

Research Insights Series

Multinational Strategies under Conditions of Economic Sanctions

WU-Professor Desislava Dikova, deputy director of the Competence Center for Emerging Markets & Central and Eastern Europe at the Vienna University of Economics and Business and editor-in-chief of the Journal of East-West Business, features a recent journal contribution by Igor Gurkov and Zokirzhon Saidov*

Despite the economic sanctions imposed on Russia, the plunge of the ruble in December 2014 and a subsequent decrease in demand for numerous goods and services in the period 2015-2016, no massive investment terminations (i.e., plant closings, divestments, liquidations) of Russian manufacturing assets by westerns multinational corporations (MNCs) occurred in the period 2015-2016. To the contrary, in that same period, numerous industrial projects were completed, such as building new plants and installation of new production facilities in existing plants. Russian subsidiaries have even strengthened their positions in some economic sectors such as car assembly, transportation machinery and industrial equipment. An easy explanation to this phenomenon of not-closing down foreign operations in Russia is the fact that divesting industrial subsidiaries is not cost-free due to substantial sunk costs and perhaps managers are weary of the losses they would incur by following divestment strategies. However, to explain the phenomenon of expanding foreign investments under great uncertainty caused by economic sanctions requires a different analytical approach, based on interviews with heads of Russian subsidiaries of 20 MNCs, conducted in the period 2014-2016. The MNCs were active in car assembly, machinery and equipment, fast-moving consumer goods (FMCG), general and specialized chemicals, pharmaceuticals and cosmetics.

The outcome of the interviews points to several strategic concrete measures undertaken in the period of sever crisis in Russia:

1. Changes in operations management: there was a general revision of the product mix of Russian manufacturing subsidiaries. Some FMCG subsidiaries decreased by 30 to 50% the overall breadth of the product mix offered to Russian customers dividing the assortment into two categories, profit generators (products with lower price elasticity that allow price leadership) and volume generators (products with higher price elasticity that require a very cautious approach to pricing increase). Products that fell between these two categories were eliminated from the market and from the manufacturing plans. Parent MNCs demanded a drop in the operating costs of the Russian plants and an increase in exporting activities. For example, Toyota and Hyundai intensified car exports from their assembly plants near St. Petersburg, Rockwool increased exports to Finland and even Unilever

increased the exports of their Russian-made ice cream and tea. The Russian manufacturing subsidiaries were transformed into a dual-option platforms aiming simultaneously at exporting and satisfying local demand (before the crisis they were mostly focused on local demand).

2. Changes in human resource management: narrowing social benefits but preserving permanent contracts and medical insurance, introducing pay-for-performance stimuli and increasing the company-wide recognition for excellence.
3. Activities involving federal and local authorities: despite political hostilities between Russia and the West, relations with both federal and local authorities slightly improved during the period 2015-2016. Firstly, for the first time foreign companies were included in state-aid programs. For example, many foreign subsidiaries manufacturing agricultural machinery, trucks and cars, were stimulated to apply for subsidies covering a portion of their export costs. Secondly, local officials attended numerous opening ceremonies for new plants and facilities. The change in attitude towards foreign subsidiaries is quite remarkable, considering the general political hostility towards MNCs' local subsidiaries before the crisis period. Perhaps the decline in foreign direct investment in Russia in 2015 and the narrowing possibilities for Russian companies in obtaining credit abroad for their foreign operations forced the Russian government to re-evaluate the opportunities to finance all types of industrial facilities in Russia by direct equity injections, long-term credit schemes or retained earnings.

In summary, Russian manufacturing subsidiaries showed elements of strategic agility by combining activities in different areas (e.g., operations management, human resource management, government-relations management) through a coordinated effort of different actors (corporate executives, managers of regional headquarters and local plant managers) and transformed into dual-option subsidiaries, working for both local and overseas markets.

*Original Paper

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