JOINT VENTURE STRATEGY FOR EMERGING ECONOMY: EVIDENCE FROM RUSSIAN ENERGY SECTOR

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Abstract. *This paper investigates the strategies of global companies operating in power generation and supply, electrical equipment, and oil and gas industries in Russia. Russian energy sector has been considered by these companies as a huge and perspective and Russia has shown in the last two decades the greatest activity in the field of internationalization of major national industries through IJVs. Local joint ventures are therefore one of the cornerstones of these firms strategy in the respective energy sectors of Russia's economy. These partnerships facilitate the entry process to Russia, raise an efficiency of post-entry operations, and prevent the state intervention in Russian operations of western companies.*

Key words: *entry mode choice, international joint ventures, energy sector, Russia*

Introduction

This paper stresses that international joint venture (IJV) provides a multinational enterprise (MNE) with the most of advantages available in the core industrial markets of Russia. Our study is aimed at understanding the role of IJVs in the internationalization strategy of MNEs in Russia's energy industry, and to reveal the prospects of IJV for MNEs in the respective sectors of Russian economy.

The phenomenon of IJVs of western MNEs and local firms in emerging economies was widely discussed in the last decade (Lane, Salk & Lyles, 2001). Joint venture (JV) versus full ownership is one of the most important considerations by MNEs when the entry strategy came to a decision (Panibratov, 2009).

The results of the IJV strategy are positive in most cases; however, the discrepancy exists regarding the factors that are likely to ensure the success of such IJVs. One

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viewpoint is that IJV efficiency derives from the MNEs' contribution of highly valuable firm-specific advantages to the IJVs in the less developed economy, such as sophisticated technology, manufacturing skills, and managerial expertise (Luo, 2005). The main concerns of that approach are raised about the potential loss of these intangible assets transferred from MNEs to local partners. Another point of view is that the most significant factor of IJV success is the ability of MNEs to dodge legal restrictions and gain access to cheap resources via forming an IJV and using other operation modes on downstream markets.

While previous debates on an entry mode are rooted in different conceptual emphases on the benefits of control versus the benefits of collaboration, our study began with the realization that performance differences among IJVs are more likely to depend on the multiple functional capabilities of the firm, which in turn partly arise from the control-collaboration dichotomy.

We examine four case studies from the energy sector of Russian economy to analyze the process by which MNE enters the market and explores its strategic capabilities. We suggest that the most prominent MNEs ensure their advantages via benefits of IJV based entry to Russian oil and gas, and electricity markets.

Our approach suggests how MNEs can develop their strategy for the emerging market using the benefits of IJV. Specifically, we consider environmental factors such as foreign direct investment (FDI) legislation and local market competition, each of which has been considered to exert an important impact on the success of IJVs (Kostova & Zaheer, 1999; Luo, 2007). The research uses a case study approach.

The paper structure follows its objectives. Firstly, the theoretical background of IJV strategy is analyzed. Next, the case study methodology is explained and proved for this study. The main part consists of four MNEs' case studies in Russian energy sector. In the end of the article we conclude by discussing how our theoretical approach and supportive findings can advance new research on the perspectives of IJV as of MNEs' strategy for Russian market.

2. Conceptual framework

2.1. Why companies choose IJV strategy and how it works

Considerable research has already been done in joint venturing when entering and operating new international markets. Generally, MNEs considering entry into a new oversea market by manufacturing face two strategic decisions regarding the organizational form of its foreign operation. First, they have to determine the investment mode, namely, greenfield (establishing facility from scratch) vs. brownfield (developing an already existing asset), and, secondly, the level of control over its investment (full ownership vs. IJV) (Ruiz-Moreno, Mas-Ruiz & Nicolau-Gonzálbez, 2007).

Usually, a joint venture is defined as a legal organization that takes the form of a short- term partnership in which the parties jointly undertake a transaction for mutual

profit. Generally, each party contributes assets and shares risks. Like a partnership, joint ventures can involve any type of business transaction and the parties involved can be individuals, groups of individuals, companies, or corporations.

Many companies choose to form an IJV in order to enter foreign markets, which would not be available due to the lack of knowledge, capital and technology (Hall, 1984). There are several motives for an establishment of an IJV. The main goal of the IJV can either be the setup of a new business, the strengthening of an existing business, the restructuring of an existing business or the development of new core capabilities.

The main advantages for forming IJVs include economies of scale and synergy, access to a greater pool of resources, elimination of a competitor or foreign market entry. Further reasons within a foreign market might be that the firm gained enough experience in the country and sees itself ready for acquiring equity ownership in another company. Possibly, the company chooses a JV strategy to gain more knowledge and experience in the foreign market before it acquires full equity and operates as a wholly-owned subsidiary. Joint ventures might also be chosen as entry mode when smaller companies need to finance their research and development projects (Kumar, 2010). There are, however, a number of risks related to IJVs that can result in loss of control, lower profits, conflict with partners, and transferability of key assets.

Joint ventures fall into several categories (Table 1). Among them are equity based operations that benefit foreign and/or local private interests, groups of interests, or members of the general public. There are also non-equity joint ventures, also known as cooperative agreements, in which the parties seek technical service arrangements, franchise and brand use agreements, management contracts or rental agreements, or one-time contracts, e.g., for construction projects. Quite often, non-equity joint ventures are used simply to provide access for the participants into foreign markets (Hennart, 1988).

TABLE 1. Equity- and non-equity based IJVs

		Equity based IJV	Non-equity based IJV
Common features	Benefits	Economies of scale and synergy	
		Elimination of a competitor	
	Drawbacks	Need to share profits	
		Conflicts with partners	
Distinct features	Gaining more knowledge and experience	Yes (IJV is often a preparatory stage of acquiring full equity)	Less access to partners' knowledge and experience
	Chance for smaller companies to finance their R&D projects	Yes	In a lesser degree
	Access to a greater pool of resources	Yes	In a lesser degree
	Transferability of key assets	High	Key assets are protected
	Risk of losing control	Yes	No

Based on: the overview of the literature referred to in Section 2

The traditional view is that IJVs as well as acquisitions are predominantly used by investors with weak competitive advantages, while investors with strong advantages find greenfield investment more efficient (Kogut, 1988). At the same time, IJV mode may help when the MNE faces the risky environment. Kogut and Singh (1988) argue that with greater cultural distance greenfield investment or IJV are more likely than acquisition.

Local market competition is another important environmental factor that defines the benefit of IJVs in comparison with other entry forms. When local market competition is weak, exploitation of existing knowledge of foreign parent firms may be sufficient for gaining competitive advantages in the local market. When the level of competition heightens, IJVs have to be more responsive to the needs of local consumers, suppliers, and governments in order to seize more market opportunities and alleviate competitive threats. Such a high level of local responsiveness requires IJVs to revitalize existing capabilities or build new capabilities specifically for the local markets such as brand, distribution, and innovation (Birkinshaw, 1997; Luo, 2005).

2.2. Why MNEs use an IJV as strategic alternative to FDI in developing economies

Buckley and Casson (1998) conclude that market structure as well as competition intensity in the market has crucial impact on the entry decision. The theory of entry mode choice provides important insights into the determinants of this decision (Müller, 2007; Cheng, 2006; Bjorvatn, 2004).

Many authors try to give an explanation for choosing entry strategies into countries in Central and Eastern Europe. Müller (2007) suggests that these countries are characterized by specific conditions for competition that differ from other markets. He shows that greenfield investment is the optimal entry mode, if the local competitor possesses an inferior technology, which is often the case in CEE, and in fast-growing markets with low competition intensity. These findings correspond with recent empirical evidence on outward FDI of the US multinationals. Nocke and Yeaple (2007) report that companies engaging in greenfield investment are systematically more efficient than those engaging in cross-border acquisitions.

Previous research showed that FDI legislation varies across industries even in the same host country (Beamish, 1993; Zaheer & Zaheer, 1997). Gaining a firm legal station is considered as particularly important for MNE in the context of developing economies due to frequent government interference and strong environmental volatility (Hoskisson *et al.*, 2000; Zhou & Li, 2008). In governmentally encouraged industries (e.g., infrastructure and telecom), where international investments and technologies are highly needed, foreign firms face relatively favorable or stable policies (Luo, 2005); in sectors where government has a strong tendency to protect local companies (e.g., oil and gas), however, MNEs face an unfavorable regulatory environment.

When considering the IJV results, a focus can be made on three related but distinct factors needed for IJV success: limiting partner-related risks, enhancing partner commitment, and ensuring the effective use of knowledge in the IJV (Li, Zhou, & Zajac,

2009). The first two objectives point us to the control vs. collaboration dichotomy. To overcome this, in emerging economies, particularly in Russia, MNEs often combine FDI with IJV, where joint venture is the first stage of the development of own plant (Panibratov, 2010). Speaking further on the success of IJV we will have in mind both entry via JV and consequent switch to another mode (e.g., full ownership), and development of operations on the basis of JV (e.g., the replication of JV strategy in the new oversea location).

Different entry modes represent varying levels of control, commitment and risk. Each mode of entry entails a certain level of resource commitment, thus it becomes very significant decision especially while entering emerging economies, because it is difficult to change from one entry mode to another without considerable loss of time and money.

Entry mode choice is driven by the need to minimize transaction costs, which in turn arise from the costs of finding trading partners, and the costs of negotiating, writing and enforcing contracts. Where these costs are high, firms will prefer high control solutions to safeguard their investment, and thus locations that attract investments with high transaction costs are more likely to observe entry via a wholly-owned subsidiary. High control entry modes are more likely to be chosen when entrant firms possess capabilities that are strongly embedded.

In industries with weak FDI legislation, collaboration benefits become relatively more important for IJV than control benefits, because IJVs are in greater need of the mutual commitment of partners and their knowledge combination for enhanced legitimacy (Li, Zhou, & Zajac, 2009). The mutual commitment of partners will contribute to the IJV in terms of: advanced intangible assets of foreign partners that the local economy lacks; local partners' knowledge about the formal rules and informal constraints; and both formal and informal connections with local government and other institutions. An effective combination of the foreign and local knowledge will show the government and the local business communities how IJVs can bring in advanced knowledge to benefit the local economy, which, in turn, improves social perception of IJVs and enhances the relationships between IJVs and the local environment (Chan & Makino, 2007).

As MNEs usually provide the IJVs with a variety of performance-enhancing resources and capabilities, such as sophisticated technology, managerial and marketing expertise, or global support (these resources and capabilities are typically most scarce, proprietary, and inimitable in developing countries (Yan & Gray, 1994)), Parkhe (1996) suggests that IJV motivation must be viewed in line with its location because it may vary in developed countries and developing economies. Local companies in emerging markets often lack these assets and skills, and local authorities often require MNEs interested in entering these markets to establish IJVs for the purposes of absorbing firm specific advantages of MNEs (Beamish, 1993; Meyer, 2004).

The IJV needs to combine advanced technology and products of the foreign partner with local knowledge and resources of the local partner (e.g., understanding of lo-

cal consumer needs and government requirements, and connections with local supply chains and the government). Effective mechanisms are thereby needed to motivate and facilitate the combination of both partners' knowledge and resources (Lane *et al.*, 2001). All above considerations lead to the conclusion that in some cases the factor calls for control or collaboration, but sometimes the factor may refer equally to both (which is reflected in Table 2).

TABLE 2. **Control-collaboration perspective for the selection of IJV based entry mode**

	Priority for control	Priority for collaboration
Internal factors	Cultural distance from the target country	Weak competitive advantage of one party
	Possession of valuable but imitable technology	
External factors	Volatile environment in the target country	Legal restrictions
	Strong local market competition	

Based on: the overview of the literature referred to in Section 2

Summarizing what was said, existing research gives enough theoretical insights to entry mode choice trying to resolve the dilemma of control and collaboration. The previous research on the internationalization through IJV uses the perspective of the industrial enterprise and business environment. Still, we believe the behaviour of companies facing the typical developing market issues should be investigated further. Russian energy sector is of particular interest in this case because of legal restrictions in some industries prohibiting foreign investors from gaining more than 50% share in local companies. This allows us to compare the behaviour of companies "forced to joint venture" with those who chose the IJV strategy by themselves and their methods of resolving control vs. collaboration dilemma.

3. Research methodology

The main goal of the article is to study the strategies of western MNEs in Russian energy sector by investigating these firms' activities and operations in respective industries. Of our particular interest are the choice of entry and operation modes and the preferences of these MNEs in terms of control-collaboration dichotomy. The perspective of IJV is considered as highly explanatory for this set of tasks.

3.1. Reasons for case study method adoption

The success of MNEs when entering emerging markets is difficult to evaluate in quantitative terms, unless studied in the context of a systematic questionnaire survey of managers. Even then respondents may be reluctant to disclose political strategies such as attempts at bribery (we discovered it when we tried to reveal the success factors of Russian subsidiaries of MNEs outside current research).

However, this research is not aimed at analyzing merely managerial perceptions but rather at determining the motives and reasons for selection of IJV as a strategy for Russian energy sector. We were also interested in possible political influences as well as in the impact of competitors when approaching the study. This endeavor would be very difficult, if not impossible, using statistical analysis. Case study methodology lends itself better to investigating the significance of non-economical events and processes.

A further reason for adopting a case study approach is that the issue of the internationalization of the core sectors of emerging economies and the role of the IJVs in this phenomenon still requires a more careful conceptualization and theory building. As Eisenhardt (1989) argued, the case study approach is especially appropriate in new topic areas. For the above reasons, we adopted in our research a case study methodology.

Given our general interest in how MNE success can be attained in emerging economy environment, we aimed to study the process of MNEs' obtaining the market leadership via IJV in Russia. When developing the methodology for our study we adopted recommendations of Halinen and Törnroos (2005) and Doherty (2009) who discuss the opportunities and challenges of a qualitative/case study approach adoption to examine the international partnerships based strategies.

As our research focused on the process of entry in the form of IJV, we specified that our selected case studies had to be major firms which are said to have obtained a leadership in major Russian industries over local firms and other foreign players.

3.2. Sample specification

Since any case study research faces the problem of generalization, our research design attempted to ensure relatively broad geographic focus within one country, which is Russia. We sought four case studies of about the same time-span.

Our case studies – Royal Dutch Shell, British Petroleum, ABB, and Siemens – fit our initial sample specifications, coming from two major energy markets in Russia (oil and gas, and electrical power generation and supply), and all four firms are recognized as having obtained success in entering the respective markets in Russia.

Shell and BP had been Russia's largest foreign investors since the start of huge projects in the oil and gas sector after the fall of the Soviet regime. ABB and Siemens are two highly recognizable MNEs with the constantly strong market share in Russia.

Despite representing just one sector this sampling hopefully allows us greater generalizability of results due to the large scale of these four MNEs operations in Russia. Hence our findings cannot be accused of being related to some anomalies in non-market behavior but rather deal head-on with the process by which MNEs entered important marketplaces in emerging economies.

3.3. Data sources and collection

Our study combines multiple data collection methods. We wanted to examine how the four MNEs benefited from IJV strategy in Russia. As most of the events took place a long time ago, it is very hard to trace actors who were involved. Therefore, the most

important data source for this research was published material, supplemented with the interviews with experts in the energy sector as well as in the related industries in Russia. Senior managers of companies (foreign and Russian) being affiliated with the major players of Russian energy sector were interviewed.

We utilized five public sources of data to derive the cases analysis. The first source was the RusEnergy agency which specializes in monitoring of tendencies in oil and gas industry of Russia. Being an independent privately-owned firm established in 2000 by a group of Russian experts with a long experience in consulting and publishing business, RusEnergy may be considered as reliable source of information. We identified the following information from the RusEnergy about the oil & gas sector and case companies: the recent development trends of the industry and case companies' activities in Russia.

The second source was Russian Oil & Gas Sector Report which was conducted in 2007 by Raiffeisen Bank, RZB Group. Being focused on the analysis of three Russian companies – Gazprom, Lukoil and Rosneft – this source helped to reveal and understand networking perspectives of the case companies.

The third source was Datamonitor's Energy & Utilities section, which represents the most comprehensive database on the companies in the energy sector and contains detailed information about companies' operational activities. This outlet gave us the opportunity to track and analyze the energy market dynamics and their impact on the case companies operations.

The fourth source was Van Dijk Bureau's Zephyr database containing most of major deals between companies around the world. It allowed us to track most important investments of the case companies within two last decades.

The fifth source was the own public data of case companies. The background and appearance of companies are presented through the most general figures and information from annual reports and websites of all four case companies.

The research relied heavily on the work conducted within several study projects at St. Petersburg State University, Russia. The data received during the VERA study of industrial companies in five major regions of Russia in 1998-2000 by Helsinki Metropolitan Development Corporation (Helsinki, Finland) was also used.

3.4. Case study protocol

The recent events discussed in the cases relied heavily on interviews with the company managers and industries' experts. We conducted nineteen in-depth semi-structured interviews with managers of those foreign and Russian companies involved in the joint projects or networks with case companies. The interviewees were all senior managers, who were personally involved in taking key strategic decisions over the expansion or collaboration of case companies in Russia and had intimate knowledge of the specifics of the progress of IJV strategies.

Having defined the objectives of our research and the theory investigated, we started seeking an access to the field data and to the sources available (the latter are specified in the section above).

When developing a case study protocol we decided to shape our questions around the following issues: the evaluation of the IJV role in the company position globally; the reasons for using an IJV when entering Russia; the effects of an IJV on company position in the retrospective; the frequency of the use of an IJV based strategy compared with other entry modes and post-entry strategies; the importance of the control vs collaboration when moving to Russia if compared with other countries; the effects IJV brings about in a Russian company in comparison with other economies.

The final questionnaire consisted of 35 open questions. In our interviews we asked respondents: why Russia was chosen for entry; what arguments were selected to follow the particular strategy; what motivated the company management in developing the particular form of operations in Russia; how important was to enter in partnerships in the time of entry and what was the attitude towards partnerships later on; what were alternatives to IJV strategy, whether these opportunities were explored, and how; what were the most difficult decisions towards IJV strategy (in terms of switch, stretch or exit); how the political environment influenced the strategy for Russia in general and the IJV strategy in particular.

Because of the diverse sources of information and data, we have constantly cross-checked information and data from different sources to increase the reliability and accuracy of our explanations.

4. Case studies of MNE in Russian energy industries

The interesting and illustrative examples of IJV strategies for Russia have been demonstrated by MNEs in various industries. Many companies have selected IJV as the cornerstone of their Russian strategy. In this paper the IJV strategies of four MNEs in two energy industries (oil and gas, and power supply and electrical equipment) are analyzed.

The time frame for this study is 1990-2010, but the most important deals and events of case companies vary within this period of time.

4.1. Oil and gas sector

Oil companies are looking to internationalize their operations either to hedge risk or to respond to market factors. Many international oil companies are diversifying their assets and operations by acquiring production assets to balance their exploration assets.

In 2009 the oil and gas manufacturers as well as the whole industry confronted with a problem of low oil prices, which had recently occurred and strongly affected the business activities in this sector. Between 2005 and 2008 oil prices were steadily increasing to the highest levels ever seen (RusEnergy, 2008). After this rapid growth, which consistently led to higher revenues and profits, market prices for pertrochemical production collapsed implicating the beginning of the recession.

Foreign deals may be the only way for some energy-rich countries to extract value from their natural resources. These players can succeed globally but must focus on spe-

cific kinds of ventures: mainly those that stimulate demand for their products or secure market access for their reserves (Raiffeisen, 2007).

One the one hand, in order to ensure sustainable balance between the supply and demand for the petrochemical production as well as stable pricing system, there is a high necessity for a bigger amount of capital investments in the oil and gas industry. On the other hand, price deviations caused by speculations on financial derivative markets make the influx of investments unstable.

4.1.1. Case study 1. Royal Dutch Shell

Royal Dutch Shell (Shell) is engaged in oil and gas exploration and processing, transportation and marketing of natural gas and electricity, and marketing and shipping of oil products and chemicals. The company also shows interest in renewable sources of energy such as wind, solar and hydrogen power.

In 2009 the company, being headquartered in the Hague, the Netherlands, had extensive operations in more than 90 countries around the world and employed more than 100,000 people. The company recorded revenues of $278,188 million in the financial year 2009, a 39.3% decrease from 2008 figures. The income of the company was $12,718 million in 2009, 52% less than in 2008 (Shell annual report, 2010).

One of the biggest IJV projects of Shell was announced in 2008 together with Chinese state-owned China National Petroleum Corporation (CNPC) and Qatar Petroleum International (QPI). This IJV would build an oil refinery and petrochemical products manufacturing complex in China. The integrated refinery and petrochemical complex with state of the art production capabilities would produce refined fuels and petrochemical products. Shell would hold a 24.5% interest in the IJV, PetroChina 51%, and QPI 24.5% (Datamonitor, 2008).

The refining capacity in China was forecasted to increase from 6.2 million barrels per day (b/d) in 2006 to 14.6 million b/d in 2030, with about 60% percent of the world's petrochemical demand growth occurring in Asia, and more than one-third in China alone (Datamonitor, 2008).

Shell was active in other IJVs. The Athabasca Oil Sands Project (AOSP), a joint venture (Shell 60%) with a capacity of 155,000 b/d of synthetic crude, and with potential to achieve production licenses of 770,000 b/d, consisted of the Muskeg River Mine and the Scotford Upgrader, located in Alberta, Canada.

Shell operated with a 50% share in another large scale project of a floating production, storage and offloading vessel (FPSO) with the capacity to produce up to 100,000 barrels of oil and 50 million cubic feet of natural gas a day – Parque das Conchas. Two more partners were Petroleo Brasileiro (Petrobras) holding 35% and India's ONGC Campos with 15%.

Over the years Shell had occasionally sought to diversify away from core oil, gas and chemicals businesses. These diversifications have included nuclear power (a short-lived and costly joint venture with Gulf Oil in the USA); coal (Shell Coal was for a time a significant player in mining and marketing); metals (Shell acquired the Dutch metals-mining

company Billiton in 1970) and electricity generation (a joint venture with Bechtel called Intergen). None of these ventures were seen as successful and all have been divested.

The company made a series of acquisitions in 2000s to increase its size and expand its operations across different regions. Shell's expansion strategy was focused on high-potential sectors. The company sold a number of facilities in France, Austria, and Australia, and expanded joint operations in Port Arthur (Texas, USA) and the Pluto LNG fields in Australia.

In 2009 Shell agreed to form an IJV with ExxonMobil and Chevron to erect a liquefied natural gas facility on Barrow Island off the coast of Australia. Chevron will own 50% of the facility while Shell and Exxon will each have 25%. The special attention of Shell to China is illustrated by the rise of more than 30 IJVs and wholly owned affiliates with accumulated investments of $4 billion (Datamonitor, 2009).

Projects of Shell in Russia included: the development of deposits on the Sakhalin shelf in the Sakhalin II project together with Gazprom, Mitsui and Mitsubishi; the development of Salym oil fields, together with Sibir Energy; and participation in the Caspian Pipeline Consortium (CPC) (RusEnergy, 2009).

Sakhalin Energy was set up in 1994 to implement the project, in which Gazprom had a 50% stake plus one share. Partners Royal Dutch Shell, Mitsui & Co. Ltd., and Mitsubishi Corporation hold stakes of 27.5% minus one share, 12.5% and 10% respectively (RusEnergy, 2009).

Sakhalin II is one of the world's largest integrated, export-oriented oil and gas projects and Russia's first offshore gas project. When running at full capacity, expected in 2010-2011, Sakhalin II may add 5% to the world's current liquefied natural gas (LNG) capacity. It will meet almost 8% of Japan's gas needs and 5% of South Korea's demand.

Another IJV of Shell, SPD (Salym Petroleum Development) was established on a 50:50 basis by Shell Salym Development B.V. and NK Evikhon controlled by Sibir Energy in 1996. SPD held licenses for all three Salym oil fields in Western Siberia.

Shell was also interested in other Russian markets, namely crude oil and petroleum products' trade; gas stations; aviation fuel supply; lubricants (Table 3). In 2001, the IJV of Shell Overseas Investments BV and Russian Aerofuels Group with shares of 70% and 30% respectively was registered in Moscow. In 2006 Shell AZS (Shell-owned Russian gas station network) acquired 4 gas stations from Barrel Ltd (Van Dijk Bureau database).

TABLE 3. **Notable Royal Dutch Shell deals in Russia**

Buyer	Target	Industry	Stake	Year
Royal Dutch Shell	Sakhalin Energy (JV)	Oil/gas extraction	27.5%-1	1994
Shell Salym Development	Salym Petroleum Development (JV)	Oil extraction	50%	1996
Shell Overseas Investment	JV with Aerofuels Group	Aviation fuel supply	70%	2001
Shell AZS	4 gas stations owned by Barrel Ltd.	Gas retail sale	100%	2006

This data shows that the first stage of Shell's operation on Russian market was aimed at securing resource access to raw resources by forming JVs with local and foreign companies. The fact that has drawn our attention to Shell's activities is their intention to operate independently or at least as a major stakeholder in downstream markets despite all the factors generally attributed to emerging markets: corruption, weak legislation, government dependency, etc. Although not allowing to build theoretical assumptions by itself, this evidence at least shows the preference of control over collaboration in downstream markets.

4.1.2. Case study 2. British Petroleum

British Petroleum (BP) is one of the world's largest energy companies, providing its customers with fuel for transportation, energy for heat and light, retail services and petrochemicals products for everyday items. Sales and other operating revenues of the company were $239,272 million in 2009 with profit equalling $13,955 million. In 2009 the company employed around 92,000 people in more than 30 countries (BP annual report, 2010).

Among BP businesses, TNK-BP was the largest not only within other Russian operations of the company but also on the worldwide scale, involving about 70,000 people.

TNK-BP was formed in 2003 from the assets of TNK (Tymen Oil Co.), Onako, Sidanco, and BP. The company was 50% owned by BP and 50% by a group of large Russian investors: Alfa Group, Access Industries and Renova.

TNK-BP operated in nearly all of Russia's major hydrocarbon regions, including West Siberia (Tyumen, Khanty-Mansiysk, Yamal-Nenetsk and Novosibirsk Regions), Volga-Urals (Orenburg and Saratov Regions, and the Republic of Udmurtia), and East Siberia (Irkutsk Region). In 2009, the group's oil and condensate production totaled almost 72 million tons. The gas sales from the group's own resources totaled 12.1 billion cubic meters (TNK-BP annual report, 2010).

TNK-BP had five refineries in Russia and Ukraine and marketed its products through 1,600 retail service stations operating primarily under the TNK and BP brands. Through its retail network, TNK-BP was among the market leaders in petroleum product sales in European Russia, including Moscow, and was the market leader in Ukraine.

In 2008, TNK-BP held 197 licenses. In 2007, it acquired 25 licenses, including 13 new exploration licenses for both mature and new, undeveloped areas. During the same period, 13 licenses were divested.

In 2007, the group exported 41.8 million tons of crude oil. A significant portion of this was transported in Transneft's pipeline system, and 12% was exported by rail. In addition, the group exported 15 million tons of refined products. TNK-BP owned and operated five refineries (four in Russia and one in Ukraine) with a total effective capacity of 23 million tons per year. In 2007, these refineries processed 22.4 million tons (RusEnergy, 2007).

In Russia, the group was selling gasoline and about 35% of diesel through its regional marketing subsidiaries using their retail networks. In 2008, the group's retail net-

TABLE 4. **Notable BP deals in Russia**

Buyer	Target	Industry	Stake	Year
BP Exploration and Operating Company	JV with Rosneft	Oil/gas exploration	49%	1998
BP	Baltic Petroleum (JV)	Motor oil for sea vessels production	81%	1998
BP with TNK	Russia Petroleum	Oil/gas extraction and refining	51%	2002
TNK-BP	Severnoyeneftegaz	Oil/gas extracting	66.16%	2002
TNK-BP and 4 other companies	Slavneft	Oil/petroleum wholesale	50% (combined)	2004
TNK-BP	4 companies holding exploration/production licenses owned by Slavneft	Exploration/ production	100%	2004
TNK-BP	Rospan	Gas production	100% (increase from 44%)	2004
TNK-BP	JV with Texaco	Motor oil wholesale	100% (increase from 50%)	2004
TNK-BP	AZS-Sibir	Diesel fuel wholesales	100%	2005
TNK-BP	JV with Sibur Kholding	Oil/gas processing	49%	2007
TNK-BP	JV with Mezhregiongaz	Gas production and distribution	n/a	2008

work included around 1,100 retail sites. Of these, 496 were owned and operated by the group's marketing subsidiaries, while others were owned and operated by third parties. In 2007, TNK-BP sold 1.34 million tons of petroleum products through its own retail network (RusEnergy, 2007).

BP was an active player in the Sakhalin Region, progressing exploration and appraisal in an IJV with Rosneft. In 1998, BP Exploration and Operating Company (BPEOC) formed an alliance with the Russian state oil company Rosneft to explore for oil and gas in Sakhalin. The exclusive bidding agreement was 49% to BP and 51% to Rosneft (RusEnergy, 2008).

In 1998 a modern blending plant and laboratory in St. Petersburg (North West Russia) was opened by the joint-venture company, Baltic Petroleum, which was owned by BP (81%) and LUKoil (19%). BP has marketed a quality range of BP lubricant brands in Russia, Ukraine and other countries in CIS for more than a decade. These brands included the premium brands of Castrol and BP. Since early 2000s, following the acquisition of Burmah Castrol, the BP and Castrol lubricant brands have achieved significant growth (around 30%) both in Russia and other CIS countries.

BP's activities on Russian market (Table 4) show the same as with Shell intention to control distribution networks and other downstream activities. Oddly enough, even

free of legislative restraints prohibiting taking full control BP still remained content with ~50% share in companies in upstream markets. In conjunction with Shell data this leads us to a conclusion that in upstream markets when dealing with state-controlled companies in politics sensitive industries, full control over Russian subsidiary is not needed or even not wanted: political and legal expertise combined with local market knowledge and technologies appear to be worth much more than full control capabilities.

In downstream markets the situation is exactly the opposite: foreign companies are willing to sacrifice any mentioned above benefits for control. This might be due to the fact that downstream markets function in the way markets in developed economies do, or at least are much less politically dependent, so a local partner is not needed. The second reason is the price dynamics in oil sector: the price of crude oil has fallen sharply, while the prices of oil products have not. This makes owning distribution networks and processing facilities much more profitable once the access to resources has been secured.

4.2. Electricity and power supply sector

Despite dramatic consequences of the world financial crisis, construction and infrastructure are still growing parts of the Russian economy. This is a good sign for the automation and power technology industry, since these are huge customers. The oil industry is another important customer, and this industry is also powerful in Russia (Raiffeisen, 2007).

ABB's biggest competitor on the Russian market is the German company Siemens (Datamonitor, 2009). The local companies in this market are getting a bigger market share in the last few years. However, as the power and automation technologies market is still growing, there are a lot of chances for all companies operating in it.

4.2.1. Case study 3. ABB

ABB, a Switzerland based power and automation company, is a merger (in 1988) of Brown, Boveri & Cie (BBC) and Asea. After the merger, ABB started acquiring other companies. In its first year, ABB took over 40 other companies. In 1988-1990 ABB started a big program to expand in Eastern Europe after the fall of the Iron Curtain. In the early 1990s ABB focused on expanding in Europe, Asia and the Americas through investments, joint ventures and acquisitions. In 1998, ABB took over Elsag Bailey Process Automation, which made it the market leader in the automation industry. In the early 21st century, ABB started divesting in order to focus more on the core businesses (power and automation). For this purpose they sold divisions like nuclear power, rail industries, oil, gas and chemicals (Datamonitor, 2009). In its more than twenty years of existence, ABB has become one of the largest engineering companies in the world. ABB had around 120 000 employees in 100 countries in 2009, and its headquarters were located in Zürich, Switzerland. In 2008, ABB had net revenues of 35 billion USD, up from 29 billion in 2007. The net income was $3.1 billion in 2008, down from $3.8 in 2007 (ABB annual report, 2009).

The total sum of ABB's investments in Russia in 2009 was up to 120 million US dollars (Datamonitor, 2010). The company invested in partnerships with Russian firms in energy, technology, manufacturing, and innovation (Table 5). ABB paid a lot of attention to the brownfield strategy, with the focus on the partnerships.

The strategy of high priority for ABB in Russia was creation of IJVs. In all these ventures, ABB had always invested significantly in order to create a completely new level of manufacturing facilities, to retrain managers and employees, to reengineer all the ineffective business processes, and to form a profitable enterprise.

TABLE 5. **Notable ABB deals in Russia**

Buyer	Target	Industry	Stake	Year
ABB	Saturn, Moscow	Innovative technologies	n/a	1992
ABB	UETM, Ural	Electro technical equipment manufacturing	n/a	1995
ABB	Mosenergo, Moscow		n/a	2002
ABB	Ensto Busch-Jaeger (Finland) with the market and plant in Russia	Power automation products	21% - 1; 79% - 2	2009

ABB established eighteen IJVs in Russia. Reasons for active use of this form of expansion were:

- supply (the opportunity for ABB to use all the networks of Russian partners and to get an access to the existing supply channels);
- cost (with all the benefits of using the networks of former owners ABB could;
- decrease in costs for establishing supply and distribution channels, databases;
- expansion (entry with IJV strategy regions developed by local firms);
- workforce (access to already employed, well-qualified and cheap workforce).

The first IJV of ABB in Russia was established in 1992 with the company Saturn, which worked as an association of firms in innovation and manufacturing. ABB used this chance to enter the network of these enterprises.

In 1995 ABB entered in an IJV with UETM (a plant, producing electro technical equipment in the Ural region). From the initial stage of the existence of this venture ABB supplied UETM with new equipment, and all the adaptations were made in order to maintain the operations at the effective level. This form was beneficial for both sides, as UETM received ABB's experience, access to its technologies, equipment, methods of managing business, corporate culture, and ABB gained access to the Ural region opportunities (customer base, suppliers, resources), established business links of UETM and a cheap workforce.

In 2009, ABB owed shares of Russian enterprises in different spheres (instrumentation, gas turbines, electrical generators, cables, equipment for oil and chemical industry) (ABB own data). Besides, ABB-Chevron consortium participated in the reconstruction of the leading oil-refining plants in Russia: Kirishinefteorgsintez, Permnefteorgsintez, Kuibyshevnefteorgsintez, Nizhnekamskneftehim, Oil-chemical Company of Angarsk, and Moscow Oil-manufacturing Plant (RusEnergy, 2009).

Although the IJV strategy turned out to be the most popular for ABB in Russia, it turned to switching to full ownership or divestment afterwards. As ABB initially invested money in the development of plants' infrastructure, the launch of new equipment and afterwards increased its share in the capital of IJVs and finally became a full owner, this strategy of ABB can be called brownfield. The subsidiaries by which ABB is represented in Russia (ABB Electroengineering, ABB Azvtomatizatsiya, ABB Energosvyaz, ABB Moskabel, ABB Industry and Stroitechnika) are examples of implementing a brownfield strategy via IJV. The companies from which ABB has divested are ABB-Turbozam, ABB-Uniturbo, ABB-Stavan, ABB-Gazenergo, ABB-Servis.

ABB was also active in forming strategic alliances with big Russian companies. The most prominent examples are partnerships with Mosenergo and with Gasprom (Raiffeisen, 2007).

ABB and Mosenergo had first projects together in the early 1990s, then during more than ten years these companies gained great experience of collaboration, participating together in different programs and projects. In 2002, ABB and Mosenergo signed a general agreement of cooperation. It undermined cooperative work of both companies in modernization of energy equipment, reconstruction of electro stations, heating and electrical networks, launch of high-voltage equipment, automation equipment, systems of energy distribution, etc. (ABB own data).

Another important strategic partnership with a Russian company took place in 2000, when ABB created a long-term agreement with Gazprom. The premises for that action were many projects which ABB and Gazprom held together, like a gas-way at the bottom of the Black sea (Raiffeisen, 2007).

This partnership gave both sides a lot of benefits, as one of ABB's points in the agreement was strategic investment in the Russian economy, and from the Russian side ABB could get access to workforce and raw materials. ABB also gained experience of working with a very influential company, Gazprom, which is one of the biggest companies in the world and raised its reputation by having such a partner.

The patterns seen in Shell and BP activities are also recognizable in ABB projects: ABB used IJV as a method of entry into Russian market, gaining local market knowledge and preserving business ties of local players. After accumulating market knowledge and integrating into energy infrastructure, ABB assumed full control of companies it deemed most useful and disposed of the rest while retaining JV based ties with industry giants. The bias towards wholly owned subsidiaries can be explained by the overall bias of ABB activities towards downstream markets.

4.2.2. Case study 4. Siemens

The closest competitor of ABB in Russia is a German company Siemens. Established in 1846, the company has grown into one of the biggest global firms in energy, power supply, transportation, healthcare, and innovation, employing over 450,000 people in more than 190 countries including Russia.

The turnover of the company was around 90 billion euro in 2008, and around 80% of company facilities were located outside Germany (Siemens AG annual report, 2009).

After the Second World War, as Siemens faced fierce competition from the USA and Japan in the field of the technologies, import or FDI entry strategies had become not as successful as IJVs for the company. Siemens used the greenfield strategy mainly in order to reduce the cost, or to employ cheap labor force.

At the end of the 1990s, the company was focused on optimization of its business portfolio through acquisitions, divestments, formation of new enterprises and IJVs on the global scale.

In the post Soviet period Siemens mainly used import strategy for Russia (with only few greenfield projects) due to the negative perception of the economic situation in the country. Since 2000s Siemens tried to do business in Russia like in Europe with the establishment of IJVs and of own facilities (RusEnergy, 2008).

Siemens found it beneficial to explore the strategy of IJV in terms of lower price service and valuable help in navigating through local bureaucracy. Russian companies received such benefits as: starting capital, western management practices, and assistance in selling their goods in western markets.

Being presented in thirty Russian regions, Siemens had offices in the most strategically important Russian cities such as St- Petersburg, Yekaterinburg, Novosibirsk, Samara, Rostov-on-Don and Khabarovsk.

The major form of Siemens presence in Russia in 2008 was daughter enterprises with Siemens shares. Siemens united more than 1500 employees and about 4000 if considering daughter enterprises and IJVs. In 2007, sales to customers in Russia amounted to more than EUR 946 million. New orders for 2008 totaled EUR 1.2 billion (Siemens AG reports, 2008; 2009).

Siemens organizational structure was very flexible and could be transformed fast in line with the environmental changes. Since the foundation of the company, Siemens built production facilities in Russia, opened joint-stock companies with regional representative offices, established IJVs, and participated in a lot of contracts in various Russian industries.

The most significant projects of Siemens in Russia were held in collaboration with the state owned enterprises or were developed in strategic sectors of the local economy (Table 6).

One of the biggest contracts (the sum of 42 million euro) in Russia was signed by Siemens' Power Generation Group with the Russian state-owned oil company Rosneft to deliver three turbines for the power plant in Western Siberia. This division also received an order to set up Russia's first long-term power plant service program at the heating and power facility in Kaliningrad. Siemens' Power Transmission and Distribution Group when helping to ensure reliable power supplies for Moscow city signed a contract with the Federal Grid Company to modernize instrumentation and control systems at the Moscow power stations.

TABLE 6. **Notable Siemens deals in Russia**

Buyer	Target	Industry	Stake	Year
Siemens AG	Elektropult-Siemens	Communications equipment production	n/a	2004
Siemens AG	Transconverter LLC (JV)	Railway electrical equipment production	n/a	2005
Siemens AG	JV with Elcar NPP	Electronic systems manufacturer	n/a	2005
Siemens AG	Silovye Machiny	Power machinery manufacturing	25%	2006
Siemens AG	Tsentr Innovatsionnykh Razrabotok (JV)	R&D	49.9%	2006
Siemens AG	Simens Visokovoltnye Apparaty	Electricity distribution and control equipment manufacturing and wholesale	100%	2009
Siemens AG	Rusturbomash (JV)	Compressors manufacturing	Majority (undisclosed)	2010

Siemens Industrial Services and Solutions Group actively participated in the Russian government program of the modernization of the Russian Post Office with the establishment of advanced automated postal sorting center in Saint Petersburg.

Siemens' Transportation Systems Group (TS) signed a EUR 300-million contract with Russian Railways (RZD) to maintain the eight Velaro RUS high-speed trains ordered by RZD in 2006 (RusEnergy, 2007).

Siemens' Medical Solutions Group (Med) was playing a key role in the National Health Program launched by the Russian government in the mid 2000s (RusEnergy, 2007).

Siemens VAI, a unit of I&S, received a EUR 130-million order from Evraz Holding to renovate the oxygen steelmaking plant at Nizhniy Tagil Iron and Steel Works (RusEnergy, 2009).

Siemens Home and Office Communication Devices (SHC) won an order to supply ASDL modems for Comstar Direkt, one of Russia's leading Internet service providers.

Siemens projects in Russia can be divided into two categories: those connected with Russian railways and others. It is clear that even without legal acts prohibiting full ownership Siemens leaned to JV options when dealing with state owned large companies as did the others. As with other activities we can say that Siemens' actions are at least not controversial to the findings in other cases.

4.3. The local competitive and co-operative context for IJV strategy in Russian energy sector

Russian companies in the oil & gas industry control the majority of country's foreign assets. This industry represents the area of Russian specialization in the world economy. However, many other Russian industries have also begun investing abroad. Companies

in electricity and power supply are also to be found amongst the top Russian investors abroad.

The Russian oil and gas industry is dominated by companies which are typically large, integrated players that benefit from their scales of operations. The presence of such incumbents intensifies the rivalry. Due to the fact that oil and gas operations are highly energy and labor intensive, fixed costs are also high and market is hard to exit as leaving would require significant divestments of assets specific to the business.

The electricity sector was under the process of dramatic changes in the mid 2000s in Russia. A number of regional energy companies and large federal power stations, as well as the intersystem of electrical grids, were established instead of the centralized state monopoly. The State owns a controlling stake in most companies, regulating all the activities of the energy entities and determining the prices of its services and production. The electricity from Russia is historically distributed internationally and can promote the development of the industry as well.

Gazprom is the largest Russian company and one of the world's leading energy companies with around 18% of global gas production. The main foreign assets of the company are concentrated in Germany, Ukraine, Poland, Belarus, the Baltic States and some other European countries. Gazprom has organized several greenfield projects with its European partners, as well as tried to buy companies in highly profitable distribution segments; its state connections have often aroused resistance. A significant impulse in the company business was an exchange of assets with the German firm BASF (Gazprom received 49% of the famous Wintershall AG). Gazprom also controls an electric power station in Lithuania (since 2003) and has built a new power-generating unit in Armenia.

Gazprom uses a wide range of modes when entering a new market. Though licensing and franchising is not typical in this industry, we can see examples of exporting, turn key projects, joint ventures and wholly owned subsidiaries. Nevertheless the main mode when entering European or Asian area is *exporting*, which has a quite low risk, though it is strongly influenced by the international agreements between governments.

Lukoil is the largest Russian private oil company. The main activities of the company are the exploration and production of oil & gas, the production of petroleum products and petrochemicals, and the marketing of these outputs. Lukoil has around 1.1% of global oil reserves and 2.3% of global production.

Lukoil began its investment expansion abroad in the middle of the 1990s. Lukoil has acquired participating interests in the exploration of oil & gas fields or oil production in countries of CIS, Latin America, Africa, and Arab countries. Since 2008, Lukoil has owned two refineries in Italy. It also has petrochemical plants abroad (in Ukraine and Bulgaria, as well as small plants in Belarus and Finland). Nearly 70% of Lukoil's 6,700 petroleum stations are located in 24 foreign countries, mainly in the United States.

In spite of recent significant moves abroad, Lukoil's core market remains Russia and to some extent oil-producing CIS countries. The company enjoys strong leading position in its home market with significant though depleting oil and gas reserves. Lukoil's most profitable activities (production and exploration) are the less internationalized

while the less profitable (marketing, refinery) are already highly internationalized. This can mean that internationalization is not, in the oil and gas industry, an absolute requirement for high profit margins.

Inter RAO UES was established as a power distributor of the RAO UES (Unified Energy System of Russia), a power holding company engaged in the generation, dispatching, transmission, and retailing of electricity and heat. After the reorganization of the company, the original RAO UES seized to exist, and several smaller electricity companies were formed. Inter RAO UES succeed a considerable part of original company's assets and obtained a notable market share.

Inter RAO UES started active purchasing of electric power assets abroad with expansion in Georgia and Armenia in 2003. In 2004, its subsidiary trading company became one of the major business entities in Finland. At the end of 2000s Inter RAO UES acquired control over power stations and electricity distributors in a few countries of CIS and Turkey. At the end of 2000s Inter RAO UES headed a group of more than 20 companies based in 14 countries.

In 2009, Inter RAO UES joined a $1 bn. investment pool with the Russian state owned VTB bank, and Kuwait's Alghanim & Sons to invest in electricity projects in Russia, the CIS and Arab countries. It was also bidding in partnership with Rosatom for a contract to build a nuclear power plant in Turkey.

In Table 7 the international results of Russian energy players are presented from the standpoint of reasons and motives to establish partnerships with western MNEs.

TABLE 7. **Internationalization results of Russian firms in the energy sector**

	Foreign destinations	Entry modes	Expansion approach	Role of the state
Oil and gas	Mainly the CIS, the Baltic States, Europe, and the USA. Rarely countries of Africa, Asia, Latin America and some Arab countries	Exporting (as the main mode), turn key projects, joint ventures and wholly-owned subsidiaries. Acquisitions in trading business	Market-oriented and profit-seeking approach. Greenfield projects with European partners. Acquisition of companies in highly profitable distribution segments	High state involvement, varying depending on the companies' historical and political routes
Power supply and electrical equipment	Mainly CIS countries. Also Northern Europe and the Baltic states. Other destinations are less attractive	Export, acquisitions, greenfield	Acquisition of foreign assets, and the consolidation of the position in the electric power markets in foreign markets	Very high. Government support is provided in the case of large contracts and projects

5. Discussion

5.1. Findings of the research

We see our study as having important implications on the IJV literature. In this study, we advance the notion that in strategic sectors of the Russian economy motives of MNE when entering into IJVs may vary from the motives of international firms in other industries.

Governments often impose ownership restrictions on foreign firms in some industries in order to protect the dominant position of local companies. The restrictions related to the ownership share in an IJV are especially severe in the energy sector. However, our findings indicate that foreign companies, even not constrained by legal restrictions, are willing to form IJVs and do not strive for total control.

Our study also has important implications on the strategies of local companies and the governments in emerging economies. Obtaining technology and upgrading the technological capabilities through collaborations with foreign companies in IJVs are the primary objectives of both local companies and the governments in developing countries (Beamish, 1993; Meyer, 2004). In establishing IJVs with foreign firms, local companies may prefer to have dominant control so as to prevent MNEs from becoming strong competitors in the future. Hence, the restrictions related to the ownership share in an IJV are much higher and much more severe in the energy sector.

A higher investment cost of greenfield strategy makes acquisition more attractive. Hence, IJV can be considered as the easiest mode of the start of acquisition strategy since it allows quick access to infrastructure. This is highly important for the energy sector which is sometimes strongly protected by local government from the MNEs entry.

From the standpoint of technology differences the greenfield strategy can be advantageous only if the significant technological gap between key competitors exists. When the technological sophistication of both local and foreign players is about equal (this is usually the case of energy sector), the IJV option is more appropriate.

When participating in IJV in Russian energy sector, MNEs often acquire an equity stake in an existing local firm, the stake ranging from minority to equal ownership. At the same time, as oil & gas and power supply & electrical equipment are industries under the high governmental protection and surveillance, the rise of the share in the ownership up to 100 per cent (like it often happens in other industries, e.g., construction and machinery) is impossible. Even an excess of the ownership over some 30-50 per cent in such IJVs seems to be highly problematic. It is still unclear, whether entrants pursue IJV strategy because of their need for market expertise (evidence from downstream markets opposes this assumption) and government ties, or mainly because they merely seek resource access.

The market characteristics explain the choice of IJV strategy and its benefits of which the western companies aspired to take advantage, establishing ventures in Russia (Table 8).

TABLE 8. **Motives and benefits of IJV strategy in Russian energy sector**

Sector	IJV motives	IJV benefits
Oil and gas	High upstream market density and complication	The access to the huge national projects
	High protection by barriers and government regulations	Well-established relationships with the local authorities; prevention of unfair treatment from their side
	Few nationally important projects accumulating the majority of activities within industry	Faster and safer entry
Power supply and electrical equipment	Low level of the infrastructure development (especially in the Central and Eastern regions of Russia)	The access to regional markets of Russia
	Lower costs of operation (and high costs of establishing infrastructure anew)	Diversification into the markets and projects of high national priority
	The demand for advanced technologies providing MNEs with the chances to establish the leadership in Russia	Collaboration with the best performing local firms

5.2. Validity and limitations of the research

In this research, the evaluation of motives and the study of advantages of the IJV based mode of entry was by nature a qualitative process. The main sources of the primary data were the managers of MNEs' subsidiaries in Russia and of Russian firms in the energy related industries. To minimize the effects of subjective biases in the interviews the most important issues were discussed from several angles. The data were combined from the interviews of the top management and the middle management, and from the information of the experts of the selected industries.

The general validity of the results of this study is limited by the choice of cases. The sampling was theoretical not statistical. The case companies were represented by their reputation of the best companies worldwide and in Russia. The target sector was energy, within which two markets were selected: oil and gas, and power supply and electrical equipment.

Two vectors differently shape the validity of the research findings from the standpoint of the effects of financial crisis on the selected industries. First, even huge international investors withdraw from the announced projects, and the general activity of internationalization may fall. Second, taking into account the rise of uncertainty related to crisis, the IJV became the kind of panacea in the case of the persevering belief of MNE management in necessity to continue oversea expansion.

6. Conclusions

We conclude with the following issues. First, IJV based strategy allows MNE to overcome the majority of cultural barriers and learn from its host country partners how to operate locally in the emerging economy market. While cultural distance can result in MNE's perception of uncertainty and hassle associated with managing local culturally sensitive topics (e.g., human resources), IJV enables these firms to shift many of those tasks to local partners who are more capable of managing cultural differences in suppliers, buyers, and the governments in their respective countries.

Second, an IJV increases the efficiency of foreign operations and simplifies the preparatory period (e.g., the pre-acquisition stage) through the use of existing workforce, equipment and supply contracts, and ensures a better understanding of the market and higher profits due to a lower value and risks of investments.

Third, when implementing an IJV strategy, risks are coordinated with rewards, although there are a lot of factors which should be analyzed prior to using this approach. When an IJV is launched hastily or for purely defensive reasons, MNEs often fail to evaluate the intentions and capabilities of the local partner. Therefore foreign enterprises that seriously consider entering Russia through IJV should devote enough resources and effort to prepare and monitor the selection of the partner, management of the venture and also the communication with the local partners.

Fourth, while IJVs as well as other types of local partnerships are one of the cornerstones of MNEs investment strategy in Russia, the common threads among IJV based strategies studied in the paper are as follows: a) the risk of operations in the country is relatively high and must be hedged in that way; b) the profits in downstream markets are so high that they imply foreign players operate by themselves; c) upstream markets are under strict state control and aren't governed by market laws, which bends invertors to select IJV strategy.

The important note is that joint ventures and other forms of cooperation promote both the success of MNEs in Russia and the internationalization process of Russian companies.

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