

BUSINESS INTERNATIONALISATION IN LOW COMPETITIVE ECONOMIES

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Abstract: The article deals with the theory of business internationalisation. It presents the results of researching the processes of import substitution and export orientation of Russian enterprises, as well as the authors' ideas about the scientific and methodological approaches to the development of models and stages of business internationalisation at the present stage. The article also explains the sequence of the new phases of transition at the initial stage of expansion on the domestic market and accessing foreign markets.

Key words: business internationalisation, domestic market, Russian enterprises

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Business internationalisation is a major economic issue which attracted specialists' attention in the 1950s. In the middle of the previous century, various theories about business internationalisation appeared,

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such as the strategic theory approach; the life cycle theory; the Upsala internationalisation model; the theory of internationalisation as a further elaboration of the transaction cost theory; and Dunning's eclectic paradigm. Proposed theories were based on the strategies which enterprises chose for accessing foreign markets and the related instruments and business models they applied for accomplishing their objectives. The importance of issues related to business internationalisation and relocation is growing at the current stage of global economic development, in a situation of virtually permanent financial and economic crises in most countries, including Russia. Business relocation is a term used to denote the partial movement of certain units of business structures to new administrative territories, both domestically and abroad. Being a novelty to Russian enterprises, the practical aspects of business relocation and business internationalisation pose certain difficulty since the issue has not been theoretically researched within the context of Russian business, i.e. by taking into account the specific social, economic, cultural and political features of neighbouring and distant foreign countries. (4) Furthermore, it would be problematic to employ relevant classical theories as a theoretical or practical basis for approaching the issue of internationalisation of Russian business, due to the specific factors which relate to the development of entrepreneurship in Russia at present. Among the internationalisation theories mentioned above, the strategic approach theory is the one which is most elaborate and has the widest implementation in practice. The essence of this theory is that enterprises which create through the use of, for example, innovation, a significant competitive advantage in the production of some products (services), are able to accelerate their promotion on international markets and overcome existing administrative, legal, customs and other barriers. This approach is predominantly employed when interpreting the concept of business internationalisation and its objectives and instruments, since competition is not only an indispensable, but also a major feature of market

economy, as it is the basic mechanism which creates economic proportions and governs their readjustment.

The basic principles of the strategic choice theory have been formulated in the detailed research of I. Ansoff (2,3), J. Daniels and M. Porter (6, 11), who highlighted the classical objectives of business internationalisation; the factors which influence the decision to enter foreign markets, as well as internationalisation criteria. Some of the main objectives identified by the authors include the acquisition of new markets; higher profitability of enterprises; and access to efficient resources to ensure the strategic balance of company performance. What is more, when choosing the strategic zones for accomplishing their objectives, enterprises take into account such factors as the resources they need to allocate; the growth rate they want to achieve; the availability of cutting-edge technologies; extended lifecycle of demand; the multiplier effect etc. Nevertheless, whatever the goals set and the criteria which govern the selection of a strategy, entering foreign markets begins at the stage of the simplest export operations. What is more, the algorithms for entering foreign markets differ significantly according to the economic instruments and methods which enterprises employ while considering a number of factors. For most Russian enterprises, the stages of business internationalisation presented by I. Ansoff (2,3) are a matter of future development due to the insufficient competitiveness of their products. Entities willing to consolidate their position on the market need to search for ways to internationalise their business according to the current conditions for doing business and the state of Russian enterprises. Obviously, Russian manufacturers are not prepared to enter foreign markets with their products at present; therefore, they need to go through a preparatory stage which will enable them to increase the competitiveness of their products and enterprises. Import substitution may be approached as a 'step' towards activating the international character of their business under current conditions in Russia (see Table 1).

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Table 1.
Major stages of business internationalisation: 'feasible' import substitution – 'first cycle' export orientation

Stage	Production level	Conditions determining the need of production	Strategic criteria to be met
Initial integration	Production fits 'feasible' import substitution	<ul style="list-style-type: none"> - effective demand (both at the territory of enterprises and beyond); - lack of local production; - readiness of a foreign partner to cooperate; 	<ul style="list-style-type: none"> - reasonable level of integration; - minimum growth rate; - minimum rate of return
'First cycle' import substitution	Production is focused on the domestic market	<ul style="list-style-type: none"> - sustainability of 'feasible' import substitution; - effective domestic demand; - lack of or low local production; 	<ul style="list-style-type: none"> - reasonable share of the domestic market; - average growth rate; - rate of return below the average;
'First cycle' export orientation	Production is export-oriented; domestic sales are made through the distribution network of enterprises	<ul style="list-style-type: none"> - increasing domestic demand; - low competitiveness of importers' product range; - enterprises and their products already have a sustainable image; - commercial relationships in the host country have been established; 	<ul style="list-style-type: none"> - significant share of the domestic market; - growth rate above the average; - average rate of return; - low (even zero) rate of return from 'external sales'

According to the traditional interpretation, import substitution is a process which occurs at the level of national economy and aims to exclude foreign producers from the domestic market by 'shifting' foreign production to internal domestic producers. It is clear that, provided the low competitiveness of the national economy (and hence domestic manufacturers) such an exclusion would only be possible through the implementation of administrative methods and management tools, a practice already common in most sectors of Russian economy which face the task of import substitution. The need to go through the three preparatory stages we have identified relates to a number of factors which would allow taking into account the evolution of production, marketing, the financial system and other aspects of the 'producer – consumer' process. After achieving market stability, enterprises can initiate the first procedures

for deploying part of their production abroad. As for the conditions determining the need for action, the first one is effective demand on local markets and adjacent territories, as well as on foreign markets. This is a major strategic moment. When making a transition to the 'first-cycle import substitution', production should be sustainable and proportionate to domestic demand. Its increase will be the economic basis for export-oriented production. Development of commercial relationships in the host country is both a condition for and a result of business activity. There should be only one major criterion, while the other criteria in the system should be approached as 'auxiliary' ones. A reasonable level of integration then is the major target criterion in the structure discussed here. To achieve that target, criteria such as growth rate and rate of return may be ignored or even sacrificed if necessary. Thus the criterion of a 'reasonable level of integration' would be activated and produce results. At the same time, other criteria which have been previously dormant will also be activated while going through the three stages of business internationalisation. Only when the first cycle export orientation has been sufficiently developed enterprises will have a significant share of the domestic market at an average rate of return.

In summary of our analysis of criteria, we should note the continuity which exists between scientific approaches to internationalisation and the concept of 'feasible' import substitution and strategic integration we propose. We should point out, though, that foreign research in the sphere of business internationalisation focuses on enterprises whose efficiency will further be increased by their access to foreign markets, while we approach business internationalisation in terms of enterprises in a less-favourable position which should change in the process of developing and implementing the 'integration' strategy, in other words, we have enterprises in a different starting position. Hence, it would first be necessary to design a concept of feasible import substitution- export orientation, and then try to identify major 'common elements' with the classical approach, such as: gradual internationalisation to ensure 'future invulnerability in an environment of different technological, economic, socio, and political cycles; structural changes and unpredicted events'; the employment of basic criteria such as advanced technology; competitive advantages;

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extended life-cycle of the demand for products and extended useful life of the technology employed by enterprises; development of enterprises and the profit they are making; ensuring a growth trend for the synergic effects from applying the concept of 'feasible import substitution – export orientation' in an environment in which the initial effects of relationships with both Russian and foreign partners are rather weak. In our opinion, such synergetic effects would require a sufficient 'critical mass' for their materialization. Let us examine the four-dimension space of 'the tactics which synthesizes the strategy – import substitution – export orientation – strategic integration' (see Chart 2).

The four-dimensional space we have constructed can be compared with M. Porter's [11] famous diamond, the main idea in structural terms being that to ensure links between all the elements.

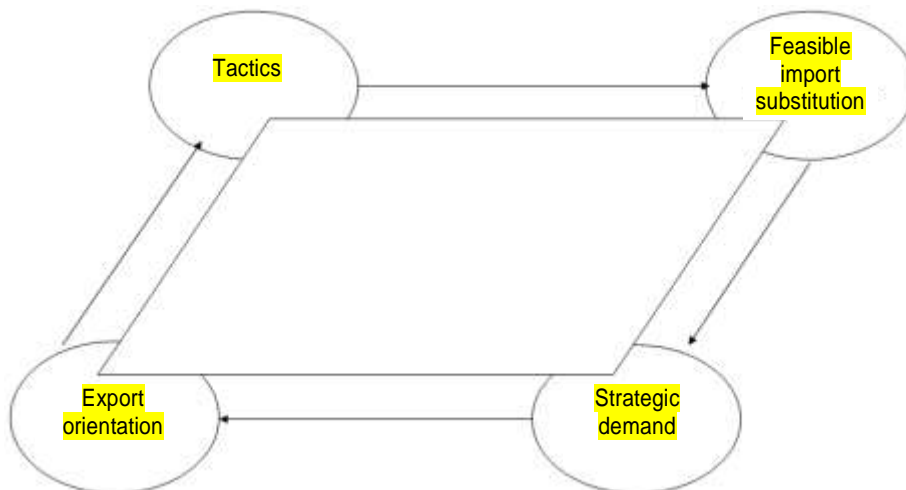


Chart 2 . The four-dimensional space of 'the tactics which synthesize the strategy of – import substitution – export orientation – strategic integration'

At the level of tactics, enterprises compete daily both with domestic manufacturers and with imported goods and services. At this level, issues

of efficient import substitution need to be resolved. Import substitution has two components – a tactical one and a strategic one. The tactical component takes up more space in this four-dimension model. Thus, for example, replacing cheap Chinese wear and poor quality household items on local markets is a task which requires mainly tactical solutions. Such tactics relates to 'feasible' import substitution, the term 'feasible' indicating the capacity of enterprises to materialize such substitution. Hence, the link between tactics and feasible import substitution in the quadrangle above is obvious. The synthesis of a strategy begins at the point where tactical solutions only prove to be insufficient.

Let us now consider a situation in which an enterprise needs to upgrade 15 % of its technology; obtain high-quality components or semi-finished products; ensure the provision of competitive service, etc. The moment of strategic integration will be present in each of these cases. Within this context, what would it mean for a Russian enterprise to obtain 15 % of new technology from a foreign partner? The answer is that the Russian enterprise will need to 'integrate' its own interests into the set of interests of the foreign partner. The method of such 'integration' may be different, for example, by entering a production sharing agreement, or providing the foreign partner with a sales network. As for the target of obtaining 'good quality components', various options would be available, too, such as: direct import in exchange for raw materials which the foreign partner needs; joint production of components; leasing of equipment, etc. In summary of the analysis we have conducted so far, the following conclusion could be drawn: the tactics of the Russian enterprise is focused on import substitution, but there is also a strategic element which is part of the strategic development of the enterprise.

Another major issue to be highlighted is the establishment of strategic zones of integration (SZI). The procedure proposed by I. Ansoff will be modified, too, in the following manner:

– Identifying the 'strategic zones of integration' (SZI), similar to the 'strategic zones of management', proposed by I. Ansoff [1]. Those might be related to technology (assembly of components imported from the foreign partner) or distribution (sales, including certain modifications of technology imported from the partner), for example;

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- Determining the strategic importance of each strategic zone of integration to the enterprise (through an expert assessment) based on the criteria of growth and strategic invulnerability and, in the long run, on the rate of return;
- Designing a strategy for each zone of integration which has already been ‘tied’ to the strategic objectives set by the enterprise (for example, switching to the assembly of totally manufactured own components in the course of three years, following the pattern of 100% - 70% - 30% of imported components);
- Assessing the costs, revenues, profit and rate of return for each strategic zone of integration;
- Identifying a sequence of ‘rate of return levels’ after the achievement of which it would be appropriate to transform the existing strategic zone of integration into a structurally independent unit;
- Incorporating the strategies for separate strategic zones of integration into a common concept.

In conclusion, according to the concept of feasible import substitution and strategic integration, before identifying the classical ‘strategic zones of management’, the focus of attention should be on the establishment of ‘strategic zones of integration’, i.e. those elements of the set or system of values which are the primary objective of all strategies of the enterprise at the initial stage of import substitution and export orientation. Such an option was not accounted for by classical theories as the concept of acquiring ‘technological experience’ was irrelevant, as well as due to other specific features.

The concept of ‘feasible import and strategic integration’ was based on the theoretical research of strategic management issues which foreign scientists like Ansoff I., Ackoff R., Karlof B., Benveniste L., Kearns, K., Saaty T., King W., Cleland D., Nadler D., Peters T., Porter M. (1,2,3,4,5,7,8,9,11) conducted and an analysis of the management efficiency of Russian enterprises over a ten-year period up to 2016. Our analysis of classical theoretical views on business internationalisation may be summarised in the following conclusions:

1. The analysis we conducted considering the separate elements of the structural approach proposed by I. Ansoff [2,3], unequivocally reveals some common features shared by the concept of ‘feasible import

substitution and first cycle export orientation' and the approach of the classical school to business internationalisation, as well as their consistency with each other.

2. Our analysis has also proved that the concept of the classical school is not fully applicable to contemporary Russian business environment. Hence, it should be attributed to a 'later' stage in the development of Russian enterprises. Due to the fact that both approaches share certain common features, it will undoubtedly be natural for enterprises at a certain stage of their evolution to switch from the concept of 'feasible import substitution and first cycle export orientation' to the classical theory of business internationalisation.

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