NATIONAL RESEARCH UNIVERSITY
HIGHER SCHOOL OF ECONOMICS

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ENDOWMENT OF INTANGIBLE RESOURCES AND PHASES OF INTERNATIONALIZATION IN EMERGING ECONOMIES. THE CASE OF RUSSIA

BASIC RESEARCH PROGRAM

WORKING PAPERS

SERIES: INTERNATIONAL RELATIONS
WP BRP 22/IR/2015

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ENDOWMENT OF INTANGIBLE RESOURCES AND PHASES OF INTERNATIONALIZATION IN EMERGING ECONOMIES. THE CASE OF RUSSIA[‡]

The paper explores the relationship between different types of intangible resources and phases of the internationalization in the context of emerging economies. The Uppsala model is applied to build internationalization index considering export, import and investment activities. The database of more than 2000 Russian companies is used to test the hypotheses put forward. The findings reveal that relational capital has significant positive impact on each stage of internationalization; organizational capital improves internationalization except the last stage of being multinational. Contrary to our expectations human capital has no direct impact on internationalization; notwithstanding it has positive effect on relational and structural capital.

Keywords: internationalization, internationalization index, Uppsala model, intangible resources, emerging markets, Russian companies, relational capital, structural capital, human capital, regression analysis

JEL Classification: Z

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[‡] This study comprises research findings from the project №15-18-20039 supported by the Russian Science Foundation

Introduction

Internationalization plays a pivotal role in the economic growth of emerging markets. (Vaatanen, Podmetina, & Pillania, 2009). Companies in these markets use internationalization as a response to increased domestic competitive intensity. It occurs due to pro-market reforms and subsequent reduction in the tariff and investment barriers that allow entering of multinational corporations on emerging markets. Consequently, companies in these markets confront a challenge to compete in the domestic arena and to provide proactive international expansion, meanwhile very often being suffered by the disadvantage of latecomers. Notwithstanding empirical studies such as Prange & Verdier, (2011) found out that international activity has a significant positive effect on performance of emerging market firms. In the recent years, the phenomenon of international expansion of emerging market firms attracts more and more attention of scholars and policy makers by exploring the essence of this process and discovering its drivers.

The internationalization process has been studied in different countries and environments. It has led to multiple models taking into account the characteristics and idiosyncrasies of national cultures. The last theories of internationalization suggest two alternatives: the internationalization is a gradual process (Uppsala model) or the internationalization is an instantaneous process (new venture theory). This paper follows the first approach based on the Uppsala model (Johanson & Vahlne, 1990) assuming that companies internationalize in small incremental steps or "stage by stage". Identification of incremental steps or in other words the measurement of phases of internationalization is an interesting issue which is till now opened in the international business literature. Taking into consideration previous studies of (Fernández-Jardón et al., 2001) and (Sullivan, 1994) the authors propose a calculation approach for internationalization index based on three components of international activities: export, import and investments. This approach can be used by other scholars investigating international business.

The internationalization process can be driven by external factors (transaction cost view) or internal factors (resource-based view). The Uppsala model which is the base of this study links international expansion with learning processes (Johanson & Vahlne, 1990). Such focus supposes that intangible resources are one of the main drivers of international activities, because the learning process is usually based on the intangible capital of a company (Saint-Onge, 1996). Therefore, it can be assumed that intangible capital increases the internationalization, in particular, in the context of emerging markets. As noted by (Yang, Jiang, Kang, & Ke, 2009) going international the companies from emerging markets need to dispose a particular endowment of intangible resource in order to enter foreign markets. Meanwhile, operating in the foreign market they can get the opportunity to explore local competitive advantage such as access to a more qualified personnel, to more advanced technologies and facilitate "back" knowledge flows from subsidiaries (Yang, Lim, Sakurai, & Seo, 2009). This study concentrates on the first issue considering the endowment of intangible capital by going global.

There are different sources of intangible capital. Following the concept of intellectual capital three main sources could be considered: human resources, structural capital and relationships (Stewart, 1997). If the impact of intangible capital on the internationalization is studied profoundly, however, the interconnection between different sources of intangible capital and different stages of internationalization was not fully considered. This study aims to fill the lack of such knowledge in the international business research taking into account

the context of emerging countries. Therefore, the research question is formulated as follows: "What type of intellectual capital is required at each stage of the internationalization process?"

In the empirical part of the study, the authors calculate the internationalization index and test the hypotheses using the sample of more than 2000 Russian companies from manufacturing industry. The Russian economy is an example of the emerging economy (Gay, Jr., 2008) This study extends empirical knowledge of how intellectual capital improves internationalization of Russian companies and provides some practical implications for Russian economic development.

The paper is organized as follows. Firstly, theoretical background of internalization process, intellectual capital concept and their interconnection are presented. Secondly, methodology of calculation of internationalization index based on the Uppsala model and the components of intellectual capital is described. Thirdly, the Russian companies are classified according to their level of internationalization and impact of different components of intellectual capital is estimated with the help of regression analysis. Finally, the study concludes with theoretical and practical implications; and future research avenues.

Theoretical background and hypotheses development

During the last two decades, the growth of internationalization of the companies from emerging markets can be observed. According to UNCTAD, the share of the outward FDI from developing and transition economies reached 42.3 % of the total outward FDI in 2012. Consequently, the researchers got the opportunity to test empirically benefits and costs of emerging market firms that are expanding internationally and to reveal particular characteristics of the internationalization process of such firms.

Investigating the process of internationalization, its incremental steps or stages of internationalization should be identified. There is a broad variety of measurement approaches and different indicators that are applied by scholars (Sullivan, 1994). In this study, the authors propose to consider three activities of a company oriented to international expansion: export, import and foreign investments. At the initial stages of international activities, a level of export, such as sporadic or integrated in companies' strategy appears to be an indicator of preliminary phases of internationalization. Further, additional to export the business relationships with foreign suppliers, in other words, import activities, determine next stages of internationalization. Another important characteristic of internationalization degree according to Duran (1990) can be measured through indicator such as "politics of ownership" which includes all types of investments and agreements involving the capital transfer. This capital transfer can occur in both directions: if a company attracts foreign investors and if a company makes it outward foreign investments. All indicators describe the internationalization process from different points of view. This study contributes to this field, developing an internationalization index, which indicates six stages of international expansion. The measurement approach of this index is presented further in the section "Methodology".

Another promising research topic in the international management area concerns the motives or drivers of internationalization process. What factors external or internal are prevailing by going international? Analyzing the literature a shift from well-known theories such as transaction cost theory (Westhead, Wright, & Ucbasaran, 2001); oligopolistic reaction

theory (Buckley and Casson, 1976) and others towards theories such as network theory (O'Farrell et al. 1998) and stage theory (Johanson & Vahlne, 1990) can be noticed. The second cluster of theories underlines the firm heterogeneity and address resource based approach in particular dynamic capability concept by explaining international expansion through intangibles. Teece (2014) has noticed that multinational enterprises can be seen "*as an instrument for generating and harboring tacit and explicit knowledge, and for transferring technology and industrial know-how across borders*". (pp.10). Lu and Beamish (2004) revealed that intangibles augment the value of international activities, providing positive significant effect on the relationship between geographical expansion and performance in all stages of internationalization. However, a range of studies found out the positive impact of intangible resources on international activities, the most of them were conducted in developed markets (Krist, 2009) and only a few focused on emerging markets. Taking into account the importance of internationalization processes for the companies from emerging markets the study on relationship between intangibles and internationalization appears to be relevant and promising for revealing practical implications.

The companies from emerging markets very often have "catching up" position in comparison to the foreign companies from developed markets. They need to learn and to develop capabilities for managing complexity by going international. As learning in the international environment tends to be incremental the companies from emerging markets should increase the endowment of intangible resources for each stage of internationalization. The main hypothesis of this study is as follows:

H1: Intangible resources have a significant and positive impact on internationalization of the companies from emerging markets.

Moreover, this study differentiates three types of intangible resources: human capital, structural capital, and relational capital. In the previous studies, these types of intangibles were considered separately or intangibles were measured through one indicator such as Tobin's Q. This paper takes into account the heterogeneity of intangible resources and attempts to find out what type of intangibles is significant in different stages of internationalization. Following the concept of intellectual capital (Stewart, 1997) the authors determine its three components. Human capital includes knowledge, skills and experience of the companies' employees (InCaS, 2009). Structural capital shapes the knowledge that is possessed by the company, such as technological know-how, patents, databases, etc. (InCaS, 2009). Relational capital identifies the company external connections with a wide variety of economic agents: customers, suppliers, government, mass media and other partners (InCaS, 2009). What impact on international activities can be expected from each component of intellectual capital?

Higher quality of human resources or in other words higher level of human capital suggests that people are better prepared for internationalization process. Analyzing the literature following traits of human resources that support international expansion can be found: the management commitment with internationalization (Dhanaraj and Beamish, 2003); international experience (Reuber and Fisher, 1997), entrepreneurial orientation of managers (De Clercq et al., 2005) and other general human capital elements, such as foreign language skills or international business knowledge (Love and Roper, 2015; Manolova et al., 2002;

Onkelinx et al., 2015). It was already mentioned above that companies from emerging markets suffer from lower quality of intangible resources in comparison with their foreign competitors from developed markets taking a "catching up" position. It refers to human resources as well. It can impede the companies' activities in foreign markets. Therefore, the companies face a challenge to improve the level of human capital in order to expand abroad. The authors of this study suppose that companies with higher levels of human capital have more chances to compete internationally. The next hypothesis put forward is:

H1_a: Higher endowment of human capital promotes internationalization of a company of emerging markets.

Structural capital supports internal processes and systems, provides an environment for creation of new knowledge and its transfer within a company. In that sense highly developed structural capital allows better coordination across borders if a company goes global. Consequently, one of the prongs of international expansion is learning and coordination issues which are facilitated when technology and knowledge transfer occur inside a multinational company (Teece, 2014). According to the internalization theory (Hymer, 1976) a company can increase value by internalizing markets for certain of its intangibles. Such internalizing means that resources located in different markets are distributed not through their purchase/sale in the external market but inside the company. The ease of coordination, transfer and learning opportunities connect with structural capital that tends to be increased with the degree of internationalization of a company (Riahi-Belkaoui, 2003). Due to higher dynamic of external environment, companies from emerging markets possess the ability to coordinate, to absorb new knowledge and to transfer it. Yang et al. (2009) showed that the speed of internationalization of these companies is higher in comparison with their rivals from developed markets. On the other hand, on average the technological endowment of emerging markets firms is lower and should be increased to the sufficient level by going to the international arena.

H1_b: Higher endowment of structural capital increases internationalization degree of a company of emerging market.

Relational capital is expected to facilitate cooperation activities during the processes of internationalization, especially if the companies are small. Miller et al (2008) noted that searching for closer connections with customers and partners in order to sustain the business; a tendency to nurture the community of employees very carefully and unusual devotion to continuity improve international activities. The reputation of having strong intangibles can precede the entry into a foreign market and create a supportive environment for successful international cooperation (Lu and Beamish, 2004). To some extend developing international activities as it is a part of relational capital. It appears that the particular endowment of relational capital is significant for internationalization process and at the same time during this process, a company acquires new relationships and experience that in turn increases relational capital. This study focuses on the first link and the last hypothesis is:

H1_c: Higher endowment of relational capital increases internationalization degree of a company of emerging market.

Methodology and database

The research design of this study consists of two stages:

- identification of internationalization phase of a particular company and its endowment of intangible resources, in particular, human capital, structural capital and relational capital, and
- estimation the impact of intangible resources on each phase of internationalization.

The approach for measurement of internationalization phases and measurement of intellectual capital components is represented in next subsections.

Measurement of internationalization index

The first hint of international activity, such as perceived by the employers, is their level of exports. A variable that serves as an indicator of this level is the percentage of foreign sales over total sales of the company. This variable quantifies one of the first steps that usually bring businesses across internationalization process. This activity can be consequence of domestic contracts or consequence of a strategy of export. In the first case, the exports are scarce and sporadic. In the second case, the exports are increasing. If the export is greater than 50% of total sales, the authors of this paper assume that a firm exports globally.

Another element to consider when analyzing international actions of business is import. It is proposed to measure this activity through the percentage of foreign purchases of total purchases of the company. This metric allows identifying the business relationship with foreign suppliers.

The third component of internationalization achievement contains capital transfer in both directions: investments abroad and foreign investments (Duran, 1990). The percentage of investments that are made abroad in total investments of a company is one of the traditionally used indicators of internationalization. This paper distinguishes between sporadic investment, investment and international oriented investment.

It should be noted that the ability to attract foreign investors who have businesses in the area is generally a sign of excellence, but also an indicator of companies' internationalization. The authors propose to use the percentage of foreign investments on total investments of a company as a metric for internationalization. When this percentage is higher than 50%, the firm becomes really abroad company.

In order to calculate the internationalization index the authors differentiate three levels of international activities: introduction activities, basic activities and principal activities. Introduction activities represent ordinary operations of the firms in import and export, which are usually consequences of domestic contracts. Basic activities are based on internationalization strategy, but only incipient, including export, investments and abroad investments. The principal activities are specific for multinational firms and include international oriented investments, global export and abroad firms. Table 1 represents approach for codification of different levels of international activities.

Table 1. Approach for codification of internationalization level

Internationalization variables	Condition	Activities	Code
Export	0	No export	0
	0<X<10%	Sporadic export	1
	10%<X<50%	Export	2
	X>50%	Global export	3
Import	0	No import	0
	>0	Import	1
Investment	0	No investment	0
	0<X<5%	Introductory investment	1
	5%<X<30%	Investment	2
	X>30%	International oriented investment	3

Finally, the authors establish two assumptions versus internationalization:

A1: a firm that realizes an introduction activity is less and equal internationalized than a firm that realizes a basic activity; and this firm is less and equal internationalized than a firm that realizes a principal activity
A2: a firm that imports is less and equal internationalized than a firm that exports; and this firm is less and equal internationalized than a firm that invests or receives investment.

These assumptions allow building internationalization index as monotonic, representative and additive metric (Konus, 1939). The index is a consequence of the addition the different activities (see table 2)

Table 2. Approach for estimation of internationalization index

Internationalization level	Activities
Domestic	No international activities
Pasive export	Sporadic export or import or introductory investments
Export	Export or investments and sporadic export
Integrated export	Export and introductory investments or export and import
Internationalized	Global export and introductory investment or investment and export
Integrated Internationalized	International oriented investment and export or Investment and global export
Multinational	International oriented investment and global export

Measurement of intellectual capital components

There are different approaches to measure the components of intellectual capital. The most common approach is based on principal components analysis, which allows catching the level of correspondent component of a particular company. This study uses different metrics

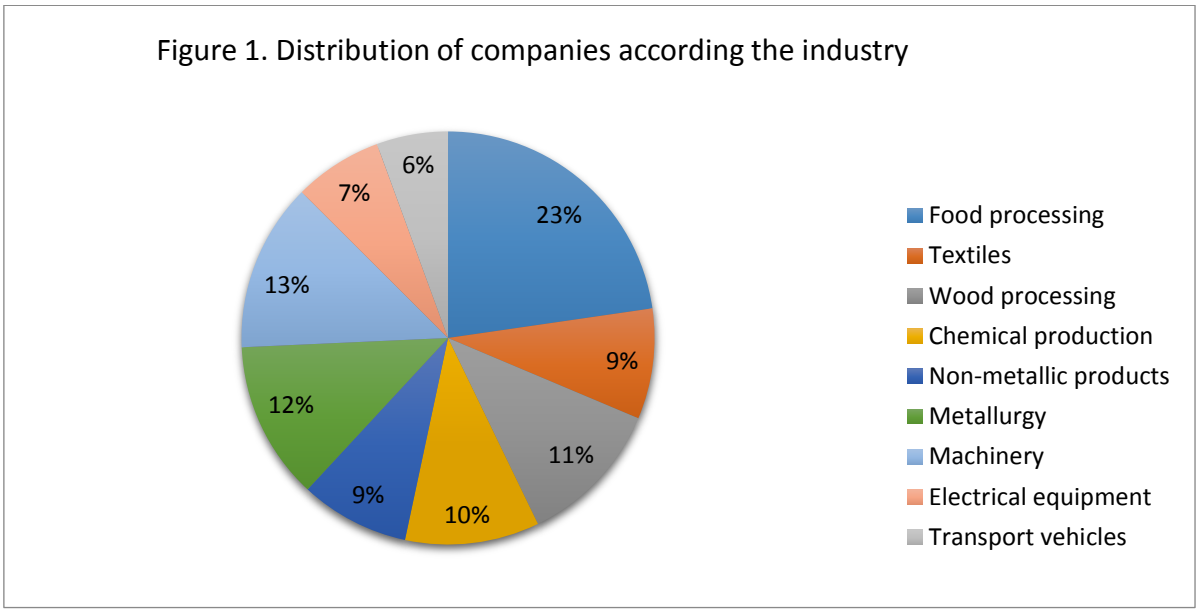
for structural, human and relational capital, which were applied in the previous studies such as Sveiby (2004), Molodchik et al. (2012).

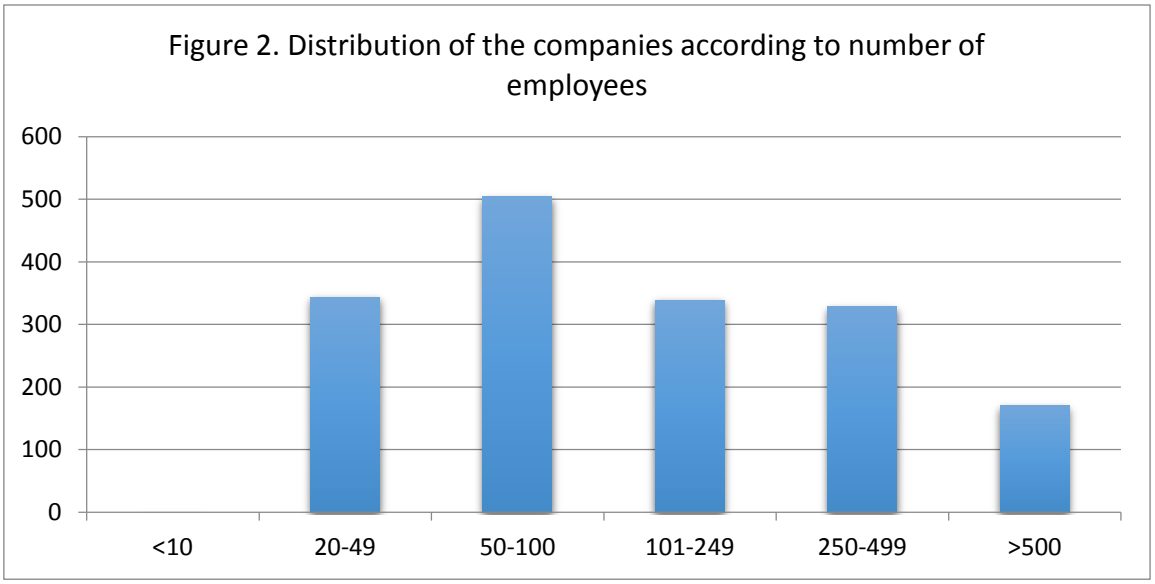
Database

This study uses Russian companies as an example of emerging market firms. (Michailova, McCarthy, & Puffer, 2013). Considering Russian companies as an example of firms from emerging markets, several particular characteristics of intangible resources should be noticed. The study of Mccarthy, Puffer, May, Ledgerwood, & Stewart, (2008) has revealed that avoidance of uncertainty, resistance to change and short-term orientation are particular behavior traits of managers and employees. In addition, the relationships between group members in Russian companies are much closer than those found in Western companies (Sidorova and Michailova, 2010). It might lead to mistrust of outsiders in Russian companies and create barriers to communications. Notwithstanding the study of Michailova & Nechayeva, (2014) found out that personal networking is the critical resource for Russian multinational enterprises.

The data for more than 2000 Russian manufacturing companies was collected in 2014-2015 in the framework of research project of NRU HSE "Russian firms in global environment" (RuFIGE). The questionnaire was elaborated by Institute of Industrial and Market Studies. The sample is representative according to sector (figure 1) and size (figure 2) division.

Figure 1. Distribution of companies according the industry



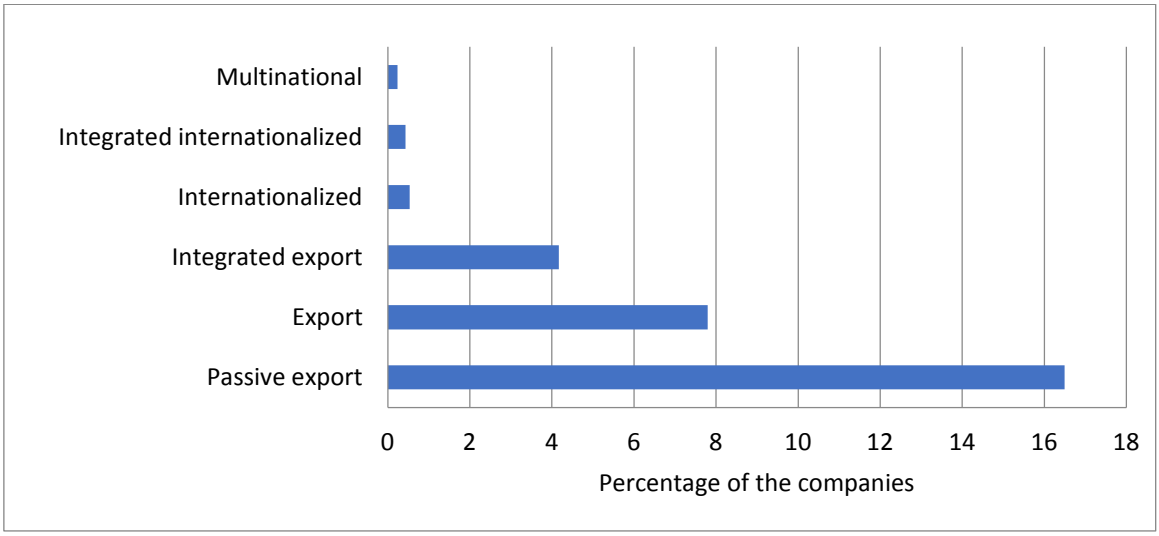


According to research design firstly, the internationalization index for more than 2000 Russian manufacturing companies is calculated. Further, the authors conduct an empirical study using logistic regression analysis. The dependent variable is the probability of a firm to be in a particular stage of internationalization. The independent variables are the intellectual capital components. The stepwise regression is applied to determine the main effect on the regression.

Results

The study estimates an internationalization index based on the Uppsala model. According to the calculation approach presented above (table 2) Russian companies are classified according to their level of internationalization. Estimations have shown that most of the Russian companies, in particular 70.32% are domestic. Other 30% of the companies are distributed in different levels of internationalization but the most of them are in low level of internationalization (see Figure 3).

Figure 3. The distribution of Russian companies according to internationalization index



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Further using factor analysis the authors created indexes for structural, human and relational capital.

Table 3. Indicators of intellectual capital components and their loadings.

Components of intellectual capital	Indicator	Loadings
Structural capital % of variance = 52.901	The enterprise has internal information system of planning and resource management (ERP, SAP, etc.)	,577
	The enterprise has international quality certificates issues by accredited international organization	,560
	The enterprise has management of sales	,450
Human capital % of variance = 70.782	Percentage of employees with high education	,709
	Percentage of managers	,689
	Percentage of white collars	,725
Relational capital % of variance = 51.693	Cooperation with foreign strategic partners	,669
	R&D cooperation	,476
	Product cooperation	,594
	Service cooperation	,469
	Components cooperation	,377

On the next step of the study, the impact of intellectual capital components on internationalization index was analyzed.

Answering the question, what type of intangible resources is important for each stage of internationalization the authors used a stepwise regression. It allows to select predictive variables by automatic procedure: after each step when a variable was added, all included variables are checked to significance level, if some of them become insignificant they are excluded from the model. The estimations were run in the software stata 12. Table 4 contains the results of econometric estimations. Different stages of internationalization are dependent variables and three components of intellectual are independent variables. For all included independent variables coefficients, standard error, Wald statistic, degrees of freedom and significance are presented. Variables which were excluded by automatic procedure of stepwise regression analysis are shown with indicator “out”.

Table 4 Results of stepweise regression analysis

dependent variable	enter	Independent variables	Coef (B)	St. Error	Wald	DF	p-value	exp(b)
passive Export								
R^2_{NK}=0.193	in	SC	.684	.059	133.667	1	.000	1.982
		RC	.660	.154	18.245	1	.000	1.934
		Constant	-.701	.063	123.212	1	.000	.496
	out	HC			.351	1	.553	
normal export								
R^2_{NK}=0.172	in	SC	.752	.069	118.024	1	.000	2.121
		RC	.219	.058	14.437	1	.000	1.245
		Constant	-1.912	.084	513.142	1	.000	.148
	out	HC			1.325	1	.250	
integrated export								
R^2_{NK}=0.112	in	SC	.695	.096	52.104	1	.000	2.004
		RC	.250	.058	18.421	1	.000	1.284
		Constant	-2.955	.130	516.105	1	.000	.052
	out	HC			3.642	1	.056	
Internationalized								
R^2_{NK}=0.186	in	SC	1.059	.216	24.144	1	.000	2.884
		RC	.215	.079	7.389	1	.007	1.240
		Constant	-4.982	.359	192.650	1	.000	.007
	out	HC			.204	1	.652	
integrated internationalized								
R^2_{NK}=0.116	in	SC	.668	.280	5.674	1	.017	1.950
		RC	.268	.097	7.684	1	.006	1.308
		Constante	-5.334	.405	173.770	1	.000	.005
	out	HC			.501	1	.479	
Multinational								
R^2_{NK}=0.087	in	RC	.380	.119	10.251	1	.001	1.462
		Constante	-5.932	.511	134.989	1	.000	.003
	out	SC			.253	1	.615	
		HC			.681	1	.409	

Contrary to our expectations, human capital appears to have no direct impact on internalization degree of Russian companies. This study does not support the second hypothesis. Meanwhile, the possession of higher structural capital measured by R&D investments, quality certification and strategic decision-making, is positively associated with the level of international activities of Russian companies. Only on the last stage, structural capital shows insignificant effect on multinational activities. The findings reveal that relational capital measured by cooperation metrics is significant for all stages of internationalization of Russian companies.

In order to explain unexpected result of insignificance of human capital for internationalization level the authors assume indirect impact through structural and relational capital. Regression analysis revealed positive significant influence of human capital on structural and relational capital (see table

5). In consequence, the authors consider human capital as antecedent of intellectual capital in the process of internationalization.

Table 5 Human capital as a predictor of structural and relational capital

Dependent variable	Independent variables	Coef (B)	St. Error	T-Stat	p-value
Structural capital	Human capital	.091	.027	3.410	.001
Relational capital	Human capital	.073	.021	3.387	.001

Conclusion

This paper examined the relationship between different intangible resources and internationalization degree in the context of emerging markets. Staying in the framework of Uppsala model the authors provided empirical support for its main claim of heterogeneity of companies' resources as a driver for going international.

The study found out a big variety of measurement approaches of internationalization and attempt to construct an index considering three main types of international activities: export, import and foreign investments. The authors consider this index as an appropriate indicator of incremental steps in internationalization according to Uppsala model. Using elaborated index the empirical evidence of low internationalization development for Russian companies was obtained.

The results show the low international involvement of Russian companies. One of possible reason might be a dearth of intangible resources. The implication for policy makers derived from this study could be a shift from traditional institutional support of internationalization processes to selective policy by developing special programs for particular companies or group of companies allowing better management of intellectual resources.

The authors revealed the significance of higher endowment of intangible resources for higher level of internationalization. Moreover, the study discovered different impact of different types of intellectual resources during the processes of internationalization. For Russian companies the level of relational capital and structural capital improves the level of internationalization. At the same time, human capital did not show the direct impact on internationalization degree. The authors assumed indirect influence of human capital on international activities and supported this proposition through empirical estimations.

The interconnection of different types of intellectual resources has been proved in the studies devoted to innovation activities, to dynamic capabilities, to companies' performance but not for the internationalization process. Therefore, findings of this study contribute to international business literature providing new empirical evidence for drivers of international activities. The authors believe that this phenomenon of interplay of different intangibles deserves further exploration on other markets.

All empirical findings were obtained for the database of Russian manufacturing companies and this is one of the restrictions of presented study by extending the results for another emerging market companies. Notwithstanding, the research design is applicable for any sample of the companies from emerging markets and can be used by scholars for further investigation the role of intangibles when going global.

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