

Panibratov, Andrej Ju.

Article

Internationalization process of Russian construction industry: Inward investments perspective

Journal for East European Management Studies

Provided in Cooperation with:

Rainer Hampp Verlag

Suggested Citation: Panibratov, Andrej Ju. (2009) : Internationalization process of Russian construction industry: Inward investments perspective, Journal for East European Management Studies, ISSN 0949-6181, Rainer Hampp Verlag, Mering, Vol. 14, Iss. 2, pp. 210-228

This Version is available at:

<https://hdl.handle.net/10419/84049>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

Internationalization process of Russian construction industry: Inward investments perspective*

*Andrei Panibratov***

Inward investments as the cornerstone of the entry mode choice are still considered a frontier issue within the field of internationalization – as judged from the academic interest as well as from the numerous articles published in scientific journals. Despite considerable progress in later years in formulation of theories, many weaknesses still exist within this field. A further development of theory is therefore needed. Nowadays emerging markets show the greatest activity in the field of internationalization, e.g the Russian market, which is considered by most potential entrants as a huge opportunity. The methods of entry and models of operations of international contractors in the Russian market, based on the investment decisions, are investigated in this paper.

Direktinvestitionen als Eckpfeiler für den Markteintritt werden weiterhin als Randgebiet der Internationalisierung angesehen – sowohl vom akademischen Interesse her als auch in den veröffentlichten Artikeln der Fachliteratur. Trotz beträchtlicher Fortschritte in den letzten Jahren bei der Formulierung von Theorien existieren immer noch viele Schwächen innerhalb dieses Feldes. Deshalb ist eine weitere Theorieentwicklung notwendig. Heutzutage weisen die 'emerging markets' die stärksten Aktivitäten im Bereich der Internationalisierung, beispielsweise der russische Markt, der von den meisten potenziellen Marktteilnehmern als eine enorme Gelegenheit angesehen wird. Die Methoden des Eintritts und die Modelle der Kooperation der internationalen Anbieter auf dem russischen Markt werden, basierend auf ihrer Investitionsentscheidung, in diesem Beitrag untersucht.

Keywords: internationalization, entry mode, foreign direct investment, construction industry, Russia

* Manuscript received: 21.09.08, accepted: 12.03.09 (1 revision)

** Andrei Panibratov, Associate Prof., Graduate School of Management, St.-Petersburg State University; Russia. Main research areas: FDI, Marketing strategy, construction market. Corresponding address: panibratov@gsom-pu.ru.

Introduction

Not many studies regarding construction companies' processes of internationalization exist. Most of them are related to the experience of a narrow set of construction firms of national origin, e.g. British (Crosthwaite 2001) or Chinese (Pheng/Hongbin, 2006). In the recent years many construction companies from Finland, Germany, Russia, Turkey as well as other firms from developed and emerging economies countries have started to enter foreign markets. Therefore, analysis of their activity, motives for internationalization and success factors in the foreign markets are of interest for the researcher.

The aim of the present article is to determine the factors influencing the operations of international (predominantly European) construction companies in foreign markets with a focus on the Russian market. In turn, that requires critical evaluation of the basic conditions and methods of application of key theories of internationalization in the construction markets of developing countries. The research objectives are: to survey the contemporary theory of internationalization and its application to construction industry; to study the internationalization process of European construction companies and their entry decisions toward Russian market; to reveal the factors of success in the internationalization process of large construction enterprises entering Russia.

This research was conducted through in-depth personal interviews with chief executives and middle managers of multinational enterprises' (MNE's) subsidiaries in Russia and Russian construction enterprises. The research was based on a case study approach. The works by Bartlett and Ghoshal (2008), Crosthwaite (1998, 2001), Gunhan and Ardit (2005), Helfat and Lieberman (2002), Hitt (2006), Whitelock (2002), Tsang and Yip (2007), Yu (2007) and many others were used in this study.

The paper is structured as follows: Firstly, contemporary approaches to internationalization are reviewed, and as the entry mode is a cornerstone of MNE success, we pay special attention to this field of research. Next, the methodology and explanation of the strategic management concepts related to the research are presented with the special focus to the case study approach. After that, the results of the research are outlined and discussed. The article ends by drawing out recommendations and conclusions.

Contemporary approaches to internationalization

Previous research of entry strategy

The phenomenon of internationalization is widely studied and many researchers contributed to this field. There are fundamental and contemporary studies on the foreign market entry. The fundamental research on internationalization was mainly focused on the foreign market entry decision process, entry mode choice,

analysis of the large multinational enterprise (MNE) as an economical organization, as well as headquarter-subsidiary ownership and control issues. The investigations of Bartlett, Caves, Dunning, Ghoshal, Hymer, Kogut, Perlmutter, Singh and many others could be referred to as the classical works on internationalization. The entry mode choice is explained in most cases by the following theories: monopolistic advantages theory, internalization, transaction cost approach, eclectic paradigm. Agarwal, Cumberland, Dunning, Malhotra, Ramaswami, Tsang, Ulgado and Yip studied the problems related to the market entry process and to the activity of MNE subsidiary.

A review of the literature reveals that research within the field of entry strategy is still fragmentary regarding terminology, problem identification, methodology and coherent theory. As a result, literature concerning entry mode represents a rich variety of perspectives and paradigms today. The research has primarily focused on the examination of coherence between the foreign market and specific factors relating to the given enterprise – and finally the most efficient entry mode for an enterprise in relation to these parameters. The manufacturing sector has been in focus at the expense of the service sector (Erramilli/Rao 1993; Ekeledo/Sivakumar 2004; Domke-Damonte 2000) and emphasis has primarily been given to making predictions regarding accumulated levels of entry modes (Aulakh/Kotabe 1997; Cumberland 2006). Taking into account the considerable changes in the global environment over the past few years (Dong et al. 2008) it is of vital importance to reassess the frames of terms and references which have dominated research in the field of entry mode so far.

Despite limitations of the approach, foreign market entry strategy decision making is considered as an important stage of the internationalization process in the construction industry in this article. According to Root (1994), three various decision rules for foreign market entry mode choice are defined by the degree of sophistication: the naïve rule, the pragmatic rule and the strategy rule. According to the naïve rule the company uses the same entry mode for all foreign operations. The pragmatic rule stipulates to apply “a workable entry mode for each target market”. The “right” entry mode should be used for each target market as the strategic rule suggests. Taking into consideration the severe competition in the construction industry, the formation of the “right” strategy is the serious challenge for newly internationalizing construction firms from Russia as well as from other countries in economic transition.

Alternatives in the study of international decision making process

The dichotomy of the entry strategy study was analyzed by Benito and Welch (1997) from two main approaches – “economic perspective” and “process perspective”. According to Whitelock (2002), the model incorporating the key elements of each approach may present a more realistic and comprehensive picture of the market entry decision. The dramatic problem of the state of

contemporary research in the field is that none of the traditional theories take the changes of internationalization terms and conditions into account. Axinn & Matthussens (2002) call for new/revised theories which not only comply with the demand above, but also are capable of explaining and predicting enterprise evolutions through model adaptation or model innovation.

Gunhan and Ardit (2005) developed an international expansion decision model particularly for the construction companies but it could be used for other industries as well. The model consists of two stages. At the first stage, the firm makes a decision if it is necessary for the company to internationalize and determines if it possesses the resources. When the outcome of this stage is positive then the company implements the second one. During the second stage, the firm compares the benefits with losses in a foreign market. And when the outcome is positive, the company can choose the entry mode.

The evolutionary view on the company's internationalization pays attention to the experience of the MNE. The greater the international experience, the higher the degree of control in the chosen modes. Phatak (1997) has offered a comprehensive framework for the entry mode choice; such factors as firm capability, industry factors, location-specific factors, venture-specific factors, strategic factors are mentioned in his book. Cullen (2002) suggested the foreign market entry mode decision making matrix, which combines the factors and entry strategies and evaluates conditions for the foreign market entry.

A MNE considering entry into an overseas location by means of foreign direct investment (FDI) faces two strategic decisions regarding the organizational form of its international operation. First, the level of control over its foreign entities (full ownership vs. joint venture) and, secondly, the mode of entry (setting up a new venture via greenfield investment vs. acquisition of an existing enterprise) has to be determined.

The theoretical literature on the choice of entry mode already provides important insights into the determinants of this decision (Norbäck/Persson 2002; Bjorvatn, 2004; Cheng 2006). Buckley and Casson (1998) concluded that market structure as well as competition intensity in the market has crucial impact on the entry decision. Görg (2000) analyzes the effect of market structure on the choice between greenfield investment and acquisition. He shows that generally acquisition may be the preferred mode of entry, only with the acceptance of a high cost of adaptation will a greenfield investment considered as a possible optimal choice. Mattoo et al. (2004) examined how the choice of entry mode affects the transfer of technology and the degree of competition in the host country.

Internationalization preconditions in construction

David Crosthwaite has written several works dedicated to the construction companies' process of internationalization with the special attention on British firms. In one of his works, Crosthwaite (1998) studied the period of 1990-1996 and concluded that most firms dealt in the well developed markets, rather than developing markets. The reasons were the financial stability and the low level of corruption in the developed countries. International construction develops in various markets with different intensity.

The study of Ranko and Crosthwaite (2001) showed that at the beginning of the XXI century the most attractive markets for construction were China, USA, Singapore, Yugoslavia, Germany, Poland and Russia. According to the cities' ranking, Moscow was ranked in the fifth place by the attractiveness for construction industry in the world.

Contractors and developers usually create a joint venture or establish wholly owned subsidiary to internationalize their operations. Such companies as Skanska, Amec, Balfour Beatty, YIT, Vinci Group and many others have a presence in a global scale. They are going to continue the internationalization process.

Research methodology

The research approach

This research has been based on the study of the environmental impact and of the adjustment to the internationalization process. As this process is strategic in nature, the approach adopted here can be based on strategic management research traditions. The research applied a variety of approaches. Conceptual analysis approach was used to develop conceptual systems to study the transition process. A decision-making methodology approach was used to study internal processes. An operational analysis approach was the base for the empirical part of the study.

Objectives of the study

The basic objective of the study was to find out how foreign construction enterprises entering Russian market adjust to the local environment, how they respond to the internationalization attempts of Russian firms, what factors affect and explain their results (both success and failures, and how these factors can be evaluated. On the basis of the findings, the second objective was to predict the future development of the internationalization process in Russian construction industry taking into account the financial crisis issues.

Scope of the study

The focus of the study was the internationalization process of Russian construction industry. Construction was considered by the author as one of major Russian economy sectors. Chandler (1990) divided industrial enterprises into mining, manufacturing, construction, utilities, and transportation and communication enterprises. Russia nowadays demonstrates a strong dependence on all the above sectors, the construction industry satisfies one of the most important human needs – the need for living space and security.

Construction is highly integrated with the narrow set of the related markets. The Russian construction sector seems to give a good basis for a comparative study only if construction related markets are investigated as the part of the scope of the study. Hence, contracting, construction material, and construction machinery industries (all construction-related markets) were studied.

Research approaches and research methods

The study combines several research methods. The research framework was founded on the industrial organization perspective and the network perspective. The perspective for the enterprise to position itself in the industry is the industrial organization perspective. The network perspective gives the framework for analyzing the organization-environment interaction and operational structure of internationalizing companies.

The basic concepts of the internationalization process study were based on literature survey. The literature survey included a review of previous research on the internationalization process from the perspective of the industrial enterprise and of the business environment. The empirical part of the study was based on a case study approach. In the first phase of this part a basic understanding of the internationalization process in enterprises was acquired through interviews of companies and experts in St Petersburg and Moscow.

In the second phase of the empirical part of the research, case study methodology was used to develop understanding of the internationalization process in construction. This part was carried out in the North-West region of Russia, mostly in St.-Petersburg. The region chosen represents well the internationalization trends in Russia, which are mostly developing in Moscow and St.-Petersburg.

The study focused on the internationalization process both in region and in the enterprises to find out the effects of the development in the business environment on the behavior of a construction enterprise. Six industrial companies from Finland, Germany and USA (Caterpillar, Knauf, Konecranes, Nokian Tyres, Otis, YIT) were selected for the analysis, being considered as construction or construction-related multinationals, significantly affecting the Russian construction industry.

In-depth interviews focused on the issues of competitiveness of the selected enterprises, their expansion plans, the identification of SWOT, and the assessment of further opportunities in Russia. Meetings with the companies' CEOs took place in the period of 2005-2008: Mumin Azamhujayev (General Director of Caterpillar in Tosno), Dr. Verner Regen (Representative of Knauf Group in the North-West of Russia), Fedor Elagin and Igor Bardin (General director and director of technical services of ZAO Konecranes in St.Petersburg), Andrei Pantyuhov (General director of Nokian Tyres in Vsevolozhsk), Vladimir Marov (General director of RusOTIS) and Markku Ukkola (Development director of YIT Lentek) were interviewed. We have decided to rely on these executives' answers as only these people could not only clearly identify formal strategic orientations of their firms, but also to express their attitudes and feelings toward further expansion to the Russian market.

In addition, an investigation of five large and well-known Russian contractors (LEK, LenSpecSMU, Mirax, M-Industria, Stroimontazh) was made. These companies have been selected as already having international operations and representing well the scope of competitive strategies and models of entry barriers to Russian construction market.

The research of internationalization process of the Russian construction market

Russian construction market overview

The Russian construction industry generated total revenues of \$51.5 billion in 2007, representing a compound annual growth rate (CAGR) of 10.6% for the period spanning 2003-2007. In comparison, the Polish and Hungarian industries grew with CAGRs of 7.8% and 8.2%, respectively, over the same period, to reach respective values of \$35.4 billion and \$9.8 billion in 2007. The non-residential segment proved the most lucrative for the Russian construction and engineering industry in 2007, generating total revenues of \$29.5 billion, equivalent to 57.3% of the industry's overall value. In comparison, the civil engineering segment generated revenues of \$22 billion in 2007, equating to 42.7% of the industry's aggregate revenues.

The Russian construction and engineering industry grew by 10.3% in 2007 to reach a value of \$51.5 billion. The compound annual growth rate of the industry in the period 2003-2007 was 10.6%. It is dominated by the non-residential segment, which accounts for a 57.3% share of the industry's value. The civil-engineering segment accounts for remaining 42.7% of the industry's value. Russia accounts for 7.5% share of the European construction and engineering industry value.

The construction industry of the Russian Federation comprises over 130,000 organisations and enterprises. Approximately 90% of all organisations operating in the sector are small businesses (up to 50 employees). According to Russia's Federal Statistics Service (Rosstat), in 2007 the Russian construction sector employed 4.9 million people (4.4% more than in 2004), representing 7.3% of Russia's total workforce.

Russia tends to be an extremely dynamic and volatile market about which Western Europe, and the West in general, knows little. To illustrate, its largest westward neighbour, Poland, has 38 million inhabitants and approximately 345,000 construction firms. Meanwhile in Russia, 130,000 enterprises attend to the building needs of over 143 million citizens. Needless to say, there is much room for growth. This is the reason why large companies as Bouygues, Hochtief, Strabag, Vinci, Codest are now also working in the Russian market.

The volume of foreign investments into the Russian construction sector was soaring before the most recent financial crisis. According to Rosstat data, the industry attracted \$183 million in foreign funds between January and June of 2006 – that is 80% of the FDI inflow posted in 2005, of which \$90 million represented FDI and \$93 million was contributed in the form of other investments, mostly loans. According to press reports, foreign investment funds channelled in as much as \$1.5 billion into Russian real estate projects in 2006, nearly twice as much as in 2005. Not surprising, given the fact that real estate investors are seeing returns of over 10% in Russia, while property markets of Western European and the US do not yield more than 4-5%.

In 2012, the Russian construction and engineering industry is forecast to have a value of \$80.3 billion, an increase of 56% since 2007. The compound annual growth rate of the industry in the period 2007-2012 is predicted to be 9.3%. The performance of the industry is forecast to decelerate, with an anticipated CAGR of 9.3% for the five-year period 2007-2012, which is expected to drive the industry to a value of \$80.3 billion by the end of 2012.

Russian construction industry internationalization pre-conditions

According Hitt et al. (2006), there is a positive relationship between internationalization and firm performance. When analyzing the Russian construction industry internationalization process, Michael Porter's five forces model can appear especially useful. According to Porter's approach, the company should pay attention to such forces driving industry competition as a threat of potential entrants, a bargaining power of buyers, a threat of substitute products or services, a bargaining power of suppliers, a rivalry among existing firms. Wheelen (1995) proposed to add to these 5 forces the sixth one – the relative power of other stakeholders.

From this point of view, the most significant driver of competition in the Russian construction industry is rivalry among existing firms. The buyers cannot force down prices since the great unsatisfied demand for housing exists. The threat of potential entrants is not essential because of high entry barriers into this industry. There are no substitutes for housing, so their threat does not exist. The bargaining power of suppliers is not sufficient for a huge construction corporation, usually a system of bribes works in supplying a construction company.

Table 1. Competitive action types as motives of internationalization in construction

Action Type	Description	Implementation by Russian Contractors	Relation to the Internationalization
Product action	Substantial investment in the new product development and key technology breakthroughs	LEK launched the studio flats. After couple years this type of habitation became very popular in the real estate market in Russia	Do not lead to the internationalization of the Russian construction market
Pricing action	Price cuts, rebates, and discounts	LenSpecSMU avoided investments into plots and construction process at once. The company proposed significant discounts to those buyers who were ready to pay for the housing in the initial stages of the construction process	Do not lead to the internationalization of the Russian construction market
Marketing action	Marketing campaigns, advertisement investments, brand management	Stroimontazh, being very active in the field of marketing, has created new brand – Mirax – when establishing the Moscow partnering company, investing into this brand when moving in the markets of former CIS countries	Can precede the internationalization process of the Russian construction market
Capacity/output action	Changes in company's capacity or output	M-Industria established its subsidiary in Bavaria (Germany), its activity focused on training and educating of the company's employees and also on attracting foreign specialists to work on the company's objects in Russia; Etalon-LenSpecSMU when planning entry to Portuguese and Spanish markets had seek for plots in these countries	In most cases led to the internationalization of the Russian construction firms

Capabilities are often considered as the cornerstone of the newly internationalizing firm's survival and growth (Sapienza et al. 2006). The data on competitive actions of Russian construction enterprises, based on their capabilities, were gathered from the observation of the development of Russian construction sector empirical evidence in the last decade. According to interviews with experts and CEOs of large construction firms, the most efficient strategies were related with one of four action types: product action, pricing action, marketing action, capacity action. Exhibit 1 gives details on these four action categories we identified.

These models, being launched by large Russian construction companies in the recent past, and predominantly in Russia, reveal not only the motives of their internationalization but also explain their response to the inward FDI in the industry.

Russian construction companies which have started their internationalization process have various goals: the strategy renovation, compensation of the lack of plots in big cities, search for new sales opportunities or just an attempt to improve the image of a company. All these goals were related to the competitive actions in the table above.

FDI-based entry to the Russian construction market

FDI is expected to bring a wealth of benefits to the local economy including fresh inputs of capital and, most importantly, the impetus that knowledge from outside may bring to local processes of technological change (Barrell/Holland 2000).

FDI flows towards less developed countries have not always resulted in the long-term growth outcomes one would expect (Lipsey 2002; Tsang/Yip, 2007). Russia, together with many other transition economies, faces the fundamental problem that it has few alternatives to the outside injections of capital, knowledge and network resources that FDI provides. Countries in transition in many respects appear to be closer to developing than developed economies when it comes to their particular experiences with hosting FDI (Jensen 2004).

At the same time, it is questionable whether local firms in transition countries benefit much from the technological change introduced by foreign investors as is usually true for developed host countries (Lipsey 2002; Blomström et al. 2001).

The development of relations between European Union and Russia has affected the construction industry as well. The investment climate is getting better, competition is becoming fairer and entrepreneurial culture is improving in Russia. Management has become more professional. According to the research "New Tendencies in the European Real Estate Market in 2007" by PricewaterhouseCoopers (Restate 2007), the Russian market is one of the major

destinations for investment. There is a lack of commercial and residential real estate and huge growth potential.

European companies in the Russian construction industry deal mostly in markets of construction materials and construction instruments. Some companies export their production, other establish their own production facilities. German firms are among the most active foreign investors in the Russian economy. For example, Knauf, which started its operations from the acquisition of a manufacturing facility for construction materials in Moscow region 15 years ago, is currently the major investor in the Russian construction industry. When the company entered the market it was a risky decision but now it bears fruit. Producers of windows (Rehau/Veka), finishing materials (Caparol/Bau-Color), glues (Henkel Bautechnik), sanitary engineering (Grohe/Villeroy/Boch), construction instrument (Bosch/Hilti/Kress) have been successfully operating in the Russian market for several years. The exporting of these numerous companies was so massive that they decided to develop their own production through “brownfield” or “greenfield” strategies.

According interviews with top managers of American and European MNEs, operating in different construction-related industries (elevators, earth-moving equipment, tyres, cranes, construction materials, etc.), foreign direct investments in Russia are mainly based on the following models:

- Foreign company invests money and seeks transparent projects;
- Foreign investor enters Russian market with its own project and management and organizes network with local contractors;
- International construction group searches for optimal entry mode to enter Russian market.

Western companies prefer to use the service of the familiar partners while deciding to establish manufacturing facility in Russia. For example, the plants for Philip Morris, Rothmans and Gillette were built by Skanska.

Western companies pay a lot of attention to the standardization of construction and management processes. Dom Lemkon (subsidiary of Finnish construction company Lemminkainen) uses “the model of project management LEMCON”. The whole construction process is divided into separate packages and subcontracts while tenders are organized. A contractor has the functions of general contractor and is the coordinator of subcontracts. The advantages of such an approach are an economy of the time spent to start the construction and for the whole project, a competition of subcontractors and suppliers, which minimizes costs, and absence of conflict between interests of customer and contractor because customer always knows about real costs.

Another construction company from Finland – YIT – started its expansion in Russian market through establishment of a subsidiary. In January-September,

2008, the company started the construction of 3,622 residential units in Russia (in Finland – around 2,800 – for comparison). In total at the end of September 2008 YIT had 11,768 units under construction (YIT 2008). According YIT, in Russia it takes two years to build a housing project because of the large size of the residential complexes and in Finland – only one year. Also, in Russia the apartments ready for sale are not equipped and are unfinished (this is unacceptable for Finnish customers). In such a way YIT tries to use in Russia the standards which are applied for more developed countries.

Construction related MNEs' success factors on the Russian market

Six industrial companies from Finland, Germany and USA were studied: Konecranes, Nokian Tyres, YIT, Knauf, Caterpillar, Otis. These companies were selected by a principle of the greatest competence and a maturity of their international activity; the investigated MNEs are leaders in their industries (construction, engineering, building systems, development, elevators for commercial and residential housing, construction materials, rubber and tyres for construction machines).

The research focused on issues that were major factors of MNEs' success in Russia in the last decade:

- 1) the right choice of mode and time of entry to the Russian market,
- 2) quality of production (including perceived quality defined by the brand of the country of MNE origin),
- 3) marketing activity with the strong focus on the communication to customers.

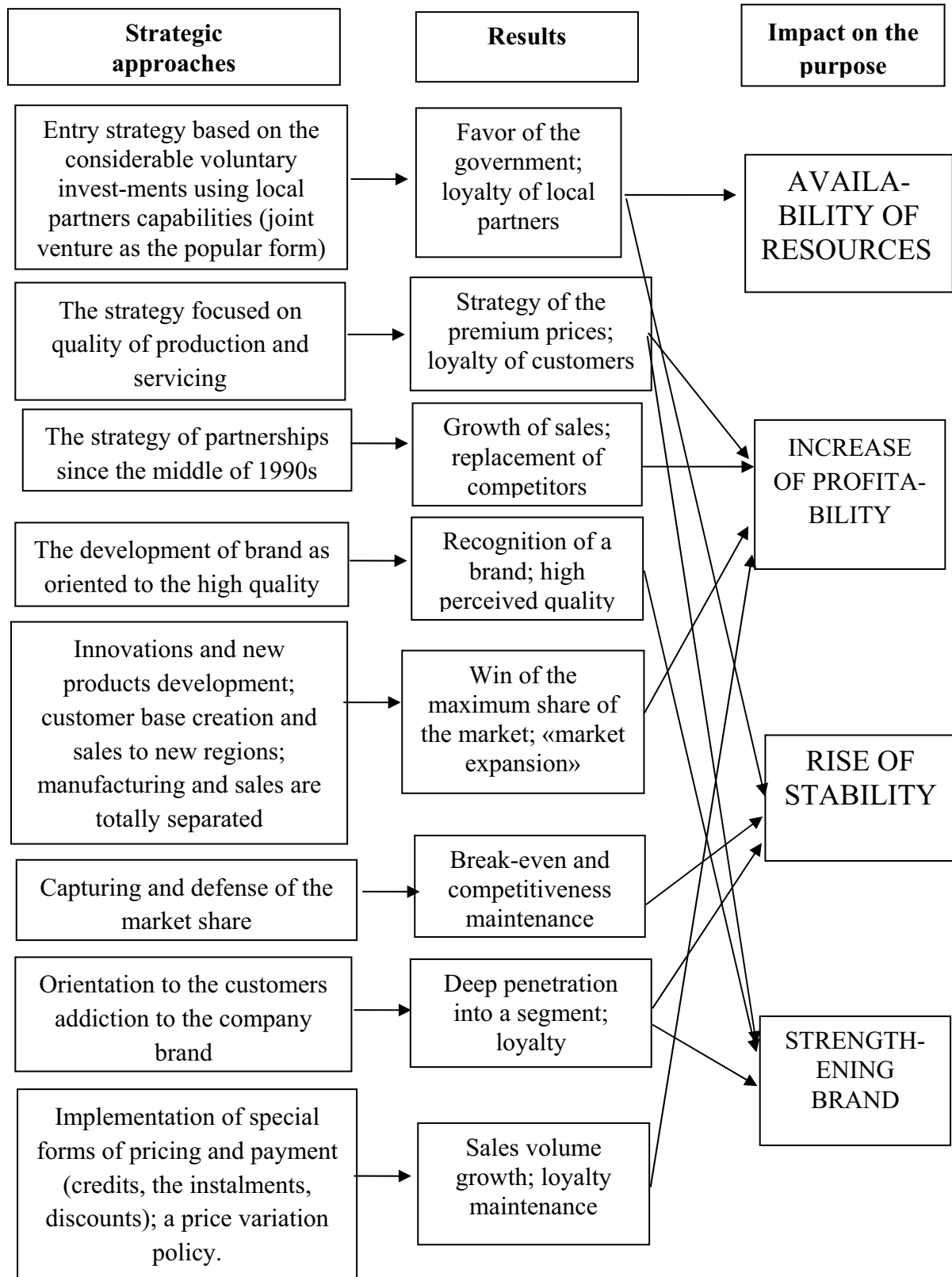
MNEs that entered to the Russian market at the beginning of transition processes in the national economy are now the leaders in their industries. All the risks and difficulties which these firms have faced during the initial stages have been overcome and nowadays these companies are profitable.

Those MNEs which reached considerable competitiveness working in Russia conducted purposeful and consecutive marketing activity (Exhibit 2). At the heart of the chosen entry strategy to the Russian market were: orientation to high quality of production and services; the effective marketing policy adapted for Russia; local partnerships.

The empirical research has allowed the key factors in the success of these companies to be revealed. The basic factors are: the strategy of establishing of own production facilities; FDI oriented to the local market; early entry to the Russian market (first-movers have received the evident strategic advantage). We also noticed the switch of interest of the companies-followers to the strategy based on creation of own subsidiaries. According the interviews such an approach was connected with an absence of appropriate targets for acquisition,

increase of the investment attractiveness of the Russian market and rise of competition among MNEs in this market.

Table 2. Strategies leading to the rise of construction related MNEs competitiveness in Russia



Discussion

Basic factors in the the adjustment to internationalization

Physical growth was the main strategic objective of the Russian case companies indicated by the top management. The strategic adjustment to internationalization in these companies seems to have developed rather well at the operational but not at the strategy level. The best operating performers, on average, had rather well-developed overseas strategies.

A functional organization structure was adopted by most of the Russian construction companies. At the same time, none of them had functional structure with subsidiaries. A few older large companies had adopted a holding structure. The top management of the companies gave several reasons for the choice of the structure (tax reduction, simple restructuring, efficient use of resources).

The human resource evaluation showed that the skills profile of the top management and of employees in the case companies in Russia was rather high. All top managers in the case companies have an engineering or economical background. Most of them have a PhD or doctoral degree.

The basic elements of marketing were evaluated: customer orientation, marketing planning and implementation, pricing policy, bidding procedures, marketing organization and structures. In the companies studied, marketing activities were mainly the responsibility of the general director of the firm. Marketing activities were often carried out by the commercial department. Generally, most Russian construction companies demonstrate weak marketing.

Organizational culture in the companies was evaluated by three variables: type of organizational culture, management philosophy, and the attitudes of employees. Also reward procedures and internal communication were studied. In about half of the case companies in Russia, the organizational culture was evaluated to be defender type and in the other half either prospector type or innovator type. All the best operating performers among the Russian case companies were either prospector or innovator types. The management philosophy was mostly customer oriented; the production orientation and quality management were also represented.

The research demonstrated that the major factors in construction-related MNEs' success in Russia are:

- 1) the right choice of mode and time of entry to the Russian market,
- 2) quality of production (including perceived quality defined by the brand of the country of MNE origin),
- 3) marketing activity with the strong focus on the communication to customers.

Validity and limitations of the research

In this research, the evaluation of adjustment to internationalization was by nature a qualitative process. The main source of the data was the general director, vice-director or marketing director of the firm. To minimize the effects of subjective biases in the interviews the most important issues were discussed from several angles. The adjustment data was combined from the interviews of the top management and the middle management, and from the information of the experts of the construction market.

The general validity of the results of this study is limited by the selection of cases. The sampling was theoretical not statistical. The case companies were represented by its reputation of the best companies in the region.

The target industry sector was construction sector, but only three main parts were selected: construction industry, construction material industry, and construction machinery industry.

Effects of the financial crisis on Russian construction

In 2008, with the emergence of the global credit crisis, property developers began to encounter problems in finding financing for their projects. Banks became more stringent and selective in lending to both corporations and individuals. In Russia, the impact has been less significant than in other CIS countries and this is reflected by the healthy growth figures in the value of construction works completed in 2007 and the first half of 2008.

According to the “Construction Sector in Russia 2008 – Development Forecasts for 2008-2011” a report recently published by PMR Consulting, many Russian developers have not had to rely on borrowings at all, and have been able to complete development projects using only their own funds. Another reason is that infrastructure development projects dominate the structure of construction output in Russia, and the completion of these projects is largely financed from the state coffers. As a result, in 2007 the year-on-year increase in construction output matched the 2006 figure of 18.2%, and reached €94.1 billion. This was followed by an even higher increase of over 22%, in the first half of 2008, when construction output reached €48.9 billion. However, PMR expects the impact of the international liquidity crisis to deepen in the Russian construction industry. It is possible to expect that the growth rate for the whole of 2008 will thus be lower than in 2007, and this will be followed by a further slowdown in 2009.

Recommendations

This study has indicated that the internationalization process in Russian construction industry has proceeded slowly and unevenly both at the business environment and at the enterprise level. The recommendations of the author follow from the findings of this study. They are also based on the interviews of

the top management of six multinational companies participating in the study, as well as on the interviews of a large number of other informants interviewed in the course of the study. Some recommendations are based on the general understanding and general view resulting from the whole investigation process.

The study of the environment indicated that the operations performance of the construction enterprises is related to the share of competitive segment of the market, which is defined as the share of the construction industry sales based on competitive pricing, bids, and tenders: the share of the market which is free for competition.

One important measure to increase the competitive share of the market is to develop and enforce the public tendering and pricing systems. Introduction of new quality standards and norms which reflect the present and future requirements of customers would also increase competition.

The enterprise side of the research stressed the role of marketing and partnerships in the success of MNEs in Russia. Marketing resources seemed to be at a satisfactory level in many of the Russian companies. Their weaknesses are pricing methods, bidding systems and communication in terms of internal information sharing and customers feedback. These aspects can be taken into account by those MNEs who will focus on developing partnerships with Russian firms.

Strategic alliances, joint ventures, and other forms of cooperation would promote both the change process in Russian companies and the success of foreign firms.

Conclusion

The tendency of rising demand for housing is affected by several factors: the ageing of the population, especially in the Northern region; increasing incomes of the population due to the oil sales in Norway and Russia; membership of Baltic countries in EU; establishment of the new Housing Codes (particularly, in Russia) has made the population more confident; the trend of the population's migration to big cities in Russia. The construction companies should not lose such opportunities to satisfy this demand. Additional investments should be made in the acquisition of plots for construction because of their shortage.. Financial resources could be received from other businesses or with the help of banks' credits.

In spite of the evident dramatic impact of the financial crisis of 2008 on all sectors of the world economy, it can be considered as an opportunity by those firms (both Russian and foreign) who will decide to invest in the plots and in the projects frozen by other players.

It is usually easier for big and well known construction companies to develop internationally. At the same time, their complicated organizational structure leads to slower decision-making process. The most recent – and still “pre-crisis” – example of the death of one of such “dinosaurs” is the bankruptcy of the Spanish construction company Martinsa-Fadesa in July, 15, 2008 with assets of \$17.2 billion and debts of €5.2 billion. A bankruptcy of this scale will significantly influence those banks that were involved in the credit operations on the construction market of Spain as well as the whole national banking system (Gorboljskaya 2008). Hence, restructuring and foreign (emerging) markets entry is recommended for such companies.

The construction companies of emerging economies countries should explore new foreign markets to insure themselves from political and economic risks in the countries of origin and to increase profitability. These companies could have an advantage over Western competitors applying new approaches in marketing, HRM, construction technologies and developing unique projects.

References

- Aulakh, P.S./Kotabe, M. (1997): Antecedents and Performance Implications of Channel Integration in Foreign Markets, in: *Journal of International Business Studies*, 28, 145-175.
- Axinn, C.N./Matthyssens, P. (2002): Viewpoint: Limits of Internalization Theories in an Unlimited World, in: *International Marketing Review*, 4/5, 432-448.
- Barrell, R./Holland, D. (2000): Foreign Direct Investment and Enterprise Restructuring in Central Europe, in: *Economics of Transition*, 8, 2, 477-504.
- Bartlett C.A./Ghoshal S./Beamish P. (2008): *Transnational Management: Text, Cases, and Readings in Cross-Border Management*. 5th ed., Irwin / McGraw-Hill.
- Benito, G./Welch, L.S. (1997): Foreign Market Servicing: Beyond Choice of Entry Mode. in: Vernon-Wortzel, H./Wortzel, L.H. (eds): *Strategic Management in a Global Economy*, 3.ed., John Wiley, 339-352.
- Bjorvatn, K. (2004): Economic Integration and the Profitability of Cross-border Mergers and Acquisitions, in: *European Economic Review*, 48, 1211-26.
- Blomström, M./Kokko, A./Globerman, S. (2001): The Determinants of Host Country Spillovers from Foreign Direct Investment, in: Pain, N. (ed.): *Inward Investment, Technological Change and Growth*. Basingstoke: MacMillan.
- Buckley, P.J./Casson, M.C. (1998): Analyzing Foreign Market Entry Strategies: Extending the Internalization Approach, in: *Journal of International Business Studies*, 29, 539-61.
- Chandler, A.D. (1990): *Scale and Scope: The Dynamics of Industrial Capitalism*. Cambridge, Mass: Harvard Press.
- Cheng, Y.-M. (2006): Determinants of FDI Mode Choice: Acquisition, Brownfield, and Greenfield Entry in Foreign Markets, in: *Canadian Journal of Administrative Sciences*, 23, 3, 202-220.

- Crosthwaite, D. (1998): The internationalization of British construction companies 1990-96: an empirical analysis, in: *Construction Management and Economics*, 16, 389-395.
- Cullen, J.B. (2002): *Multinational management: a strategic approach*. Mason, Ohio: Thomson/South-Western.
- Cumberland, F. (2006): Theory Development within International Market Entry Mode – An Assessment, in: *The Marketing Review*, 6, 349-373.
- Domke-Damonte, D. (2000): Interactive Effects of International Strategy and Throughput Technology on Entry Mode for Service Firms, in: *Management International Review*, 40, 1, 41-59.
- Dong, B./Zou, Sh./Taylor, Ch.R. (2008): Factors That Influence Multinational Corporations' Control of Their Operations in Foreign Markets: An Empirical Investigation, in: *Journal of International Marketing*, 16, 1, 98-119.
- Ekeledo, I./Sivakumar, K. (2004): International Market Entry Mode Strategies of Manufacturing Firms and Service Firms: A Resource based Perspective, in: *International Marketing Review*, 21, 1, 68-101.
- Erramilli, M.K./Rao, C.P. (1993): Service Firms' International Entry Mode Choice: A Modified Transaction-Cost Analysis Approach, in: *Journal of Marketing*, 57, 19-38.
- Gorboljskaya, U. (2008): Evropa ne rastet, in: *Vedomosti*, 7, 17.
- Görg, H. (2000): Analysing foreign market entry: The choice between greenfield investment and acquisitions, in: *Journal of Economic Studies*, 27, 3, 165-181.
- Gunhan, S./Arditi, D. (2005): International expansion decision for construction companies, in: *Journal of Construction Engineering and Management*, 131, 8, 928-937.
- Helfat, C.E./Lieberman, M.B. (2002): The birth of capabilities: market entry and the importance of pre-history, in: *Industrial & Corporate Change*, 11, 4, 725-760.
- Hitt, M. A./Bierman, L./Uhlenbruck, K./Shimizu, K. (2006): The importance of resources in the internationalization of professional service firms: the good, the bad, and the ugly, in: *Academy of Management Journal*, 49, 6, 1137-1157.
- Jensen, C. (2004): Localised Spillovers in the Polish Food Industry – The Role of FDI in the Development Process, in: *Regional Studies*, 38, 5, 535-550.
- Lipsey, R.E. (2002): Home and Host Country Effects of FDI, in: NBER Working Papers, 9293, Massachusetts: National Bureau of Economic Research.
- Mattoo, A./Olarreaga, M./Saggi K. (2004): Mode of Foreign Entry, Technology Transfer and FDI Policy, in: *Journal of Development Economics*, 75, 95-111.
- Norbäck, P.-J./Persson, L. (2002): Cross-border Acquisitions and Greenfield Entry, in: Stockholm IUI working paper, 570, University of Stockholm.
- Phatak, A.V. (1997): *International management concepts & cases*. Cincinnati: South-Western College Publishing.
- Pheng, L.S./Hongbin, J. (2006): Analysing ownership, locational and internalization advantages of Chinese construction MNCs using rough sets analysis, in: *Construction Management and Economics*, 24, 1149-1165.
- Ranko, B./Crosthwaite, D. (2001): The future of international construction: some results of 1992-1999 surveys, in: *Building Research & Information*, 29, 3, 242-247.

- Restate (2007): Tendenciya. Evropeiskaya nedvizhimost. [In Russian] Restate.ru, February 8.
- Root, F.R. (1994): Entry strategies for international markets. New York: Lexington books.
- Sapienza, H.J./Autio, E./George, G./Zahra, S.A. (2006): A Capabilities Perspective on the Effects of Early Internationalization on Firm Survival and Growth, in: Academy of Management Review, 31, 4, 914-933.
- Tsang, E./Yip, P. (2007): Economic Distance and The Survival of Foreign Direct Investments, in: Academy of Management Journal, 50, 5, 1156-1168.
- Wheelen, T.L. (1995): Strategic management and business policy, 5th ed., Addison-Wesley Publishing Company.
- Whitelock, J. (2002): Theories of internationalization and their impact on market entry, in: International marketing review, 19, 4, 342-347.
- YIT Corporation Interim Report (2008): January 1 – September 30.
- Yu, T./Cannella, A. (2007): Rivalry Between Multinational Enterprises: An Event History Approach, in: Academy of Management Journal, 50, 3, 665-680.