

## THE AMAZING UNIVERSE OF RUSSIAN MULTINATIONALS: NEW INSIGHTS

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**ABSTRACT:** *Over the past few years, large multinational companies originating from Russia have shown outstanding performances alongside their road from regional dominance to global leaders. Taking stock of recent approaches in the literature and statistical data released by well-known international organizations, our papers aims to provide some new insights from the amazing universe of Russian multinationals, following the 2008-2009 global economic crisis. The list of the largest multinationals from Russia shows that corporations from oil & gas and metallurgical sector are prevailing, as a consequence of the resource – based character of the Russian economy. Although Russian giants represents a quite heterogeneous class of companies, they do share several common features such as their propel mechanism of expansion on the global business stage (leveraged by the resource-based nature of their home economy), their tendency to invest in the neighboring countries (like Commonwealth of Independent States or East European countries), their modes of entry (through brownfield projects) etc.*

**KEY WORDS:** *Russian multinational companies (MNCs), outward foreign direct investment (OFDI), internationalization strategy, oil & gas companies, CIS countries.*

**JEL CLASSIFICATION:** *F20, F23, F63.*

### 1. INTRODUCTION

Throughout a historically short period, the Russian Federation developed into a leading outward investing country on the global economy scene. This dynamics is strongly correlated to the phenomenon of the emergence of Russian multinationals in various business areas. Regardless of the significance, novelty and even challenging nature of the issue of emerging multinationals, a great deal of attention has been paid initially to Chinese, Indian and Brazilian multinationals, neglecting their Russian rivals. While few researches were released in the beginning of 2000s (Bulatov, 2001;

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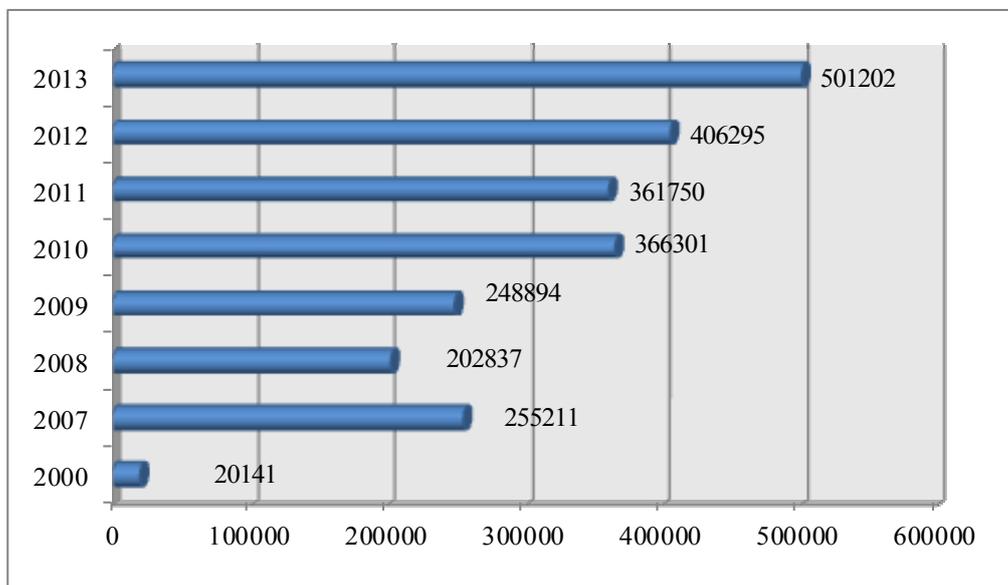
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Kalotay, 2004, 2005; Crane, et al., 2005; Filatotchev, et al., 2007a), the number of studies published by the scholars from the field followed a spectacular increase in recent years (Andreff, 2013; Ardichvili, et al. 2012; Filippov, 2010, 2011a, 2011b, 2012; Kuznetsov, 2010a, 2010b, 2011a, 2011b, 2013; Panibratov, 2010, 2012; Kalotay, 2007, 2008, 2010a, 2010b).

Most scholars were likely to tackle the phenomenon of Russian multinationals from the angle of international business theory, i.e. investigating their profile, their drivers, their entry modes or their internationalization strategies. Yet, a group of researchers focused lately on managerial peculiarities of Russian corporations and their impact upon the process of internationalization (Andreff, 2013; Filippov, 2012; Kuznetsov, 2013). Taking stock of these recent approaches in the literature, our papers aims to provide some new insights from the amazing universe of Russian multinationals, following the 2008-2009 global economic crisis.

## 2. INTERNATIONALIZATION STRATEGIES OF RUSSIAN MULTINATIONAL COMPANIES

Outward foreign investments originating from Russia faced an accelerated growth during the 2000s (Kuznetsov, A., 2011b). According to UNCTAD (who collects its figures regarding the Russian dynamics from the Bank of Russia), the country was *the world's fourth larger investor in 2013*. The OFDI stock in 2013 amounted approximately 25 times as compared to the figures registered in 2000 (see figure 1).



Source: UNCTAD 2013 and previous years

**Figure 1. Outward FDI from Russia**

These data are tightly related to the successful expansion of Russian multinationals in the recent years. Thus, according to the *World Investment Report*

released by UNCTAD in 2013, 95% of the outward stock from South-East Europe and CIS states is brought about by the phenomenon of Russian multinational's expansion overseas. Seeking assets and seeking markets are the main drivers that guide the Russian investors' decision to extend abroad, while seeking efficiency is quite rarely met (Panibratov, 2010). Russian MNCs are attracted by the perspective of getting strategic assets in EU markets (including downstream activities in the energy industry and value added production activities in metallurgy) in order to be able to set up global and regional value chains through vertical integration. At the same time, oil and gas Russian giants gained new markets in 2013 by purchasing distribution networks or storage and transportation facilities across Europe. For instance, Gazprom successfully transacted the acquisition of 50% of OMV's bigger Central European gas distribution terminal and storage facility, while Lukoil acquired a 49% stake in the Priolo oil refinery of ISAB from Italy (UNCTAD, 2013b).

Modern Russian multinationals are re-tracing the steps of former Soviet "red multinationals", from former Soviet republics to Africa, Asia and Latin America. In accordance with Uppsala Model and Investment Development Path, Russian multinationals started their internationalization process from the neighboring CIS countries. 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.

In the Eastern European markets, Russian multinationals enjoy familiarity with the local conditions, yet it often sparks political sensitivities given the uneasy common past. The situation is somewhat paradoxical. It is quite logical that Russian companies started internationalization 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 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.

Our interest to analyze the expansion process of Russian MNCs raises the problem of the inadequacy of existing FDI theory (Kuznetsov, 2010). While some authors state that John Dunning's eclectic paradigm can be adapted in order to suit the foreign expansion of Russian corporations (Kalotay, 2010), there are voices (Filippov, 2012) which consider Russian MNCs to be in line with the Uppsala model. This approach postulates that multinational companies tend to initiate their foreign

operations in countries which are culturally and/or geographically in their neighbourhood, in an attempt to overcome the “psychological distance” which entails a lot of barriers such as discrepancies in languages, social and political environment, traditions, business practice etc. In fact, we consider that this model perfectly fits the expansion of resource-based Russian multinationals. The next paragraph will reveal that oil & gas and metallurgy companies remain the leading Russian MNCs, in spite of the emergence of companies in transport, electricity or agrochemicals in the top 20 of Russian non-financial MNCs.

### **3. THE CORPORATE PLAYERS**

The biggest Russian multinationals are concentrated in two industrial sectors related to the exploitation and processing of natural resources, a traditional source of competitive advantage for this country (Deloitte CIS, 2008).

In the Boston Consulting Group (BCG) 2013 ranking of 100 companies from rapidly developing economies, some 31 Chinese, 20 Indian, 13 Brazilian and only 6 Russian companies were identified. These are United Company Rusal (which activates in metallurgy sector), Evraz Group (metallurgy), Gazprom (oil & gas), Lukoil (oil & gas), Severstal (metallurgy) and Vimpelcom (telecommunication services) ([www.bcgperspectives.com](http://www.bcgperspectives.com)).

The oil & gas sector is represented by Lukoil, Gazprom, Rosneft Oil etc., while the metallurgical sector includes companies like Severstal, UC Rusal, Norilsk Nickel or Evraz Group. Three oil & gas firms, namely Lukoil, Gazprom and TNK-BP and nine metals and mining firms, led by Norilsk Nickel accounted together for 80% of the total assets of the top 25 (Skolkovo Research, 2008). Nevertheless, new multinationals are developing in industrial sectors as diverse as food production and retail, IT and Internet, banking, hospitality, telecommunications, electronics etc.

On the other hand, the geography of multinationals expansion reflects that Europe is the by far the destination of choice for Russian foreign direct investments. Moreover, CIS countries and Eastern Europe are preferred by the giant corporations from Russia when they conceive their strategies of expanding abroad (Dura & Drigă, 2012). Russian multinational companies are becoming important players in the global economy, in particular in the national economies of Russia’s neighbors – former Soviet republics and current member states of the Commonwealth of Independent States (CIS), as well as the European Union (EU) (Crane, et al., 2008).

Oil & gas and steel companies with considerable exports are among the leading Russian MNEs. Only six MNEs of the top 20 list (see annex table 1) are under state control. Moreover, three of them are listed on stock exchanges, although the state remains the majority owner. Many companies remained “regional” MNEs. As a result, more than 66% of the ranked companies’ foreign assets were in Europe and Central Asia, with 28% in former republics of the Soviet Union (Kuznetsov, 2013).

Oil & gas companies have strengthened their presence among Russian MNEs because this industry was affected by the global crisis less profoundly than, for instance, metal industries. However, steel and non-ferrous metals sectors are still important sources of Russian foreign assets. These industrial domains assume the role

of the most active fields of Russian specialization in the world economy. Nevertheless, other Russian industries also have representatives among large MNEs. The top 20 MNEs as a group showed steady growth in foreign assets. Some of those MNEs significantly expanded their activities abroad. Most of the top 20 are large exporters. In the postcrisis period, their foreign sales have begun to grow again, although their sales still concentrate in the domestic market. Annex table 1, synthesizes the key variables of Russian top multinationals, ranked by foreign assets, sales and employees.

It is also noticeable that most Russian companies tend to prefer to merge with established companies or to acquire relatively inexpensive old plants. For example, acquisitions of refineries in Europe by Rosneft and LUKOIL, and mergers of mines or steel plants by Mechel and NLMK all fall into this category. In general, Russian multinationals prefer Europe and Central Asia. The most popular countries in the Commonwealth of Independent States (CIS) are Ukraine, Kazakhstan and Belarus. Germany, Italy, Bulgaria and Romania are among the most popular host countries in the EU. The United States is the most important recipient outside the neighboring regions of Russia.

In 2013, Rosneft completed the \$55 Billion TNK-BP (Tyumenskaya Neftyanaya Kompaniya, Tyumen Oil Company) acquisition. Known as the biggest takeover in Russian history, the deal between the two multinationals reinforces the state's control over oil and gas production. In order to highlight the relevance of this acquisition, we must emphasize that statistics reveal that oil and gas production in Russia generates about a half of government's revenue. Headquartered in Moscow, the new Rosneft, will have a huge economic power, by pumping more than 4 million barrels of crude a day, exceeding the output of Canada or Iraq ([www.bloomberg.com/news/2013-03-21](http://www.bloomberg.com/news/2013-03-21)).

The largest Russian multinational, LUKOIL, demonstrates the most diversified geography. It has affiliates in more than 40 countries. Its oil & gas projects are situated in 14 countries abroad. LUKOIL also has refineries and petrochemical plants in seven foreign countries and widespread retail and service networks. Presently, LUKOIL, the largest privately owned oil & gas company in the world by proved oil reserves, detains 2.1% of the global production of crude oil. As the second largest privately owned oil & gas company in the world by oil production, it has a share of 16.6% of Russian crude oil production and 16.5% of Russian crude oil refining, being the biggest Russian privately owned oil company with \$141 billion revenue and net income in excess of \$7 billion.

Gazprom is in second place both in terms of foreign assets and geographical diversification. Its FDI activities cover more than 30 countries. Gazprom is a global energy company whose major business lines are geological exploration, production, transportation, storage, processing and sales of gas, gas condensate and oil, sales of gas as a vehicle fuel, as well as generation and marketing of heat and electric power. The company holds the world's largest natural gas reserves. The Company's share in the global and Russian gas reserves makes up 18 and 72 per cent respectively. Gazprom accounts for 14 and 74 per cent of the global and Russian gas output accordingly. Nowadays, it actively implements large-scale projects aimed at exploiting gas resources in Yamal Peninsula, Arctic Shelf, Eastern Siberia and the Far East, as well

as hydrocarbons exploration and production projects abroad. The Company owns the world's largest gas transmission network, with the total length of over 168 thousand kilometers. Gazprom sells more than half of overall produced gas to Russian consumers and exports gas to more than 30 countries.

Worldwide employer of about 100,000 workers, EVRAZ is a vertically integrated steel, mining and vanadium business with operations in the Russian Federation, Ukraine, USA, Canada, Czech Republic, Italy, Kazakhstan and South Africa. EVRAZ is among the top 20 steel producers in the world based on crude steel production of 16.1 million tons in 2013. A significant portion of the company's internal consumption of iron ore and coking coal is covered by its mining operations. The Group is listed on the London Stock Exchange and is a constituent of the FTSE 250. The company's consolidated revenues for the year ended 31 December 2013 were US\$14,411 million, and consolidated EBITDA amounted to US\$1,821 million. The company's consolidated revenues for the six months ended 30 June 2014 were US\$ 6,805 million, and consolidated EBITDA amounted to US\$ 1,080 million.

As another major corporate player, Rosneft is the leader of Russia's petroleum industry and the world's largest publicly traded petroleum company. Rosneft conducts its exploration and production activities in all key hydrocarbon provinces of Russia including West Siberia, Southern and Central Russia, Timan-Pechora, East Siberia, Far East, and Russian continental shelf including the Arctic region. The Company is also embarking on and implementing a number of projects in Venezuela, Brazil, USA, Canada, UAE, Algeria, Norway, Kazakhstan, Vietnam and Abkhazia. Rosneft owns 11 refineries throughout Russia, from the Black Sea to the Far East, and 7 more of its refineries are located abroad. The Company continued its work to improve performance efficiency and reduce lifting costs which in 2013 amounted to USD 4.8/bbl thereby achieving the best unit lifting cost performance in the world among publicly traded oil companies.

Oil and gas producer Surgutneftegas is one of the largest companies in the Russian oil sector. It accounts for almost 13% of the country's crude output and 25% of gas produced by domestic oil companies. Key lines of the company's business are hydrocarbon exploration and production, gas processing and power generation, output and marketing of oil products, sales gas, and gas products and petrochemical production. Over the past three years, 13 new filling stations were put into operation and 36 were remodeled. At the end of 2013, the Company's sales sector includes 293 filling stations, 10 of which deliver liquefied gas.

In the steel industry, metallurgy industry, one of the most important multinational of Russia is the holding company MECHHEL. Mechel's business lies in four distinct segments: mining, steel, ferroalloys and power. The corporation holds production establishments in 13 of Russia's regions as well as the United States, Kazakhstan, Romania, Lithuania, Bulgaria, United Kingdom and Ukraine. According to its' official website, Mechel is the first and still the only coal mining and metals company from the region of Eastern and central Europe and Russia having its shares placed on the New York Stock Exchange. The company has about 93,000 employees worldwide.

MMC Norilsk Nickel is a Russian nickel and palladium mining and smelting company. Its largest operations are located in the Norilsk–Talnakh area, in northern Russia. MMC stands for "Mining and Metallurgical Company". The company is listed on MICEX-RTS and the NASDAQ ([www.mining-journal.com](http://www.mining-journal.com)).

Another important corporate player is TMK, operating in the same field. TMK is Russia's largest manufacturer and exporter of steel pipes which ranks among the global top three pipe producers. TMK is a public company which is listed on London Stock Exchange and Moscow Stock Exchange. These products are used in the oil & gas sector, chemical and petrochemical industry, energy, engineering and ship building machinery, aircraft, space and rocket engineering, as well as in construction industry, utilities and agriculture.

Vimetco holding is another Russian multinational operating as a globally integrated aluminum Group, with bauxite mines in Sierra Leone, coal mines, aluminum production facilities and electricity plants in located in China and an alumina refinery and aluminum smelter in Romania. With 17,122 employees worldwide, Vimetco's sales amounted to \$ 2,717 million in 2011 while the gross profit reached the level of \$ 358 million.

The shattering economic force of these top companies allows them even to shape the growth pattern of their home country. The list of the largest multinationals from Russia shows that corporations from oil & gas and metallurgical sector are prevailing, as a consequence of the resource – based character of the Russian economy.

#### 4. CONCLUSIONS

In recent years, large multinational companies originating from Russia have shown both huge potential and outstanding performances alongside their road from regional dominance to global leaders. The significance range of their operations, the employment of wide-spread multinational personnel, masses of costumers around the Globe or even their double-digit increase in profits represent some of the most self-evident points that support the multinational status of emerging Russian companies.

Although Russian giants represents a quite heterogeneous class of companies, they do share several common features such as *their propel mechanism of expansion on the global business stage* (leveraged by the resource-based nature of their home economy), *their tendency to invest in the neighboring countries* (like Commonwealth of Independent States or East European countries), *their modes of entry* or *their managerial style* (which appears to be strongly connected with the Russian culture and the soviet institutional environment) etc. On the other hand, we must stress that Russia has developed a unique and unfamiliar paradigm of economic growth in the twentieth century because of its particular path of evolution from a planned economy system towards a market oriented one. That's why we consider that the settling of some managerial characteristics of the emerging Russian multinationals, together with their causal factors would represent, in the years to come, an interesting avenue of research for anybody interested in the international business field.

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Annex 1. Russia: The top multinationals: Key variables, 2011  
(USD million, thousands of employees and %) (Ranked by foreign assets)

Rank	Name	One or two main industries	Asset		Sales		Employment		TNI <sup>a</sup>
			Foreign	Total	Foreign	Total	Foreign	Total	
1	LUKOIL	Oil & gas extraction / refineries	29,159	91,192	108,976	133,650	26	120	45
2	Gazprom	Oil & gas extraction / gas distribution	21,767	338,531	95,317	144,009	26	404	26
3	Evraz	Iron & steel / mining of metal ores and coals	8,210	16,975	9,768	16,400	86	112	62
4	Mechel	Iron & steel / mining of metal ores and coals	6,365	19,306	6,819	12,546	12	97	33
5	Sovecomflot	Sea transport	5,838	6,739	1,247	1,439	3	5	79
6	Sistema	Conglomerate	5,207	43,902	2,512	32,452	16	143	10
7	Severstal	Iron & steel / mining of metal ores and coals	5,194	15,230	8,336	15,812	3	70	30
8	UC RUSAL	Non-ferrous metals / mining of metal ores	4,611	25,345	9,706	12,291	7	72	36
9	NLMK	Iron & steel / mining of metal ores	4,226	17,257	7,266	11,729	9	60	34
10	Atomredmetzoloto	Mining of uranium ores	3,731	6,982	407	1,382	2	13	33
11	TNK-BT	Oil & gas extraction / refineries	2,940	37,072	43,828	60,199	6	50	31
12	TMK	Metal tubes	2,394	7,132	2,683	6,754	5	46	28
13	MMK	Iron & steel / mining of metal ores and coals	2,101	16,295	1,950	9,306	2	59	12
14	Norilsk Nickel	Non-ferrous metals / mining of metal ores	1,968	18,917	11,997	14,122	2	81	33
15	Zarubezhneft	Oil extraction / refineries	1,834	3,464	573	1,078	10	13	62
16	NordGold	Mining of gold ores	1,695	2,648	639	1,182	4	10	53
17	INTER RAO UES	Electricity production and supply	1,433	16,519	2,029	16,654	4	47	10
18	Rosneft	Oil & gas extraction / refineries	1,045	104,876	66,988	83,913	3	168	28
19	FESCO	Sea and railway transportation	747	2,333	50	1,029	1	2	29
20	Acron	Agrochemicals	721	3,643	1,713	2,032	3	14	42
	Total (average for TNI)		111,186	794,358	382,804	577,979	229	1587	36

Source: IMEMO-VCC survey of Russian multinationals, 2013

<sup>a</sup> The Transnationality Index ( TNI ) is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales (including exports) to total employment. TNI is expressed as a percentage.