

**ENTRY MODE STRATEGIES AND MOTIVES FOR INTERNATIONALIZATION:
CASE OF LUKOIL****D. Gafarova**

Shanghai University

School of Business Administration, gafarova.dilyara@mail.ru

Oil and gas industry greatly contribute to the increase of the Russian GDP and compile significant part of the country's budget. It is estimated that the oil sector is responsible for about 20 per cent of the total revenue of the state budget and 40 per cent of total earnings from exports [6, page 615]. Large oil corporations significantly influence Russian economy as well as the global economy in general, due to their huge financial power and profit-oriented corporate management.

In this paper, we analyze the internationalization process of LUKOIL, which is the largest Russian private oil company. Our focal point is the motivation of LUKOIL to global expansion and its choice of entry mode. The idiosyncratic nature of Russian multinationals and specific way of their formation and development in the 1990s makes LUKOIL an exciting object of academic research.

Following are the key objectives of the study.

- To identify the main motivational factors for LUKOIL's global expansion.
- To describe LUKOIL's modes of entry and expansion.

There has been a number of research works investigating internationalization process of Russian multinationals in oil industry, but still there are gaps to be filled. The problem in the previous research is that, it is more generalized or the researchers consider only process models of internationalization. A lot of research still is required to determine motives for the internationalization process and entry modes of LUKOIL.

LUKOIL is one of the largest international oil and gas companies vertically integrated. It was founded in 1991 during the privatization period in Russia as the result of the merger of three state-owned oil producing enterprises (Langepasneftegaz, Uraineftegaz and Kogalymneftegaz– the first letters composing LUK). Currently, the company controls about 1.3 per cent of global oil reserves and 2.3 per cent of global production of crude oil, its main reservoirs are located in Western Siberia.

LUKOIL has a balanced value chain in all three sectors of oil industry: upstream, midstream and downstream. In the upstream sector, the company has significant assets in Azerbaijan, Kazakhstan, Egypt, Iraq and Iran. The regional market of Central and Eastern Europe has refining capacity in Odessa (Ukraine), Burgas (Bulgaria) and Ploiesti (Romania). The downstream sector mainly operates distribution networks in Ukraine, Turkey, Bulgaria, Moldova and Romania [4].

In this study we use the classification of FDI developed by Dunning to investigate the motivation of LUKOIL to expand overseas [2]. However, it should be admitted that in many cases companies pursue several goals with the same acquisition at the same time.

Resource-seeking motive refers to investment which aims to acquire factors of production or natural resources. LUKOIL's expansion to Azerbaijan can be explained by the resource-seeking motives as this country is rich in oil.

Market-seeking motive refers to investments seeking for new markets or maintaining existing ones. At this point, the driving reason for LUKOIL to go abroad was the Russian government's policy of increasing its control over domestic oil production in 2000, and, firstly, LUKOIL expanded its presence in the neighboring markets of the CIS.

The goal of efficiency-seeking motive is seen as achieving the increase of a firm's efficiency by exploiting the benefits of economies of scale and scope, or common ownership. In case of LUKOIL, the acquisition of refining assets in Odessa (Ukraine) might serve as a good example of this type of motive.

Asset-seeking motive can also be defined behind the outward expansion. LUKOIL has a great interest in gaining marketing experience, modern managerial skills as well as advanced technologies. Due to the alliance that the company formed with the US giant Conoco Philips, LUKOIL got access to the latest technologies and capital.

These four classical motives are considered as external factors, while there are some internal factors, contributing to the LUKOIL's global expansion, as well. Firstly, tightening rules for licensing affect the company's activities greatly. Another internal factor is oil export taxes, which are set high along with the rising cost of oil. Domestic oil trunks and export pipelines are controlled by the state at all cost [1]. Furthermore, exchange rate appreciations and high interest rates in Russia support access to capital in the West too.

Once a company has decided to internationalize, it must determine the structural nature of its operations. A well-chosen entry mode can enable a company to gain competitive advantage, while inappropriate modal decisions have reverse effect. According to Kotler & Keller, companies adopt four approaches to enter in the international market, these are exporting, licensing, joint venture, and wholly owned subsidiaries [5].

LUKOIL uses different modes of entry while implementing its global expansion strategy. It can be argued, the company's exploration projects are mostly realized through joint ventures. Examples include the Luksar joint venture with Saudi Aramco for exploration in Saudi Arabia; the PetroMiranda joint venture with State Petroleum Company for development of the Junin-6 project in Orinoco basin (Venezuela). Due to the fact that oil and gas are enormous revenue sources, their production is often tightly controlled by the governments of the countries holding reservoirs. Therefore, ordinarily, in order to implement its international upstream projects, LUKOIL chooses joint venture as an entry mode, when the governments often insist on holding a stake.

As for LUKOIL's growth in downstream segment, it was implemented mostly by cheap refining acquisitions (Petrotel refinery in Romania, Bulgaria's Neftokhim Bourgas refinery, Ukraine's Odessa refinery). One strategic factor that was important for LUKOIL to use this entry mode is quick execution. This mode enabled the company to act and react more quickly to build its presence in the target foreign market [3].

While implementing its global expansion strategy, LUKOIL often bypasses partnerships and alliances. As for the alliance that LUKOIL formed with American oil major ConocoPhilips, it can be more seen as a tactical convenience since both companies work closely together in joint ventures in Timan-Pechora region (Russia) and technological transfers as occasion may demand. Though, usually when LUKOIL needs a technology, it buys it from oil service companies such as Schlumberger.

In the paper we used different sources of data to "zoom in" to the Russian oil giant. We have discovered that LUKOIL follows various motives while implementing its global expansion strategy. Desire for profit and growth, a growing global demand, solvent foreign customers, a huge price gap between the Russian and international market, taxation planning and the opportunities in the foreign markets are the most significant pro-internationalization factors.

As shown in the paper, while internationalizing LUKOIL uses various modes of entry. However, in the foreign upstream projects are mostly realized through joint ventures, while downstream is implemented by refining acquisitions mostly. Hence, a logical step and a promising avenue for further research is a study of factors influencing the LUKOIL's choice of international market entry mode. Research on underlying dimensions of mode choice has developed tools for such analysis.

Besides, only private-owned oil company has been studied in the present research. Therefore, for the future investigators it might be interesting to look through the internationalization process of the Russian state-owned company and to find out if the motives for going global and the companies' foreign market entry modes differ.

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