TNK-BP in 2000, purchase of Aluminium Foil Plant in Armenia by Rusal. In 2006, Russian Severstal acquired a 60 per cent stake in the Ukrainian metal producer Dneprometiz, the biggest producer of hardware products in Ukraine. In 2008, Gazprom increased its share in the Belorussian natural gas infrastructure and transportation company Beltransgaz. Currently, Gazprom owns 50 per cent of shares, and the other 50 per cent belong to the Government of Belarus. It action can be regarded within Gazprom's strategy to secure reliable natural gas delivery to its European clients.

With the growing importance of the technology, innovation and know-how for the competitiveness of a modern company, there is a trend to focus on acquisition of technology and R&D-intensive units (both companies and research institutes) as a form of asset-seeking FDI. Russian companies have a great interest in the advanced technologies, marketing experience and modern managerial skills. Yet, asset-seeking FDI to obtain a technological edge appears to be rare.

Russian multinational group Renova is an exception from this rule. Recently, it was engaged in acquisition of two technology-intensive Swiss companies. In 2006, Renova bought 10.25 per cent in Oerlikon Corp., and in 2008 it became its principle shareholder. Renova aims to help Oerlikon establish production of equipment for car components in Russia, and its turn, Oerlikon's technologies may be applied on Ural turbine plant, subsidiary of Renova. In 2007, Renova also acquired a considerable stake in Sulzer AG, a producer of equipment for oil, gas, chemical, pulp-and-paper and other industries.

In order to understand the internationalisation strategies of Russian companies, these four classical "pull" motives of foreign investment can be complemented with the "push" factors. In other words, internationalisation is driven by the need to address relative disadvantages at the home base (Child and Rodrigues, 2005). One of these "push" factors would obviously be a "system escape" motivation (Bulatov, 1998). In the late-1990s Russian companies sought to diversify from Russian market to foreign markets in order to escape economic volatility and political instability. While currently, the Russian market shows the signs of economic stability for many years consecutively, many Russian companies still seek to venture abroad to hedge themselves against any potential political risks.

Another "push" factor is the underdeveloped financial sector in Russia. Skyrocketing oil and gas and commodities prices generate windfall of revenues, yet they boost the ambitions for further corporate growth and expansion. Russian financial system is still immature and cannot provide necessary financial resources, hence most Russian giants are unable to lend on the internal market. For example, in the Russian giant Gazprom faced problems when it decided to acquire the controlling stake of 72.663 per cent in the oil company Sibneft. It had to raise $13.09 bn, which was virtually impossible in the domestic Russian financial system; and the loan was provided by a syndicate of Western banks that included Morgan Stanley, ABN AMRO and Dresdner Kleinwort Wasserstein. Russian state-owned oil company Rosneft conducted its IPO (49 per cent of shares) in London in 2006. Moreover, exchange rate appreciations and high-interest rates at home speak in favour of access to capital in the west too. Needless to say, the situation even worsened since the eruption of the global financial crisis. In December 2009, Russian aluminium giant UC Rusal announced a bid to list its shares in Hong Kong SAR.

3.4 Greenfield, Mergers & Acquisitions and strategic alliances

Traditionally, firm internationalisation implies two form of entering a host economy – acquisition of a domestic firm or establishment of a new subsidiary in a greenfield project. A more recent trend in internationalisation is establishment of strategic alliances with partners from a target market (Hagedoorn, 2002). Formation of a strategic alliance has its own advantage and disadvantages compare to the traditional modes of internationalisation. As collaborative endeavours between two or more partners, alliance have limited horizon and allow for greater flexibility compare to Mergers & Acquisitions (M&A) deals. Both partners remain independent organisations and normally terminate an alliance once the intended objective has been achieved.

In the case of Russian companies, while most of the attention has been drawn to their acquisition of foreign assets, in fact they have been active in establishing greenfield projects, and their number even slightly exceeded that of M&A deals (Table III). Moreover, strategic alliances are becoming popular among Russian companies; this number has fluctuated since 2000, but it has been steadily growing since 2004 (after a temporary decrease). Overall, all three modes of internationalisation (M&A deals, greenfield projects and strategic alliances) have been on the increase.

While comparison between the three modes is interesting *per se*, we take a deeper look at the geographical distribution of M&A deals, and later – strategic alliances. The number of deals is used, rather than the value of transaction. The main reason is that the value of transaction is available only for certain M&A deals. Moreover, as we seek

	2000	2001	2002	2003	2004	2005	2006	2007
M&A deals	30	46	54	76	54	61	121	140
Greenfield projects	–	–	51	120	109	139	155	135
Strategic alliances	29	21	51	28	15	37	52	89

Note: Only strategic alliances with foreign partners are included, agreements between companies and governments are excluded
Sources: UNCTAD (2008, 2009), based on information from OCO Consulting, LOCOmonitor (for greenfield projects); Thomson SDC Platinum M&A/Joint Ventures & Alliances (for M&A deals and strategic alliances)

Table III.
Number of M&A deals, greenfield projects and strategic alliances initiated by Russian companies

to show the magnitude of M&A activity rather than absolute amount in financial terms, the number of deals seems to be a more appropriate measure.

The data in the Table IV show a sustained increase of M&A activity over the recent years. Further, given the home country bias, it is rather expected that the most of M&A deals are done in Russia itself. As for abroad, the CIS economies were the main target of Russian multinationals at the beginning of the 2000s. The rate of acquisition remained practically the same throughout the entire period 20-40 M&A deals per annum. Since the mid-2000s, we are witnessing interest of Russian multinationals towards assets in Europe (Western Europe in particular) and Northern America.

Regarding strategic alliances, first, the data should be treated with caution. Most databases (Thomson SDC in this case) include only publicly announced arrangements, published in international financial outlets. Hence, certain alliances (especially between small Russian companies) announced in Russian in local or regional media do not appear in the database. Therefore, it is rather expected that Thomson database provides a very low number of domestic (Russian-Russian) alliances. Another explanation might be that companies operate in their habitual environment on the Russian market and they may wish to have full control over its target (e.g. acquisition). Moreover, lack of trust among economic agents on the market inhibits formation of strategic alliances. Similar reasons explain why this number is so low in CIS countries and Eastern Europe too. On the other hand, when entering sophisticated markets of Western Europe and Northern America as well as Asian countries, Russian companies tend to rely on strategic alliances as an alliance partner facilitates entry into foreign market. Moreover, Russian companies seek to obtain access to the latest technologies through a strategic alliance (Table V).

3.5 Geography of internationalisation

Modern Russian multinationals are re-tracing the steps of former Soviet "red multinationals", from former Soviet republics to Africa, Asia and Latin America.

The specificity of the Russian institutional context with a highly centralised government as well as the fast pace of disintegration process in the 1990s can explain

	2000	2001	2002	2003	2004	2005	2006	2007
Russia	279	290	249	329	219	253	332	476
CIS	17	19	20	40	25	20	29	35
Eastern Europe	6	6	17	17	10	11	12	20
Western Europe	5	18	8	13	8	19	51	53
Northern America	1	2	5	2	5	–	11	10
Asia			2	1	2	3	5	10
Middle East	1	1	1	2	2	5	4	6
Africa			1	1	1	1	6	1
Latin America						1	1	
Australia					1		2	
Rest of the world						1		5
Total	309	336	303	405	273	314	453	616

Note: Rest of the world – British Virgin Islands in 2005 and 2007, Turks and Caicos Islands in 2007, Jersey in 2007

Source: Calculated from the data of Thomson SDC Platinum MA/Joint Ventures & Alliances

Table IV. Geographical distribution of M&A deals performed by Russian companies

	2000	2001	2002	2003	2004	2005	2006	2007
Russia	6	6	14	6	2	6	11	29
Western Europe	14	8	35	16	15	20	23	60
Northern America	11	6	14	12	7	6	20	19
CIS	7	8	12	6	1	4	5	12
Asia	7	8	17	3	1	9	17	31
Eastern Europe	2		2	2		3	1	6
Middle East				1	1	2		2
Africa	1	1	3				2	2
Latin America			2			2		1
Australia	2		1	1		1	1	1
Unknown				1	1	3	2	4
Rest of the world							1	1
Total	50	33	88	48	25	55	81	152

Notes: The year of announcement and alliance partner, total number and number of alliance partners, excluding a Russian company in each alliance. If there are three partners in alliance, they are counted separately (as if Russian company formed an alliance with each partner separately), hence the number of alliance partner is not equal to the number of alliances. The immediate partner is counted as an alliance partner, not the ultimate owner
Source: Thomson SDC Platinum M&A/Joint Ventures & Alliances

Table V.
Geographical distribution of strategic alliances formed by Russian companies

the geographical preference of Russian multinationals towards CIS countries and Eastern Europe in their attempts to internationalise. The process is facilitated by linkages established in the Soviet times, common business practices and relatively low interest to these economies from the part of well-established multinationals and Western investors. Russian energy companies are particularly interested in these markets. For instance, Russian electricity giant RAO UES has acquired power station and energy-distribution in Armenia, Georgia, Moldova and Ukraine. The prospects of economic growth in CIS countries offer even more investment opportunities in the future. This is why not only companies working in resource-intensive sectors, but also those in retail and consumer-oriented sectors enter CIS economies. For example, Russian biggest bank Sberbank offers its services to clients in Kazakhstan.

Moreover, in some cases Russian companies may use CIS countries as a testing ground for new innovative products or services before they are offered on a wide-scale in the home country. For example, in April 2006 a Belarusian subsidiary of a Russian telecommunications company MTS (part of the Sistema JSFC), in partnership with Siemens, launched a trial area of 3G communication network in the capital Minsk. As the trial proved to be successful, MTS announced the launch of 3G in its home market Russia in the second half of 2008, or early 2009 (in partnership with Ericsson). Similarly, with its launch in Ukraine in 2007, MTS became the first operator in the CIS region to offer Blackberry enterprise services to its subscribers. MTS intends to launch similar services back in Russia in 2008.

Over time Russian multinationals have extended their geographical reach and established commercial presence in Europe, which is now the main destination of Russian outward investment (Table VI). The shares of CIS and Northern America are quire substantial. The list of Russian companies used in rankings of Skolkovo-VCC in 2006-2007 and IMEMO-VCC in 2009 differed in all three-time periods. Therefore, these numbers should be treated with caution in terms of dynamics. Overall, at the end of 2008, 20 leading Russian multinationals possessed foreign assets worth of $118 bn (IMEMO, 2009).

In the Eastern European markets Russian companies enjoy familiarity with the local conditions, yet it often sparks political sensitivities given the uneasy common past. As an example, the acquisition of the ailing Vítkovice Steelworks in Czech Republic by Evraz Group in 2005 was complicated. The situation is somewhat paradoxical. It is quite logical that Russian companies start internationalisation with the expansion to the nearest regions, such as CIS and Central and Eastern Europe. Yet, the very same countries are wary of Russian economic presence regarding it through the prism of the economic dependency. Besides, new European Union (EU) Member States seek to deliver this message to the entire union.

As for Western Europe, although the political sentiments are not as strong as in Eastern Europe, in the West Russian companies faces with different managerial practices. They are requested to reveal their shareholders' structure and introduce more transparency in their operations. For many Russian companies born in the period of "cowboy capitalism" and extensively using the scheme of acquisition through offshore companies, these requirements are quite demanding and challenging. According to Skolkovo (2007), top 25 Russian multinationals have 156 offshore subsidiaries (comparing to 474 subsidiaries worldwide, or the same number as the aggregate number of subsidiaries in CIS, Asia and Africa).

A good example of a successful deal in Western Europe is the acquisition of Danish steel manufacturer DanSteel A/S by Novolipetsk Steel. The Russian company has been in a longstanding partnership with DanSteel, being its major supplier of quality steel slabs since 2002. In January 2006, Novolipetsk Steel acquired a 100 per cent stake in DanSteel A/S. The Danish plant receives its raw materials from Novolipetsk Steel in Lipetsk every week and produces structural steel, shipbuilding steel and steel for boilers and pressure vessels.

Russian multinationals are considering and increasing their presence in locations in the Northern America, Australia and Africa. The key acquisition for the largest Russian pipe producer TMK was the US pipe company IPSCO in 2008. TMK IPSCO has become one of the largest manufacturers of energy tubulars and premium connections in North America. This acquisition can be viewed as a combination of efficiency- market- and asset-seeking motives. On the other hand, since the most

		Percentage of foreign assets		
	Number of subsidiaries, 2006	2006	2007	2008
Western Europe	271	52	42	49
Eastern Europe		11	10	
CIS	119	22	18	23
Northern America	42	6	9	17
Asia and Australia	25	3	9	4
Africa	11	4	11	7
Latin America	6	2	1	0
Offshore	156	–	–	–

Sources: Skolkovo (2007, 2008); IMEMO (2009)

Table VI. Foreign assets and subsidiaries of top Russian multinationals, 2006-2008

Russian multinationals operate in the resource-based sectors, their orientation of Africa, rich in mineral resources, is unsurprising. For example, Alrosa, Russia's largest diamond company is involved in three projects in Angola. Norilsk Nickel is engaged in two-nickel mining projects in Botswana and South Africa. Russian companies in non-source sectors are moving to Africa as well. In September 2006, a joint Russian-Angolan bank Banco VTB Africa SA opened in Angolan capital Luanda (VTB owns 66 per cent of shares in this establishment). VTB had already had its presence in Namibia before.

Latin America does not look attractive for Russian multinationals due to its remote location and institutional barrier such as the lack of bilateral double taxation and investment treaties (IMEMO, 2009). Moreover, "no go" countries (such as Cuba, Iraq, Iran, Libya and Syria) had strong ties with the former USSR, and they are open for Russian investments. Lukoil was active in Iraq before the US-led invasion. In Iran, Gazprom is engaged in exploration of the South Pars field project executed by the consortium comprised of Total, Petronas and Gazprom. In April 2008, Gazprom signed a deal with the National Oil Corporation of Libya to set-up a joint venture. Russia can still leverage its former close relations and knowledge of these countries to its advantage and advantage of Russian multinationals.

3.6 Corporate R&D of Russian multinationals

Innovation and R&D are undoubtedly recognised as the ultimate source of corporate competitiveness in the contemporary world. Furthermore, multinational companies are creators and bearers of innovation and ideas across borders. Emerging multinational companies start realising the importance of investment in R&D, viewing it as a necessary condition for the long-term sustainability. It finds its reflection in the R&D Scoreboard of the top 1,000 global companies by R&D investment, published annually by the UK Department for Business, Innovation and Skills.

Judging by the number of companies in the list, the performance of BRIC is rather modest, with the total number of 24 companies out of 1,000, in 2009. China has the biggest number of companies – 12, India – 7, Brazil – 3 and Russia was represented only by two companies – Gazprom and Lukoil. The numbers for BRIC are still only a tiny share of the global R&D spending. However, it should be kept in mind that the cost of R&D (primarily, the workforce wage) is lower in emerging economies than in developed countries. Moreover, despite this modest performance in terms of number of companies, BRIC multinationals are catching up. While annual growth of 1,000 global R&D performers constituted 7 per cent, Brazilian multinationals showed 18.6 per cent, Indian companies – 28.6 per cent, and Chinese ones – 42.3 per cent. Two Russian companies together accounted for the 32 per cent annual growth of R&D investment (BIS, 2009).

The fact that Russian multinationals appeared in the scoreboard only in mid-2000s is reflects the state-of-affairs in the Russian economy in the period of the 1990s, investment in R&D was not among the priorities of Russian companies. The main goals were acquisition of state assets in controversial deals, struggle for a market share, corporate restructuring and consolidation. In most cases profits were divided among few shareholders or landed into affiliated companies in offshore paradises. Investment in R&D did not generate immediate profits and therefore were considered uneconomical. Moreover, many emerging Russian companies are in low R&D-intensive oil and gas sector.

Russian companies have used various approaches to organise their corporate R&D. The most widely used (and the most economical) on was the acquisition of state-owned research institutes. In the centrally planned economic system, the organisational structure for research, development and innovation was highly fragmented. There was a traditional separation between a network of branch R&D, project design and product design organisation on one side, and a network of enterprises on the other (Hanson and Pavitt, 1987). With the collapse of the central planning system, these research institutes remained without customers as many state-owned enterprises closed down or drastically reduced demand in the results of R&D. Most Russian emerging multinationals were formed as a result of privatisation of state assets in the 1990s. In the similar way, many former state-owned research institutes that used to be part of Ministries or Academy of Sciences were privatised and got integrated in these companies, or vice versa – became part of these companies that became privatised later.

Gazprom has its own research institute VNIIGAZ that provides scientific and technological solutions to research, development and project issues, with the main purpose is to find and make use of new oil/gas wells. The research institute was established in 1948. In 1999, the institute was reorganised in a limited liability company, with Gazprom possessing 100 per cent shares. Currently, VNIIGAZ is a network of research centres, divisions and laboratories. VNIIGAZ cooperates with foreign multinationals and research institutes from various countries.

Rosneft is not an exception in the way its R&D is structured. In order to achieve the integration of corporate research, Rosneft has created a corporate scientific and production complex, which unites four oil and gas scientific research institutes in different Russian regions. The geographical location of these four institutes enables the company to cover all the regions in Russia where it operates. These four institutes are former state-owned research institutes, which were privatised in the 1990s.

As resources get depleted in the traditional oil- and gas-bearing provinces and new resources are remote and increasingly difficult to produce, and major part of equipment became obsolete, many oil and gas corporations realised that advanced technology is a main driver of corporate profitability. Yet, after a decade of neglect of fundamental and applied research, many state-owned research institutes (many of whom are now corporate R&D centres) have lost its expertise. Moreover, a frontier in many sciences, such as life sciences, has moved radically, making it virtually impossible to catch-up; and hence making development of internal research capabilities a futile undertaking. Therefore, access to foreign technology has been perceived as a reasonable way to boost the productivity and increase profitability.

Strategic alliances are becoming an essential vehicle of developing and sharing new technology (Hagedoorn, 2002; Schoenmakers and Duysters, 2006). It holds for Russian companies too. Oil company Yukos has been an unrivalled leader in terms of alliance management, as it opted for strategic alliances as the main source of technology acquisitions and efficiency improvement. In 1998, Yukos formed strategic alliance with the multinational Schlumberger and started implementing quality, health, safety, environment management at all sites. It was argued that Schlumberger's expertise helped Yukos increase production rates at certain oil wells 30-200 per cent (Alexander's Gas and Oil Connections, 2001). In July 2000, Yukos signed a contract with Norwegian engineering firm Kvaerner for development of surface infrastructure at west Siberian Priobskoye field. Besides, Yukos had a strategic alliance with TotalFinaElf covering the Shatsky block in the Black Sea. Henderson and Radosevic (2004) compared the use of alliances by Lukoil and Yukos to access the technology. They argue that for Yukos alliances have been central to improved operational efficiency and growth of the company, while for Lukoil alliances have been peripheral to its performance (resulting to worse financial and operational results of the company). One of the alliances that Lukoil formed has been the one with the US giant Conoco Philips. Both companies went even further, and in 2004 Conoco Philips acquired 7.6 per cent stake in Lukoil, later it increased it to 20 per cent. As a result, Lukoil got access to the latest technologies and capital, and Conoco Philips secured access to Lukoil's oil and gas reserves in Russia.

For Russian telecommunications companies such as MTS and VimpelCom foreign expertise in the telecommunications sector became indispensable, and they chose alliance and partnerships with foreign companies, technological leaders, as a way to access the latest technologies. They could not integrate any former state-owned research institutes as the companies operating in resource-intensive sectors. Both telecommunications companies were created from scratch rather than established in the process of privatisation, and they did not inherit any research institutes. Moreover, Russian research institutes did not possess competence in the new telecommunications technologies rapidly developing in the west. Acquisition of a Western company was also troublesome (as the number of such companies on the market is limited). Both MTS and VimpelCom entered in partnerships with Ericsson and other leading technology companies.

3.7 State policy on outward investment: "Copy China"

Acquisition of foreign assets by Russian multinationals has raised concerns in developed markets. Many believe that Russian multinationals (whose capital is allegedly directly or indirectly controlled by the Russian Government) are seeking not the access to technology, capital or market, but rather act as tools of Russian foreign policy seeking to project Kremlin's power on a number of countries.

While majority state-owned company like Gazprom and Rosneft are by definition closely linked to the Kremlin, others active in overseas M&A (Lukoil, Rusal and Severstal) might be indirectly related to the Kremlin. On top of that, there are no indications that smaller companies operating in non-energy sectors (telecommunications firms MTS and Vimplecom or food producer Wimm-Bill-Dann) may be controlled by the state. Apparently, for them the profit maximisation emerges as the main motive for internationalisation.

IMEMO (2009) provides brief information about foreign directors on Boards of main Russian multinationals. Leading companies – Gazprom and Lukoil – have 10 and 20 per cent of foreigners on their boards, respectively. For Severstal, Eurochem, Vimplecom this number is even 50 per cent and higher. The issue of foreign directors on boards of Russian multinational companies deserves a separate study, however, our intention here is to highlight the idea that foreign nationals would tend to safeguard the company business interests rather than hypothesised Kremlin's political involvement.

Generally speaking, a government can promote outward FDI and exports through a variety of economic and financial measures such as tax rebates. A state can also conduct "economic diplomacy" to promote the interests of their companies overseas.

Seemingly, unlike the Chinese "going global" programme, supporting attempts of national champions to internationalise by implementing an investment-friendly framework (Sauvant, 2005), Russian Federation has never had any specific policy to promote outward FDI (Kalotay, 2008). At least this policy has not been explicitly formulated and/or openly conducted.

Things are starting changing, however. Dmitry Medvedev, the new Russian President, made a speech in January 2008 (while still in the capacity of Deputy Prime Minister) to influential Russian big businesses. In the speech, he appealed to Russian companies to "copy China" by expanding overseas and going on a global buying spree of foreign assets. "This is a very important task. The majority of powerful countries are engaged in this. Many of them are very active, like China. And we should be active, too" (FT, 2008). Mr Medvedev underscored that expanding Russian presence overseas would be beneficial for the Russian economy and cut its dependence on foreign technology. A global expansion drive would "[...] allow us to retool Russian enterprises with technology, boost their production culture and grant them the opportunity to diversify investments and win new markets" (FT, 2008).

He pledged Russian Government's support at home and abroad to expanding Russian companies acquiring assets overseas, specifically, competitive energy and high-tech industries. Despite the declaration of strategic support, Russian Government has not yet developed a consistent policy of assisting Russian multinationals in the global expansion. However, it is often speculated that Russian Government provides implicit policy support. Political support behind internationalisation of Russian companies (or even prospects of such support) has stirred controversies in many developed economies, in Europe in particular, whose companies may become targets of acquisition.

4. EU-Russia relations and Russian multinationals

The EU emerges as a distinctive destination for Russian investments. This process, however, is often filled with mistrust and political sensitivities.

4.1 Russia's companies in Europe

As Section 3.5 showed, Europe is the preferred destination for Russian multinationals. More specifically, Russians particularly target Eastern Europe for a variety of reasons, ranging from psychological ones (similar mentality and shared past) to pragmatic ones (opportunities of growing markets and access to the single European market).

For example, Russian metallurgical company Mechel has a network of subsidiaries in Europe, specifically, in Romania and Lithuania. Mechel Nemunas in Lithuanian Kaunas is a metallurgical plant specialising in hardware manufacturing, majority of whose output is sold to consumers in the EU. It may be argued that Lithuanian membership was essential in the decision to acquire Nemunas, as the company obtained control over the assets in October 2003, in the wake of EU enlargement. The situation is similar with the Romanian case. Russia and EU have an export quota system in place whereby Russian exports to the EU are limited to certain stipulated quantities for each product category. Besides, Russian industrial technologies may not be able to comply with these raised environmental standards and such non-compliance may become an additional basis for restricting Russian steel exports to the European market.

Production within the EU borders enables to effectively avoid these restrictions on the export of products to the EU Member States.

Gazprom is actively in the Baltic region too. In January 2004, Gazprom finalised its acquisition of a 34 per cent stake in Lietuvos Dujos, Lithuania's natural gas company; and before that it had already held stakes in the energy companies in Latvia (25 per cent stake in Latvian Gaze) and Estonia (37 per cent stake in Eesti Gaas) (EIA, 2004). Once again, the 2004 EU enlargement could serve as a motivation, as Gazprom could consider Baltic countries as a ground for its greater exports to the rest of EU.

Table VII presents an overview of recent M&A deals in Europe, in which Russian companies act as acquirers. Reflecting the sectoral characteristics of Russian companies, most targets are resource-based companies, located both in Western and Eastern Europe. The value of deals ranged from $200 million to $3.6 trillion.

Russian companies not only acquire assets in Europe, they also use European locations as a destination for re-investment to Russia. This is known as the "round tripping" phenomenon, a situation when investors channel their local funds abroad with the purpose of subsequent return to the domestic economy in the form of FDI (UNCTAD, 2006, 2007). "Round tripping" through Europe and other locations allows Russian companies to benefit from investment incentives granted to foreign investors, but more importantly – to hedge themselves from any political risks in Russia (which may affect domestic companies). In Europe, Cyprus and Luxembourg serve as offshore locations, through which Russian companies perform major investment activities.

4.2 Challenges

Lack of mutual investment reciprocity and lack of trust appear to be the biggest challenge in the Russia-EU bilateral relations. While the European multinationals complain about the Russian state's strong grip on the economy (and energy sector in

Table VII.
Recent M&A deals in Europe by Russian companies

Acquirer	Sector	Target	Country	Value ($ mln)	Year
Amtel	Chemicals	Vredestein Banden	NL	201	2005
Basic Element	Metallurgy	Hochtief AG	DE	525	2007
Evraz Group	Machinery	Vikovice Steel	CZ	287	2005
Global Information Services Holding	Machinery	Altis Semiconductors	FR	449	2007
Lukoil	Oil & gas	Jet Petrol Stations	CZ, PL, HU and FI	560	2007
Lukoil	Oil & gas	Nelson Resources	UK	2,000	2005
Norilsk Nickel	Metallurgy	OMG Nickel Assets	AU and FI	408	2006
Novolipetsk Steel	Metallurgy	Duferco	USA and EU	806	2006
Novolipetsk Steel	Metallurgy	Steel Invest & Finance SA	LU	805	2006
Renova	Energy	Energetic source SpA	IT	700	2007
Rusal	Metallurgy	SUAL, Glencore	CH	3,600	2007
Rusal	Metallurgy	Eurallumina SpA	IT	420	2006
Severstal	Mining	Celtic Resources Holdings Plc	IE	315	2007
Severstal	Metallurgy	Lucchini SpA	IT	579	2005
Severstal	Metallurgy	Lucchini SpA	IT	700	2006

Note: Only shares above 10 per cent and deals over $100 million included
Source: *M&A Journal*; Thomson Financial

particular), similarly, Russian companies claim that the access to the EU market and acquisition of assets are often constrained due to political considerations.

Given the controversial history of privatisation in Russia and the degree of the state control over the economy in Russia, Europeans may have legitimate concerns over the activities of Russian multinationals and acquisition of assets in Europe. The concerns perhaps would not be strong if Russian companies were engaged not in M&A but in greenfield investment in Europe, thus creating new jobs and generating tax revenues for host economies. Russian multinationals will have to change these practices sooner or later. As many of them seek to attract foreign capital, they have to increase transparency and to adopt international business standards and practices; something that Russian companies have been reluctant to do so far. Russian multinationals need to introduce more transparency, improve reporting procedures, protect minority shareholders rights. It is increasingly acknowledged that long-term competitiveness of Russian companies depends on best practices in corporate governance.

Image of Russian multinationals remains a big problem and obstacle for internationalisation. Russian companies have to be more open in communicating to the world. In the present, most of them still behave according to “bunker mentality”. The battle for Arcelor in 2005 between Mittal Steel and Severstal is a good example. While Mittal launched an offensive PR campaign and effectively promoted itself in the media, Severstal remained silent.

Panibratov and Kalotay (2009) point to the difficulties for Russian companies to operate in Eastern Europe. The authors cite the vice-president of Lukoil, Leonid Fedun, who acknowledges that Russian investors have started to withdraw from countries such as Poland and Lithuania because of political antagonism. This statement was provoked by Lukoil’s experience in Poland. The company was interested in purchasing two oil refineries belonging to the Polish power concern PKN Orlen. However, the Polish Government was hostile to this deal and saw the “long hand of the Kremlin” behind it.

Russian companies have sought avoid political objections by acquiring assets indirectly. The case of Gazprom in Hungary is well-known in this respect. The Russian energy giant used an Ireland-based firm for a hostile take-over of Hungary’s Borsodchem chemical manufacturer in 2000. This move was opposed by the government and various political forces, and provoked public outcry. Nevertheless, Gazprom managed to acquire 25 per cent stake in the company. On the other hand, Hungarian Government conducts overall FDI-friendly policy, particularly towards western investors.

The issue of investment reciprocity comes to the fore in the Russian-European relations. Instead of mutual reciprocity and mutual promotion of direct investment, both parties quite often engage in creation of different barriers and establishment of mutual restrictions. “Depolitisation” of the issue of foreign investment emerges as a way forward in the bilateral relations. Presently, Russia restricts foreign investments in energy sector and other important sectors such as national defence. These restrictions are stipulated by the Law on Foreign Investments in the strategic sectors and new amendments to the Law on Subsoil. Likewise, on 19 September 2007, the European Commission adopted a third package of legislative proposals in the domain of EU energy policy. The Commission aims at a wider consumer choice, fairer prices, cleaner energy and security supply. This package strengthened guarantees for EU companies of fair competition with third country companies. More specifically, the companies from third countries wishing to acquire a significant interest or even control over an EU network have to demonstrably and unequivocally comply with the same unbundling requirements as EU companies. The European Commission can intervene in situations where a third country company fails to do so.

4.3 Prospects

A view which is shared by both sides is that a balanced and equitable partnership is needed in EU-Russia bilateral relations. The current EU-Russian bilateral relationships are regulated in the framework of the Partnership and Co-operation Agreement (PCA), which was signed in 1994 and entered into force on 1 December 1997. One of its main objectives is the promotion of bilateral trade and investment, as well as energy issues. By the end of 2007, the current PCA had came to an end of its initial ten-year period. Both parties launched negotiations on a new EU-Russia agreement at the June 2008 bilateral summit. The EU and Russia have made a number of commitments, particularly to human rights and democracy; and the first round of negotiations took place in July 2008. Yet, following Russia-Georgia conflict in August 2008, the EU postponed the second round of these negotiations. The need for a new Agreement was reiterated at the EU-Russia summit in November 2009 in Copenhagen. One of the important issues at the summit was the conditions concerning bilateral trade between EU and Russia from 1 January 2010 under the new common external tariff system of the Customs Union between Russia, Belarus and Kazakhstan.

The energy issues dominate in the bilateral EU-Russia dialogue; and significant prospects for EU-Russian bilateral relations lay in this sector. Russian companies seek to buy energy assets in Europe to boost their presence (e.g. Gazprom's intentions to buy Centrica, which owns British gas); and Europeans equally aim at the Russian energy sector. Liberalisation of the EU downstream energy market, and specifically the proposals to "unbundle" energy markets, requiring separate energy production and distribution networks, might provide enhanced opportunities for Russian multinationals, for the mutual EU-Russian benefits.

5. Conclusions

Russian companies emerged recently on the global economy are increasingly catching the world headlines. Although Russian multinationals are often compared to their counterparts from other emerging economies, they differ in many respects, reflecting the specific path of their formation in post-soviet Russia.

While internationalisation of many Russian companies is driven by economic interests, global expansion of others, as suggested, is interrelated with Russian foreign policy, similarly to Chinese companies. Thus, it is unsurprising that emergence of Russian multinationals has been largely perceived as a threatening development since these companies are viewed as tools of foreign policy rather than economic agents. This perception has been a stumbling block on the way of academic studies of this phenomenon.

Most Russian companies are reticent concerning their economic activities, and in particular, foreign operations (e.g. wide-spread use of offshore companies). Obviously, it poses challenges and creates limitations for the academic research. With this restricted access to the primary data on the level of particular companies, scholars have to deal only with publicly available secondary data on the topic that hide significant information. Aggregated data on the amount of outward of FDI is a very proxy for activities of multinationals. In the paper different sources of data were used to study activities of the Russian multinational companies. A logical step and a promising avenue for further research is a study of subsidiaries of Russian companies-based overseas, and in Europe in particular.

The consequences of the global financial crisis have undeniably affected Russia's multinational companies too, forcing them to rethink their expansion plans, and invent new ways of internationalisation. Yet, Russia's multinationals are set to play an increasing role in European and world business, remaining a fascinating phenomenon and a promising avenue of economic and business research.

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Appendix 1

Rank	Company	Industry	Sales ($bn)	Profits ($bn)	Assets ($bn)	Market value ($bn)
13	Gazprom	Oil & gas operations	97.29	26.78	276.81	74.55
64	Rosneft	Oil & gas operations	46.99	11.12	77.40	34.07
76	Lukoil	Oil & gas operations	66.86	9.51	59.14	26.62
168	Surgutneftegas	Oil & gas operations	24.25	3.61	40.29	19.65
172	Sberbank	Banking	21.63	4.33	200.86	8.56
211	TNK-BP Holding	Oil & gas operations	36.25	5.94	27.94	9.45
241	MMC Norilsk Nickel	Materials	17.73	5.52	35.65	8.86
450	Severstal	Materials	22.39	2.03	22.48	3.68
505	VTB Bank	Banking	7.15	1.53	92.51	3.50
548	Tatneft	Oil & gas operations	11.03	1.76	15.08	4.42
566	Transneft	Oil & gas operations	28.68	2.35	30.14	1.29
570	Novolipetsk Steel	Materials	8.00	2.33	13.09	5.69
679	Sistema JSFC	Telecommunications	14.19	1.63	28.32	1.22
682	VimpelCom	Telecommunications	7.43	1.52	10.58	5.13
899	Magnitogorsk Iron & Steel	Materials	8.49	1.84	9.38	2.01
1077	Mechel	Materials	6.96	0.95	9.22	1.50
1177	Novatek	Oil & gas operations	2.52	0.76	4.24	6.61
1297	Moscow Municipal Bank	Banking	2.00	0.36	21.52	2.21
1349	RusHydro	Utilities	1.94	0.27	11.32	4.19
1676	TMK	Materials	4.33	0.50	4.66	0.78
1708	Bashneft	Oil & gas operations	4.12	0.53	3.40	0.78
1731	Slavneft Megioneft	Oil & gas operations	3.93	0.56	3.44	0.30
1802	Avtovaz	Consumer Durables	7.63	0.14	7.44	0.21
1832	PIK Group	Diversified Financials	2.81	0.73	5.16	0.27
1856	GAZ Group	Consumer Durables	6.22	0.27	2.95	0.08
1866	Polyus Gold	Materials	3.61	0.52	4.11	1.75
1921	Rostelecom	Telecommunications	2.63	0.11	2.99	5.47
1927	Uralkali	Chemicals	1.20	0.33	1.62	2.65
	Total Russia		468.26	87.83	1021.74	235.5

Table AI.
Russian companies in the *Forbes* 2009 Global 2000 list

Appendix 2

Company	Industry	BCG 100 2008	*Fortune* Global 500 2008	*Fortune* Global 500 2009	*Forbes* Global 2000 2007	*Forbes* Global 2000 2008	*Forbes* Global 2000 2009	Vale Columbia Centre (Skolkovo 25 and IMEMO 20) 2007	Vale Columbia Centre (Skolkovo 25 and IMEMO 20) 2008	Vale Columbia Centre (Skolkovo 25 and IMEMO 20) 2009
Acron	Agrochemical							+	+	
Alliance Oil	Oil & gas operations							+		
Alrosa	Materials							+	+	+
Avtovaz	Automotive					+	+			
Baltika Brewery	Food, drink and tobacco					+				
Bashneft	Oil & gas operations					+	+			
ChTPZ (Arkley Capital)	Materials							+	+	
Eurochem	Agrochemical							+	+	+
Euroset	Retail							+		
Evraz Group	Materials			+				+	+	+
FESCO	Transport							+	+	+
GAZ	Automotive						+	+	+	+
Gazprom	Oil & gas operations	+	+	+	+	+	+	+	+	+
KOKS	Materials								+	+
Lukoil Holdings	Oil & gas operations	+	+	+	+	+	+	+	+	+
Magnitogorsk Iron & Steel	Materials				+	+	+			
Mechel	Materials				+	+	+	+		+
MMC Norilsk Nickel	Materials	+			+	+	+	+	+	+
Mirax	Construction								+	
Moscow Municipal Bank	Banking					+	+			
Novatek	Oil & gas operations				+	+	+			
Novolipetsk Iron & Steel	Materials				+	+	+	+	+	+
Novoship	Transport							+		
OMZ	Manufacturing							+	+	+
PIK group	Diversified financials					+	+			
Polyus Gold	Materials				+	+	+			
PriSco	Transport							+	+	
RAO UES of Russia/InterRAO	Utilities/electricity	+			+	+		+	+	+
Renova	Conglomerate									+
Ritzio Entertainment	Entertainment								+	
RosBank	Banking					+				
Rosneft	Oil & gas operations		+	+	+	+	+			
Rostelecom	Telecom services						+			
Rusal	Materials	+						+	+	+
RusHydro	Utilities						+			
Sberbank	Banking		+	+	+	+	+			
Severstal	Materials			+	+	+	+	+	+	+
Silvinit	Chemicals					+				
Sistema JSFC (MTS)	Telecom services				+	+	+	+	+	+
Sitronics	Telecom services								+	
Slavneft Megionneft	Oil & gas operations				+	+	+			
Sovcomflot	Transport							+	+	+
Surgutneftegaz	Oil & gas operations		+	+	+	+	+			
Tatneft	Oil & gas operations				+	+	+			
TMK	Materials				+	+	+	+	+	+
TNK-BP Holding	Oil & gas operations			+	+	+	+	+	+	
Transneft	Oil & gas operations					+	+			
Uralkaliy	Chemicals					+	+			
Ural-Siberian Bank	Banking				+					
VimpelCom	Telecom services				+	+	+	+	+	+
VTB Bank	Banking					+	+			
Zarubezhneft	Oil & gas operations									+

Note: "Basic Element" is a conglomerate on the list of IMEMO, and it includes such companies as Rusal and GAZ. Therefore, for the sake of consistency, Rusal and GAZ are marked as included in the IMEMO 20 list

Table AII. Russian companies in global rankings

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