

## **EXPANSION OF RUSSIAN MNCs CONTINUES: THE M&A ROAD**

**CLAUDIA ISAC, CODRUȚA DURA \***

**ABSTRACT:** *This paper focuses on the expansion of Russian MNCs in the world and especially in Europe. Thus, after an introduction about the role of MNCs in the context of economic globalization we have presented theoretically the expansion levers of MNCs through mergers and acquisitions. The largest part of the work aims at analyzing the way Russian MNCs were able to expand their activities in most countries in Europe and North America, the allocation of foreign investments in the economic sectors in which MNCs are prevailing and especially in the field of extraction and processing such natural resources as gas, oil, coal and steel. At the end of the paper we have outlined a structure of MNCs and we have pointed out the importance of these companies for the economic development and growth.*

**KEY WORDS:** *Russian MNCs, Expansion, Foreign Assets, Regional Distribution*

**JEL CLASSIFICATION:** *L 21, L 26*

### **1. INTRODUCTION**

Globalization is the process of strengthening market and worldwide businesses connections and it represent the most important economic process from the beginning of the third millennium. This process has accelerated over the past two decades in direct proportion with the progress registered in the field of communications and, in particular, in the development of the Internet, and the study of globalization and international economic exchanges is extremely complex.

Beyond extensive debates on the subject, there is the idea that globalization is nowadays an inevitable and irreversible process if we put the sign of equality between the process of globalization and the process of intensification and multiplication of

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\* *Assoc. Prof., Ph D, University of Petrosani, Romania, [isacclaudia@gmail.com](mailto:isacclaudia@gmail.com)  
Assoc. Prof., Ph D, University of Petrosani, Romania, [codrutadura@yahoo.com](mailto:codrutadura@yahoo.com)*

economic, social and technological interactions which are established among the main actors in the world economy - nation States, multinational companies and international organizations. MNCs represent a company which operates through subsidiaries in several countries, consisting of the parent company and a number of branches located in different parts of the world. MNC is the most important force for determining and promoting global interdependencies and the main path of expansion on international markets is foreign direct investments (Drigă, 2010).

In this context, the role of MNCs as an accelerator of unprecedented transformations to which we are witnessing at a global level cannot be questioned today, when statistics show that these entities are able to propel the development of any state, and in particular the development of the countries in the process of growth and modernization of economic systems. Beyond the huge amount of resources that they control or the exceptional economic performance recorded at regional or global level, MNCs have achieved success after success by implementing classic strategies of exploiting competitive advantages and business opportunities identified on each market.

Some specialists, such as Reich R. amplifies the role of MNCs and argues that *the standard of living of people will finally depend on the performances of multinational companies and not on the success of each nation* (Reich, 2008).

## 2. MERGERS AND ACQUISITIONS

In contemporary economy characterized by business globalization, the merger of two or more companies is a natural process and it is fundamental for the setting up of multinational companies. **The merger** is a process of unification of economic activities of enterprises which materializes in the creation of a new legal entity or in maintaining the existing legal entity, but in new terms of dimensions and organizational structures. As a rule, mergers take place between companies of the same size, and they are considered "friendly" because the companies agree to the transaction, and also contributed to its completion.

The merger determines the unification of properties of the companies which undergo this process and the exploitation of some advantages related to the increase of market segments, the interdependence of products or the occurrence of economies of scale (Băcanu, 1997). The merger can be achieved by the absorption of a company by another entity or by the consolidation of two or more companies into a new entity (Milelli & Le Goff, 2012). *Merger by absorption* takes place when a company agrees to transfer its property to another company. The transfer of assets may be carried out **in whole** or **in part**. The absorbing company acquires the rights and is supported by the obligations of the absorbed company. *Merger by consolidation* refers to the combination of two or more companies, by transferring assets, into a new company. In this case, the rights and obligations of the company that ceases its existence pass over to the new created entity.

**Partnership** is a form of association of enterprises without creating a new legal entity, through which one of the companies takes part in the affairs of the other company, with the aim to facilitate the increase of profits. A distinct form of partnership is a joint venture that involves the process of creating, sometimes for a

finite time, a new organizational entity within which partners retain legal independence, in order to achieve a synergistic effect. From the practical point of view, the creation of a joint venture marks the emergence of a new economic entity, with its own mission and strategy that borrows valuable elements designed to provide a more solid position on the market from the companies included in the combination (Băcanu, 1997).

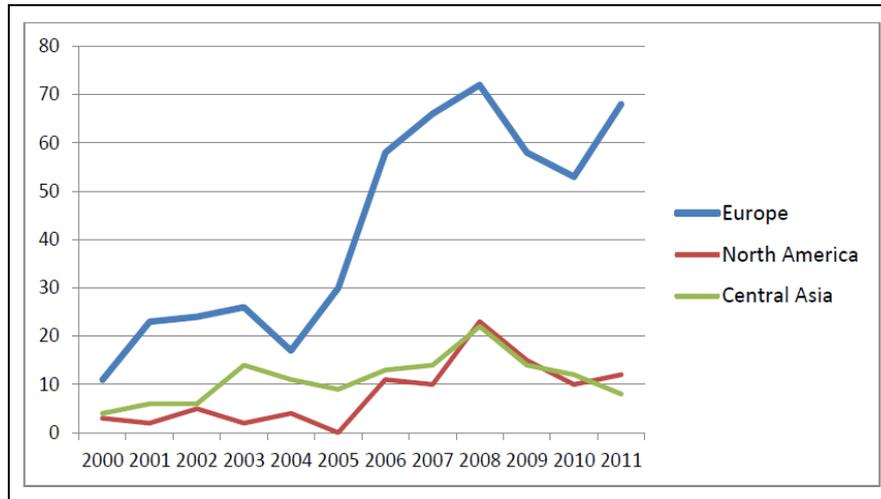
### **3. THE DEVELOPMENT OF RUSSIAN MNCS**

Over a historically brief period, Russia has become a major outward investing country on the global stage. The year 2005 is a critical year for Russian companies with much more deals for the following period than previously; further, the European sovereign-debt crisis has no visible effect on the behavior of Russian companies, but quite the contrary (Milelli & Le Goff, 2012). The most important 25 Russian multinational companies held in 2010 the equivalent of \$59 billion in assets outside Russia (especially in Europe), with an annual turnover of almost \$200 billion, according to a survey commonly carried out by the Skolkovo management school from Moscow.

Russian companies in the oil & gas and metallurgy sectors control the majority of country's foreign assets. These industries represent the areas of Russian specialization in the world economy. However, many other Russian industries have also begun investing abroad. Companies in machinery, electricity supply, food, transport, telecommunication, electrical equipment are also to be found amongst the top Russian investors abroad (Panibratov, 2010).

The tendency of spreading and presence of Russian MNCs showed signs 'later than the direct competitors', owing to traditional management and strategic partnerships, in particular. However, after 2005 (figure 1) the most important Russian multinationals have quickly understood their role, which implied a development of the business and equilibrium in terms of opportunities and new requirements related to the process of globalization.

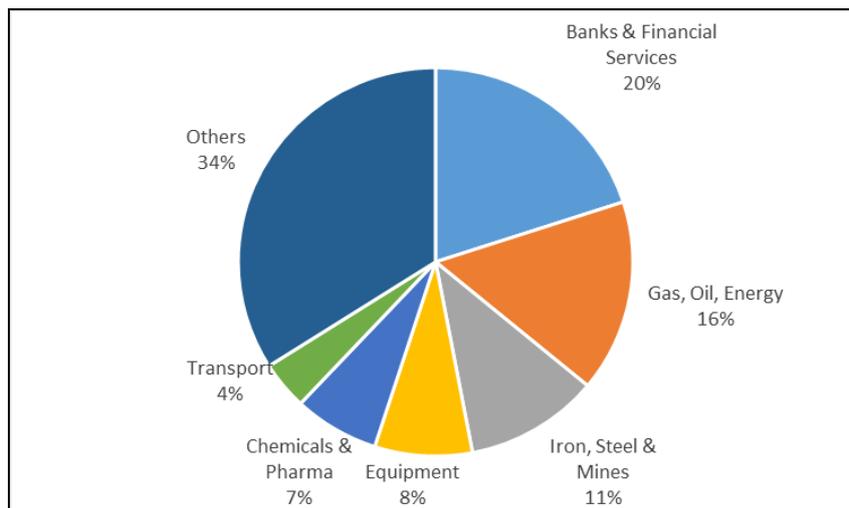
Therefore, the evolution of Russian companies is spreading, especially in Europe, where in 2008 there were more than 70 MNCs, registering a decrease during the crisis period 2009-2010 and a recovery to 69 MNCs in 2011. Other areas where these companies developed were central Asia and North America, but compared to Europe, their number is much smaller, with an average of 10 companies. The largest increase in the number of companies in these two areas was in 2008, just like in Europe, known as the boom of the world economy before the start of the financial crisis (figure 2).



Source: Thomson One, 2012

**Figure 1. Evolution of the number of Russian MNCs in Europe, North America and Central Asia between 2000-2011**

As we can see in the following figure, out of total of Russian MNCs, the most predominant ones are those who have activities in the field of natural resources - Natural Gas, Oil and Energy on the one hand, and Iron, Steel and Mines, on the other - and it is worth noting the growing number of multinationals in the field of Banks and Financial Services (20%).



Source: Thomson One, 2012

**Figure 2. Main sectors of European M&As by Russian companies**

Accordingly, the position of Russian MNCs is a strategic one due to the fact that through they manage and control a large part of the world's natural resources, especially the oil and gas resources. The period with the most significant expansions, either by merging with local companies, or by acquiring local companies, occurred during 2009-2011, when the value of investments reached over \$12,480 mil. According to statistics, Russian corporations with the most external assets are Lukoil (\$18,921 billion), Gazprom (\$10,572 billion), Severstal (\$4,55 billion) and Rusal (\$4,15 billion).

**Table 1. The top 10 external M&A transactions 2009-2011**

Rank	Year of acquisition	Acquirer name	Target name	Target industry	Target country	Value, USD million	% of shares
1	2009	Gazprom	Beltransgaz	Pipelines	Belarus	625	12.5
	2011					2,500	50.0
2	2011	Rosneft	Ruhr Oel	Refineries	Germany	1,600	51.0
3	2009	LUKOIL	Lukarco	Oil & gas fields	Netherlands (assets in Kazakhstan)	1,599	46.0
4	2009	Mechel	BCG	Coal mines	United States	1,447	100
5	2010-2011	TNK-BP	Several BP projects	Oil & gas fields	Venezuela	935	less than 40.0
6	2011	Atomred-metzoloto	Mantra Resources	Uranium mines	Australia (assets in Tanzania)	920	100
7	2010-2011	TNK-BP	Bloc 06.1	Oil & gas fields, pipelines	Vietnam	836	35.0
8	2009	LUKOIL	TRN	Refinery	Netherlands	725	45.0
9	2010	Atomred-metzoloto	Uranium One	Uranium mines	Canada (assets in Kazakhstan and Australia)	693	31.5
10	2011	NLMK	CIF	Steel plants	Luxembourg (assets in the EU and United States)	600	50.0
<b>Total</b>						<b>12,480</b>	

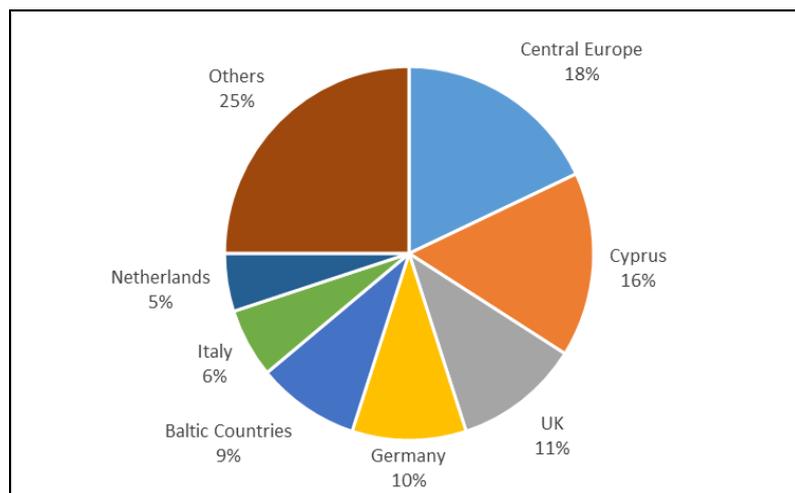
Source: IMEMO-VCC survey of Russian multinationals, 2013

The multinational company with the fastest development in the past 5 years, with investments of over \$29 million in 2011, is Lukoil, which has significantly invested in Central and Eastern Europe (50%), Eastern Europe and Central Asia (37%), with tendencies to expand activities to North America (7%), Middle East and North Africa (3%) and Sub-Saharan Africa (2%). Lukoil demonstrates the most diversified geography. It has subsidiaries in more than 40 countries. Its oil and projects are situated in 14 countries abroad and has refineries and petrochemical plants in seven foreign countries and widespread retail and service networks (Institutul European din Romania, 2012). Another Russian multinational that plays an important part on the European market is Gazprom which purchased in 2009 for example, 12.5% of the total shares of Beltransgas from Belarus; the process continued, so that in 2011, due to an investment of \$2,500 million Gazprom shareholding reached 50%. The expansion of

Gazprom occurred especially in Western and Central Europe (67%) and Eastern Europe and Central Asia (33%).

In 2011 Mechel invested almost \$1450 mil in Coal mines from the USA, target name BCG. Unlike Lukoil and Gazprom, which have major investments in Europe, Mechel registers an ascending expansion in the USA (52%) and in Eastern Europe and Central Asia (40%) with over 100 thousands employees.

Considering the distribution of multinational companies within Europe, the following figure outlines the fact that most of Russian MNCs targeted Cyprus 16%, United Kingdom 11%, Germany 10%, Central Europe 18 %, Baltic Countries 9%, Italy 6%, Netherlands 5% and others 25%.



Source: Thomson One, 2012

**Figure 3. Main European target countries for Russian acquisitions, 2000-2011**

In conclusion, a comparison of the development, of the investments in the developing areas leads to the following classification:

- Large companies with strong firm-specific advantages (FSAs) in terms of global brands and technology (LUKOIL, Mechel);
- Large companies with limited FSAs but strong traditional economic and supposed political ties (Gazprom);
- Large companies with few foreign subsidiaries (MMK, NLMK);
- Companies with limited but growing competitiveness, which are only beginning their investment expansion.

#### 4. CONCLUSIONS

The global crisis and uneven recovery of international trade have increased even more the structural changes in the world economy and international trade, the core of which represents the drifting of economic and commercial power from the West towards the East and from the North to the South, i.e., from developed countries

to a number of developing /emerging countries - especially Brazil, Russia, India and China (Institutul European din Romania, 2012). Over the next 15 years there will be 189 multinational companies with Romanian majority capital, according to a survey carried out by PricewaterhouseCoopers (PwC), which shows that Romania will be approximately at the same level with Ukraine (192 new multinational companies) and Hungary (221). Most new multinational companies from Central and Eastern Europe will come from Russia (930) and in Poland (287).

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