

RUSSIA'S INTEGRATION TO THE GLOBALIZED AUTOMOTIVE SYSTEM: SOLUTIONS ADOPTED BY MULTINATIONALS AND IMPACT ON THE LOCAL INDUSTRIAL ENVIRONMENT

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ABSTRACT

The automotive industry has reached a very high level of international integration. It expanded in Russia at the end of the first decade of the century. The paper aims at describing the problems encountered in the first years of the process and how car manufacturers and their suppliers have evolved and adapted over a period of almost 10 years. Using a qualitative inductive methodology, based on interviews of Western European and Russian participants to the expansion, and using a case of failure as an extreme situation, the author identifies a certain number of influencing factors and describes how they have evolved through the years. Finally, the paper concentrates on two phenomena that need more investigation, i.e. the reason for a small representation of Russian suppliers and the generic subculture of Russians working for foreign corporations. The results provide also a model of the implantation process on a new market that can be used for further research or to train and support managers involved in international projects.

KEY WORDS

Russia, automotive, management, globalization, suppliers, business culture

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1 INTRODUCTION

In the last 30 years, the automotive sector was marked by a strong internationalization that led to the creation of a multi-regional integrated system often considered as one of the best examples of the “global factory” described by Buckley and Ghauri (2004). The

transformation, which started in the 80's when Spain and Portugal joined the European Union, accelerated strongly 10 years later, when most Central European countries integrated the system, and when emerging countries such as China and Brazil started to open themselves to

the international automotive business. It was not until the year 2008 that the integration process started to affect Russia, as a response to new localization laws formalized by the local government. If many articles describe how the global automotive system developed and how it is organized (Colovic and Mayrhofer, 2008; Freyssenet and Lung, 2001; Schmid, 2011; Schmitt and Van Biesebroeck, 2013; Sturgeon et al., 2009), few research looks at the way the system expands to new regions and how it impacts the existing industrial environment (Archambeau, 2011; Gules et al., 1999; Lockström et al., 2010; Pavlínek, 2008). Strikingly enough, to our knowledge, very little has been written on how the Russian automotive sector has changed in recent years. Yet, the rise of the automotive industry in new territories requires not only a high level of know-how transfer, done either by setting up new production plants or by cooperating with existing local producers, but also a “rapid control of complex, entire industry and research sectors” (Archambeau, 2011, p. 258).

In this respect, the case of Russia is interesting for several reasons. First, unlike all new automotive target markets, at the time of the USSR, Russia was able to produce a considerable number of vehicles. Second, since the end of Socialism, Russia has suffered from a bad image with investors (Amoux, 2013; Holtbrügge and Puck, 2009; Pan, 2016; Rozhnov, 2007). While many multinationals are present in Russia today, the decision to establish in the country seems to be more challenging than for other expending markets. Third, the recourse to strategic alliances with local companies seems to be very limited. The economic press and scholar literature tend to mention almost exclusively examples of failures (Aycañ et al., 2000; Barnes et al., 1997; Zineldin and Dodourova, 2005), without giving appropriate explanations. Moreover, the number of in-depth analyses is almost non-existent (Ayios, 2004).

This paper intends to investigate Russia’s integration process into the globalized automotive system, to identify the major barriers or influencing factors that may have hindered its development in the starting phase, to understand how these have been overcome over a period of 10 years, and to form a first judgement on its consequences on the Russian industrial environment. To do this, we are using an inductive qualitative method based on the interviews of automotive companies, made up of three groups of actors, first a certain number of experts or specialists of the Russian automotive market, secondly several subcontractors producing automotive parts, and thirdly OEM’s using these parts to manufacture vehicles in local factories. Throughout the paper, we will follow a convention initiated by Soulsby and Clark (2007, p. 1437) and use the relatively unprecise word “Westerner” for entities or individuals with a longer experience of advanced market economies (i.e. not exposed to a socialist economy).

After briefly recalling the state of the literature on company internationalization, on the specificity of the automotive industry as well as on Russia, seen as a reindustrializing country, we shall describe the methodology of our research and give detailed information on the population that we have interviewed. We shall then identify the various barriers or influencing factors mentioned by the interviewees, whenever their implementation was successful or not. We shall subsequently seek to differentiate between the factors that seem persistent on the ten years’ span and those which were more linked to the economic backwardness of the country and see how they were overcome. Finally, we will describe the level of regional integration of the Russian automotive market as well as the specificity that persists despite a strong inclusion process, recall the limits of our approach and suggest other inquiries and possible research works.

2 COMPANY INTERNATIONALIZATION, RUSSIA AND THE AUTOMOTIVE INDUSTRY

2.1 Factors Influencing Internationalization Processes

To comprehend the structure of internationalization processes, we need to recall the features that corporations consider when judging about companies' achievements. Scholars working on the internationalization process have raised many questions such as how to evaluate the benefits to the business (Dunning, 1988) and how to select an entry mode that optimizes transaction costs (Webster, 1992; Williamson, 1981). In one of the few existing holistic approaches, the School of Uppsala (Johanson and Vahlne, 1977 and 2009) insisted on the importance of an accurate preparation, on the effect of the psychic distance with the target country or on the capacity to build trust within one's network.

After the project kick-off, corporations need to manage knowledge transfers (Edwards et al., 2007) while taking into consideration the impact of several factors such as the pressure of markets (Edwards et al., 2007) or the existing power relationships between the expanding company and local organizations (Clark and Geppert, 2006). The success of the project implementation depends also on the relations to partners (Håkanson, 2014) in accordance with the habits of the affiliated sector. Although described as rational, internationalization projects may also be impacted by several social or psychological factors such as the creation of knowledge through social interaction (Reihlen and Apel, 2007), the nature of the relations with partners (Beddi et al., 2017) or the power games played by actors of the different entities (Bouquet and Birkinshaw, 2008; Geppert et al., 2016).

The literature with particular focus on export has attempted to define a certain number of barriers (Arteaga-Ortiz and Fernández-Ortiz, 2010; Leonidou, 1995). While these categories may be appropriate to understand why certain companies export more than others, they can

hardly be applicable to other entry modes such as strategic alliances or FDIs. Besides, as they tend to look at the situation at a specific time, they are more useful to make diagnostic surveys of existing situations than to understand the constraints of a given market.

2.2 The Automotive Industry

The globalization of the automotive industry has been described intensively by numerous scholars (Boyer and Freyssenet, 2000; Colovic and Mayrhofer, 2008). The aim of integration strategies was to reduce costs by increasing the volumes produced, taking advantage of lower wages when possible, and promoting a strong standardization that leaves little space for local adaptations (Schmid, 2011). Placed in the centre of the system, OEMs monitor the levels of internationalization or externalization of the industry, as well as the extent of the "spatial integration or disintegration" that is considered necessary (PIPAME, 2010).

While organizing themselves around emerging markets (Berger, 2013), OEMs have given rise to global vertical partnerships (Donada, 2014), often obliging suppliers to align with the strategies they had defined. The "global partners" negotiate contracts applicable all over the World (Sturgeon et al., 2009) and supply similar or identical products everywhere (Edwards and Ferner, 2002, p. 98). Moreover, to avoid disrupting the flow of just in time supply they are often "encouraged" to set up production close to the automotive plants (Schmitt and Van Biesebroeck, 2013).

Finally, the automotive industry provides a good illustration of transfer processes which, implicitly or not, intend to replace existing systems, considered inefficient and outdated, with Western models. In this sense, scholars have attested the emergence of a form of unidirectional communication, described either as "low context transfers" (Child, 2000) or "mimetic processes" (Clark and Geppert, 2006, p. 342).

2.3 Russia Faced to Globalization

A little more than twenty-five years ago, Russia endured a brutal switch to a capitalistic economy. When the barriers which isolated the Soviet society disappeared, a massive translation of Western management literature provided local enterprises with knowledge essential to survive. Simultaneously, MNC's introduced a real competition and widespread the use of modern management practices (Björkman et al., 2007). Even though the country joined the WTO in 2011, Russian enterprises have had limited exposure to the international sphere for several reasons, such as the pre-eminence of oil and raw materials in trade, the membership to an economic union that it dominates¹, and the fact of being, in many ways, an enclave far from trade triads.² Consequently, the Russian business fabric is very fragmented, with numerous business practices (Krylov, 2013), as well as a very differentiated international experience. Augustynowicz (2014) provided data on Russian corporations which shows that only 43% of Russian companies have been exposed, in some way or another, to international competition.³

Often considered the most risky emerging market (Kouznetsov, 2009), Russia has definitely a bad image with investors. This is partly the consequence of an excessive communication around the problems encountered in the country by several MNCs such as IKEA, BP or Carrefour (IKEA Russian Adventure ..., 2009;

Russia: BP-Rosneft ..., 2011; Jamois, 2011; Müller, 2016), or of transient annoyances linked to geopolitical issues (Petroff, 2014). But it is not a mere communication issue! If many MNCs have taken the decision to establish in Russia, they complain about a certain number of problems: widespread corruption and opacity (Ledeneva, 2006; Orttung, 2014), institutional ambiguity generated by an "incomplete institutional transformation" (Kuszniir, 2016), and the persistence of unwritten rules and practices difficult to understand (Ledeneva, 2006; Zon, 2008). Indeed, in spite of the change in the economic system, Russia has kept a heavy bureaucracy (Olimpieva, 2010; Olimpieva and Pachenkov, 2013), a lagging stock-exchange (Li et al., 2012), as well a strong intervention of the state (Alon and Herbert, 2009).

Finally, cooperation with Western companies may be made difficult because of strong differences in references and values, as well as diverging working styles (Chanlat, 1990; Chevrier, 2000; Hofstede, 2003). The literature on post-socialism has also shown that foreign partners tend to minimize local knowledge, seen "as relatively insignificant in strategic terms" (Clark and Geppert, 2006, p. 344). This "structural asymmetry" (Clark and Geppert, 2006), combined with Russian national pride (Ardichvili et al., 1998), makes difficult, not only the transfer of information and the desire to "teach and learn" (Wang et al., 2001), but also any form of cooperation.

3 METHODOLOGY AND DATA

We are using a qualitative inductive approach, based on a case study methodology (see Eisenhardt, 1989; Yin, 2006 and 2014), formed around a case of failure and completed with the interviews of companies which have successfully implemented a business in Russia. Following Pettigrew (1990) who advices to take advan-

tage of extreme situations to make a process "transparently observable", we based the first step of our comprehension of the automotive industry expansion process on an evaluation of the problems encountered by a company which failed to establish in Russia.

¹87% of trade within the Eurasia Economic Union (Vinokurov, 2017).

²See for example Dicken (2015).

³Figures by number of employees. The groups concerned are: State owned or mixed companies on strategic sectors (20%), Independent companies with activity abroad (18%), Western-Russian Joint-ventures (1%), Foreign subsidiaries (4%).

If the antonym of the word “failure” is “success”, a failure is not simply a non-success. A success usually opens the way to the implementation of a new service or to the beginning of a new project. A failure follows another logic and may have more serious psychological consequences, mainly because it often leads to the sudden stop of several actions (Edmondson, 2011). Consequently, guilt or deception often lead actors to review repeatedly what happened, to analyse occurrences and to try to understand what went wrong. People concerned tend to recall the different features of the project that failed for a longer time. Searching for causes and responsibilities allows to explore more precisely the interactions between the different actors, highlighting difficulties that may have remained hidden and unnoticed. If questioning is done gradually, and if it is possible to overcome guilt or denial, working on a failure generates more interesting information than trying to understand the reasons for a success or which difficulties were properly handled (Kam, 2004). Moreover, examples of failure bring to light unforeseen factors such as, in our case, several constraints that may have seemed obvious such as the implicit rules of the globalized automotive industry, the fact of changing trade areas, or the difficulty of choosing the right intermediaries to bridge differences. Interestingly, corporations are today more aware of the interest of analysing failures, theirs or those happening to companies of the same industry (Cannon and Edmondson, 2005).

To have practicable data, we decided to interview only corporations that had established in Russia recently enough, or that had restructured their activities little time before, and we met only the persons who had managed or witnessed the implementation processes. We considered three categories of interviewees: first, mainly in the starting phase, experts or rigorous observers of the market, second, part suppliers working for Western car manufacturers (OEMs), and third, managers involved in the selection and follow-up of such companies. Tab. 1 contains the list of persons interviewed and shows the categories to which they belong. Even if it was difficult, we tried to have the

highest possible number of Russian nationals, to have a balanced perception between Westerners and locals. We also tried to have a good representation of situations of confrontations between Russians and Westerners. Finally, since Russia was mainly perceived by the industry as an extension of the Western and Central European markets, we considered that it was more representative to focus only on European companies. We did not seek for an accurate statistical representation, but favoured most recent cases of implementation or relocation, as well as interviewees who had witnessed the largest part of the process.

The aim of the interviews was mainly descriptive, as we wanted to understand how the integration process took place over a period of 10 years, and our major objectives were to discern the influence of the different factors, to recreate the peculiarity of the implementation in Russia (or of the first contacts with the automotive industry), and to understand what was important to know to approach this market. Eisenhardt (1989) considers that inductive case studies can provide comprehensive descriptions of a new or evolving industry, mentioning the work done by Kidder (1982).

We used a semi-structured questionnaire made as broad as possible to respond to the different situations encountered, i.e. Westerners starting a new business in the country or locals discovering the specificity of a new sector. The data collected from the actors involved in the case of failure helped us make our questioning more accurate, mainly for the list of potential factors (see Tab. 3). As is made possible with an abductive methodology, we had some overlap between data collection and data analysis, as well as back-and-forth motions to complete information, induce reactions to unexpected messages and test the importance of the various factors identified. In certain cases, we met the actors a second and even a third time to make them react to the first information collected. We also used several memos written in between interview sessions.

For the analysis of data, the literature provided a certain number of potential factors which helped us develop an exploratory grid

Tab. 1: Interviewee Population

Company and nationality	Activity	Informant (described by function)	Nationality	Interview (numbers and years)	Major topic covered	Category
<i>Subcontractors / automotive suppliers</i>						
CarSeat* (1) (German)	Automotive polyurethane producer	CEO	Belgian	1 (2013)	Launch of operations in Russia (failure)	Part supplier
		Vice President Finance	British	1 (2013)	Launch of operations in Russia (failure)	Part supplier
		Vice President Sales Marketing	Belgian	2 (2012, 2015)	Launch of operations in Russia (failure)	Part supplier
		Development Manager	French	3 (2008, 2012, 2015)	Launch of operations in Russia (failure)	Part supplier
		Controller	Belgian	1 (2013)	Launch of operations in Russia (failure)	Part supplier
		Quality Director	Belgian	2 (2013, 2015)	Launch of operations in Russia (failure)	Part supplier
		Process Manager	Australian	1 (2014)	Launch of operations in Russia (failure)	Part supplier
		Technical Manager	Russian	1 (2013)	Launch of operations in Russia (failure)	Part supplier
Purfoam* (Russian)	Polyurethane producer (2)	CEO Russian Sub.	Russian	2 (2013, 2015)	Launch of operations in Russia (failure)	Part supplier
		HR Manager	Russian	1 (2015)	Launch of operations in Russia (failure)	Part supplier
		CEO	Russian	1 (2013)	Cooperation and launch of operations in the automotive industry	Part supplier
Foamaksent* (Russian)	Polyurethane producer (2)	Lawyer	Russian	1 (2013)	Cooperation and launch of operations in the automotive industry	Part supplier
		Shareholder	Russian	1 (2015)	Cooperation and launch of operations in the automotive industry	Part supplier
		Shareholder	Russian	1 (2017)	Cooperation and launch of operations in the automotive industry	Part supplier
BASF Coatings (German)	Automotive producer of refinish paint	Sales Manager	Russian	1 (2010)	Launch of operations in Russia	Expert/observer
BASF Group (German)	Automotive supplier (partly)	CEO Russian Sub.	German	1 (2017)	Overview of situation of the automotive industry in Russia	Part supplier
Eternit Russia (Belgian)	Automotive supplier (partly)	CEO Russian Sub.	Belgian	1 (2010)	Launch of operations in Russia	Part supplier
AD Plastic (Croatia)	Automotive supplier	Sales Manager	Croatian	1 (2015)	Reorganization of operations in Russia	Part supplier
Lear Corporation (USA)	Automotive seat supplier	CEO Russian Sub.	French	1 (2014)	Launch of operations in Russia	Part supplier
Faurecia (French)	Automotive seat supplier	CEO Russian Sub.	French	1 (2015)	Launch of operations in Russia	Part supplier
Foamline (Russian)	Automotive polyurethane supplier	Sales manager (automotive)	Russian	1 (2017)	Launch of operations in the automotive industry	Part supplier
Sotex (Russian)	Automotive polyurethane supplier	CEO (automotive activity)	Austrian	1 (2017)	Launch of operations in the automotive industry	Part supplier
<i>Car manufacturer / OEM</i>						
PSA (French)	Car manufacturer	Project Manager (HR)	French	1 (2010)	Launch of operations in Russia	Customer
		CEO Russian Sub. (Citroën)	French	1 (2010)	Launch of operations in Russia	Expert/observer
		Site Director (Kaluga)	French	1 (2017)	Overview of situation of the automotive industry in Russia	Customer
Renault Group (French)	Car manufacturer	Cooperation Manager	French	2 (2014, 2017)	Launch of merger project (relations between Russians and Westerners)	Customer + Expert
		Purchaser Chemistry	Russian	1 (2015)	Overview of situation of the automotive industry in Russia	Customer
		Purchaser Engines	French	1 (2017)	Overview of situation of the automotive industry in Russia	Customer
		Purchasing Assistant	Russian	1 (2017)	Overview of situation of the automotive industry in Russia	Customer
Avtovaz (Russian)	Car manufacturer (Renault majority share)	CEO French sub.	Russian	1 (2015)	Launch of merger project (relations between Russians and Westerners)	Expert/observer
		Lobbying	Russian	1 (2015)	Launch of merger project (relations between Russians and Westerners)	Expert/observer
		Technical Cooperation	Russian	1 (2015)	Launch of merger project (relations between Russians and Westerners)	Expert/observer
		Financial Cooperation	Russian	1 (2015)	Launch of merger project (relations between Russians and Westerners)	Expert/observer
		Lawyer	Russian	1 (2015)	Launch of merger project (relations between Russians and Westerners)	Expert/observer
Volkswagen Russia (German)		Purchasing Director	German	1 (2014)	Overview of situation of the automotive industry in Russia	Customer
		Purchasing Chemicals	German	1 (2015)	Overview of situation of the automotive industry in Russia	Customer
<i>Other</i>						
Russia Data (German)	Consulting	Consultant	French/Russian	1 (2014)	Overview of situation of the automotive industry in Russia	Expert/observer
Segula (French)		Assistant	French	1 (2017)	Overview of situation of the automotive industry in Russia	Expert/observer
Total	-	38 interviewees	16 Russian, 22 others	44 interviews	-	-

Note: For the case of failure, names of companies involved have been changed.

used as a basis and a memento. However, we followed a general inductive approach (Blais and Martineau, 2007; Thomas, 2006) aimed at finding the most representative categories, i.e. in our case the factors liable of influencing the implantation process in Russia. The model resulting from our coding was done with NVivo

(Mouricou and Garreau, 2017; Thomas, 2006). It will be presented and explained in the following chapter. Finally, the most recent interviews helped us understand how several factors had been overcome and which ones were persistent.

Tab. 2: Questionnaires

Questions concerning all respondents	<ol style="list-style-type: none"> 1. Background (before Russia or the automotive industry) 2. Description of the first years of activities: what was easy, difficult, surprising? What are the main differences with other countries or other industries that you may know? 3. What are the local factors which tend to block the automotive industry's attempt to standardize processes: finance, socio-economic and legal constraints, other institutional features such as State intervention or corruption, suppliers or availability of products, the labour market or cultural differences? 4. Who are the stake-holders who play an important role? 5. Have you seen changes in recent years? Which ones? 6. Do Russian companies get the same level of quality than in Western Europe? How did they reach it? 7. On interpersonal relations, how do Russians and Western European work together? Do you have examples of difficulties, clashes or good cooperation? 8. Could you identify a couple of success factors that you can illustrate in the way to adapt to the new environment? For Western or Russian companies? For expatriates? For Russian managers? Does the fact of employing other Slavs / Post-socialists help? In which way? 9. If you look at your company, what adaptations were necessary to be able to work on the new environment (Russia or the automotive industry): working processes, strategy definition, management, etc. 10. What would you advise to a company coming to Russia? A Russian company starting business in the automotive industry?
More specific questions to understand the case of failure	<ol style="list-style-type: none"> 1. Could you describe how the project was prepared? Who did it? When and how? 2. How was the entry-mode decided and how were partners contacted and selected? 3. What differentiated this project from the company former ventures? 4. What were the different phases of the project implementation in Russia? What were major surprises and/or discrepancies? 5. How did the actors react and adjust to unexpected situations? 6. What were the major difficulties that the company faced? 7. What would you do in a different way if you had to go to Russia now?

4 INFLUENCING FACTORS HINDERING INTEGRATION

In other papers (Montenero, 2017 and 2018), we have mentioned a certain number of factors which were liable of slowing down Russian integration to the automotive globalized system or to make it difficult. These have been organized into a macropolitical group (the impact of different types of markets as well as business cultural differences), as well as a micropolitical group (national cultural differences as well as behaviours to others). Details are provided in Tab. 3.

4.1 Factors of Influence at the Macropolitical Level

A first series of macropolitical factors impacting the integration of Russia to the globalized automotive market, are directly linked to the local specificity of the market, or 'local markets', as mentioned in the literature on know-how transfer (Edwards et al., 2007). Almost all interviewees pointed out the administrative and legal uncertainty, which implies either excessive burden or the difficulty to presage

any decisions taken by the authority or the government.⁴ According to the level of experience of the country, informants' reactions range between an 'inability to decipher' to an 'extreme impatience'. On an every day's basis, the constraints of a market in "constant creation" (Safonova, 2013, p. 49) translate into a waste of time and higher costs, or even create rejection or fear ("We were desperately looking for benchmarks!"). It may also prevent Western companies from copy-pasting what exists in the West (i.e. more guards in general and lawyers in HR departments, or an impossibility to combine administrative and commercial functions).⁵

In addition, managers and experts had some difficulty projecting how the Russian automotive market was organized and how it would develop. For example, many imagined that sales would increase by 240% in 15 years and that local brands would disappear (Vahtra and Zashev, 2008). The reality has however shown that sales were very irregular and not comparable with the steady growth that car manufacturers had known in Central Europe. On top of this, as for the Russian makes, many had forgotten the "under-structure" inherited from the Soviet period, in terms of locations, infrastructures and working habits. This explains, for examples, why the different sites are scattered across a circular zone of 3000 km diameter. Finally, we should not forget the difficulty of obtaining several raw materials or parts in similar conditions as in the West because of scarce volume or high custom duties.⁶

We find other constraints in the job market which often keeps traces of the Soviet system (i.e. the importance of the 'buxgalter'⁷ or 'chief accountant' in many traditional companies), and where several functions are hardly available, creating the need for MNCs to train people and be able to keep them. To this

we can add the absence of reference for some functions common in Western Europe (i.e. Key Account Manager or controller) as well as the high complexity of HR legal obligation which makes the work of HR managers difficult to understand at the MNC' headquarters level.

Finally, the respondents also insisted on the constraints linked to the local financial market. If, in the first years of the period, many discovered that operating in Russia was 'expensive' ("Russia is not a low cot country"), the currency devaluation has improved the situation but increased exchange risks. This, added to the high occurrence of crises and to the cost of local operations, tends to lead to a minimalist approach of travelling and exchanges with the headquarters that hinders the development of cultural ownership. This last characteristic is even more significant because of the difficulty to find Western Europeans willing to expatriate to Russia.

A second series of macropolitical factors are directly linked to the differences between the culture inherent to the globalized automotive industry and the Russian business culture.

Different analyses have shown that automotive companies share a common culture characterized by values such as technical innovation (Beaume et al., 2009; Midler, 1998), quality and safety (Montenero, 2017), with the likelihood to think that it is superior to that of other industries. The way the globalized system is organized leads companies to give priority to standardized processes, transparency and trackability (Sturgeon et al., 2009). It should be noted that it follows a very specific scale of time which combines two opposite approaches: if it is essential to work with a long-time vision, often over 8 years, to ensure the car model's conception and lifespan, suppliers working on projects are expected to be very flexible and go beyond everything that can be

⁴This was for example the case with the laws on 'local content': not only our interviewees had some difficulty to know in what direction the government was doing, but it was not clear to them how the law was applied.

⁵This is for example of the pattern of a CEO who also have commercial responsibilities in Germany or France. In Russia, the necessity to be present on the site would prevent many commercial trips.

⁶Here, we come across with the idea of scarcity or monopoly which plays an important role on a market like Russia (Montenero, 2017).

⁷The Chief Accountant is still considered, in the official nomenclature, a key function because it holds the purse strings.

programmed. This later situation denotes also a very particular customer-supplier relationship (Mukherji and Francis, 2008) dominated by OEMs, which seem to impose their vision and strategy to suppliers and require them to adopt a high level of transparency, in exchange for production volumes.

The Russian industrial culture, inherited from the Soviet time, is very different. Due to a strong centralization, the interest of customers was long not considered, with consequently little concern for quality issues and a scarce culture of performance (Grachev, 2009, p. 5). All respondents recognized a dramatic improvement, but they insisted on a general lack of constancy (suppliers, productions, employees). Moreover, if some functions such as HR are strongly regulated⁸, this does not usually apply to technical and commercial activities. Instead, customer/suppliers' relations have often been based on power game as well as a lack of transparency (Braguinsky and Mityakov, 2015). But the major difference is to be found in the way Russian companies organize themselves to face market and financial constraints: they usually work with short-time customer orders that need to go throughout the complexity of common internal administrative rules (e.g. number of signatures). The ensuing lack of flexibility tends to make cooperation with Western companies very strenuous.

4.2 Factors of Influence at the Micropolitical Level

These factors are impacting the efficiency of the interpersonal relations between headquarters, subsidiaries and partners. They take on even more significance because of the high strain that they put upon the stability of partnerships.

A first series of micropolitical factors are the consequence of cultural differences between Western Europeans and Russians, i.e. the values (Hofstede, 2003) driving different ways of organizing operations, behaving and dealing with difficulty. Particularly, when Western Eu-

ropean tend to rely essentially to processes, Russians value much more networking (Salmi and Heikkilä, 2015), and informal relations (Ledeneva, 2006). If this attitude may explain a lack of continuity on the Russian side, because actions may be more linked to the relation than to the process, it often leads Western European to disregard informal practices (Elenkov, 1997; Ledeneva, 2006, p. 101). A strong cultural opposition is also to be found in the concept of time. To fight against the uncertainty of the Russian market, local entrepreneurs tend to concentrate on short-time, adopting a 'limited time horizon' (Grachev, 2009, p. 6; Veiga et al., 1995, p. 22). When Western Europeans like to define detailed plans before any action, their Russian counterpart tend to adapt their reactions to the development of the context. As Michailova (2000, p. 102) wrote, "they tend to adapt to the environment rather than transforming it". The importance of this adaptability may even lead Russians to evolve their understanding of norms, standards or contracts according to the contexts, an attitude that often disturbs or worries Western Europeans. Finally, the Russian historical context may explain a higher awareness of the power relation between colleagues or partners. This may translate into a difficulty to communicate openly if the distribution of forces is uncertain, or into a strong respect of each one's zone of responsibility that may prevent actual cooperation. On the other hand, when they feel that power is on their side, Russians do not hesitate to impose the ideas and control its application. In an alliance, they expect the same from the partner on his/her areas of competence. The respondents have mentioned this different approach of exchanges, or of communication, as a reason for misunderstanding or even failure of collaboration.

A second series of micropolitical factors emerge from the confrontation of two different perceptions of the world as well as from contrasting attitudes to others. Firstly, Westerners, particularly in the context of the automotive

⁸The HR function requires keeping detailed records of the employee's background as well as of every action linked to every day's operations. To operate in the best possible way, the presence of lawyers or persons with juridical knowledge is necessary and mostly imposed by law.

Tab. 3: List of influencing factors derived from data analysis

Groupings	Influencing factors	Description
Macropolitical factors	Administrative and legal uncertainty	Excessive administrative burden, legal uncertainty, difficulty to copy-paste systems used in the EU.
	Russian automotive market	Irregularity of the market, constraints inherited from Soviet times (locations, infrastructures, habits, etc.). Difficulty to get parts and supplies necessary for the automotive production.
	Russian job market	Different functions or no references to European functions, complexity of HR legal obligations, difficulty to find people trained in necessary functions, etc.
	Russian financial market	Financial constraints of all types which make operations or stay in Russia (for expatriates) expensive.
Different industrial cultures	Different industrial cultures	The automotive culture, based on values such as technical innovation, quality and safety, relies on standardized processes, transparency and trackability with a very specific scale of time. It is opposed the traditional Russian industrial culture with little concern for quality and scarce culture of performance as well as little constancy, a strong lack of transparency and specific accounting habits developed to fight financial uncertainty and corruption.
Micropolitical factors	Cultural differences	An opposition between Westerners who rely mainly on processes and a very strong observance of time-keeping and Russians who give more importance to networking and informal relations. In the exchanges, misunderstanding is often do to a different awareness in power relations.
	Perception of the outside world and attitudes to others	Westerners tended to favour technical expertise and impose their models with little consideration for local specificity, increasing the fact that in post-socialist contexts relations with Russian partners tends to be unbalanced in favour of Westerners with little interest for the information provided by Russians. The impact of ‘Russian strangeness’ often leads Westerners to avoid immersing too deep into the local context and shift related issues to locals.

sector, tend to favour technical expertise and impose their own models (Soulsby and Clark, 2011, p. 308) with little consideration for local specificity. Moreover, it has been shown that in a post-socialist context, relations with Russian partners tended to be unbalanced (or ‘asymmetric’) in favour of the Western part (Child, 2000; Clark and Geppert, 2006), with often an underestimation of the value of the information possessed or provided by the Russian. The respondents also mentioned the possible impact of what they called the ‘Russian strangeness’. The Russian language, the Cyrillic characters and the complexity of the signals coming from the market may prevent certain managers from finding reference points. This may also lead them to avoid immersing themselves too deep

into the local context and shift local relations to their Russian employees or partners. Besides the fact that this behaviour forces them to rely only on intermediates, with the danger of biased interpretations, it pulls them away from direct contacts with major stake-holders, in a country where relations with the prime contractor is considered very important.

Finally, on the Russian side, the environment encourages micro-political behaviours to compensate for the weakness of institutions. The context of Russian business has often been described as an “institutional void” (Puffer et al., 2009) or “path dependence” (Schwartz and McCann, 2007), a situation encouraging power games as a way for the action to move forward in the direction wished.

5 HOW DID AUTOMOTIVE COMPANIES FACE THESE INFLUENCING FACTORS?

5.1 Transferring Technology and Ways of Working

Looking back at the first years of the integration, our respondents mentioned that the major worry concerned the technology, i.e. whether it would be possible to reach the same level of quality in Russia as in the EU, considering the habits inherited from the Soviet Union (factor 1.5), the backwardness of the country, as well as the difficulty to find the appropriate employees or to train them (factor 1.3). In all the cases covered, employees from other sites brought a large support to help Russian employees acquire the necessary knowledge. For technical transfers, expatriates were usually sent from other sites for periods between four months and one year. After the departure of foreign experts, locals were still connected to data banks gathering information on possible technical mistakes or malfunctions. Such an approach was made much easier through the high level of standardization of the industry: the equipment used in Russia was like that operated on other sites which had often experienced the same complications at one time or the other.

The difficulty of finding experienced workers was solved in different ways according to whether in green field (Volkswagen and PSA), or through an acquisition (Renault Avtovaz). In the first case, priority was given to young candidates with little or no experience of the function, but who commanded one or more foreign languages (Volkswagen, Faurecia, Lear). In this case, or in the case of Russian professionals who had to learn new processes (Renault Avtovaz, Faurecia), the transfer of know-how was facilitated through the participation to multinational working groups with employees of headquarters or of other sites (Romania in the case of Avtovaz).

The approach described above helped reduced the gap between different business cultures (factor 1.5). The implementation of production in Russia led also to the creation of a sub-group of Russian professionals who understand and command the rules developed by Western automotive companies and who are often used as middlemen between both industrial worlds. The interviews have shown that this sub-group consisted of Russians who had developed their talents with the aim of working mainly in Western companies, who rejected the idea of working in Russian companies and who felt often uncomfortable when faced to traditional local corporations. If the solution described above (i.e. creating a sub-group of assimilated locals) allowed to solve the misunderstanding due to cultural differences inside Western MNCs (factor 2.1), it could not apply to third parties, i.e. to the contacts with Russian potential suppliers, still very much marked by national culture.

Several MNCs used Central European nationals to facilitate the transfer of know-how. This is mainly the case of Volkswagen which facilitated the expatriation of Czech Skoda professionals. Interestingly, this solution did not always work, especially with people who were not willing to do it, or not well-prepared for this mission⁹.

On top of this, larger groups (Volkswagen and Renault) offered managerial position to Russian professionals at their Global Headquarters to create a pool of persons used to the corporate culture, that they could send to Russia at a later period. Here, it was important to use different types of methods to ensure that they would eventually accept to work again in Russia¹⁰.

⁹The mere fact of knowing Russian or being born in a Slavic country was not enough. Respondents had very mixed feelings about this solution but often forgot the necessity to train all people sent to Russia.

¹⁰In the case of Renault, Russian professionals took part to education programs while in France and signed a document obliging them to pay the money back in case they would not accept a position in Russia.

5.2 Facing Uncertainty

The same integration logic as above applies to a large part of the financial constraints (factor 1.4). For accounting and financial operations, Western companies are using standardized processes developed by the Headquarters, eliminating thus certain complex operations typical of the Russian administrative processes. They are also less affected by the uncertainty of the local financial environment because Russian activities are drowned out inside the total amount of international business. We also understand that expatriates working in Russia have shown a great deal of energy to explain the specificity of the market as well as the importance of approaching this market only on a long-term basis.

The analysis of results over time shows that corporations gradually changed their attitude towards the factors ‘administrative and legal uncertainty’ (1.1) and ‘uncertainty of the Russian automotive markets’ (1.2). They shifted closer to Russian behaviours: while a certain level of fatalism led them to create larger provisions for unexpected costs, they also recognized the importance of networking and lobbying with local and national authorities. Furthermore, several years of local experience have allowed financial experts to define more appropriate provisions.

Interestingly, the sanctions and the falling Rouble have accelerated the localization of supply to avoid risks linked to fluctuating exchange rates and difficulty of supply. OEMs and suppliers declared spending more time helping companies wishing to settle in Russia than in the first years of their presence. In the case of Renault, it was, for example, considered valuable to speculate on former Avtovaz suppliers.

Finally, the numerous, unpredictable cost factors and the erratic market developments have led Western corporations to set up a very strict cost policy in Russia, an approach close to crisis management. Costs have often been reduced to the minimum acceptable, for example by reducing or cancelling trips to the European headquarters or by limiting the use of in-house international consultants.

5.3 Impact of the Integration on the Local Business Environment

While the interviews show that the first divergence encountered within Western subsidiaries have diminished, the situation does not seem to have much improved in the case of Western – Russian partnerships. The interviewees mentioned a certain number of potential alliances which never started or collapsed after a few months for the reasons mentioned for factors 2.1 et 2.2, numerous developments like the failure that we analysed. Moreover, it was almost impossible to find cases of good cooperation between Western and Russian firms. Among the most common reason given for the difficulty to cooperate, we find different perceptions of time (i.e. short-term and long-term approaches), as well as the feeling, on Russian sides, that returns were not satisfactory.

Similarly, it has been rather difficult to find local Russian suppliers. Most interviewees employed in purchasing agree on the difficulty for local companies to adapt to the necessity to work in project mode over a very long time, whereas Russian companies tend to issue very precise orders for very short periods (6 months) to fight against exchange risks and corruption.

It is interesting to note that the four Russian suppliers interviewed have had different levels of success and were using different solutions to adapt to the request of Western automotive companies. A first company decided to stop the experience because the constraints were considered too high and the business not enough rewarding. In another case, the group recruited a Westerner who had no knowledge of Russia to manage the company. According to discussions, this was considered the best way to avoid deviations and to stay centred on the OEM’s requests. In two other cases, the divisions working for OEM’s had received a very high level of autonomy to reduce the burden of the traditional administrative obligations. In any case, despite repeated effort, it has been very difficult finding examples of successful local suppliers, i.e. companies which benefitted from the construction of a local automotive system in Russia.

6 DISCUSSION AND CONCLUSIONS

The research was designed to complement the general knowledge on the globalized automotive system. It has shown the ability of Russians to learn and implement the know-how transferred from Western MNCs. It shows also the importance of adapting the approach to deal with the specificity of the market.

Maybe the most interesting part was the fact that the encounter between the existing automotive system and the Russian market has allowed to understand better the distinctive features of the cooperation between OEMs and their suppliers. If the latter are expected to work in the long-term (periods over 5 years) and to reach very high levels of quality and trackability, they should also show a high flexibility when working on development or improvement projects: even after project start, objectives may be revised or even utterly redefined several times. This aspect is exerting a high constraint on smaller companies and it seems to be in open conflict with the usual operating mode of Russian corporations.

The interviews have also demonstrated the strength of the automotive system, which managed to expand to Russia in less than 5 years despite early difficulties, and which is today able to produce vehicles like what is manufactured in the rest of the world. If the globalization logic has imposed itself, the combination of the membership to different custom areas and the strong particularity of the Russian environment has created several constraints. First, the Soviet substratum has led production to be scattered over a larger area than in Europe or in North America. Regional productions (mainly through joint-projects) responding to different quality standards have been continued. Finally, we observed a limited interconnexion between international automotive corporations and local companies. The expansion of the globalized automotive system has created the superposition of a new strata of business which is still very much disconnected from other industrial activities.

Naturally, if the research has allowed to highlight several significant features and trends, the information was based on an inductive approach

which did not require a precise representativity. Indeed, only three OEMs were interviewed. It would be interesting to contact more car manufacturers, particularly non-European companies to check whether their perception is comparable or whether they have another approach. Generally, it would be important to launch a new series of interviews to detect possible changes and update information on relations, either with subsidiaries of Western MNCs or with local suppliers.

As far as future developments are concerned, we noticed two areas which would need further research. First, the automotive industry, coming with its processes and habits, has led to the creation of a sub-group of people who belong to both business environments, which represent a "generic subculture across organization" (Schein, 1996). A deeper observation of the members of the group would help develop a better understanding of the Russian managerial structure. The literature has looked extensively at management practices with the aim of reaching performance (Fey and Björkman, 2001; Gurkov, 2014; Shekshnia, 1998). Recent research has also investigated the interconnexion between management practices developed in MNC subsidiaries and in local corporations (Shekshnia et al., 2017). However, several issues have been left open: Does the current evolution lead to local managers getting higher in the hierarchy, why and how? What is the influence of the employees and managers trained by Western MNCs on the way local corporations operate? How can the global automotive system participate to the internationalization of Russian managerial practices and operations?

Second, we have seen that most of the business generated has gone to subsidiaries of Western suppliers. The number of local companies cooperating with OEMs is still limited. Several scholars have pointed out the risk that local companies could be overwhelmed by Western competition (Dawar and Frost, 1999); others have demonstrated the little level of development in RandD in Central Europe (Pavlínek, 2008). However, we could not find enough data to estimate the importance of the issue. We

would recommend launching a comprehensive search with purchasing organizations to have a more precise view of the situation. It would also be interesting to investigate how the few local Russian suppliers have organized themselves and whether they have reached the level when they could become global.

Finally, we have not yet compared our findings with information on other expansion processes such as in Central Europe, China or South America. While information seems at first sight to be scarce, it would be important to search in the most recent literature and in local reviews.

Independently from the description of the automotive industry expansion to Russia, our research has also allowed us to design a first

model describing the implantation process on a new market. As we have seen, while scholars working on export have defined a certain number of barriers to explain the level of efficiency of exporting corporations, there are still very few attempts to describe the factors impacting the first years of the establishment in a new country, i.e. what happens between plan definition and the actual start of activities. Of course, this model based on information collected in Russia, in the automotive industry, should still be validated and confirmed through other case studies and interviews. However, we see a clear managerial implication if this information is used to train and prepare managers prior to their participation to an international project.

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