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Master in International Business Program

FORMS AND DIRECTIONS OF GOVERNMENT INVOLVEMENT IN INTERNATIONALIZATION OF RUSSIAN FIRMS

Master's Thesis by the 2nd year student
Concentration — International management
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ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ ВЫПУСКНОЙ КВАЛИФИКАЦИОННОЙ РАБОТЫ

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24.05.16

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I, Maria Gladysheva, second year master student, program «Management», state that my master thesis on the topic «Forms and directions of government involvement in internationalization of Russian firms», which is presented to the Master Office to be submitted to the Official Defense Committee for the public defense, does not contain any elements of plagiarism.

All direct borrowings from printed and electronic sources, as well as from master theses, PhD and doctorate theses which were defended earlier, have appropriate references.

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24.05.16

АННОТАЦИЯ

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Название магистерской диссертации	Формы и направления влияния государства на интернационализацию российских компаний
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Описание цели, задач и основных результатов	Данное исследование фокусируется на изучении феномена российских мультинациональных корпораций и изучает влияние государства на их интернационализацию. Основной целью магистерской диссертации является анализ взаимосвязи между уровнем государственного вмешательства в деятельность компаний/ политической аффилированности и степенью их интернационализации. Для выполнения этой задачи был проведен регрессионный анализ. Результаты статистического анализа показали, что количество политиков в составе совета директоров и топ-менеджмента компании положительно влияет на процесс интернационализации. К тому же, было выявлено, что компании, получающие государственные контракты, характеризуются более высокой степенью интернационализации. Базируясь на результатах анализа, были предложены практические рекомендации компаниями по применению результатов исследования на практике.
Ключевые слова	Интернационализация, мультинациональные компании, политическая аффилированность, совет директоров, Россия.

ABSTRACT

Master Student's name	Maria Gladysheva
Master Thesis Title	Forms and directions of government involvement in internationalization of Russian firms
Faculty	Graduate School of Management
Major Subject	International Management
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Academic Advisor's Name	Andrey Yu. Panibratov
Description of the goal, tasks and main results	The following work is focused on researching the phenomenon of Russian multinational enterprises (MNEs) and studying the government influence on their internationalization. The main goal of this master thesis is to investigate and analyze the correlation between government involvement/ political connectedness and internationalization process of Russian firms. For this aim five hypotheses were proposed and regression analysis was conducted. The findings showed that the amount of politicians among board members and their personal connections positively influences internationalization of Russian companies. Moreover, government contracts are also positively related to international activities. The study also includes practical managerial implications.
Keywords	Internationalization, Russian MNEs, political connectedness, board of directors, government involvement, Russia.

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ABBREVIATIONS

GDP	Gross domestic product
MNE	Multinational enterprise
OFDI	Outward foreign direct investment
FDI	Foreign direct investment
FSTS	Foreign sales to total sales
IPO	Initial Public Offering
OLS	Ordinary least squares
ROA	Return on assets
SOE	State-owned enterprise
UNCTAD	United Nations Conference on Trade and Development

INTRODUCTION

International expansion of Russian multinational enterprises (MNEs) has significantly increased since the early 2000, but this theme has interested a small number of scholars. Despite the fact that today not a few research papers and articles are dedicated to the theme of multinational enterprises in emerging economies, only a small part of them are focused on international enterprises in Russia. The interest of scientists of MNEs could be explained by the growth of importance emerging market multinationals. Multinational companies from India, China, Brazil and Russia use different internationalization strategies, entry and consolidation models that help them to become the leading players on the foreign markets.

The internationalization of companies from emerging economies is fairly new phenomenon and rapid development of multinational companies for several decades has been leading to a new wave of business studies that try to answer the interesting question: how can companies that do not have strong brand names and rarely own a lot of resources and technological capabilities compete with large multinational companies from developed countries?

It is not correct to utilize the same criteria for analysis of multinationals from emerging economies and MNEs from developed countries because of the following reasons. Firstly, MNEs from developing countries typically do not have strong resources and unique technological and other capabilities that ultimately make them the market leaders. Secondly, emerging multinationals since their foundation were forced to operate in under-developed environment which is characterized by high level of government ownership, instability and feeble market mechanisms. Therefore, multinational companies from emerging countries in most cases depend on domestic state that takes part in the strategy formation and also controls their activities within the country and abroad. These factors lead to the situation when MNEs need to competently build relations with the state that is able to provide the compensation for companies' weaknesses (Wang, 2012).

This master thesis is devoted to the topic of forms and directions of government involvement in internationalization process of Russian MNEs. In the context of Russian institutional environment this topic is very important because the role of Russian government in business is extremely high, especially in the case of MNEs that represent the strategic interest for the state in international arena. Thus, it is important to understand the relationship between government and the largest Russian companies in order to understand the pattern and peculiarities of their internationalization process.

Research gap and topicality

This study is important because it covers the topic of internationalization process of Russian multinationals and the role of the domestic state in this process. The work is focused on

the research of Russian multinational companies for some reasons. The first one is that Russia was included into the list of 20 largest home economies in the world (UNCTAD report, 2015). Secondly, Russia is one of the most prominent representative of the countries with emerging economy that today play a vital role in the development of world economy. Finally, today Russian economy is one of the less studied and examined in worlds business literature: for this reason, the research of the theme of Russian MNEs will significantly increase the existing poll of knowledge.

Research problem

Research problem can be identified as «How does Russian state influence the internationalization process of domestic firms and which mechanisms does it use during interaction with them». Previous research studies do not consider internationalization and institutional theory together: this study covers this gap by analyzing the role of government and political connections in internationalization process of Russian firms.

In addition, most of research papers that focused on role of political connections in internationalization process usually are too general and do not pay attention to level or degree of political connections in the companies and do not account for differences between companies that have different levels of political connections. This study approaches this gap by dividing political connections into several levels and analyzing how each of them impacts internationalization.

The master thesis is based on deductive approach. The first step in the research was the analysis of previous empirical research dedicated to the topic of forms and directions of government involvement in internationalization of domestic firms. Theoretical articles and other foundations consider different aspects of research problem. The statement of hypotheses was included into literature review because each hypothesis is supported by the theory and explained circumstantially. Acceptance or rejection of hypotheses helped to consider research problem, achieve the research goals and objectives and answer on research questions that are formulated in the second chapter.

Structure of the paper

The remainder of the following research is divided into four sections. The first section is dedicated to the review of the literature relating to internationalization of Russian MNEs, indicators of internationalization, direct and indirect mechanisms of government influence on domestic firms, role of political connections in internationalization process of companies. The second part includes description of research design and methodology, main goals of the master thesis and research questions. The third part consists of the explanation about conducted research

and description of the results of the analysis. The forth part consists of summary and discussions and suggestions for further studies and finally, practical managerial recommendations.

CHAPTER 1. RUSSIAN MNES AND THE GOVERNMENT AND POLITICAL INFLUENCE ON THEIR INTERNATIONALIZATION

1.1 Theoretical context of the research

Defining multinational companies

Despite the fact that globalization for a long time was driven by multinational companies from countries with developed economies, multinationals from emerging countries have recently begun to operate in new markets typically through outward foreign direct investment (OFDI).

According to the definition of Dowling, Liesch, Gray and Hill (2009, p.123), MNE is «any business that has productive activities in two or more countries». In other words, multinational firms are companies that have shown their ability to operate and play role in the global scene. Proof of the international status can be found in such types of characteristics as the considerable scope of companies' operations, big-league profits, the employment of large multinational workforce, globalized customers in international market (Panibratov, 2012a).

Russian MNEs

Russian multinational enterprises (MNEs) are well-known leaders in their home market, but only a few of them has been accepted onto the world stage as equal partners. However, it is explainable: the internalization of Russian companies became possible only in 1991, the period of appearance and development of private business in the post-communist period (Panibratov, 2012b). Therefore, most of Russian multinational firms are quite young, not highly experienced and weaker according to some indicators than their foreign counterparts. Nevertheless, today Russian companies have a lot of opportunities to achieve recognition in the international arena. A lot of MNEs now have sufficient funding in order to make some significant foreign investments and show their ambition and competitiveness in international market.

There is no consensus on the exact number of Russian MNEs. Their number directly depends on the approach and methodology. According to Institute of World Economy and International Relations, there are 20 top Russian multinational firms relied on their foreign assets (2013). Panibratov (2012a) considers 160-170 Russian MNEs that consist of the companies with the largest revenue operating in the Russian market and abroad without companies which are foreign subsidiaries or companies with more than 50% of foreign ownership, companies which had not begun the internationalization process yet and companies which did not disclose any information to public on their foreign activities. Deloitte (2008) supposes that there are approximately 5,000 Russian multinational firms. In general, non-transparency and concealment of information promote the lack of reliable data about this topic.

Emerging Russian multinational companies vary from state-owned giants to privately owned conglomerates keeping former government assets and newly established companies with shareholders from foreign countries. But it would be incorrect to divide Russian multinationals only into private and state-owned. For instance, private companies simultaneously consist of dynamically developing business groups and «rent-seeking empires of the oligarchs» (Kuznetsov, 2011, p.67). As for state-controlled enterprises, they include both market-oriented companies and ineffective firms that can not exist without government support.

Internationalization

Despite the fact that internationalization is a widely used term in academic literature researches have not yet create a universal definition of this process. There are different approaches that consider internationalization process from different perspectives. According to classical definition, internationalization is the process when the companies gradually increase their international involvement (Johanson, Vahlne, 1977). Another internationalization concept considers internationalization as the process through which the companies raise their awareness of the impact of international operations on their future and «establish and conduct transactions with companies from other countries» (Beamish, 1997, p.36). The main forms of internationalization process are exports, foreign direct investment (FDI) and international contacts (Conconi, Sapir, Zanardi, 2010). This study is based on the classic definition given by Johanson and Valhne.

Another fundamental question of international business literature is what determines the internationalization and how it should be measured (Dörrenbacher, 2000). Internationalization may be analyzed and measured by three categories of internationalization that include structural, performance and attitudinal (Dörrenbacher, 2000; Sullivan, 1994).

Structural indicators provide the representation about international expansion of the firm at a given time (Dörrenbacher, 2000). This type of indicators includes the following parameters (Gomes, Ramaswamy, 1999; Dörrenbacher, 2000):

- Number of countries where the company affiliates;
- Ratio of foreign assets to total assets;
- Proportion of foreign affiliates;
- Proportion of foreign assets;
- Number of cases of non-capital involvement abroad;
- Proportion of sourcing abroad;
- Number of foreign employees/ ratio of foreign employees to total employees;
- Amount of shares owned by foreigners;
- Number of stock markets on which a company listed.

The second group is performance indicators that show how well the firm operates in the foreign markets. These indicators consist of 5 main parameters (four of them represent foreign sales, the last one - operating income abroad):

- Amount of foreign sales by customer location;
- Amount of sales of foreign affiliates and revenues of foreign affiliates;
- Exports from home country;
- Sum of revenues of foreign affiliates;
- Sum of operating income of foreign affiliates.

As for attitudinal indicators, they provide reflect on the relationship between the domestic country of the company that internationalizes and its foreign operations (Curwen, Whalley, 2006). This type of indicators includes (Dörrenbacher, 2000):

- Ethno, poly, region and geocentric management styles in accordance with authority, decision making process, organizational complexity, communication flows, recruiting, control, staffing.
- International experience of top officials of the company that measured by counting number of the years that top managers spent working in foreign countries weighted by the total years of their work experience.

Jankowska (2001) distinguished measures of the company internationalization based on different features of internationalization such as exports of products; international contacts; foreign direct investment; employment; deliveries of materials, fixed assets and services; companies with ownership share of foreign capital; foreign sources of financing operational activity; foreign portfolio investment. Measures of internationalization are summarized in the Table 1.

Table 1. Measures of internationalization process

Feature of internationalization	Indicator of internationalization
Exports of products	- Share of revenue from export sales in total volume of revenues - Share of profit from exports in total volume of profits - Share of foreign clients in total number of company clients
International contacts	- Share of sales revenues from sales through foreign partners in total volume of revenues

	- Share of profit from sales through foreign partners in total volume of profits - Share of foreign clients attracted through foreign partners in total number of company clients
Foreign direct investment	- Number of production process links located in other countries in relation to total number of links in the company value chain - Value of assets (fixed capital and current assets) constituting foreign direct investment in the total value of company assets (fixed capital and current assets) - Number of branches located abroad in relation to the total number of company branches - Share of revenue from sales of products manufactured in factories being foreign direct investment in total volume of revenues - Share of profit earned on sales of products manufactured in factories being foreign direct investment in total volume of profits
Deliveries of materials, fixed assets and services	- Share of deliveries of raw materials, parts and components by foreign suppliers in total amount and value of deliveries - Share of machines and equipment bought from foreign companies in total value of machine and equipment purchases - Value of purchased services of foreign subcontractors in relation to total value of purchased services
Companies with ownership share of foreign capital	Share of foreign start-up capital in total value of company start-up capital Share of foreign start-up capital in total value of capital

Foreign sources of financing operational activity	Share of foreign capital (loan, leasing, subsidy) used to finance operational activity in total sum of company capital
Employment	- Ratio of people employed abroad to total number of employed people - Number of employees with foreign citizenship in relation to total number of employees

Source: summarized by author based on Jankowska (2001)

1.2 Role of the state in internationalization process of MNEs

Domestic governments play a crucial role in internalization of multinational companies from emerging countries (Michailova, Panibratov, 2012). They have actively involved in OFDI and encouraged it through often expensive and quite controversial public policy and economic regulations (Johnson, Mitton, 2003). Governmental policies in emerging countries that aim to foster OFDI can be considered as development strategy because in the perspective these policies can lead to economic growth (Knoerich, 2012; Caseiro, Masiero, 2014). Therefore, the more international activity of the domestic companies sets the goal to secure scarce assets for the home economy, the more is its potential to facilitate to national development and for this reason it should be supported through public policies (Caseiro, Masiero, 2014). In addition, the strategy of global promotion of domestic companies can be used in order to prevent foreign multinationals from taking full control over home industries and sectors at the same time as raising connections with global flows of resources, capabilities and technologies are generated (Knoerich, 2012).

There are a lot of questions about ideal relationship between government and domestic companies. According to Evans (1995, p. 124), «long-term successful industrial policy is usually implemented within an embedded autonomy-type of relationship between state and companies» It means that the government should build close links with domestic firms and be aware of their main challenges and capabilities. At the same time government should be autonomous and avoid situations when it can be captured by firms' short-term interests, formulated and implemented policies that fulfill the needs of national development through a consistent set of institutions and instruments (Caseiro, Masiero, 2014).

Resource-based, industry-based and institutional concepts

There are three different views on internationalization process of companies from countries with emerging economies – resource-based, industry-based and institutional concepts.

Resource-based theory that is based on the idea that distinctive features of MNEs international expansion can be explained by the differences between companies' special resources and capabilities. This concept considers internationalization as the process when the company wants to use its competitive advantages (resources, technological capabilities, strong brand name) in international markets or try to get new resources and assets (Buckley, Clegg, Kafouros, 2012).

In recent academic literature government support and political connectedness of the companies is considered as a really influential managerial resource especially in the countries with emerging level of economy (Li, He, Lan, Yiu, 2011). It happens because formal institutional framework is not fully formed in countries with developing economies and in this situation government and political connections are more important in contributing economic exchange (Fan, Huang, Morck, Yeung, 2009). In these countries in many cases the state has strategically important resources and allocates them, takes part in approving different projects and intervenes in business operations. For this reason, politicians within the company can provide insider important information about government motives and plans and the receipt of strategically important resources and administrative affirmations (Peng, Lee, Wang, 2005). The government often has the impact on companies through people that belong to companies' board members or top management and perform as government informants (Peng, Lee, Wang, 2005).

The government in emerging countries often creates the rigorous administrative procedures of OFDI approval and strictly controls domestic companies' international activities and at the same time tries to support them through subsidizing OFDI by firm in strategic industries and negotiating state contracts and auspicious conditions for OFDI in host countries (Child, Rodrigues, 2005). In this political context politicians within the company and political connections can help the company to receive licenses, financing, resources and technologies that are essential in entering the international market (Guillen, 2000).

Thus, political connections can be considered as a powerful competitive advantage of the company especially when the company wants to enter new markets or develop its internationalization process. The company's ability to enter new markets directly depends on the assess to necessary resources and assets. As was mentioned before, markets in emerging economies are not well developed and therefore, the state intervention in the activities of the company can be estimated as significant advantage. The government can support domestic MNEs by providing access to strategically important resources, better public provision and ensuring insider hidden information. Therefore, the following hypothesis was stated:

Hypothesis 1. Number of former and present politicians among top officials of the company positively influences the internationalization.

Not a single one organization can be considered alone, without institutional context (Scott, 2008). Therefore, in the case of internationalization of MNEs from developing countries rather than merely considering their international expansion as the result of distinctions in position of resources and capabilities, it would be appropriate to view their internationalization as a result of their relationship with government agencies.

As for institutional theory, it states that internationalization as a part of firm strategy is driven not only by special company's resources but also largely by different «isomorphic pressures and the need to meet environmental demands» (Hong, Wang, Kafouros, 2015, p.50). Multinational companies perform in fragmented institutional context and force to face complex institutional pressures (Saka-Helmhout, Deeg, Greenwood, 2016). Institutions play a vital role in operation of MNEs from emerging economies that «experience political and institutional reforms and institutional voids» (Dunning, Lundan, Cantwell, 2010, p. 570).

There is no doubt that the role of the government in internationalization process of multinational companies is extremely important both for firms from developed and emerging countries. Nevertheless, the government is much more influential in countries with developing economies. This fact can be explained by the following reasons. The first reason is that the state in developed countries rarely directly intervenes in the internal operations of the company and controls the activities in the international markets. In the emerging countries we can the opposite situation: local government not only actively involved in the company's operations, in many cases the state owns a lot of MNEs (Hong, Wang, Kafouros, 2015).

The influence of the government on internationalization process of MNEs can be seen both as advantage and disadvantage (Panibratov, 2012a). On one hand, the state can act as a market regulator and support national firms through special tax rebates, foreign exchange and financial assistance. Furthermore, the state can create international agreements in order to defend OFDI. Nevertheless, one should accept that government in a lot of cases puts pressure on national companies and limits their international expansion.

The state also impacts on internationalization process by means of direct ownership in companies. For instance, when the government is the main shareholder of the company, it can determine what strategy should the firm choose and how should it perform in international market. In this situation the risk that the firm will receive not economically beneficial solutions but those that accommodate political goals becomes high. Managers of state-owned enterprises often internationalize in order to enhance geopolitical standing (Wang, Hong, Kafouros, Boateng, 2012). From these facts, one may conclude that the state has an impact on the ability of multinational

companies to operate in foreign markets (Hong, Wang, Kafouros, 2015). Moreover, previous empirical researches proved that the government gives much more support for state-owned enterprises rather than private companies (Fan, Huang, Morck, Yeung, 2009). Therefore, it is logical to create the following hypothesis.

Hypothesis 2. Government ownership positively influences internationalization.

The third concept is industry-based theory that states that companies' activities and performance are largely determined by the industry in which the company operates. Structure of the industry, its characteristics and competition within each industry influence the probability of gaining the success on international market.

Regarding to internationalization, industry concept considers that internationalization process of the companies directly depends on the competition inside the industry in which it operates (Hyrner, 1976; Botter, Holmquist, 1996). Sometimes a lot of competitors in the domestic market encourage the companies to go abroad. According to Delios and Beamish (2001) the firm is more likely to start internationalization process if its industry is characterized by high concentration.

Another important point related to internationalization and industry-based concept is the idea that different industries have different potential for globalization (Yip, 1992). Klevorick, Levin, Nelson and Winter (1995) argue that companies that produce standardized products have more chances to be successful in international market than firms that produce consumer products and highly impacted by differences in preferences.

The previous studies have shown that the companies that represent strategic sectors of economy (oil and gas, electricity, military and mining industries) are most state-controlled. Some industries such as education, media and sport sphere are not strictly controlled by the government but are of strategic interest to the state.

1.3 Mechanisms of government influence on MNEs

The state usually affects the internationalization of domestic firm in the following directions (Wang, Hong, Kafouros, Wright, 2012):

- companies' strategic goals and decisions;
- the availability and cost of different resources and capabilities;
- the ways how these resources and capabilties are used;
- the procuring of important knowledge, information and valuable services;
- transaction costs connected with transborder expansion.

The government influences national multinational companies using formal and informal mechanisms (Bazuchi, Zacharias, 2013). Formal mechanisms are visible actions that government use to control multinational companies through the executive, legislative and judiciary branches while informal mechanisms are invisible actions mediated by personal networks and informal institutions that penetrate the public sphere. Developing countries and economies are also characterized by direct and indirect involvement of the state in the domestic companies' operations. The state usually uses ownership rights, mechanisms of control and regulations (Peng, 2000).

Emerging economy governments can offer direct support providing OFDI promotion policies that include such tools as trade shows and inter-government agreements in order to directly assist and regulate exports and OFDI (Hoskisson, Wright, Filatotchev, Peng, 2013). Moreover, emerging governments provide direct support in internationalization ensuring a low cost of capital for domestic MNEs (Buckley, 2010) or indirect support through «negotiation of bilateral treaties with host country governments to protect OFDI» (Hoskisson, Wright, Filatotchev, Peng, 2013, p. 1301).

The type of mechanisms that the state uses influencing internationalization of MNEs directly depends on two factors: the degree of state ownership in a given company and the level at which company is affiliated to the state (Wang, Hong, Kafouros, Wright, 2012). The degree of state ownership related to the government's share in the ownership of the company and the number of officials in the board of directors or supervisory board. The second one refers to situations when the state impacts international expansion of domestic firms by establishing links with the companies (Wank, 1995). The institutional inclusion of the firm also depends on hierarchical rank of the government that affects their actions (Wang, Hong, Kafouros, Wright, 2012).

The role of state ownership and governmental affiliation level

These two dimensions differ greatly and influence decision-making process of MNEs differently. When the government is the owner or shareholder of the company, it uses direct mechanisms of influence MNEs but the influence the state affiliation on companies is indirect, it usually happens through networks.

The framework that explains how government ownership in the company and state affiliation level affect companies was created by Wang, Hong, Kafouros and Wright (Figure 1) (2012). The main idea of the matrix is to show that when the degree of the government ownership in the company is high (Cells 2 and 4) the state directly influences companies' international operations by assigning executives and creating regulations related to government-owned assets. In this situation the firms need to balance political aims and desires of the state and market demand

and chose the strategy consistent with government policy. It is also critical to mention that managers that work in the companies with high degree of government's share chose internationalization strategy in accordance with the position of the official structures because career growth depends on whether they succeed in implementation state's objectives (Ramamurti, 2001). In other words, decision about the internationalization of state-owned enterprises or companies with high level of state's ownership are driven by political goals. Nevertheless, such type of companies often receives governmental contracts that in many cases contribute their internationalization (Ramamurti, 2001). Thus, the following hypothesis was created.

H3. Government contracts positively influence internationalization.

Speaking about government affiliation, it is important to mention that it can be at a high (state/provincial) or low (city/country) levels. When the companies deal with high level (Cells 3 and 4), they receive more support from the governmental official structures during their internationalization. State's affiliation mirrors greater status that enhances the trust of a focal company and decreases the uncertainty that their prospective international partners may feel about the company (Jensen, 2003). Moreover, in comparison with low level of affiliation (Cells 1 and 2) where the main goal of local government is to increase local economy output and revenue (Liu, Sun, Woo, 2006), government at high level set up more strategic goals, it is more concerned with integration of the country into world economy and therefore encouraging companies to invest overseas is one of their main priorities (Child, Rodrigues, 2005).

In addition, state government in many cases reallocates surplus labor and other assets towards new initiatives; one of this strategic initiatives can be international expansion (Wang, Hong, Kafouros, Wright, 2012). State government provides domestic companies special resources that related to foreign markets while local government usually has limited resources and capabilities in most situations related only to local markets (Sun, Mellahi, Thun, 2010).

Figure 1. Matrix of state ownership and government affiliation level
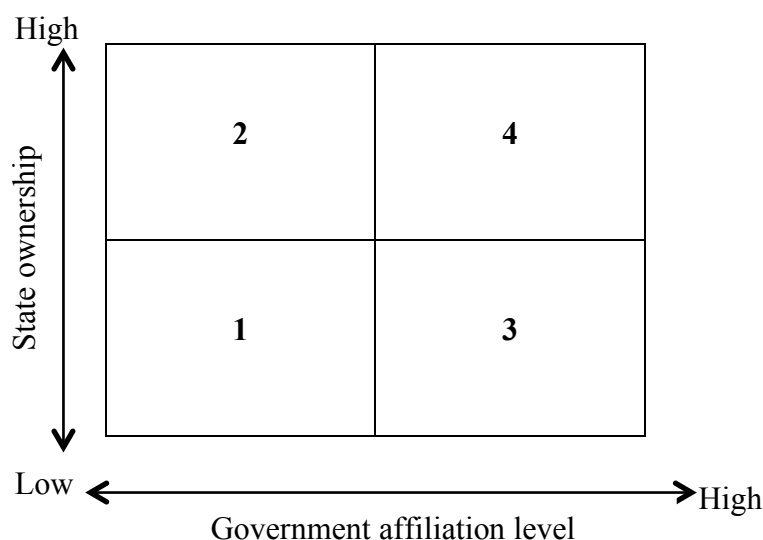
In general, emerging economy governments are often criticized for inadequate property rights and ineffective laws (Sun, Peng, Lee, Tan, 2015). In the context of internationalization of MNEs legal system and its enforceability are extremely important because they contribute transactions and resolve conflicts and help companies to expand their business abroad (Zhou, Peng, 2010).

1.4 Political connectedness

Measurement of political connectedness

Political connectedness relates to the situation when the officials of the companies are former or present politicians or have personal contracts with the state and government structures. According to Faccio (2006), the firm can be called politically connected or related to the government if at least one of its members of board of directors or top management belongs to the following groups: parliament member, politician, deputy, minister, governor, major. In this research similar classification was used.

It is also important to mention that a lot of researches pay attention to both former and present experience in politics because people from governmental institutions usually save important contacts and can use them during the whole career. In the research conducted by Fan, Wong and Zhang (2007) the company has political connections if its general director is the present or former official of the central or local government and military structure. This research is based on China institutional environment where militaries are close related to the government. Boubakri, Cosset and Saffar (2012) also take into consideration both former and present politicians and prove the same argument that officials with political past can retain their connections and receive some bonuses from them after resign.

Based on the previous researches the criteria for classification of firms according to their political connectedness were created. The company can be called politically connected in the following cases:

- Members of board of directors are present or former politicians.
- Top management of the company includes present or former politicians.
- Members of board of directors have personal connections with government.
- Top management of the company has personal connections with present or former President, prime minister or other politicians.

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In addition to former or present politicians among companies' officials, the level of political affiliation can be measured through amount of government contracts, level of state ownership in the company.

The role of political connectedness

The researches do not reach the consensus about the effect of political connections on the companies. Most of the empirical studies related to this topic prove the idea that political connections are a really powerful competitive advantage that can bring the company a lot of bonuses such as access to strategically important resources, economically beneficial government contracts, access to insider secret information. The overview of role of political connections on the companies is represented in the Table 2.

Table 2. Positive and negative effect of political connections

	Positive effect	Negative effect
Role of political connectedness	**Access to strategically important resources** (Goldman, Rocholl, So, 2009; Boubakri, Cosset, Saffar, 2012)	**Government intervention and an intention to satisfy the social service's** objectives (Fan, 2007; Faccio, 2010)
	Low taxes (Faccio, 2010)	**State-owned enterprises often internationalize in order to enhance geopolitical standing** (Wang, 2012)
	Access to credits (Khwaja, Mian, 2005; Leuz, Oberholzer-Gee, 2006; Claessens, Feijen, Laeven, 2008; Boubakri, 2012)	**Political objectives are more important than strategic economic goals** (Hong, Wang, Kafouros, 2015)
	Benefits during the IPO (Francis, Hasan, Sun, 2009)	

	Lobbying regulatory policies adopted in the state (Agrawal, Knoeber, 2001)	
	Government bailout (Faccio, 2006)	
	Government contracts (Goldman, 2009)	
	Access to insider hidden information (Wang, 2012)	

Source: developed by author

The table shows that from one hand, political connections can be considered as a company's resource that can become strong competitive advantage. On the other hand, political connections and government intervention can be harmful for company's economic prosperity because political purposes become more important than economic goals.

Most of the studies examined correlation between political connections and different company's indicators are focused on countries with developing economies. It can be explained by the fact that the role of the state is more important in countries with emerging economy rather than in developed countries. Internationalization process of MNEs from developed countries is market-driven while internationalization of MNEs from developing countries largely depends on institutions and home government.

One should note here that economic, institutional and market development, state structure of various countries with emerging economies may differ significantly. Thus, the role of the government can be more visible and important in one countries with developing economies than in others. For instance, some scholars ague that large countries with emerging economies such as China, Russia, India are characterized by a high level of state involvement in their operations (Hong, Wang, Kafourous, 2015).

1.5 Political connections and internationalization

In developing markets unstable political and economic structure significantly increases uncertainty and unpredictability of business operations that may create some difficulties for companies' operations and international expansion. In this situation one of the solution can be establishment of network connections (Önder, Simga-Mugan, 2006; Heath, Peng, 1996). If the

company is not able to build partner relationship with domestic government the chances of failure of this company in international arena will significantly increase (Hong, Wang, Kafourous, 2015).

In contrast, companies that interact with local state closely often receive a lot of bonuses that can be classified as firms' intangible assets (Hoskisson, Eden, Lau, Wrighy, 2000). Previous researches can come to conclusions about advantages that can bring cooperation with government. For instance, Faccio (2006) concluded that companies with political connections receive more credits and loans and more assistance from the state during period of adversity. Another researches Wu, Chongfeng, Zhou, Wu (2012) found that firms with connections with the government in many cases acquire favorable tax rate and high level of market share.

These facts lead to dissemination of idea that the crucial element of company's success in countries with emerging economy is the ability to shape and maintain connections with the state by appointing managers and board members with political connections or background (Peng, Luo, 2000; Khanna, Palepu, Sinha, 2005).

Speaking about internationalization strategy it is essential to mention that companies usually use two ways of international expansion – export and foreign direct investment (FDI). The choice of the strategy requires the compromise between high variable trade costs related to export strategy and high fixed set-up costs related to FDI (Conconi, Sapir, Zanardi, 2010). In general, the choice of internationalization strategy is extremely difficult because internationalization usually is accompanied by a high level of uncertainty about performance and operations in foreign markets. Majority of the researchers believes that companies in order to receive market-specific knowledge should begin their internationalization through export or in some situations switching to regional subsidiary sales (Johanson, Vahlne, 1997; Conconi, Sapir, Zanardi, 2010).

However, the company internationalization strategy can be changed significantly if the government supports it through access to credits, special contracts with foreign governments, reduction in tariffs or taxes, providing government contracts (Goldman, 2009; Faccio, 2010; Boubakri, 2012; Wang, 2012). In the case of state support the company can begin its internationalization with establishing foreign subsidiaries. Therefore, it is reasonable to propose the following hypothesis:

H4: High level of political connectedness is positively related to foreign direct investments.

As was mentioned above, political connections can bring a lot of bonuses for the companies in terms of their operations, performance, access to strategically important resources and other. After detection of these factors, the researchers decided to go further and identify how political connectedness can impact on internationalization process. The first researchers that found the correlation between internationalization and political connections or government support were Agrawal and Knoeber (2001). They found that the more former or present politicians among

member of board of directors, the more international activity company has. Moreover, they noticed that high amount of board members with political experience significantly increases the size of sales to the state and lobbying activities.

Other researchers Wang, Hong, Kafouros and Boateng (2012) identified that government support is positively related to FDI. The researcher focused on China market and examined 667 Chinese companies; state ownership was chosen as independent variable and amount of FDI represented dependent variable.

The results of both studies showed that government involvement correlates with internationalization performance of the companies. The more amount of political connections of official of the company and the more government support, the more the company internationalized. Thus, it is logical to propose the following hypothesis:

H5: High level of political connectedness of board members and CEOs positively influences internationalization.

1.6 Russian institutional context

The relationship between multinational companies and Russian government has attracted much attention from scholars. The firms in strategic industries such as oil and gas are responsible for a large part of OFDI; for this reason, a lot of researchers argued that international expansion and activities of Russian companies should not be explain only by the economic motives. Some scholars noticed that companies in strategic sectors of Russian economy may be operating in foreign countries to serve the interest of Russian state and its foreign policy (Vahtra, Liuhto, 2004; Vahtra, 2005). Government controls companies from strategic important industries and supports them making these firms «national champions». Through laws, regulations and institutions, state impacts on multinational companies and in some cases dominates transactions within an economy. Consequently, the role of Russian government should be taken into consideration in the questions related to internationalization of Russian MNEs.

Evaluation of government influence on internationalization process

Government influence on MNEs operations and internationalization process can be evaluated using two categories: control (the stake of the government in the company's ownership) and interest (the number and quality of incentives provided to the companies) (Panibratov, 2013). The previous studies have shown that the companies that represent strategic sectors of Russian economy (oil and gas, electricity, military and mining industries) are most state-controlled. For their regulation the government tries to retain at least partial control in the private firms in such industries as oil, gas, transportation, telecommunications, mining, steel (Boubakri, Cosset, Saffar, 2012).

Some industries such as education, media and sport spheres are not strictly controlled by the government but are of strategic interest to the state. Banking, metallurgy and telecom industries have a big impact on state's image; therefore, the government is interested in their development. For the last few years Russian government is also highly interested in development in IT market and support internationalization of other industries such as education and scientific research (Panibratov, 2015). In addition, Russian state set the goal to greatly increase the share of IT industries in the Russia's gross domestic product (GDP) (RF Government, 2012).

These examples prove the suggestion that there are essential institutional variations across different sectors of Russian economy. OFDI is fostered and subsidized in some sectors (oil, gas, electricity, military), but other industries (fast food, automotive, logistics) are not a priority for the state. It can be explained by the fact that heavy sector is the largest contributor to the government's budget and at the same time the most significant token of the state's productive power (Panibratov, 2012b). These variations are significant source of competitive advantages and different internationalization results of MNEs (Hong, Wang, Kafouros, 2015).

Influence on internationalization of state-owned and privatized companies

State-owned companies receive support from the government such as access to resources, capabilities and important information, loans and credits from the central bank, administrative support that facilitate their international expansion (Panibratov, Kalotay, 2009). At the same time state influence remains in private companies or firms with partial government share.

The major amount of Russian export and foreign direct investments (FDI) are made by group of natural resources. «Raw materials account for two thirds of Russian exports and Russian energy and metal companies have a strong leverage in many of their target markets» (Vahtra, Liuhto, 2005). The leading companies in gas, oil and metal sectors are the subject of national interest of Russian government and because of it these companies are often influential bearers of political power abroad. In other words, the role of the state in international performance of Russian firms can be described as industry-driven and the extent of the control and involvement of the government differs across sectors of Russian economy (Panibratov, 2012). For instance, in gas, atomic and oil industries, multinational companies receive essential financial and administrative support from the state. For those industries that do not represent the national interest for the state, the government provide support and control through administrative mechanisms.

While excessive control and dependency can be regarded as a disadvantages that limit companies' activities, it provides MNEs financial and political security and the access to resources that gives the companies opportunity to perform and compete in foreign markets (Jormanainen, Koveshnikov, 2012; Panibratov, Latukha, 2014) and develop the economy in home country. This is extremely important for Russian companies because they are the most morbidly feeling the

effects of the crisis compared with firms from other developing countries such as Brasil, India and China (Andreff, 2015). During the global economic crisis in 2008 Russian OFDI stock was the most unstable and decreased by 20% and in 2011 17% down but during the recovery in 2010, it showed the highest rate of growth (74%) in comparison with other BRICS countries (UNCTAD, 2014).

Barriers

Another direction considering the state's influence on international expansion of domestic firms is the negative role of the government in internationalization process (Globerman, Shapiro, 2009; Lewin, Witt, 2007). Among them are bureaucratic regulations, corruption and heavy taxation on domestic earnings (Hoskisson, Wright, Filatotchev, Peng, 2013). In addition, a lot of managers in Russia are really concerned about political and economic instability which may lead to expropriation of assets (Hoskisson, Wright, Filatotchev, Peng, 2013). In general, political instability and weak institutional development became the reason why a lot of Russian companies turns their activities at home into subsidiaries of foreign companies that registered in other countries such as Cyprus, British Virgin Islands, Mauritius.

Russian economy needs a structural reform and enhancement of competitiveness in order to transform Russia from the country with natural-resource economy to innovation-oriented country (Vahtra, Liuhto, 2006). Nowadays the lack of transparency and corruption do not allow Russia to achieve its full potential. Russia's problem and challenges can be traced to its incapacity to create sustainable formal institutions that will overcome its institutional voids (Puffer, McCarthy, Jaeger, 2016).

Overall, the literature review helps to understand the topic in detail and provide material that helps to build the hypotheses based on the results of previous empirical studies. All hypotheses are presented in the Table 3.

In general, literature review provides important information about measurement of internationalization and political connections, direct and indirect mechanisms of government influence on domestic firms and their internationalization process, existent theories that consider internationalization process from different perspectives – resource-, institution- and industry-based concepts.

Literature review also includes overview of different views on the role of government from emerging markets on domestic firms. This generalization was very important for the deep understanding of the topic and development of hypotheses. Overview of previous empirical studies helps to choose appropriate statistical method for the further analysis and understand that variables should be chosen for the consideration.

Table 3. Developed hypotheses

Hypotheses	Literature
Hypothesis 1. Number of former and present politicians among top officials of the company positively influences the internationalization.	Guillen, 2000; Child, Rodrigues, 2005; Peng, Lee, Wang, 2005; Fan, Huang, Morck, Yeung, 2009; Li, He, Lan, Yiu, 2011.
Hypothesis 2. Government ownership positively influences internationalization.	Fan, Huang, Morck, Yeung, 2009; Wang, 2012; Hong, Wang, Kafouros, 2015.
Hypothesis 3. Government contracts positively influence internationalization.	Ramamurti, 2001; Wang, Hong, Kafouros and Wright, 2012.
Hypothesis 4. High level of political connectedness is positively related to foreign direct investments.	Goldman, 2009; Faccio, 2010; Boubakri, 2012; Wang, 2012.
Hypothesis 5. High level of political connectedness of board members and CEOs positively influences internationalization.	Agrawal, Knoeber, 2001; Wang, Hong, Kafouros and Boateng, 2012.

Source: author

CHAPTER 2. RESEARCH METHODOLOGY

2.1 Research objectives

The aim of the study is to develop the understanding of the government role in internationalization process of Russian multinational enterprises. This study has three main objectives:

1) to investigate empirically the role of home government in internationalization process of Russian MNEs.

2) to evaluate the extent of government influences on internationalization process of Russian MNEs.

3) to find relationship between political connections of top officials (board members and top management) and internationalization strategy of Russian MNEs.

2.2 Research questions

The study aims to answer on the following questions:

- What demarcates the involvement of the government in the internationalization process of Russian MNEs?

- How the internationalization process of Russian MNEs depends on the type of the government impact?

- What is the effect of political connections on internalization process of Russian MNEs?

- How the strength of political connection influences international strategy (form of expansion and geographical presence) of Russian firms?

Answers on these questions can help to overview the topic in detail and achieve the main goal of this research. Theoretical aspects of the issues were considered in the first chapter, in the second part practical aspects of the problem will be discussed.

2.3 Research method

This research consists of several scientific methods that help to investigate the problem deeply and achieve the main goal of the research. Generally, this work is a quantitative study that based on the secondary data from databases, Russian and international journals and corporate websites. The current study follows the positivism concept that involves the hypotheses creation that should then be systematically tested. This approach was chosen because it allows to conduct the objective research through precise control and measurement.

In order to investigate the correlation between government role and political connections of top officials and internationalization process of Russian firms the explanatory type of research was used. This type of the research helps to explain why something is happened and forecast similar phenomenon in the future.

The main model that was used in this study is regression analysis because this method allows to statistically estimate relationships between variables.

2.4 Data collection process

The empirical setting of the current work is Russian largest companies. The sampling of Russian multinational companies for the current research was obtained from the annual ranking Expert 400 that consists of the largest Russian companies in terms of sales and revenues. Purely domestic companies, Russian subsidiaries of foreign multinationals and companies where foreign ownership exceeds 50 percent were excluded in order to make sample more homogeneous. The main purpose of this work is to assess the influence of government and political connections of CEOs and board of directors on internationalization process of Russian MNEs, therefore companies which have not started their internationalization were also excluded. As a result, the final sample includes 157 firms.

The study was conducted with usage of secondary data that was collected through such sources as Spark and Skrin databases, Interfax Center for the disclosure of information, companies' official websites, annual reports, Russian and international newspapers, magazines and other media (New York Times, Bloomberg, Wall Street Journal, Forbes, Financial Times, Kommersant, Lenta, Ria Novosti). The databases were used in order to receive information about age, industry where companies operate, members of board of directors and CEOs, financial indicators. Most of corporate websites include firms' annual reports and biography of CEOs and board members that were also important for this study. Interfax Center includes information about companies' annual financial indicators. As for Russian and international media, these sources provide information about political connections of board members and some biographical facts that for different reasons do non mention on the corporate websites.

2.5 Regression model and variables

One of the objectives of this research is to explain the correlation between government influence/ political connectedness on internationalization process of Russian largest firms. Therefore, the main method of this study is regression analysis that helps to predict one variable

from other variables. The study consists of three types of variables: control, dependent and independent variables (Table 4). Further, each variable will be discussed in more detail.

Control variables: firm size, board size, total sales, intangible assets, industry, ROA

Following previous researches (Lemmon, Lins, 2003), we decided to control some risk factors that might impact on the objectivity of the research. The first control variable is firm size that measured by the logarithm of total sales. Firm size was chosen as control variable because larger companies may be better positioned to access resources in the international markets and have more opportunities (financial and others) in their internationalization.   The second risk-control variable is board size that also might have affect on companies' s financial indicators and internationalization process (Hermalin, Weisbach, 2003; Dalton, Dalton, 2005; Vo, Phan, 2013). The last one is total sales that measures the total revenue of the company in 2014.

Another control variable is administrative expenses that show how Russian companies use operation expenses; intangible assets that represent non-physical long-term resources of an entity and ROA that shows how profitable a firm is relative to its total assets. These indicators represent the effectiveness of the company at a certain level of government influence (ROA), the expenses that include costs on board of directors and CEOs (administrative expenses), intangible value of the company, which is also formed by top officials of the company (intangible assets).

The last control variable is the industry where the company operates. As was mentioned in theoretical part, in many cases type of the industry determines company's performance. The final sample consists of 12 industries to which companies from the sample belong.

Dependent variables: FSTS, foreign countries, characteristic of foreign countries, FDI, international activity

The second group is dependent variables that include the international degree. In the first chapter several indicators of internationalization were discussed. In this study such criteria as ratio of foreign sales total sale (FSTS) was used in order to measure companies' internationalization. In order to answer on the question about the influence of political connections of top officials on geographical choice of the number of countries where the firm operates was used as dependent variable. In addition, FDI was chosen as a dependent variable that shows which internationalization strategy the company uses.

Independent variables: government ownership, politicians on the board of directors and among CEOs, level of political connections, government contracts

The third group is independent variables that show the level of political connections in Russian companies. The first independent variable is the percentage of government ownership in the company. There are different views on the impact of government impact researcher. Some of them ague that high percent of government ownership is detrimental to company value (Borisova, Fotak, Holland, Megginson, 2012) while other believe that government ownership can help the companies to handle with external difficulties and uncertainties (Agrawal, Knoeber, 2001; Hillman, Withers, Collins, 2009). The previous research papers measure government ownership by calculating total percentage of shares that directly owned by the state or government companies (Luo, Yao, 2006). The same measurement was used in this research.

The second independent variable is the number of politicians that now work in different governmental structures. Members of the board and CEOs that are politically connected should held such posts as minister, deputy minister, governor, major. The data that helped to access the political connectedness was found on the companies' corporate websites, Russian and international journals and magazines.

The third independent variable is the degree of political connections. Based on previous researches we decided to use four scoring system in order to assess the rank of these connections. The highest level of political connection is attributed to those who have held top positions in the central government (Du, 2011). In this case we gave 3 points those who have close connections with former and present Presidents and prime-ministers of Russian Federation. The close ties include friends, classmates and colleagues that can be considered as members of the team of president or prime-minister – for example, advisors (Fisman, 2001). If the person has present connections on the federal or high regional (exmp., governors) levels, the variable equals to 2. In the situation when the person has political connections on the federal or regional level in the past or political connections on municipal level (majors) it equals to 1 point. In the case when political connections were not found, the variable equals to 0 points.

The last one is amount of governmental contracts and revenue that the companies received form them. This variable helps to assess the level of government interest in the company, state's support and financial results that the companies receive from it. Access to state contracts, that measured by the total sum of contracts awarded by a company during the study period, is taken as indicative of close relationships to politicians.

Table 4. Variables

Control variables	Dependent variables	Independent variables
1) **Firm size** (logarithm of total sales).	1) **FSTS** (the ratio of foreign sales to total sales)	1) **Government ownership** (dummy variable; does state has the shares in the company or not)
2) **Board size** (total amount of board members)	2) **Foreign countries** (number of countries where the firm operates)	2) **Politicians on the board of directors and among top management** (number of present politicians in board of directors and top management team)
3) **Firm age** (age of the company)	3) **Characteristics of foreign countries** (CIS, Europe, Asia, Pacific Region, Offshore)	
3) **Total sales** (total revenue of the company)		3) **Level of political connections** (3 points – top positions on the central government; 2 points - federal or high regional levels; 1 point - federal or regional level in the past or political connections on municipal level; 0 points – no political connections)
3) **Intangible assets** (intangible value of the company)	4) **FDI** (the amount of foreign direct investment during one year)	
4) **Administrative expenses** (total amount on costs on operations)		
5) **Return on assets** (expressed as a percentage)		4) **Government contracts** (dummy variable; 1 was given to the company which revenue from government contracts exceeds 1 percent of the total sales)
6) **Firm industry** (industry where the company operates)		

Source:author

Models

With the help of regression model it will be possible to identify which factors have the most influence on internationalization process. As for the models that were used in this study it

consists of different kind of analysis that perform different goals. T-test helps to evaluate the differences in the means of FSTS and number of counties where firm operates in order to test whether there exists any difference between the means of these two variables with independent variables assembled in two groups based on their corresponding level of government involvement.

The following regression models were created:

$$FSTS = \beta_0 + \beta_1*FS + \beta_2*Industry + \beta_3*TS + \beta_4*Int. \ A. + \beta_5*Adm. \ Ex. + \beta_6*ROA + \beta_7*GO \ \beta_8*GO + \beta_9*POBDT + \beta_{10}*PC + \beta_{11}*GC + e$$

$$Foreign \ Count. = \beta_0 + \beta_1*FS + \beta_2*Industry + \beta_3*TS + \beta_4*Int. \ A. + \beta_5*Adm. \ Ex. + \beta_6*ROA + \beta_7*GO \ \beta_8*GO + \beta_9*POBDT + \beta_{10}*PC + \beta_{11}*GC + e$$

$$FDI = \beta_0 + \beta_1*FS + \beta_2*Industry + \beta_3*TS + \beta_4*Int. \ A. + \beta_5*Adm. \ Ex. + \beta_6*ROA + \beta_7*GO \ \beta_8*GO + \beta_9*POBDT + \beta_{10}*PC + \beta_{11}*GC + e$$

Models above are created for each dependent variable, such as foreign sales to total sales, number of foreign countries and ratio of exports to FDI. Each model includes all control variables, which are firm size, board size, firm age, total sales, intangible assets, administrative expenses, return on assets and firm industry.

2.6 Limitations

There are some limitations of this research, among them are:

1) lack of transparency of Russian companies – some information about political connectedness of companies may be non-public and carefully hiding (Liuhto, Vahtra, 2005);

2) difficulties in generalization of information and full usage of results and recommendation for the companies from other countries because the research considers only Russian companies and Russian institutional context;

3) the sample list includes 157 Russian MNEs, however, sample consists of not all of the representatives of this type of company.

CHAPTER 3. FINDIGNS AND ANALYSIS

3.1 Descriptive statistics

As can be observed from the Figure 2, the majority of the companies have affiliates in between 1 and 5 countries. In general, the data is normally distributed with a long right tail. It is also important to mention that the most popular destinations for the internationalization of Russian companies are Europe and CIS countries that can be explained by close geographical location and similar culture. In turn, less popular destinations for international activities of Russian companies have become Pacific region that also quite logical: the countries from this part are located far from Russia and its culture differs significantly that can create difficulties in conducting business.

A considerable number of Russian companies also operates in offshore countries such as Cyprus, Luxemburg, British Virgin Islands. The most common area for offshore is Cyprus that has extremely low taxes, similar culture and convenient geographical position for Russian companies. However, according to consulting agencies, Cyprus will soon lose its urgency because the head of state of Russia and the Republic of Cyprus signed an agreement according to which the registration of legal persons in Cyprus becomes possible only if the entity has the Cypriot founders and (or) operates in Cyprus, but not in Russia (PwC, 2014).

Figure 2. Distribution of quantity of foreign countries where Russian companies have affiliates
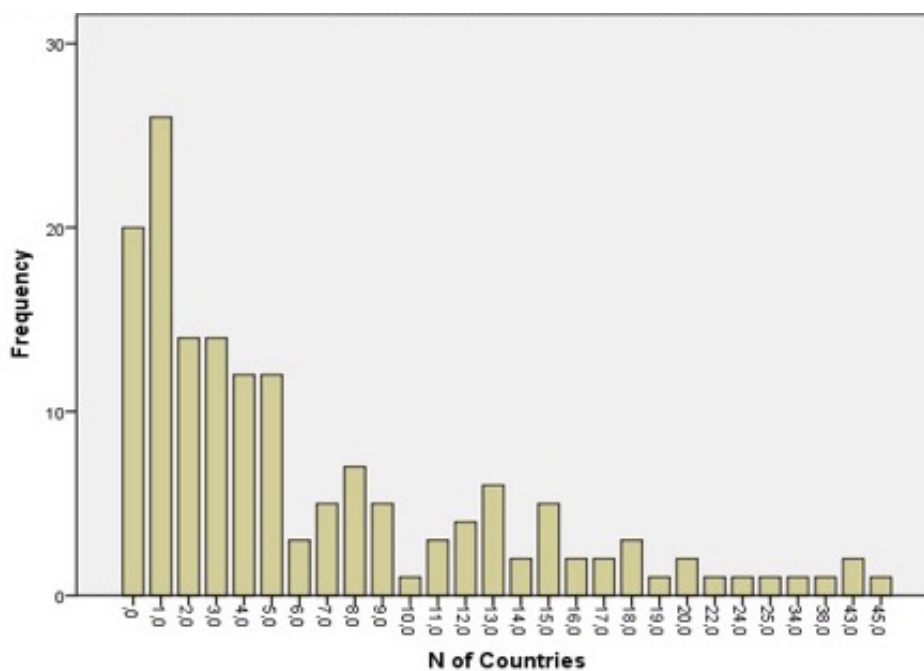
Source: developed by author

Descriptive statistics showed that average number of members of board of directors in Russian companies equals 7,5 that means that the amount of board members varies from 7 to 8 people (Figure 3). The number of former and present politicians among members of board of directors and top management varies from 0 to 11 persons with the mean of 2,23. It means that on average, the companies has 2 current or former politicians among its officials. Regarding to the level of political connections, it has a mean of 1,31. Therefore, it can be concluded that on average, the level of political connections in the companies varies between 1 and 2.

Figure 3. Distribution of the amount of members of board of directors
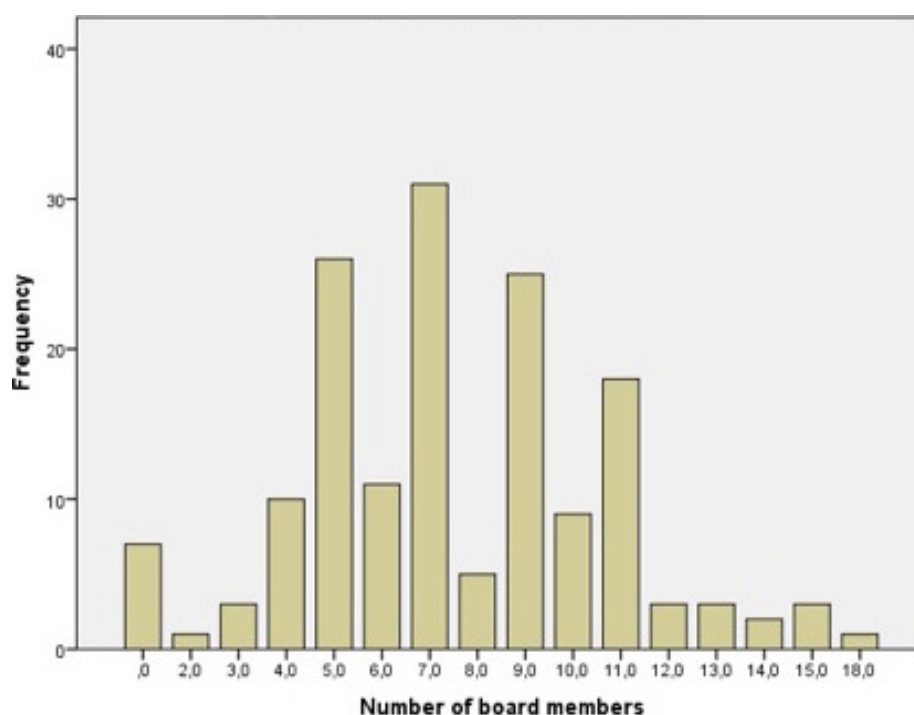
Source: developed by author

Statistics also depicts that the number of politicians among board of directors and top management connects with the level of political connectedness. A large number of politicians among board of directors and top management usually accompanied by the existence of the connections on the presidential level. As for the level of political connections, statistics shows that the most common levels of political connectedness for Russian companies is federal, regional and municipal levels; connections on the presidential level are not very common for Russian companies. Forty companies among 157 do not have political connections at all.

The study also has two dummy variables – government ownership (does Russian state shares in the company) and government contracts (does revenue received from government contracts exceeds 1 percent of the company's total sales). Regarding to these variables, descriptive statistics shows 28 percent of the companies has the government as a shareholder. As for the

overnment contracts, it was shown that only 15 percent of the companies receive these contracts from the government and get revenue from them. However, it is important to mention that there is no single database containing information on all government contracts and the companies that have received then in a given year. Information about state contracts was collected from different sources, therefore, probably some data was missing.

The overview of average numbers regarding to political connectedness is represented on the Table 5.

Table 5. Average numbers of political connectedness

Indicators of political connections	Number
Politicians on the board of directors and among top management	2,23
The level of political connections	1,31
Government ownership	28% of the companies has the state as a shareholder
Government contracts	15% of the companies receive state contracts

Source: developed by author

In general, the total amount of observations for all variables was 157 with the exception of dependent variable FSTS (101 observations) that can be explained by inaccessibility of information or even intentionally hidden facts about export and revenue from activities in international market. Overall, the results of descriptive statistics for all variables are presented on the Table 6.

Table 6. Descriptive statistics

Variable	Observations	Mean	Standard deviation	Min	Max
Control variables					
Firm size	157	17	2,27	10,2	25,8
Board size	157	7,52	1,00	4	18
Total sales	157	139330566805	324345,8	328000	4299680200000,00
Intangible assets	157	78245999722	2346,7	90000	46807000000
Administrative expenses	157	6004793169	1365,5	536000	81900769000

Return on assets	157	2	2,89	-23,76	35,4
Dependent variables					
FSTS	101	39,77	40,00	0,1	98
Number of foreign countries	157				
CIS	101	2,35	2,8	1	22
Europe	73	1,32	2,5	1	3
Asia	36	1,09	3,0	1	2
Pacific	3	1	1,4	1	1
Offshore	44	1,268	1,8	1	4
Independent variables					
Government ownership	157	17,75	35,50	0,00	100
Number of politicians among members of board of directors and top management	157	2,23	2,89	0	11
Level of political connections	157	1,28	1,81	0	3
Government contracts	157	3,04	13,5	0	119

Source: developed by author

In order to generalize information Russian companies were distributed in accordance with industries to which they belong. As well as a lot previous studies (Doerrenbacher, 2000; Conconi, Sapir, Zanardi, 2010), the descriptive statistics shows that the most internationalized companies in Russia in terms of ratio of foreign sales to total sales (FSTS) are from oil and gas, pharmaceutical,

banks and metallurgy industry. It can be explained by the fact that oil and gas and metallurgy industries are strategically important for the country, therefore, they were the first among Russian companies that have begun the process of internationalization. Nevertheless, as was mentioned above, the research is based only on 101 observations because unavailability of information about companies' foreign sales. Thus, it is reasonable to assume that these conclusions are not definite and perhaps not very representative.

As for amount of total sales and intangible assets, the large amount of these financial indicators belongs to companies from oil and gas, metallurgy and banks industries. This fact can correlate with the level of internationalization. Firms that actively operate in international markets usually have larger sales than domestic companies. Moreover, one of he most common strategies of entering into new market is purchasing of assets. Companies that operate in the foreign markets and buy assets have intangible assets in their balance sheets.

Descriptive statistics also depicts that companies that do not actively internationalize and even do not well-known in the domestic markets do not have intangible assets in their balance sheets. In addition, companies with low level of political connections usually do not have or have smaller amount of intangible assets that can be explained by the fact that intangible value of the firm is also formed by its officials (members of board of directors and top management team).

Regarding to administrative expenses that show the amount of money that a company spends not directly tied to a specific function or generally speaking, on operations. Administrative expenses also include expenses that the firm spends on board of directors and top management team. Descriptive statistics shows that companies with larger amount of board members have higher administrative expenses than other firms whose board of directors included few people. In addition, high administrative expenses have companies from oil and gas and metallurgy industries; companies from these industries also usually have quite large in size board of directors.

As for return on assets (ROA) that represents how efficiently management of the company uses its assets in order to generate earning, descriptive statistics does not show any visible regularities.

The industries that are characterized by high amount of government ownership are banks and transportation. The companies from oil and gas industry have much high amount of politicians in the board of directors in comparison with other companies despite the fact that they almost do not have government share. The same situation can be observed from the example of metallurgy industries that also characterized by high level of politicians among board members. Moreover, companies from oil and gas and metallurgy industries have the highest level of political connections – almost all of them have among board members or top management team people who have held top positions in the central government or have close connections with former or present

Russian presidents and prime minsters. These observations lead to the conclusion that the government in order to control strategically important industries instead of using direct mechanisms of influence such as share in the companies, tend to choose indirect mechanisms that help to impact on the companies through people closed to the government.

It was also found that the companies that have a large amount of government contracts are firms that belong to machinery and construction industries. This fact can be explained by the important role that military has in Russia. Most of these companies produce different military equipment. In addition, some of these companies relate to space industry that also represents high interest for Russian government. From these observations the following conclusion can be made: industries that represent the high strategic interest for the state and influences state image are under a greater state control. This results correlate with official policy of Russian government that has repeatedly stressed that the main priority of the foreign policy of the country is to ensure national safety.

3.2 Hypotheses testing

Multicollinearity

Correlation coefficients presented in the Table 6 show that the majority of variables are scarcely correlated with others, without multicollinearity issues and without exceedingly large coefficients that can show that some variables are excessive and duplicate the existing ones.

Table 7. Correlation

Correlations												
Pearson Correlation	№ of count.	Board size	Gov. contr.	Politicians on the board	Level of political conn.	Gov. own.	FSTS	Firm size	Total sales	Intang. assets	Adm. Exp.	ROA
№ of count.	1,000											
Board size	,197	1,000										
Gov. contr.	,017	,135	1,000									
Politicians on the board	,304	,662	,222	1,000								
Level of political conn.	,252	,619	,089	,788	1,000							
Gov. own.	,120	,265	,224	,447	,379	1,000						
FSTS	,139	,285	,490	,245	,219	,306	1,000					
Firm size	,049	,436	,305	,298	,367	,140	,254	1,000				
Total sales	,320	,165	,177	,276	,142	,129	,392	,490	1,000			

Intangible assets	,285	,371	,359	,138	,382	,190	,240	,390	,538	1,000		
Adm. Exp.	,490	,082	,463	,275	,284	,144	,308	,250	,159	,204	1,000	
ROA	,282	,337	,216	,341	,613	,402	,503	,232	,307	,119	,351	1,000

Source: author

T-test

T-test was conducted in order to understand how the means of dependent variables FSTS and Number of Countries differ with the government involvement measured by the following variables: size of the board of directors, government contracts, political connectedness and government ownership.

After analyzing the results of t-test it was found that there are significant differences among means of Number of countries variable and all independent variables, except for government ownership. Also it was found that the FDI decreases with increasing level of political connectedness, which means that hypothesis 4 is rejected.

As it can be seen from the results, higher means of the Number of Countries are displayed for the companies that have:

- politicians among members of the board of directors and top management
- government contracts
- political connections.

However, the hypothesis 2 which states that government ownership positively influences internationalization is rejected, since no significant difference was found between the means of the quantity of countries which have government ownership and which do not.

Table 8. Results of T-tests. Differences in Number of Countries means between companies with political connections and without them

Group	Observation	Mean	Std. Err.	Std. Dev.	[95% Conf. Interval]	
State Ownership						
0	115	9,3201	0,9323	8,3240	6,8912	11,0612
1	42	16,322	3,2303	15,8720	9,0330	20,3220
combined	157	12,025	0,9999	11,2232	7,2626	12,9300
diff		-6,8235	3,0512		-8,6320	-1,9292
diff = mean (0) – mean (1)				t= -2, 6031		
Ho: diff = 0				degrees of freedom=	159	
Ha: diff<0		Ha: diff!=0		Ha: diff>0		
Pr(T<t)=	0, 0021	Pr(T>t)=	0,0049	Pr(T>t)=	0,8869	
Politicians on board of directors						
0	49	5,6120	0,6569	6,5589	6,1123	9,1121
1	108	11,7687	1,6292	13,8635	8,5053	16,6250

combined	157	9,0205	0,8319	12,0320	7,2321	11,6300
diff		-6,8321	1,8329		-8,5324	-3,2051
diff = mean (0) – mean (1)				t= -3,1139		
Ho: diff = 0				degrees of freedom =	159	
Ha: diff < 0		Ha: diff!=0		Ha: diff>0		
Pr(T<t) =	0,0006	Pr(T>t)=	0,0019	Pr(T>t)=	0,8772	
Political connections						
0	42	4,9980	0,6432	6,2332	5,93676	8,0321
1	115	13,8213	1,969	16,7321	12,2321	19,3231
combined	157	9,0202	0,94329	13,1312	8,1623	12,9300
diff		-7,8739	1,8369		-12,5467	-5,6125
diff = mean (0) – mean (1)				t=-4,2992		
Ho: diff = 0				degrees of freedom =	159	
Ha: diff<0		Ha: diff!=0		Ha: diff>0		
Pr(T<t) =	0,0000	Pr(T>t)=	0,0000	Pr(T>t)=	0,9000	
Government contracts						
0	90	9,3213	0,9328	11,1235	4,3251	12,1202
1	67	9,9231	11,123	9,1025	8,3123	13,1325
combined	157	9,0220	9,0205	13,1563	8,1356	10,9330
diff		-1,8853	1,8655		-4,9934	-2,3041
diff = mean (0) – mean (1)				t=-4,5421		
Ho: diff = 0				degrees of freedom =	159	
Ha: diff<0		Ha: diff!=0		Ha: diff>0		
Pr(T<t) =	0,0021	Pr(T>t)=	0,0328	Pr(T>t)=	0,0152	

Source: author

With regards to the testing of dependent variable FSTS, T-test conducted with this dependent variable did not show any significant results. This can be possibly explained by the lack of available data on foreign sales of the companies.

OLS Regression model

In order to understand how independent variables measuring government involvement influence the level of internationalization of companies, regression models were used. The dependent variable in the first model is the number of countries in which firms have affiliates, with the following control variables, which are the size of the firm, administrative expenses, intangible assets and total sales. Independent variables are state ownership, number of politicians on the board of directors, level of political connectedness of the members of the board and the presence of the government contracts.

The model summary, presented in the Appendix 1 shows that overall the model is significant. However, we may infer from the model summary below, that influence of control variables on the model is negligible.

As for individual contribution of independent variables, it can be inferred that not all variables are significant to internationalization process. By looking at the results of regression analysis, it can be inferred that the number of politicians on the board of directors is the most important factor in explaining internationalization to other countries, followed by government contracts and level of political connections. Among the least influential factors is governmental ownership. Based on the obtained results, it can be concluded that the quantity of politicians on the board of directors is more important than the perceived influence of the individual politically-affiliated members.

In order to test other hypotheses hierarchical OLS regression was conducted. The results of the analysis are presented in the Table 7. As can be seen from the table, model 1 includes all variables and other models consist of only statistically important variables. As expected, not all variables are significant for measuring internationalization process. Nevertheless, the OLS regression model helps to indicate that the number of former and present politicians among board of directors and level of political connections have positive correlation with internationalization of Russian firms.

Thus, hypothesis 1 («number of former and present politicians among top officials of the company are positively influence the internationalization») and hypothesis 5 («high level of political connectedness of board members and CEOs positively influence internationalization») were proved. These results correspond to the result of the recent empirical research related to the topic of influence of political connections and government involvement on internationalization process in other emerging countries.

The hypothesis 2 («government ownership positively influences internationalization») was rejected, the correlation between government shares and FSTS of the companies was not found. It can be explained by the fact that nowadays the government tend to impact on domestic companies not through direct mechanism (ownership) but through various indirect mechanisms. For instance, as was mentioned above, the state controls firms using people resource. People closed to the government belong to companies' members of board of directors or top management team. This strategy works more effective than traditional direct mechanisms (Boubakri, Cosset, Saffar, 2012).

Table 9. Result of regression analysis: Number of countries model

Variables	Model 1	Model 2	Model 3
Observations	157	157	157
R sq.	0,4634	0,4532	0,4498
Adj. R sq.	0, 4223	0,4270	0,4330
F statistics	7,2 (0,000)	12,45 (0,000)	34,38 (0,000)
Size	11,07 (0,000)	12,23 (0,000)	12,56 (0,000)

Administrative expenses	5,21 (0,036)	5,30 (0,032)	5,36 (0,025)
Intangible assets	0,89 (0,230)		
Total sales	0,45 (0,5910)		
Oil and Gas	0,10 (0,89107)		
Banks	-0,19 (0,8789)		
Construction	-0,35 (0,5689)		
Transportation	0,26 (0,9032)		
Wholesale	0,09 (0,8220)		
Pharmaceutical	0,25 (0,9400)		
Metallurgy	4,99 (0,3120)		
Retail	5,16 (0,0310)	6,34 (0,023)	6,40 (0,020)
IT	-0,79 (0,3710)		
Government ownership	-0,61 (0,712)	-0,59 (0,718)	
Politicians among members of board of directors	4,29 (0,002)	4,56 (0,000)	4,39 (0,0001)
Level of political connections	3,12 (0,045)	2,19 (0,038)	2,39 (0,018)
Government contracts	5,41 (0,003)	-7, 61 (0,000)	

Source: author

Finally, the main results of the analysis are represented in the table 8. The analysis proved the fact that the government involvement and political affiliation play an extremely important role. This study showed that political connections among companies' members of board of directors and top management and the level of these connections todays represent the powerful mechanism through which the government controls firms' activities or even has the impact on them.

Table 10. Results

Hypotheses	Proved/rejected
Hypothesis 1. Number of former and present politicians among top officials of the company positively influences internationalization.	Confirmed
Hypothesis 2. Government ownership positively influences internationalization.	Rejected
Hypothesis 3. Government contracts positively influence internationalization.	Confirmed
Hypothesis 4. High level of political connectedness more positively relates to foreign direct investments rather than export	Rejected
Hypothesis 5. High level of political connectedness of board members and CEOs positively influence internationalization.	Confirmed

Source: developed by author

CHAPTER 4. SUMMARY AND DISCUSSION

4.1 Summary

This study investigates different forms and directions of government involvement in internationalization process of Russian firms. The research was conducted gradually. First of all the research goals, objectives and questions were formulated. After this, the analysis of literature related to this topic was conducted. It helped to understand the topic of the role of government in internationalization process of Russian firms in detail, consider previous empirical researches dedicated to this theme, create the list of variables and finally, develop the hypotheses. After the data collection process the statistical analysis was conducted. The analysis fulfilled the goals and helped to investigate such forms of government involvement as number of people with political background or closed to the state among companies' official, level of these connections and provision of government contracts highly impact the internationalization process of Russian companies.

4.2 Implications for theory and practice

This master thesis contributes to the business literature by complementing the resource-based theory that states that political resource factor is an important tool that can become a strong competitive advantage for the companies. The findings of the current study demonstrate how political background of members of board of directors and top management team can become a powerful resources that facilitates companies' activities and particularly the internationalization process.

In addition, the results have important practical managerial implication. Firstly, the shareholders during the process of formation of board of directors should take into account the importance of political background of board members that can bring a lot of bonuses for the company; for instance, facilitate internationalization process. Moreover, top managers that work in the companies from developing countries should take into consideration that in addition to achievement of corporate and economic goals political connections of company's officials are also able to facilitate the internationalization.

4.3 Suggestions for the furture research

The present study considers such ways of government involvement in internationalization process of domestic firms as provision of government contacts, state ownership and political connections of officials of the companies – member of board of directors and top management team. However, other ways of state influence on domestic firms exist; among them are provision of government credits and loans and access to strategically important resources; decrease of taxes;

granting benefits during IPO; provision of lobbying regulatory policies adopted by the government; government bailout.

Another interesting mechanism is related to the foreign policy of the state. The government interested in international expansion of particular companies can negotiate with foreign countries where these companies plan to operate and sign special documents and agreements facilitated the enter into new market or operations there. It is especially important for companies from developing economies because in many cases they do not have enough resources and capabilities to enter new markets and need support from the domestic government. This direction of government role in internationalization process can also significantly contribute to the existence pool of knowledge dedicated to the topic of government impact on internationalization of domestic firms.

As can be seen from these enumeration, there are a lot of different variables that can also have an impact on internationalization process of companies and impact them in different directions. For these reason further researches may focus on these variables, investigate their correlation with internationalization process of Russian and other multinational firms from countries with emerging economies and create a developed framework that can fully explain all forms and directions of state involvement in international activities of companies.

CONCLUSION

The main goal of this research was to develop the understanding of the government role in internationalization process of Russian multinational enterprises. The statistical analysis helped to achieve this goals and showed that political connections and government involvement are one of main forces that impacts internationalization process of MNEs in Russia. This fact is undeniable, however, it is necessary to pay attention to the specific mechanisms by which the state has an impact on domestic firms. The analysis has shown that not all mechanisms of state involvement are effective measures of influence on the process of internationalization.

The statistical analysis helps to investigate that the number of politicians among members of board of directors and top management team is positively related to internationalization while government ownership does not have any effect on internationalization process. These investigations led to the conclusion that Russian government tends to use informal mechanisms of influence rather than direct. The state involves in the companies' activities through less obvious ways such as people. For example, companies from oil and gas industry are characterized by high internationalization level and have much high number of politicians among its officials in comparison with firms from other industries despite the fact that they almost do not have government share.

In general, the results have shown that the more number of people that are former or present politicians, closed to the government or have personal contacts with officials the more company is internationalized.

In addition, the statistical analysis revealed a positive relationship between amount of government contracts and internationalization. That also proved the suggestions that Russian government influences the internationalization process of domestics firms and supports some of them through provision of government contracts and other bonuses.

Regarding to FDI internationalization strategy, the regression analysis showed that political connections do not influence FDI. Thus, this hypothesis is considered not to be confirmed.

To sum up, in this master thesis it was investigated that Russian companies as majority of firms from emerging countries highly depend on the domestic government that in turn, uses different types of mechanisms – formal and informal in order to impact companies activities and operations. Nowadays informal mechanisms in many cases are more effective and afford the state to be involved in different firms' activities such as internationalization.

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Appendix 1. Model summary

Model Summary

Model	R	R Square	Adjusted R Square	R Square Change	F Change	df1	df2	Sig. F Change
								Change Statistics
1	,197[a]	,039	,033	,039	6,263	1	155	,013
2	,309[b]	,095	,065	,056	2,355	4	151	,056

a. Predictors