

# **The Effect of Internationalisation on Emerging Multinational Companies’ Performance – Case of Russia**

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## **ABSTRACT**

Russian large companies have entered the global markets in the recent years. The companies exporting natural resources have acquired both new resource bases and industrial processing units. One of the newest trends has been internationalisation of service companies such as mobile operators and IT. This paper studies the effect of internationalisation on the performance of the large Russian companies (state-owned, privatised and de-novo).

The international operations had a significant effect on the company performance indicators. The companies with international operations had significantly higher profitability and labour productivity. However, the profitability or labour productivity were not significantly higher in the early years of trade liberalisation. The positive effects grew gradually with the integration of Russian companies to the world markets. Especially the expansion of the de-novo private sector has been strong. The main results of the study are strong evidence on the positive effects of international linkages on the company performance and the significant role of new companies in the internationalisation of Russian economy.

*Key words: Russia, trade liberalisation, internationalisation, company performance*

# **The Effect of Internationalisation on Emerging Multinational Companies' Performance – Case of Russia**

## **1. INTRODUCTION**

The Russian economy has seen a strong trend of internationalisation in the last decade. The process of the internationalisation in Russia has not only encompassed an inward internationalisation such as the development of foreign direct investment (FDI) and the imports of goods and services, but also an outward internationalisation – the exports development and establishment of the production units abroad. As a result, the integration of Russia to the world economy has become more profound.

The development path has been very fast. It was just two decades ago, when Hungarian economist Janos Kornai (1990) outlined two guiding principles; the liberalisation of markets via price liberalisation and the enforcement of hard budget constraints via the privatisation of state-owned companies as the two key changes needed in a workable model for transition. In Russia the transformation process into market economy has proceeded according to the two guiding principles presented by Kornai. The Russian government abolished price controls and freed the prices in 1992. The Russian rouble was made convertible in 1992 with a fluctuating exchange rate. The foreign trade was liberalised from the centralised structure of trade associations to the company level. The share of foreign trade increased from the Soviet Union's 4% of nominal GDP for exports and imports in 1985 to Russia's 30% of nominal GDP for exports and 17% of nominal GDP for imports in 2006 (EBRD, 2007). This development exposed Russian companies for increased international competition, both domestically and in export markets.

This paper studies the effect of internationalisation on emerging Russian multinational companies' performance. Russian large companies have entered the global markets in the recent years. The companies exporting natural resources have acquired both new resource bases and industrial processing units. One of the newest trends has been internationalisation of service companies such as mobile operators and IT. This paper studies the effect of internationalisation on the performance of the large Russian companies (state-owned, privatised and de-novo).

## 2. THEORETICAL REVIEW

Companies internationalise for a number of various reasons. Some companies internationalise due to external reasons, for example their rivals or customers have become globalized (Ohmae, 1990). Other companies internationalise for internally-pushed factors such as to improve the firm's profitability (Gerliner et al., 1989). Johanson and Vahlne (1990) summarize three research areas that have emerged in the literature on internationalization: (1) *FDI theory*, (2) *stage models*, and (3) *network perspective*.

The *FDI theory* has emerged from various theoretical contributions. According to the transaction cost view, firms select the organizational form and location for which overall transaction costs are minimized (Williamson, 1979; Hogaguchi & Toyne, 1990). Dunning (1980; 1988) suggests that cost minimizing is not the only factor influencing internationalization, but also ownership-specific advantages must be obtained. All in all, FDI theory assumes rational strategic decision-making.

*The stage models* indicate that international expansion is linked with managerial learning. Internationalisation is defined as a step-by-step process from the simplest form (export) to manufacturing abroad (Luostarinen, 1994). This process combines getting experience and knowledge and increasing resource commitment to foreign market. Over time and through experience, companies increase their foreign market commitment and expand to more 'psychically distant' markets. Operations in these psychically distant markets further enhance market knowledge, leading to additional commitment, including equity investment in sales and manufacturing activities abroad (Johanson & Vahlne, 1977). Johanson and Wiedersheim-Paul (1995) distinguish between four different modes of entering a foreign market, where the successive stages represent higher degrees of international involvement: (1) no regular export activities; (2) export via independent representatives or agents; (3) the establishment of an overseas sales subsidiary; and (4) the foundation of overseas production units.

*The network perspective* draws on the theories of social exchange and focuses on firm behavior in the context of interorganizational and interpersonal relationships. It emphasizes the role and influence of social relationships in business transactions (Johanson & Vahlne, 1990; 1992). Companies are connected by *networks* developing the interaction between them.

In the network context, internationalisation means that the firm develops business relationship in networks in other countries through international extension, penetration or international integration (Johanson and Mattson, 1988). The network approach is especially important in turbulent, high technology industries (Johanson and Vahlne, 1990).

In Russia the majority of internationalising companies are either representing old Soviet company structures (state-owned or privatised companies) or new company structures (de-novo). Djankov and Murrell (2002) summarize over 100 studies on the effect of privatisation on the transitional economies. They describe the characteristics of the communistic system, such as state ownership, protection from competition, soft-budget constraints, and managers who were unskilled to operate in the market economy environment. They propose that changes in these characteristics should be measured when assessing the impact of privatisation on the performance of state-owned companies. According to their synthesis, most studies apply quantitative output levels, such as sales, profitability or labour productivity as performance measures. Changes in these measures are explained by reform determinants and company level characteristics. Typical reform measures are private ownership and the hardness of budget constraints. Typical company level characteristics are the level of competition or the industry sector.

In the case of Russia, large industrial companies form the bulk of the economy. Large and medium-sized Russian companies were privatized in the voucher privatisation of 1992-1994 and in the following loans-for-shares privatization of 1995-1997. Despite the large-scale privatisation, the Russian government opted to retain ownership in some strategic sectors. Whether privatized or not, a majority of Russian large and medium-sized companies remained as going concerns. This facilitates sufficient data collection in Russia and allows pre-privatisation and post-privatisation analysis of the company performance.

### **3. TRADE LIBERALISATION AND INTERNATIONALISATION IN RUSSIA**

The trade liberalisation of 1992 abolished the government monopoly on foreign trade. It allowed company level foreign trade. This was a fundamental change from the government controlled bilateral trade with trade partners. This fundamental change put Russian companies under direct international price exposure. Already earlier in January 1992 the price

liberalisation was executed as a “Big Bang”. Gradually both price liberalisation and trade liberalisation started to gain effect in the Russian economy (Berkowitz & DeJong, 1997; Berkowitz et al., 1998).

The former Soviet Union used to be a large exporter of natural resources to international markets. The producers of natural resources are the predecessors of large Russian export companies which currently form the backbone of the Russian economy. These companies operate on international commodities markets. The impact of foreign trade liberalisation on Russian economy is assumed to be quite high. In international comparisons Russia is quite an open economy, the share of foreign trade in GDP was 48% in 2006. A majority of foreign trade, 75%, is with non-transition countries (EBRD, 2007). The Russian trade liberalisation index<sup>1</sup> and the share of foreign trade in GDP are illustrated in Table 1. As seen in Table 1, the share of foreign trade in GDP has declined. The level was highest in the early years of transition, when the economy contracted and the trade was liberalised. The next changes were caused by the devaluation of Russian rouble in 1998. The devaluation was favourable for export companies, and made imports less competitive on the Russian market.

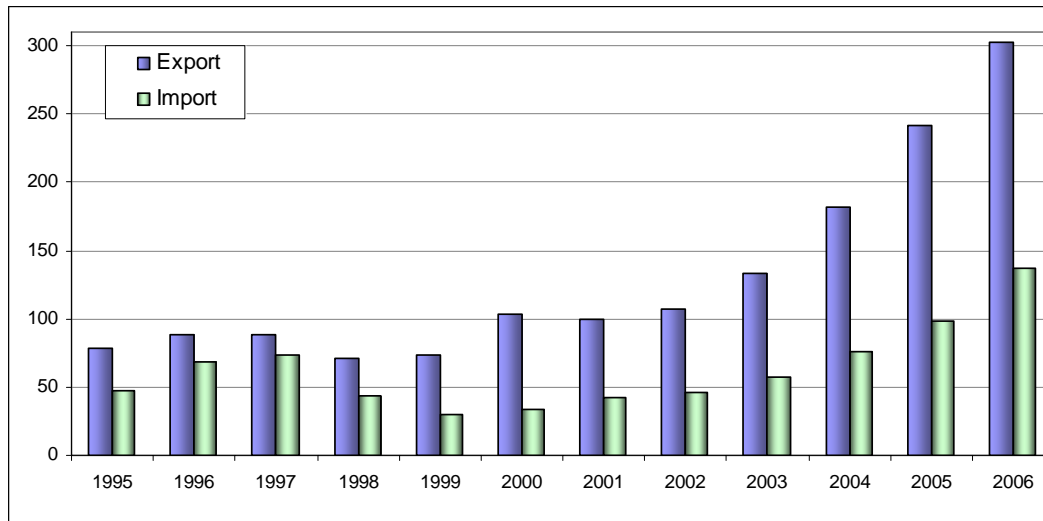
**Table 1. Trade liberalisation index and foreign trade in Russia**

<b>Year</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Trade liberalisation index	1.0	3.0	3.0	3.0	3.0	4.0	4.0	2.3
Share of trade in GDP (%)	n.a.	115.0	64.7	42.5	46.3	40.3	39.3	50.2
<b>Year</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Trade liberalisation index	2.3	2.3	2.7	3.0	3.3	3.3	3.3	3.3
Share of trade in GDP (%)	58.7	57.7	50.8	48.8	49.1	48.2	56.6	47.9

Source: EBRD, 2007.

The development of foreign trade since trade liberalisation can be observed in Figure 1. The impact of the devaluation of Russian rouble in 1998 made Russian exports more competitive and has increased export growth quite remarkably.

<sup>1</sup> The scores are based on the classification system. Trade and foreign exchange system: 1 Widespread import and/or export controls or very limited legitimate access to foreign exchange, 2 Some liberalisation of import and/or export controls; almost full current account convertibility in principle, but with a foreign exchange regime that is not fully transparent, 3 Removal of almost all quantitative and administrative import and export restrictions; almost full current account convertibility, 4 Removal of all quantitative and administrative import and export restrictions (apart from agriculture) and all significant export tariffs; insignificant direct involvement in exports and imports by ministries and state-owned trading companies; no major non-uniformity of customs duties for non-agricultural goods and services; full and current account convertibility, 4+ Standards and performance norms of advanced industrial economies: removal of most tariff barriers; membership in WTO (EBRD, 2007a).



**Figure 1. Development of foreign trade in Russia, in billion USD**

Similarly Russian outward foreign direct investment stock has increased steadily. Russian companies are among the largest investors in emerging economies context. The outward FDI stock of leading emerging economies is presented in Table 2.

**Table 2. The largest outward foreign direct investments stocks of emerging economies**

Ranking	Country	FDI outward stock, \$bn
1	Hong Kong	470 458
2	British Virgin Islands	123 167
<b>3</b>	<b>Russia</b>	<b>120 417</b>
4	Singapore	110 932
5	Taiwan	97 293
6	Brazil	71 556

Source: EIU, 2007

#### 4. RESEARCH QUESTION, DATA AND METHODOLOGY

This study aims to measure the effect of international price exposure on the company performance in Russia. After the collapse of the communistic system, the Russian markets opened for international trade, both for imports and exports. The liberalisation of foreign trade set Russian companies into touch with the price structures of world markets. The trade liberalisation enforced Russian companies to face the global competition both on the export markets and on the domestic markets through foreign imports. In the Eastern European transition economies, the competition effect arrived either through import competition or

international exposure through foreign trade. In this study the international price exposure is applied as a determinant of the company performance. The trade liberalisation forced Russian companies to face the global price competition both on the export markets and on the domestic markets through import competition. The market competition has been studied by Earle and Estrin, 1998; Brown and Brown, 1999; Djankov and Hoekman, 2000; and Markov et al., 2000 among others. However, studies on the effects in Russia are scarce.

This study analyses the effect of internationalisation on the company performance. The hypothesis is set that international price exposure has a positive effect on company performance. International price exposure is determined on the basis of whether the company operates on domestic or international markets. The threshold of international company is set on the international operations share of 30% on sales. The determinant testing the effect of internationalisation is presented in Table 3.

**Table 3. Variables of the study**

Determinant	Categories
International price exposure	<ul style="list-style-type: none"> <li>• No / International sales &lt; 30%</li> <li>• Yes / International sales &gt; 30%</li> </ul>

*Data*

The aim of the research data collection was to compile a representative longitudinal sample of a significant number of large Russian industrial companies. The compilation of the list was conducted in co-operation with two Russia-related investment banks, which have research departments covering Russian equities. The main task of the research departments is to analyse the financial performance and development prospects of Russian enterprises. For analysis purposes they collect data from various sources; official registries, enterprise information releases, the Federal Commission Securities Markets (FCSM) information disclosure program, enterprise visits, and various public sources (newspapers, magazines and Internet web-pages).

The collection process aimed at high data reliability and maximum data consistency. The use of investment bank assistance made it possible to handle issues with various accounting standards (RAS, IAS, GAAP), and provided access to analysed financial indicators reflecting the real performance of the enterprises. The compilation of the list of large enterprises had a

set goal; to be representative of large Russian enterprise structures of the Federal State Statistics Service (Rosstat) in 2006. The list of large enterprises was compiled in 2005-2007. The data set included 659 industrial companies and covered thirteen years of Russian economic transition from 1994 to 2006. The sector composition of data set is presented in Table 4.

**Table 4. Sectoral division of research data companies**

<b>Sector</b>	<b>Data</b>	<b>Rosstat, 2006</b>
Engineering	25.0%	21.1%
Oil and gas industry	22.0%	17.1%
Metal industry	18.1%	18.5%
Food industry	12.4%	15.4%
Construction industry	10.0%	7.6%
Energy utilities	5.8%	7.6%
ICT industry	3.6%	3.3%
Forest industry	3.0%	4.3%

By applying the data collection process and principles described above, the author believes that the data is very representative of the industrial sectors.

#### *Performance indicators*

The longitudinal data of this study allows for more flexibility in the selection of company performance indicators. Many previous studies have applied either level or growth-based performance indicators. Level-based performance indicators compare the performance in a given year across company data, and growth-based performance indicators compare the performance during a certain period of time. The performance indicators in previous studies on Russia are quite universal. The most commonly applied dependent variables are sales, profitability and labour productivity (sales/employee). They have been analysed either as cross-sectional or as time series.

The performance indicators need to measure factors which were neglected in the communistic system, such as productivity and profitability. The sales indicate the capacity to expand the operations (Djankov & Murrell, 2002). The stock market valuations measure the creation of new company value. The company performance indicators sales, profitability and productivity are the most widely applied, as presented in Table 5.



**Table 5. Performance indicators of the study**

<b>Indicator</b>	<b>Level / Growth</b>
Sales	Sales growth
Profitability	Profitability level across company data
Productivity	Productivity level across company data
Stock market valuation	Market capitalisation growth

The currencies in the analysis of performance indicators are the Russian rouble and the US dollar. The currency of analysis does not affect the results. The roubles have been converted to US dollars by applying the official exchange rates of the Russian Central Bank (CBR).

In this study sales growth is used as a dependent variable to measure company performance. The sales are measured both in Russian roubles and in United States dollars (USD). The sales figures have been obtained from companies in co-operation with two Russia-related investment banks. The sales figures are fully comparable across companies and include the 1994 to 2006. In this study sales are applied as a growth indicator. The growth of sales is compared across companies. The base year for the comparisons is 1994. The sales growth is calculated at various intervals. The calculation of the sales indicator is presented in Table 6.

**Table 6. Sales growth indicator of the study**

<b>Indicator</b>	<b>Formula</b>
Sales growth (t years)	$\text{Sales (Base year 1994+t)} / \text{Sales (Base year 1994)}$

Profitability is one of the most widely applied methods for company performance measurement in transitional economies. In this study profitability is applied as a level measure across the company data. Profitability is defined as the net margin. The net margin is defined as the ratio between net profit/sales in %. This study aims to counter the problems found in other studies when assessing company profitability. The net profits are based on the Russian accounting system (RAS). This was the only universal accounting standard in Russian companies during the transition period and across companies. The net profit figures reflect the real performance of the companies, as they have been obtained independently from two Russia-related investment banks. The net profit figures are fully comparable between various years and across companies. The profitability is calculated as a level measure across companies in a given year. The calculation method for the net margin is presented in Table 7.

The net margin is calculated on a two-year sliding average to counter annual variations on profitability.

**Table 7. Profitability indicator of the study**

<b>Indicator</b>	<b>Calculation</b>
Net profit margin (year t)	$(\text{Net profit (year t) / Sales (year t) + Net profit (year t-1) / Sales (year t-1)})/2$

Labour productivity has been widely applied as a performance indicator in previous company performance studies. Labour productivity captures the essential aspect of company restructuring, increased efficiency. Sales development indicates the competitiveness of products and services on the markets, and employment is an indicator for restructuring efforts. Earlier studies in Central European transitional economies have shown that privatisation has a large impact on restructuring (Pohl et al., 1997, Djankov, 1998). However, in the case of Russia most studies have been unable to identify performance differences on labour productivity between privatised and state-owned companies. The development of labour productivity of Russian industries is presented in Table 8.

**Table 8. Labour productivity change of Russian industries, in %**

<b>Year</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Productivity change, %	-11.9	-11.4	12.2	2.4	8.7	0.8	10.2
<b>Year</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Productivity change, %	10.0	3.8	4.8	8.4	8.9	6.2	5.8

Source: EBRD, 2007.

In this study labour productivity is defined as the ratio between sales and personnel. The definition has been frequently applied in previous studies. The labour productivity is calculated as presented in Table 9.

**Table 9. Labour productivity indicator of the study**

<b>Indicator</b>	<b>Formula</b>
Labour productivity (year t)	$\text{Sales (year t) / Personnel (year t)}$

The establishment of capital markets was assumed to discipline companies and provide incentives for company restructuring (Nellis, 1998). Another important function of capital markets is to allocate resources effectively. The Russian Trading System (RTS) started its

operation in September 1995. Since the establishment of RTS the trading volume has increased steadily. In addition, Russian companies have applied listing of their shares on international stock markets in the form of American depositary receipts (ADR) or Global depositary receipts (GDR). The market valuation indicator is measuring the market capitalisation growth. The base year for the stock market valuations is 1996, which was the first year of the operation for RTS. The market valuation indicators are presented in Table 10.

**Table 10. Stock market valuation indicators of the study**

<b>Indicator</b>	<b>Calculation</b>
Market capitalisation growth (t years)	$\frac{\text{Market capitalisation (Base year 1996+t)}}{\text{Market capitalisation (Base year 1996)}}$

### *Methodology*

The research data of 659 Russian companies covers thirteen years of Russian economic transition from 1994 to 2006. The data is analysed with statistical analysis methods. The company data is classified on the basis of performance determinants (variables): ownership structure and international price exposure. The ownership structure is divided into three value categories: state-owned, private and de novo. International price exposure is divided into two value categories to indicate whether international operations have an effect on the company performance. The tested sets of variables are as follows:

- Ownership (3 value categories)
- International price exposure (2 value categories)

The performance indicators (dependent variables) indicate the effect of performance determinants. The dependent variables are the following:

- Sales growth
- Net profit margin
- Labour productivity (Sales/Employees)
- Market capitalisation growth

The interaction effects of the company performance determinants (independent variables) are tested. The interaction effects are tested separately for each dependent variable (sales growth,

net profit margin, labour productivity, market capitalisation growth, and market valuation) at intervals of three years from base year 1994. The interaction effects are analysed by applying the GLM univariate test, which allows investigating interactions between factors.

**5. RESULTS OF ANALYSIS**

The hypothesis was set to test the effect of trade liberalisation in company performance. The underlying assumption is that international price exposure improves the company performance. The liberalisation of foreign trade in 1992 abolished the government monopoly on foreign trade, and allowed company level foreign trade. This was a fundamental change from the government-controlled bilateral trade with trade partners. This fundamental change set Russian companies to direct international price exposure. It is assumed that international price exposure has a positive effect on company performance.

The research data companies are classified into two groups, according to whether they have international price exposure or not. The threshold value for the international operations is set at 30% share of total sales. There are two value categories: domestic company and international company. The effect of trade liberalisation is analysed by applying the GLM univariate test, which allows investigating interactions between factors. The tests are performed performance measures presented above; sales growth, net profit margin, labour productivity and market capitalisation growth.

International operations by ownership structure are presented in Table 11. State-owned companies are the most international, 18% have international operations. The second most international are new companies, 13% have international operations. The least international are privatised companies, only 9% have international operations.

**Table 11. International operations by ownership structure in 2006**

<b>Ownership type</b>	<b>Domestic</b>	<b>International</b>
State-owned	82%	18%
New company	87%	13%
Privatised	91%	9%

The first tested dependent variable is sales growth. The test results for the main effects of independent variables on company sales growth are presented in Table 12. The effects are compared at intervals of three years from base year 1994. No significant main and interaction effects are detected. The results indicate that internationalisation has not had any significant positive effect on sales growth. Similarly, there are no significant differences between ownership structures (state-owned, privatised and new company)

**Table 12. The main effects of independent variables on sales growth**

Sales growth		1997	2000	2003	2006
Corrected model	F	0.838	1.030	1.874	0.200
	R Sq	0.234	0.033	0.078	0.015
	Sig	0.503	0.395	0.122	0.937
Internationalisation	F	0.023	3.170	0.975	0.415
	Sig	0.880	0.078	0.326	0.522
Ownership	F	0.172	0.226	1.761	1.370
	Sig	0.842	0.798	0.178	0.872

\*\* Significant effect on 95% confidence level.

The second tested dependent variable is net profit margin. The test results are presented in Table 13. The test results show that model has significant effects on net profit margin in 2003 and 2006. Internationalisation has a significant main effect on the net profit margin in 2003 and 2006. In 2003 international companies had a net profit margin of 9.7% compared to 3.9% of domestic companies. In 2006 international companies had a net profit margin of 13.6% compared to 7.2% of domestic companies. Among the international companies, the privatised and new companies have better performance than state-owned companies.

The results show that international operations have a significant positive effect on the net profit margin of an company. However, this positive effect in only detectable in 2003 and 2006.

**Table 13. The main effects of independent variables on the net profit margin**

Net profit margin		1994	1997	2000	2003	2006
Corrected model	F	1.283	1.743	3.854	6.580	1.480
	R Sq	0.031	0.034	0.077	0.091	0.024
	Sig	0.279	0.142	<b>0.005**</b>	<b>0.000**</b>	0.196
Ownership	F	0.820	1.928	0.016	2.775	0.382
	Sig	0.366	0.148	0.984	0.064	0.683
Internationalisation	F	1.936	0.438	2.319	8.262	5.194
	Sig	0.148	0.605	0.129	<b>0.004**</b>	<b>0.023**</b>

\*\* Significant effect on 95% confidence level.

The third tested dependent variable is labour productivity. The test results are illustrated in Table 14. There are significant main effects in each observed year 1994, 1997, 2000, 2003 and 2006. Both internationalisation and ownership have had a significant main effect in 1994. International companies have three times higher labour productivity than domestic companies. However, contrary to expectations, state-owned companies have the highest labour productivity compared to other ownership structures. Internationalisation and ownership have had a significant interaction effect (Sig. 0.000) in 1994. Companies operating on international markets, especially state-owned ones, have a significantly higher labour productivity.

In 1997 internationalisation have had a significant main effect on labour productivity. International companies have two times higher labour productivity than domestic companies. Similarly, companies operating on international markets, especially state-owned ones, have a significantly higher labour productivity. In 2000 both internationalisation and ownership have had a significant main effect on labour productivity. New companies have a significantly higher labour productivity than other ownership structures. The results are similar for 2003 and 2006. The superior performance of international and new companies tends to increase over the years.

The test results show that in the early years of transition state-owned international companies had the highest labour productivity. However, in the last years privatised and new companies have had the highest labour productivity. Thus the results indicate that privatised and new companies have significantly managed to improve their labour productivity over the years compared to state-owned companies.

**Table 14. The main effects of independent variables on labour productivity**

Labour productivity		1994	1997	2000	2003	2006
Corrected model	F	16.078	4.715	5.863	8.574	2.111
	R Sq	0.253	0.092	0.115	0.222	0.323
	Sig	<b>0.000**</b>	<b>0.001**</b>	<b>0.000**</b>	<b>0.000**</b>	<b>0.001**</b>
Internationalisation	F	42.394	11.128	4.617	1.329	10.559
	Sig	<b>0.000**</b>	<b>0.001**</b>	<b>0.033**</b>	0.251	<b>0.002**</b>
Ownership	F	0.5385	0.093	6.494	12.601	3.495
	Sig	<b>0.005**</b>	0.911	<b>0.002**</b>	<b>0.000**</b>	<b>0.034**</b>

\*\* Significant effect on 95% confidence level.

The fourth tested dependent variable is market capitalisation growth. The test results are presented in Table 14. Internationalisation and ownership have had a significant main effect

on market capitalisation growth in 2000 only. Thus the test results indicate that market capitalisation growth is mainly determined by other factors than internationalisation and ownership.

**Table 12. The main effects of independent variables on market capitalisation growth**

Market capitalisation growth		1997	2000	2003	2006
Corrected model	F	0.779	3.978	0.898	1.183
	R Sq	0.105	0.479	0.172	0.262
	Sig	0.519	<b>0.033**</b>	0.469	0.365
Internationalisation	F	0.925	0.428	0.025	0.201
	Sig	0.348	0.524	0.876	0.664
Ownership	F	0.016	0.006	0.474	0.494
	Sig	0.900	0.941	0.503	0.498

\* Significant effect on 95% confidence level.

## 6. CONCLUSIONS AND DISCUSSION

The aim of this paper was to analyse the effect on international operation on company performance. The liberalisation of foreign trade in 1992 set Russian companies into touch with the price structures of world markets. In the Eastern European transition economies, the competition effect arrived either through import competition or international exposure through foreign exports (World Bank, 1996). The international price exposure is assumed to have a positive effect on the company performance. The threshold value for exports and international operations is set at 30% of sales. This guarantees that international operations have a potential impact on the companies' performance indicators. There is an incentive for international operations due to dual pricing in Russian versus export markets (Tarr & Thomson, 2004). Similarly, prices for many products are higher in the world markets due to the undervaluation of the Russian rouble on the purchasing power parity (PPP) basis.

The test results supported the hypothesis. The international operations had a significant effect on the company performance indicators. The companies with international operations had significantly higher profitability and labour productivity. However, the profitability or labour productivity were not significantly higher in the early years of trade liberalisation. The positive effects grew gradually with the integration of Russian companies to the world markets.

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