Strategic Investment Flexibility for MNE Success in Russia:

Evolving Beyond Entry Modes

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A decade has passed since the advent of perestroika, which marked a dramatic new era for doing business in Russia. Although many American companies had some involvement in the Former Soviet Union during the communist period, opportunities for those firms as well as countless others developed rapidly during the 1990s as Russia began its transition to a market-oriented economy. Hundreds of such companies have become members of the US-Russia Business Council and similar organizations, and include the most prestigious and well-known multinationals in American industry. The strategic approach of MNEs is of critical importance to their success. These companies have recognized this by adjusting to the particular circumstances of the evolving Russian market. Specifically, although most of them entered as an extension of their global strategies, they did so with different investment approaches, and the majority continued to exhibit flexibility in their evolving investment strategies.

A company's market entry strategy is a key factor in its continuing strategic flexibility. The mode of entry decision is "one of the most critical strategic decisions for the firm. It affects all future decisions and operations of the firm in that country market" (Kumar & Subramaniam, 1997: 54). Entry strategies have been covered extensively in the international business literature (see Kalyanaram, Robinson, & Urban, 1995, Kumar & Subramaniam, 1997, and Madhok, 1996, for reviews). While not focusing upon entry modes, this article recognizes it as being one of the major influences on both MNE strategic investment decisions and strategic flexibility over time. Some modes, like building production plants, lead to heavy initial investment and restricted flexibility, while others, such as exporting, result in less initial investment and more flexibility. Other influences on investment decisions and flexibility during and following a firm's initial entry are described below.

FLEXIBILITY IN SIX INVESTMENT STRATEGIES

Strategic investment flexibility, which we define as the ease with which strategic direction may be changed, was the primary factor differentiating the six investment strategies we identified. While all MNEs followed a global expansion strategy, some of their specific strategies allowed little opportunity for change in direction without losing strategic position or incurring serious business losses; others permitted strategic change with varying degrees of difficulty. The major influences we observed affecting strategic investment flexibility were the corporate strategy for operating in new environments, entry strategy as defined here by the initial investment commitment, corporate risk tolerance, industry conditions, the legal and political environment, competition, and market readiness.

Of the six major strategies which emerged, some were consistently followed, some were incremental changes in a company's position, and others were marked departures from earlier strategies. The strategies and the factors affecting flexibility are discussed below in order of increasing flexibility. Two strategic approaches involve heavy initial investment, two exhibit incremental levels of relatively moderate investment, and two others demonstrate limited initial investment. While most of these MNEs had choices at the outset, virtually all that were successful increased their investment stakes to relatively high levels in order to sustain their improving positions. Each of the six strategies is illustrated with brief examples from various companies.

FORCED HEAVY INITIAL INVESTMENT STRATEGY

Little Flexibility

Firms following a forced heavy investment strategy have little flexibility in their choice of strategic direction. The industries in which they operate, such as extractive natural resources including mining and petroleum, require a substantial initial investment in order to be a player. Heavy costs are generally incurred for capital equipment, exploration, and payments to governments for rights to operate. Such companies that enter markets like Russia understand the demanding requirements and high risk, but have few strategic alternatives. Competition among global MNEs can be fierce, and firms have little choice but to accept the risk involved. To do otherwise would be to forfeit an opportunity to participate in one of the world's major raw material reserves. Such companies follow a corporate strategy which recognizes these characteristics of their industry, in Russia as elsewhere.

Primary examples are American global petroleum companies like ARCO, Amoco, Chevron, Conoco, McDermott International, Exxon, Marathon Oil, and Texaco. Most operations there are conducted at a minimum as a joint venture, while many involve large consortia of multinationals. For example, the Caspian Pipeline Consortium is a partnership of eight major international companies including Russian firms.

Most partnerships also include the Russian national government, regional governments, or municipal authorities due to the critical importance and revenue stream from petroleum resources, the country's primary export. The government's involvement can be a two-edged sword, however, as Exxon Corporation learned in mid-1997, when it lost the advantage of its 50 percent stake in a major oil project. Government authorities abruptly cancelled an agreement that would have allowed the company to develop major oil deposits estimated to contain up to two billion barrels of oil. The government evidently was seeking better terms from oil producers like Exxon (*Boston Globe*, 1997). Within weeks of Exxon's problems, Conoco's $500 million Russian investment was also threatened when a joint venture partner lost a crucial license to export 100 percent of its oil production. Conoco's CEO reckoned that Russian oil executives were growing overconfident, perhaps thinking they no longer needed Western partnerships and technology (Wechsler, 1997). This type of erratic behavior heightens the uncertainty and risk for MNEs in Russia, especially those involved in areas considered critical to the country's cash position and strategic future.

It was such uncertainty that led ARCO to delay investing in Russia, making a conscious decision not to invest after a 1993 analysis. By 1995, however, the company's strategy became more aggressive with regard to risk, and ARCO sought to not only catch up with competitors in Russia, but to leapfrog over them. Their distinctly different strategy involved a $250 million investment in LukOil, followed by an additional $100 million, thereby giving ARCO an 8 percent ownership position of the country's largest oil company. The partnership also resulted in a joint venture, LUKARCO, with ARCO obtaining a 46 percent stake. This new venture was to be a vehicle for joint projects which the parent companies visualized would become a $5 billion partnership over 18 years. A senior ARCO executive explained: "So we are long-term investors. I think you have to have a pretty good reason for not doing something in Russia. It is a high risk proposition, but the risk-reward tradeoff works well there ... You have to have long-term vision, long lead time, and very deep pockets, and from our perspective, you have to think very unconventionally” (*Russia Business Watch*, Fall 1996). This view is very representative of the forced heavy investor MNEs.

VOLUNTARY HEAVY INITIAL INVESTMENT STRATEGY

Limited Flexibility

Firms following the voluntary heavy investment strategy act in many ways like those with a forced heavy investment strategy. The major difference is that, unlike that group, they could have taken a more incremental approach to Russia. However, their sense of the market’s development, assessment of competition, and acceptance of risk in that uncertain environment, spurred them to make heavy investments early in their involvement. The primary motivation for this strategy is similar to that of the forced heavy investors, but rather than gaining access to raw materials, they sought to establish a strong market position. Some, like fast-food chain McDonald’s, hoped to preempt competition. Others, like Coca-Cola, sought to catch up with their more established competitors.

Coca-Cola, somewhat like ARCO, was relatively late in entering Russia, while PepsiCo had been there since the 1970s. Pepsi, continuing to build its position during the 1990s, announced an additional $550 million 5-year investment plan in 1996 (Filipov, 1996). In playing catch-up, Coke began in 1992 with a $10 million investment. This resulted from what a senior executive called “fear and trepidation ... thinking we had taken a long-term view, and the reality is that we have been shortsighted because, in fact, it has been much more successful than we originally anticipated” (*Russia Business Watch*, Fall 1996). Recovering quickly, the company by mid-1996 had invested $250 million in hard assets, with an expectation of increasing to $600 million by the end of 1997. With manufacturing facilities in 12 cities and distributors in 40 more, Coke has built a large distribution system throughout Russia. It also invested in upgrading its Russian suppliers’ businesses including glass plants and plastic case manufacturers in order to solidify its supply chain infrastructure. In summary, Coca-Cola has invested extensively in developing an integrated business in Russia, building and supporting elements within the supply chain which were nonexistent or in disarray. As is often the case in transitioning economies, multinationals, like major domestic companies, must often develop their own supply chain infrastructure (Khanna & Palepu, 1997).

McDonald's Corp. had to make a similar investment in supply chain integration in order to build its restaurant business in Russia. Due partially to a saturated US market, the company has targeted the international arena for its growth. Opening 2,000 restaurants outside the United States each year, McDonald's sees unlimited potential abroad, and foresees international profits rising to 80 percent of the company's total, up from 60 percent in 1997 (Commins, 1997). The company entered Russia with a 1987 agreement between McDonald's Restaurants of Canada and a unit of the Moscow City Council after more than a decade of difficult and often frustrating negotiations. One of its first moves was to build a food processing plant which became operational in 1990. McComplex, a state-of-the-art food processing and distribution center obtains ingredients from more than 100 Russian and other CIS suppliers. Strict attention is paid to quality control standards for its meat, dairy, and bakery products. By 1997, with 3,700 Russian employees, McDonald's operated 15 restaurants in four major Russian cities. "McDonald's is committed to expanding its operations throughout Russia, and plans to open new restaurants in more areas of the country over the next few years" (*Russia Business Watch*, Spring 1997).

Polaroid Corporation was among the first American companies to invest in factories in Russia. In mid-1989 it began producing circuit boards for its instant cameras in Obninsk, and also operated a small camera assembly plant and a retail outlet in Moscow. Polaroid had to import parts from outside Russia since the needed supplies were not available there. Operations were established as a joint venture with the Atomic Energy Ministry and two other Soviet partners. During these earlier times, one analyst noted: "For Polaroid, [being in] a land of 290 million people starved of consumer goods makes eminent sense ... the company sees this as a potential pasture of plenty" (Greenhouse, 1991).

Gillette, another globally-driven consumer goods company, invested nearly $60 million in a production plant with its Russian joint venture partner. Adapting to local needs, Gillette produces double-edged razor blades, although they are not favored in more developed markets. The company decided to invest heavily from the outset in order to establish itself as the market leader. As a Gillette marketing research director explained: "The alternative is to say, ‘Gee, we’ll wait until things settle down,’ which might allow rivals to get ahead in the new marketplace” (Shama, 1997).

The result for companies following the voluntary heavy initial investment approach, like the comparable forced strategy, was very limited flexibility. These firms could not disengage from business in Russia without substantial business losses. Their strategy resulted early in high levels of relatively sunk costs, which was the primary risk they faced. Their assessment of the potential reward from market leadership, however, led them to accept the attendant risk.

INCREMENTAL MEDIUM INVESTMENT STRATEGY

Medium Flexibility

Unlike companies adopting an initial heavy investment strategy, firms following an incremental medium investment strategy had the opportunity to curtail or cease investing without losing large amounts in sunk costs during the early years. Such firms are often found in the service sector such as telecommunications and financial services. Depending upon industry requirements, firms invest varying sums on an incremental basis. Over time, however, most such companies would eventually have committed substantial resources. This is particularly true of telecommunications companies because of their extensive capital requirements. Others operating in less capital-intensive industries, like financial services, can avoid many problems of substantial sunk costs by taking this approach. Companies pursuing an incremental strategy reduce their risk of investment loss, but must weigh this advantage against the possibility of losing market share to more aggressive competitors.

The firms we identified as pursuing a medium incremental investment strategy included the telecommunications companies AT&T, Sprint, and US West, as well as the financial services organizations American Express, Arthur Andersen, Chase Manhattan Bank, Deloitte & Touche, and Price Waterhouse. Other active firms from these industries include the US MNEs Motorola and Ernst & Young, as well as the European MNEs British Telecom, Deutsche Telekom, and Finland’s Nokia. Most have partnerships with Russian enterprises and government organizations, and occasionally with each other.

The critical importance of these industries to the economic infrastructure makes government participation virtually inevitable. For instance, the Central Telegraph of the

Russian Ministry of Communications is a joint venture partner with Sprint. A $13 billion US MNE operating on six continents, Sprint entered Russia in 1990, and by 1995 had established more than 100 data network access centers there. In 1996 it invested heavily to upgrade central switches in Moscow, St. Petersburg and other major cities, and announced the beginning of a national voice network for business customers in six major Russian cities (*Computergram International*, 1996a). Sprint is reported to be the leading provider of value-added data communications services in Russia (*Newsbytes News Network*, 1996).

In the financial services sector, Chase Manhattan Bank has been engaged in many projects since entering Russia more than 20 years ago. Increasing its involvement dramatically in recent years, it opened its Moscow-based subsidiary headquarters in 1995 (Kraus, 1996). The company was named financial advisor in 1996 for a major oil and gas project in Russia's Sakhalin Island by the Sakhalin Investment Company, a five-firm international consortium (*Platt's Oilgram News*, 1996). Chase's primary activity, however, is arranging financing such as a $109 million package for construction of a gas compressor station for the Russian oil firm, Tomskneft, and a $400 revolving credit facility for Russian companies, Russian-American joint ventures, and Russian subsidiaries of US companies (*Reuters Business Report*, 1995).

REVERSE INCREMENTAL STRATEGY

Medium Flexibility

Sometimes firms following an incremental medium investment strategy continue their flexible approach, but reverse their course and redeploy their assets. While not a common occurrence among the MNEs we followed, the reverse incremental strategy was employed by IBM. Although the company was able to continue its business in Russia, reversing the direction of its strategy was not done without some loss of investment.

IBM seemed intent on following its global expansion strategy in Russia. In 1993 it established a PC assembly plant in Zelenograd outside Moscow, which turned out 50,000 personal computers in its first three years of operation. As it had done in so many countries, IBM sought to become a part of the country's productive capability. Yet in 1996, it had to abandon its production efforts because a new 10 percent tax on imported parts and components, when combined with value-added taxes, far exceeded import taxes on finished products. The plant closing had nothing to do with market demand (*British Broadcasting Corporation*, 1996). But some Russian distributors of competing equipment had circumvented the tax laws and undersold IBM. A company spokesperson explained: “IBM changed its strategy early this year, veering its investment strategy away from its assembly plant in Zelenograd into doing more business with its distributors in Russia .... This is standard business practice. It doesn’t mean we are moving out of Russia” (*Moscow Times*, 1996).

IBM thus reverted to exporting to Russia rather than face unprofitable computer assembly operations there. Even while exporting, however, IBM’s experience in Russia helped it avoid more serious problems like those faced by Silicon Graphics. That company’s opportunistic approach to Russia resulted in its exporting powerful computers which ended up in a nuclear bomb design factory, and triggered a US federal probe (Hof, Sager, & Himelstein, 1997).

Russia’s PC market was estimated at $1.12 billion in 1995, and was expected to grow at 20 percent in the near term. IBM and Hewlett-Packard have been vying for the top position, and HP is reputed to have achieved $200 million in Russian PC and peripheral sales in 1996 (Wilson, 1996). IBM press releases, however, have claimed that their firm is the leader (Moltzen, 1996). In reverting to exporting as well as dependence on a distributor network, IBM was mimicking the strategy consistently employed by firms such as Hewlett-Packard, and Taiwan’s Acer which established a PC plant in Finland near the Russian border.

The computer market in Russia is described as “a well-developed Western-style market with an established network of distributors, dealers, and representatives of Western firms. Establishing close relationships with both local state authorities and private businesses is a key to success in the Russian market” (*Russia Express-Perestroika*, 1996). “The Russians are known to prefer dealing with compatriots rather than foreigners in negotiating a contract, for the former are more familiar with relevant local specifications and customs” (Kondratyev, 1996). Indirect marketing accounted for 67 percent of IBM’s sales in Russia in 1996 versus 24 percent worldwide, and was expected to expand, especially since PCs were generally marketed there by dealers rather than manufacturers (Kondratyev, 1996).

Partly in reaction to its withdrawal from assembly operations in Russia, IBM entered into an agreement with VIST, Russia's largest PC maker. VIST was to act as an original equipment manufacturer (OEM) and pre-install IBM's OS/2 Warp instead of MS-DOS on its own PCs to any customers who wanted it (*Computergram International*, 1996b). Another strategic alliance in 1996 was with SakhInfo and Interface to develop an information computer network over the next few years for a major Russian joint stock company. The alliance would use IBM hardware and software extensively (*RusData DiaLine* - *BizEkon News*, 1996).

MNEs conducting business in Russia must be ever ready to change. IBM has done so, even reversing the original direction of its incremental investment strategy in response to unfavorable developments in the tax laws. While reducing its plant investment, however, IBM recognized that market readiness, competition, a viable distribution infrastructure, and its own risk tolerance were factors compelling the company to continue its global expansion strategy in Russia.

While limiting its production presence and reverting to exporting PCs to Russia, IBM also increased its activities in areas such as software, utilizing several recently initiated joint ventures. For instance, IBM announced plans in its new strategy for 1996 to broaden its product line (*Moscow Times*, 1996). By that time, IBM distributors had been carrying personal servers and desktop personal computers, while the extended line called for adding more powerful servers and work stations based on RISC-processors. In displaying the flexibility to reverse its direction when necessary, and yet continue to uncover creative opportunities for growth, the company has stayed the course of medium incremental investment to retain its competitive position in Russia.

TOEHOLD INVESTMENT STRATEGY

Extensive Flexibility

Some MNEs wanting to exercise their global strategy by expanding to Russia are reluctant to invest beyond the limited amount required to establish a toehold there. This is particularly true of some companies whose investment requirements in plant and equipment would be substantial, such as automobile and aircraft engine manufacturers, heavy equipment producers, and some consumer products companies. Although these organizations pursue global strategies similar to other MNEs which invested more quickly and more heavily, their more conservative attitude toward uncertainty and risk led to their toehold strategy in Russia. Perhaps too, their assessment of both the market's readiness for their products and the nature of the competition warranted a "go slow" approach. The result, however, was a marked difference in their Russian strategies compared to more aggressive MNEs.

Companies which seem to follow the toehold strategy include Pratt & Whitney. The company established a joint venture in 1993 through its Canadian subsidiary, with plans to produce 100 aircraft engines a year. However, the Klimov Research and Production Association cancelled the agreement in 1997 and sold its 49-percent share to Pratt & Whitney. The Russian partner claimed that the American company was not serious about committing investment to the partnership, but was merely utilizing it to position itself to pursue business in Russia and other CIS countries (Fyodorov, 1997).

Given the volatile situation in Russia, many companies would understandably be tempted to establish a beachhead while carefully limiting investment. Reynolds Metals Company, for instance, invested only $1 million in cash in a $200 million project, which it felt kept its risk low. Reynolds, with $7 billion in 1996 worldwide sales, has 25 facilities in 19 countries. The company's first activity in the Soviet Union began in 1988 with an agreement to provide technology and assistance in building and operating a world-class foil and packaging plant in Siberia (*Russia Business Watch*, Winter 1997). Following that relatively safe initiative, Reynolds organized a joint venture in the late 1980s. Sayansk Aluminum Factory owns 70 percent, with Reynolds and an Italian partner each having 15 percent. Reynolds invested an initial $1 million in a plant that was expected to reach full capacity of 4,000 tons of aluminum foil products by 1998. A second partnership was established in 1993 to work with an aluminum rolling mill in Samara. This technological agreement also called for minimum investment by Reynolds, but allowed the mill to produce aluminum can stock for Coca-Cola and PepsiCo (*Russia Business Watch*, Spring 1997). In entering Russia, Reynolds Metals appears to have followed a risk-averse approach, investing relatively little in what might be termed a toehold strategy.

While it is virtually imperative for MNEs with global strategies to establish some position in Russia, some seek to limit their risk and investment. Establishing a toehold, often by employing partners, and sometimes by contributing technology and know-how rather than cash, is a safer method than heavier financial investment in plant and equipment. As with other incremental strategies, however, the process can evolve into a serious commitment and extensive investment.

HISTORICAL EXPORT, LIMITED INVESTMENT STRATEGY

Maximum Flexibility

In contrast to the MNEs which made an initial investment in Russia, others chose to participate by exporting to that market rather than by direct investment. Among them were American companies that had established business relationships with the Soviet regime, and continued to do business in Russia after the fall of the Soviet Union. During the Communist period, such foreign firms' activities, especially those in capital goods and manufacturing, had been limited to filling State orders with imported goods. The major American companies that had sustained business during that time included those that supplied Russia's heavy industry, which was a government priority. The advantages to these companies were the relative certainty of contracts and payment for the products they exported to Russia, in addition to the valuable high-level contacts they established in government and industry.

This network of relationships encouraged many of these companies to continue exporting products to Russia after the break-up of the Soviet Union. Not having invested directly in the Soviet Union nor in the newly independent Russia, such companies had no fear of losing investment in plant, equipment, or other facilities. For them, the risk was that contracts might not be honored, nor payment received. However, the importance of their products to Russian industry and the economic infrastructure was a hedge against the uncertainties of the new environment. And if a contract was not honored, companies had the immediate flexibility to stop shipments, and could lodge claims for payment in international courts. In short, they had maximum flexibility in their Russian strategy. They could take advantage of the expanding opportunities for sales there, but could do so with virtually no investment at risk.

Successes from this approach, however, have led some major MNEs to begin direct investment in Russia. GE, for instance, with reported Russian sales of $600 million in 1996, realized most of this revenue from exporting gas turbines and gas pumping stations to Russia's cash-rich gas monopoly, Gazprom, under a 1994 contract. GE, however, also invested in joint ventures with the Russian National Electric Mechanics Research Institute. Rather than building new plants, the JV invests in profitable operating Russian enterprises in areas such as medical equipment. And in 1996, GE entered a joint venture with the Russian company, Rybinskiye, to manufacture aircraft engine components. These are subsequently shipped to GE's plants in Cincinnati to be included in assemblies for jet engines which are sold the world over (Kozhakhmetova, 1997). So, although it began its Russian business with an export strategy, success led GE into a far more committed posture involving direct investment and joint ventures. Further, its strategy has evolved to include a platform capability whereby Russia has become a manufacturing base from which GE exports its production.

During the 1990s, Russia continued to import many products since the industrial base was unable to produce the necessary heavy equipment to rebuild the country's infrastructure. Some American MNEs, like pharmaceuticals and medical instruments giant Eli Lilly, continued to rely solely on exporting from the US or other production locations. Others like GE, Cummins Engine, Dresser Industries, and Caterpillar continued exporting to Russia, but also began building production plants with Russian partners. In doing so, they were following their global strategies to a level beyond their historical export strategies.

KEYS TO BUILDING SUSTAINABLE SUCCESS

Investment Strategy is Crucial

As the many company experiences described in this article demonstrate, their investment strategies resulted in six distinct approaches. The primary difference among them was the timing of their investments, both upon entry and as their business strategies evolved. Some invested heavily from the outset either because they saw no alternative, or their competitive strategies dictated such action. Other companies invested more modestly at the outset, but continued incremental investments over time. Still others invested the minimum to gain a toehold in Russia, or focused on exporting to that country before starting to invest in earnest. Many utilized as much flexibility as they felt was advisable given their assessment of the circumstances. Others recognized that they had virtually no flexibility, and felt forced to invest heavily from the start. The objectives of these globally-oriented American MNEs in almost all cases would eventually call for substantial to heavy investment. Success seemed to mandate this eventuality to build a sustainable competitive position in Russia's rapidly changing environment.

Risk and Return

Most of the MNEs, judging by their actions or their executives' statements, recognized the enormous potential of Russia. Most considered the market of 170 million people to be an opportunity which could not be dismissed, while others saw the country's rich natural resources as crucial to their own global aspirations. Yet, all seemed to recognize the instability and risk in operating there. The fledgling legal system, unstable political climate, changing and oppressive tax laws, partners reneging on agreements, and a nascent and inefficient business infrastructure all underscored the risk inherent in Russia's economy. This led most companies to utilize investment flexibility where conditions permitted. Other more risk-tolerant firms, however, chose to invest heavily from the start in order to gain a strong competitive advantage. The risk-return equation was a prominent feature in the investment strategies pursued by American MNEs.

Key Factors Influencing Investment Strategies

Global strategies. The common factor influencing the strategic approaches of these companies was that all were globally competitive multinational corporations. Their global strategies called for entering major markets wherever in the world they might be. Most firms were experienced in transitional economies, recently entering countries like China and Viet Nam as well as Russia. These companies seek market domination through major market share positions, and exercise leadership in their industries. This approach virtually mandates an acceptance of risk in exchange for the rewards of market leadership. Early entry in most cases, and eventual heavy investment, are evident in the behavior of these global MNEs. Their activities in Russia, although displaying differences in investment levels and flexibility, mirrored their worldwide global strategies.

Building upon entry strategies. To achieve their objectives as global MNEs, these American companies entered Russia with different investment strategies as our examples have demonstrated. Some entry strategies resulted in heavy and essentially irreversible investment commitments, while others provided platforms for more flexible strategy development. However, as the country's situation seemed to stabilize somewhat, and competition became more serious, virtually all companies began to increase their investments regardless of their baseline entry strategies. Success in itself required continued investment, and most firms reached levels of substantial investment by the late 1990s. Even companies like Caterpillar, which for decades had relied upon an export strategy for Russia, began investing in production operations by 1996.

Industry requirements. Although a degree of flexibility was available to most MNEs as they entered Russia and developed their strategies, companies in the petroleum industry saw little choice but to invest heavily from the outset. The industry structure of a few giant multinationals from various countries left little room for holding back. Companies like Mobil Oil, Exxon, and Chevron established partnerships early and invested heavily. Others like ARCO, which began somewhat later, leapfrogged over the competition with a heavy investment in LukOil, and planned to continue making very large investments. The global scarcity of oil and gas reserves mandated that these companies commit large sums in order to participate in one of the world's premier reservoirs of natural resources.

Competitive strategy. All of these companies saw themselves as leaders in global markets and consequently, the competition among industry members was fierce. IBM could not leave Russia's well-developed PC market segment and great potential for other products and services to companies like Hewlett-Packard and Taiwan's ACER. Even when forced to cease assembling PCs in Russia, IBM reversed its incremental investment strategy and reverted to importing. The company showed the flexibility necessary to compete, even when it seemingly backed off its commitment. Temporarily limiting its investment was not a reversal of IBM's competitive objectives, but only a tactical change in its competitive thrust. Likewise, the soft drink "cola wars" are not limited to the United States. PepsiCo's strong position in Russia eventually led Coca-Cola to move rapidly in order to gain an acceptable market position to wage its continuing campaign against Pepsi. Finally, Otis Elevator saw the market position that Schindler had achieved with its export strategy. Otis' competitive response was to voluntarily invest heavily in building several new Russian plants which the company felt would convince the marketplace of its long-term commitment to doing business there.

Market readiness for products and services. Some companies invested relatively little at the start after assessing that the market for their products or services would develop slowly. They wanted to build a presence by establishing a toehold with relatively small investments in plant and equipment. This was General Motors' approach, a conservative investment strategy which preceded a real market for its Blazers, and eventually its new world car. Upon seeing the automobile market grow and segment, GM moved rapidly into new joint ventures requiring substantial investments in plant and equipment. In contrast, some companies invested in other links of the value chain such as distribution, warehousing, and retail outlets. And McDonald's invested heavily in food production and quality control facilities in order to supply its restaurants, which were expanded only after the supply chain was established.

Partners a necessity. Particularly in nation-critical industries like natural resources, telecommunications, road building, heavy industry and financial services, entering the market and operating with a Russian partner became virtually mandatory. Oil companies like Mobil and Arco, communications firms like AT&T and Sprint, heavy equipment companies like Caterpillar and Otis, automobile firms like GM, and computer companies like IBM all utilized partners in most of their ventures. The strategic and competitive advantages offered by such partners included access to key natural resources, supply and distribution networks, plant and equipment, human and financial resources, customer groups, and networks of key decision makers in government and industry. Transitioning economies can be difficult to navigate, and having a trustworthy and knowledgeable partner can be a substantial asset. In some cases, like the oil industry, it is mandatory in Russia. In others, it is simply a good business practice. Finally, partnerships can sometimes mitigate the financial investment the MNE itself must provide.

CONCLUSION

The American MNEs which have continued to grow and develop their Russian operations beyond their initial entry strategies provide examples of how to establish sustainable businesses in that country. Being globally-oriented competitors, they have remained true to their basic corporate strategies of market leadership and substantial commitments around the world. Companies' assessments of potential returns and risks, such as the uncertain legal and political environment and oppressive tax policies, were major factors affecting their investment strategies. Many MNEs seemed to use flexible approaches when possible, but all apparently recognized the inevitability of a heavy investment strategy to stay the course if their globally competitive strategies succeeded. The industries in which they operated, the level of competition, and the readiness of markets for their products and services were other major influences on their strategies. Recognizing how these leading American companies developed their businesses from different entry strategy foundations provides keys for others to consider as they attempt to build sustainable competitive strategies in Russia.

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