LAPPEENRANTA UNIVERSITY OF TECHNOLOGY

School of Business

International Marketing Management

Joni Lindfors

FOREIGN OPERATION MODE STRATEGIES OF FINNISH COMPANIES IN RUSSIA

Supervisor/Examiner: Professor Sami Saarenketo

Examiner: Professor Olli Kuivalainen

ABSTRACT

Author: Lindfors, Joni

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prof. Olli Kuivalainen

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The object of this study was to examine foreign operation mode strategies used by Finnish companies in Russia. Thus, it was necessary to understand how Finnish companies have used foreign operation modes and which factors have influenced on their foreign operation mode strategies in Russia. Moreover, the purpose was also to find out that have Finnish companies switched, stretched or combined their foreign operation modes.

The study's empirical part was conducted as a semi structured qualitative within-case and cross-case analysis of seven case companies that are selected to represent different industries. There are five Finnish LSEs and two Finnish SMEs as case companies.

The results of this study indicated that Finnish companies have mainly used exporting as their initial entry mode to the Russian market. After they had gained understanding and experience of the Russian market, they switched from non-equity and simple foreign operation modes to more challenging and equity demanding foreign operation modes, and established wholly owned operations.

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Tutkimuksen tarkoitus oli tutkia suomalaisten yritysten ulkomaisia operaatiomuotostrategioita Venäjällä. Tästä syystä oli tärkeää ymmärtää kuinka suomalaiset yritykset olivat käyttäneet ulkomaisia operaatiomuotoja ja mitkä tekijät olivat vaikuttaneet heidän ulkomaisiin operaatiomuotostrategioihin Venäjällä. Lisäksi tarkoitus oli tutkia olivatko suomalaiset yritykset yhdistäneet, venyttäneet tai vaihtaneet käyttämiään ulkomaisia operaatiomuotoja.

Tutkimuksen empiirinen osa on toteutettu puoli-strukturoituna kvalitatiivisena tutkimuksena, johon otettu mukaan seitsemän case yritystä eri toimialoilta. Valituista yrityksistä viisi on suuria suomalaisia yrityksiä ja kaksi suomalaisia pk-yrityksiä.

Tutkimuksen tuloksien mukaan suomalaiset yritykset ovat pääasiassa aloittaneet Venäjän operaationsa viennin avulla. Kokemusta ja tietoa kerättyään suomalaiset yritykset ovat vaihtaneet yksinkertaisista ja vähäistä pääomaa vaativista ulkomaisista operaatiomuodoista monimutkaisempiin pääomaa vaativiin operaatiomuotoihin ja perustaneet täysin omassa omistuksessa olevia operaatioita.

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ABBREVIATIONS

CEO	Chief Executive Officer
EU	European Union
FDI	Foreign Direct Investment
FRCC	Finnish-Russian Chamber of Commerce
GDP	Gross Domestic Product
HR	Human Resources
JV	Joint Venture
LSEs	Large-Scale Enterprises
MNE	Multinational Enterprise
RBV	Resource-based View
SMEs	Small and Medium-sized Enterprises
TC	Transaction Cost
TCA	Transaction Cost Analysis
WOS	Wholly Owned Subsidiary
WTO	World Trade Organization

1 INTRODUCTION

The chapter begins with a discussion of the background of the study. Then, it proceeds to define the research objectives and questions. Next, the theoretical framework of the study is described, both in written and in visual form. Moreover, definitions and delimitations of the study are discussed. The chapter also represents the research methodology and explains how the research was conducted. The structure of the study is represented in the end of the chapter.

1.1 Background of the study

The object of this study was to examine foreign operation mode strategies used by Finnish companies in Russia. Russia is a dynamic country which is going through a transition phase towards modern market economy. Furthermore, Finland's geographical proximity to Russia is very tempting for Finnish companies. Thus, alone in the city of Saint Petersburg operates approximately 500 Finnish companies (Lehtinen & Tanskanen 2013). In addition, the good reputation of Finland offers big advantages for Finnish companies operating in the country.

Development of Russia and the country's accession to the World Trade Organization (WTO) will most likely open a lot of opportunities for Finnish companies. Opportunities will rise from the modernization and diversifying of the economy as Russia is moving towards contemporary market economy. Beside traditional gas- and oil producing, Russia strives to diversify the foundations of its economy, level of technology and the efficiency of the production. Moreover, service sector offers also plenty of opportunities. At the moment, Russia's economy is carried forward by strong private consumption. Retail grows strongly and Russia's growing middle class has more purchasing power than Finnish middle class.

(Aalto-yliopisto Kauppakorkeakoulu 2012) During the next twenty years the size of the Russian middle class is expected to grow to cover over half of the population. The major engines behind the growth of the middle class are SMEs. However, the development of creating new SMEs in the country has been slow. Faster growth of the middle class would accelerate particularly retail and demand of services, cars and houses. (Roiha 2013, 10)

Though, Russia offers various business opportunities for Finnish companies, nevertheless, risks and threats of the country have slowed down the enthusiasm to exploit the country's opportunities. The society’s progress is also thought to be unstable. Anyway, from the operational perspective of the companies, the development has been past years stable. The legislation in Russia relating to business is uncertain because it changes often and it is ambiguous. However, due to the WTO-membership, the legislation in Russia is thought to get more stabilized. (CEMAT 2007, 6) In addition, fast growing competition causes purification to the enterprise sector which means in practice that the grey economy and personal relations give space for contract- and real profitability based business affairs (Simola 2011, 5).

All in all, taken into consideration the above mentioned matters, this dynamism of the country made it a valid contextual subject for this study. Moreover, due to the fact that Russia’s membership in the WTO was ratified fairly recently (22.8.2012) there has not been many studies concerning the practical level changes it has had so far to the Russian business environment and to the Finnish companies operating in the country. Additionally, personal interest was one of the starting points for this study. The author of the study has personal experience from Russia through working, studying and living in the country for altogether four years. This accumulated cultural experience and physical presence in the country were in great assistance when conducting this study. Furthermore, on the basis of the literature review, it seems that there have been only few studies concerning mode combinations as decision options (Welch et al. 2007, 438).

The main focus of the previous researches has been mainly on the entry mode decisions (Agarwal and Ramaswami, 1992; Buckley and Ghauri, 1998; Calof, 1993; Hill, Hwang and Kim, 1990). Moreover, in entry mode choice and internationalization studies foreign operation mode has been treated as a singular entity. Though, companies many times use foreign operation modes in combination, in packaged form, as a way of more effectively servicing foreign markets (Benito and Welch, 1994). Mode combinations are commonly used by companies but relatively neglected in academic research (Welch et al. 2007, 4). Therefore, there is clearly a need for a deeper examination of the subject of mode combinations (Petersen & Welch 2002, 3). Moreover, previous foreign operation entry mode researches have usually concentrated on the initial entry phase and have neglected to study the mode actions after the market entry (Nummela & Saarenketo 2012, 127).

1.2 Research objectives and questions

As mentioned above, the goal of this study was to examine foreign operation mode strategies used by Finnish companies in Russia. The usual thinking in theoretical and empirical studies of company’s entry mode choice and internationalization processes follows a so-called singular mode approach that is "*one foreign country, one operation mode*" (Petersen & Welch 2002, 2). This is not always the case therefore the objective was to understand how Finnish companies have used foreign operation modes and which factors have influenced on their foreign operation mode strategies in Russia, and have Finnish companies switched, stretched or combined their foreign operation modes? The research questions are in a Finnish context because the purpose is to concentrate on Finnish companies.

Research question:

- *Which kind of foreign operation mode strategies Finnish companies have used in Russia?*

Sub question 1:

- *Which factors have influenced on the foreign operation mode strategies of Finnish companies in Russia?*

Sub question 2:

- *Which foreign operation modes Finnish companies have used in Russia?*

Sub question 3:

- *Have Finnish companies switched, stretched or combined their foreign operation modes?*

1.3 Theoretical framework

Theoretical framework (see figure 1) for the study demonstrates factors that have an impact on foreign operation mode (FOM) decisions (Welch et. 2007, 438). The framework describes three different aspects - company background, company mode concerns, and foreign market influences. These three individual aspects have an impact on the company’s foreign operation mode strategy. Internationalization aspect of the model refers to the company’s emerging market internationalization process. In addition, mode action includes mode entry matters. Mode experience refers to the accumulated experience about the usage of FOM or multiple FOMs. Thus, through experience a company evaluates if the used FOM is appropriate and does adjustments if needed (for instance switch, stretch, delete or combine modes).

The factor which has the most impact on the mode strategy is the company's background because it relates to matters such as company's size, financial and human resources, earlier international experience and entry market specific knowledge. These factors are also related to the company's strategy. For instance, managerial misjudgments can cause a company to switch modes. Company mode concerns contain finding suitable partners, handling risks and uncertainty, profitability, speed and easiness of foreign market entry. Russian market influences relate to matters such as market conditions, business culture, physical distance and governmental factors. These factors can also cause a company to switch, stretch, delete or combine modes to better match with the foreign market challenges.

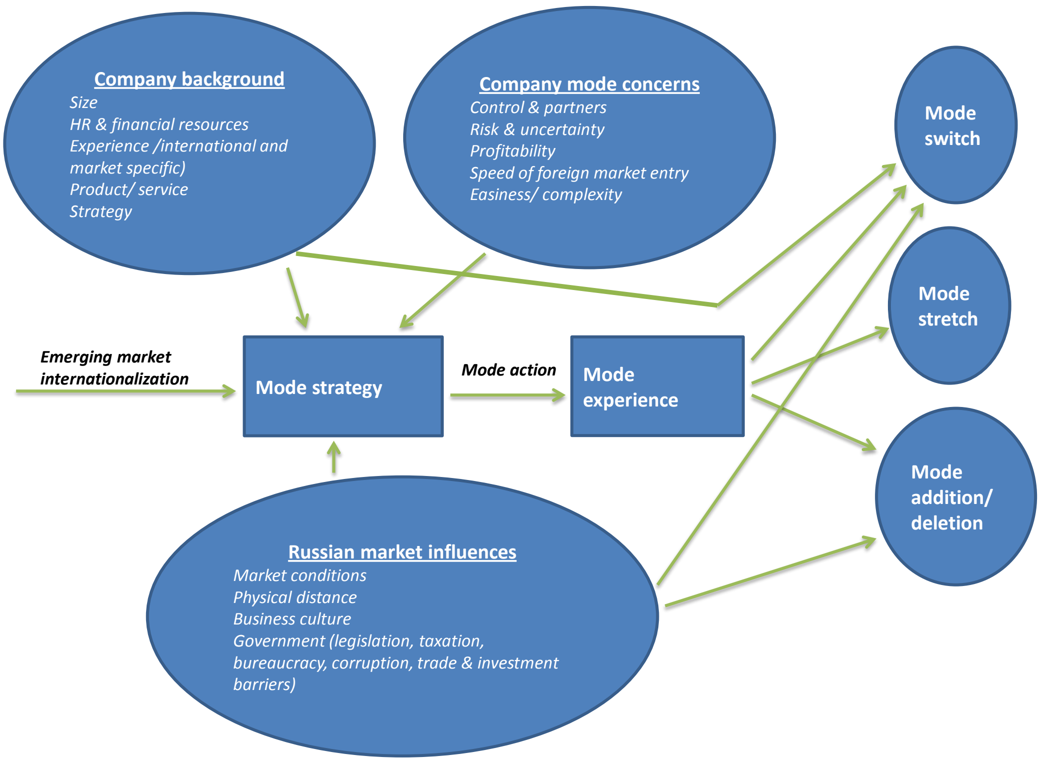

Figure 1. Theoretical framework of the study (adapted from Welch et al. 2007, 438).

1.4 Definitions

Internationalization

Internationalization can be described as a process of increasing involvement of enterprises in international markets (Welch & Luostarinen, 1988). According to Hollensen (2011, 50) internationalization happens when the company expands its R&D, production, selling and other business activities into foreign markets. In most of the larger companies internationalization occurs almost continuously. The company can undertake in incremental steps several internationalization stages on different foreign expansion projects simultaneously over a period of time. However, for SMEs internationalization is usually a separate process. This means in practice that the management considers each internationalization venture to be separate and individual.

Foreign operation mode

Foreign operation modes (FOMs) or methods are ways for a foreign investor to operate in a country (Hollensen 2011, 466). Foreign operation mode can be described as institutional or organizational arrangements that are used to conduct an international business activity such as the manufacturing of goods, servicing customers, sourcing various inputs or undertaking any business function. (Welch et al. 2007, 18)

Foreign operation mode switching

Foreign operation mode switching refers to a situation where a company changes its foreign operation mode from one FOM to another. Thus, mode switching allows more intensive operations to be developed in the markets concerned, therefore supporting a strategy of deeper market penetration. In addition, mode switching could be used to recover a problem situation in a foreign market related with existing mode use. Most companies conducting international operations will eventually experience switches of FOMs. Companies switch FOMs for two reasons: 1) as a correction of managerial misjudgments or; 2) as an adaptation to new circumstances as foreign operations evolve. (Welch et al. 2007, 361-363)

Foreign operation mode stretching

Foreign operation mode stretching changes the viewing of foreign operation mode switching. Typically, it is thought that foreign operation mode switches demonstrate obvious difference between two different foreign operation modes. Nevertheless, foreign operation mode stretching perceives these switches as an incremental process, where a foreign operation mode almost grows into another. Mode switches can also be incremental in the way that within-mode changes antedate, as well as follow, a formal shift of ownership and organizational form. (Welch et al. 2007, 367)

Foreign operation mode combinations

Companies can use foreign operation modes in combination (in packaged form) as a way of more effectively servicing foreign markets (Benito & Welch, 1994). Instead of replacing one FOM with another, companies can add a FOM to an existing one. Thus, mode combinations refer to situations where a company combines different foreign operation modes. (Welch et al. 2007, 393-394) Mode combinations may be used also as a company’s foreign market entry platform, or they might evolve through time, within and across different markets (Petersen & Welch 2002, 6). Moreover, mode combinations increase the options and potential flexibility for companies in dealing with diverse market situations (Welch et al. 2007, 4).

1.5 Delimitations

This study had some delimitations. The study for instance concentrated only on Finnish companies and its geographical focus was narrowed down to Russia. Additionally, very small, entrepreneurial or start-up companies were left out from the study, due to the fact that it is more appropriate to study their cross border activities in a holistic way, rather than focus on different entry mode types (Hollensen 2011, 85). Another, important delimitation of the study was that it focused mainly on the most interesting industry sectors from the perspective of Finnish companies.

Due to the attended study program's focus of the thesis author, the study discussed foreign operation modes mostly from the business potential perspective, rather than on taxation or legal perspective. In addition, the study discusses about the FOMs and their functionality mainly in an emerging market and especially in Russian context. Finally, the statistical generalizability of this study is limited due to the nature of qualitative research.

1.6 Research methodology

The qualitative research method was chosen as the research methodology. Especially subjectivity of qualitative study is one of its major strengths for this study. Qualitative research tries to answer to questions such as "*why?*" and "*how?*". Qualitative research tries to understand the research subject and explain the reasons and activity behind its behavior and decisions. Therefore, qualitative research helps to understand the fundamental reasons of how Finnish companies have used foreign operation mode strategies in Russia. (Lee & Lings 2008, 209)

This study was done as a semi-structured qualitative within-case and cross-case research. The purpose of the study was to compare different FOMs, reasons for FOM choice and FOM strategies, thus qualitative method was the most suitable for conducting this study. Case interviews were conducted to find out more about which kind of FOM strategies Finnish companies implemented in Russia. Case companies were selected to represent the most prospective industries and business areas from the perspective of Finnish companies.

A semi-structured interview guide and a semi-structured theme interview were used in the study. Potential interviewees were contacted first via email and then asking permission and willingness to participate for the interview. The data collection process of this study is discussed in-depth in the chapter 4.

1.7 Structure of thesis

The study begins with an introduction. It is followed by a literature review that is divided into three parts: often used theoretical perspectives to emerging market internationalization, foreign operation modes and foreign operation mode strategies. Then the study proceeds to the contextual subject of the study, thus to discuss about the special characteristics of Russia and the Finnish companies operating in the country.

Next chapter, methodology, introduces research method, the data collection, interview guide design and data analysis processes. Chapter five discusses about the case companies and the results. Finally, chapter six summarizes the major empirical findings and reflects them to the theory and provides answers to the research questions. Implications of the research, limitations and suggestions for further research are also discussed in this final chapter.

2 THEORETICAL PERSPECTIVES TO FOREIGN OPERATION MODES IN EMERGING MARKET CONTEXT

The literature review of the study will be divided into three parts: 1) often used theoretical perspectives to foreign operation modes in emerging market context; 2) different foreign operation modes and; 3) different foreign operation mode strategies. The first part of the literature review includes theories relating to emerging market internationalization process and to FOM choice. The second part discusses about the different FOMs. The last part of the literature review concentrates on FOM strategies including FOM switching, FOM stretching, and FOM combination strategies.

2.1 Emerging market internationalization

Economic crisis (2008-2010) has influenced on the decision making of companies. It is not clear if the financial chaos was just another turn of the business cycle or a total restructuring of the global economic order. Nevertheless, the overall globalization trend is unlikely to reverse. (Beinhocker et al., 2009) At most companies, the fundamental reason to internationalize is simply to make money. Moreover, internationalization motives are divided into proactive and reactive motives. Proactive motives describe stimuli to attempt strategy change, based on the company’s interest in exploiting unique competences or market possibilities. Proactive motives include profit and growth goals, managerial urge, technology competence/unique product, foreign market opportunities/market information, economies of scale and tax benefits. On the other hand, reactive motives indicate how the company reacts to pressures or threats in its home market. Reactive motives include competitive pressures, domestic market's size (it can be for instance small and saturated), overproduction/excess capacity, unsolicited foreign orders, extend sales of seasonal products and proximity to international customers/psychological distance. (Hollensen 2011, 50-51)

Lot of the early literature on internationalization got its inspiration from general marketing theories. Afterwards, internationalization handled the choice between exporting and foreign direct investment (FDI). Last 20 years there has been discussion in internationalization about networks. This means in practice that a company has different relationships with customers and with other actors in the environment. (Hollensen 2011, 72)

Forces of globalization push companies to internationalize also to emerging markets. An emerging market is a country that has characteristics of a developed market but is still in a transition phase to becoming fully a developed market. Emerging markets used to be closed economies that have started to open up their markets to the world economy. The four biggest emerging and developing economies are the so-called BRIC countries (Brazil, Russia, India and China). (Subhash 2006, 384) There do not exist any accurate list of countries who have agreed to be emerging markets. It is hard to compile any list because these countries have different starting points and have achieved the different stages in the process at any one point in time. Moreover, emerging markets are not homogeneous, not even inside one specific geographic area. For instance Latin America, East Asia, Africa/Middle East and Central and Eastern Europe have different starting points and have different markets even inside these areas. For example in Central and Eastern Europe there exist visible differences within the countries of collapsed Soviet Union. Additionally, though these countries had a common starting point, they have arrived through different ways to transition and have achieved different degrees of progress. (Hoskinsson et al. 2000, 259) Therefore, when doing business in emerging markets it is important to be aware of the unique institutional characteristics of emerging markets, the natural variety of institutions, and the risks and opportunities for the company. (Subhash 2006, 384)

Moreover, there may be great differences between individual emerging markets, however, these markets still share similarities. These economies are on a transition phase towards market economy therefore they share the processes of market liberalization and privatization. Furthermore, there exist a lot of internal instability in these countries because of restructuring and privatization processes. In addition, institutional change is typical feature for emerging market environments because their governments all the time design, revise and implement new policies. Generally, economic and political circumstances contain more turbulence than in developed markets (Modey, 2004).

Emerging markets have relatively lately opened up their markets to the world economy. At the moment, more and more foreign companies have started to operate in emerging markets, which also indicates that these economies are very volatile. Moreover, the population in emerging markets is usually highly educated and the possibility for cheap high value added production is also good. Emerging markets have numerous institutional restrictions such as a lack of protection of property rights, nontransparent judicial systems, weak enforcement of commercial law and also by political instability, regulatory changes and corruption in the public sector (Luo & Tung, 2007).

Choosing the correct entry mode is extremely important in the internationalization process because it effects on the scope in which the company engages itself in the foreign operations as well as the degree to which it succeeds in foreign markets. (Terpstra & Sarathy 1991, 361) Vernon's 'product cycle hypothesis' (1966) argued about sequential modes of internationalization in which firms go through an exporting phase before switching first to market-seeking FDI, and then to cost-oriented FDI. (Hollensen 2011, 72) In addition, researchers have represented vast amount of theories to explain company's entry mode choice decisions. The usually applied theories are: transaction cost analysis, resourced-based view and institutional theory (Brouthers & Hennart 2007, 400.) In addition, Uppsala internationalization model is also included to the literature review.

2.1.1 Emerging market entry mode strategies

An international market entry mode "*is an institutional arrangement necessary for the entry of a company's products, technology and human capital into a foreign country or market*" (Hollensen 2011, 315). Wrong initial market entry selection can cause difficulties for the company's future market entry and expansion activities. Usually companies want their initial mode choice institutionalized over time, thus new products are sold through the same established channels and new foreign markets are entered using the same entry mode. Companies are usually unwilling to change entry modes once they are chosen. Slowness in the switch process of entry modes delays the transition to a new FOM. This difficultness relating to the mode switch makes the entry mode decision extremely important issue for companies operating in today's fast internationalizing world. (Hollensen 1991)

Moreover, after a company has decided to enter it has to create an entry strategy that includes three types of choices: 1) entry objectives (why); 2) timing of entry (when) and; 3) mode of entry (how). There can be four categories of objectives: 1) to develop the market; 2) to access important resources; 3) to obtain knowledge available in the country and; 4) to found a regional or global center for coordinating activities. In addition, timing of entry is important for building sustainable competitive advantage. Being a first mover a company can have competitive advantage over rivals but it can still run into numerous risks. The legal structure of entry is dependent upon many external and internal factors. There exist six legal forms of entry: 1) wholly owned operations built from scratch; 2) acquisitions; 3) joint ventures; 4) licensing or franchising; 5) distributors' agreements or; 6) a representative office. (Lasserre 2007, 191) The advantages and disadvantages of the above mentioned foreign operation modes are discussed later in this chapter.

According to Root (1994), companies follow three rules in their strategy for entry mode selection:

1) Naive rule: The decision-maker applies the same entry mode for all foreign markets. For instance the company only exports. This rule does not take into consideration the heterogeneity of the foreign markets

2) Pragmatic rule: The decision-maker applies a workable entry mode for every foreign market. The company usually begins doing business with a low-risk entry mode during the early stages of exporting. Solely if the specific initial mode is not executable or profitable will the firm look for another workable entry mode. The workable entry mode may not be the best entry mode because not all possible alternatives are investigated.

3) Strategy rules: This rule requires that all alternative entry modes are systematically compared and evaluated to achieve better quality decisions. Thus, to choose the entry mode that maximizes the profit contribution over the strategic planning period subject to (a) the availability of company resources, (b) risk and (c) non-profit objectives.

The market entry represents a crucial first step for many SMEs. However, for established companies the main question is not how to enter new emerging markets, but how to exploit opportunities more efficiently within the context of the company's existing network of international operations. (Hollensen 2011, 315) Not one ideal market entry strategy exist therefore different market entry methods might be used by different companies entering the same market and/or by the same company in different markets. According to Petersen and Welch (2002), a company can combine modes to enter or develop a specific foreign market. These mode combinations are also called mode packages and they can take the form of compound use of several operation modes in an integrated, complementary way. Sometimes companies can use mode combinations that compete with each other. This can happen when a company tries a hostile takeover of an export market. See chapter 2.3.4.

Company's motive behind internationalization to an emerging market is usually to get access to new and bigger markets for the company's products or services, to get hands on labor and to realize extra production capacity. Moreover, some companies want to also get away from high production costs and strict laws and regulations of the domestic market. However, companies encounter particular internal barriers in their process of internationalization. For instance, inadequate skills or competences of staff, the high costs of the internationalization process, the high prices of the company's products and services are typical internal barriers. Moreover, companies can face also external barriers which can be for instance shortage of information, existing laws and regulations, cultural and language differences, shortage of capital or finance. (Hessels & Kemna 2008, 9) Finally, many companies think that entry to an emerging market refers to a high level of risk combined with the possibility of a high return (Modey, 2004).

According to Hoskinsson et al. (2000, 252), in the early stages of market emergence, institutional theory is the best for indicating the impacts on enterprise strategies. Institutional theory is the most useful because government and societal influences are more powerful in emerging markets than in developed markets. Over time when markets become more mature, transaction cost economics and resource-based view become more important.

2.1.2 Institutional theory

According to Philip Selznick's observation, organizations adapt, not only to the efforts of their internal groups, but also to the values of the society. In addition, organizations do not only fight for resources and customers but also for political power and institutional legitimacy and for social and economic fitness. Therefore, environments can put demands on organizations in two different ways: 1) make technical, economic and physical demands that force organizations to produce and exchange their goods and services in a market or a quasi-market and; 2) make social, cultural, legal or political demands that require organizations to play certain roles in society and to found and keep particular outward appearances. Environments occupied by technical, economic or physical demands reward organizations for effectively and efficiently supplying the environment with goods and services. Environments occupied by social, cultural, legal and/or political demands compensate organizations for adapting to the values, norms, rules and beliefs supported by social institutions such as governments, religion and education. (Hatch & Cunliffe 85-86, 2006)

Moreover, institutionalization can be defined as "*the process by which actions are repeated and given similar meaning by self and others*". Thus, institutions are repeated actions and shared understanding of reality. Actions are occasionally repeated because particular rules or laws exist to confirm their repetition caused by legal and political influences. Activity patterns are also occasionally supported by norms, values and expectations because of cultural influences and sometimes by a wish to be or look like another institution because of social influences. These institutional pressures can be divided to three labels: 1) coercive institutional pressure refers that the pressure to conform comes from governmental regulations and laws; 2) normative institutional pressures are happening when the pressures come from cultural expectations and; 3) mimetic institutional pressures refer to organization which has a desire to look like other organizations in order to respond to uncertainty that include imitating other organizational structures, practices or outputs to conform to expectations. (Hatch & Cunliffe 86, 2006)

Organization is institutionalized when an environment becomes organized around social, cultural, political and legal expectations through these institutional pressures. The aspects of the environment via which the institutional pressures work involve: regulatory structures, government agencies, laws and courts, professions, interest groups and mobilized public opinions. To conclude, adapting to institutional demands gains social support and confirms survival to an organization, however not because it makes more money or better products, but because it goes along with approved common practices. (Hatch & Cunliffe 86, 2006)

To put it in a nutshell, institutional theory argues that a country's institutional environment influence company boundary choices. The institutional environment of the host country or differences between home and host country, is the focus of institutional theory research. Fundamentally, the matters of host country risk and uncertainty observations of institutional theory are applied to the entry mode choice decision. The institutional theory research has concentrated on risk and uncertainty issues of product, government policy, macroeconomic, materials, and competition. Each of these risk or uncertainty types is a crucial factor of entry mode choice. (Brouthers & Hennart 2007, 405-406)

Moreover, at emerging markets companies encounter usually unstable and inconsistent institutions during the process of change from central-plan coordination to a market economy (Swaan 1997). These emerging markets' host country institutions have an impact on the selection of entry modes. For instance, previously acquisitions were only possible as part of the privatization process which demanded extremely difficult negotiations with governmental authorities, management and work councils (Carlin et al. 1995). Additionally, the costs of establishing a wholly owned operation in emerging markets are high. Usually after the acquisition, post-socialist companies require extensive investment in enterprise restructuring and broad changes in corporate strategy, organizational structure and culture (Meyer 1998). Many times investors are also supposed to take financial and environmental liabilities of the acquired company. Privatization-agencies usually chase so-called "*staggered privatization*" offering in the beginning only minority ownership with a choice to later grow the share in equity (Perotti and Guney 1993).

In emerging markets Greenfield investment may be too sluggish to reach the desired strategic goals, especially if the company wishes to have first-mover advantages (Meyer & Estrin 1999). Greenfield investments encounter extensive establishment costs as local bureaucracies are sluggish for instance in accepting acquisition of real estate. Additionally, Greenfield projects may meet more difficulties than modes containing a local partner when integrating into local business networks. Especially in Russia this is vital for business success (Puffer 1996). Moreover, corporate culture that is embedded in the culture of the home environment, influences entry strategies. For instance Barz (1999) noticed that in a transition context German companies take a long-term perspective on their operations in Russia. (Meyer 2001, 11) Furthermore, Russian managers have relied heavily on informal institutions, including personal networks, to conduct business due to the poor competency of the country's formal institutions. This can lead to a point where Russia may not become a fully participating member of the global economic community. Therefore, Russia may stay for some time as an unbalanced, corruption-ridden, natural resource-based economy. (Puffer & McCarthy 2011)

According to Hessels & Kemna (2008, 5) SMEs from higher-income countries, such as Finland, who operate in emerging markets are also more likely to encounter barriers because of institutional constraints, than in higher-income environments with high quality institutions. The risks and uncertainties related to operations in emerging markets can put pressure on a company's internal resource base and, thus result in a higher level of observed internal barriers. Furthermore, according to Hoskinsson et al. (2000, 253) the internal growth of companies in emerging markets is restricted by institutional constraints. Therefore, a network-based growth strategy is seen as one feasible strategy in emerging markets. Moreover, government institutions and impacts had a negative influence on Russian enterprise reform. Thus, most of the emerging market companies encountering change were influenced by existing institutional realities. On the other hand, institutions can ease the company's strategy enabling it to react and to have a more active role in an institutional environment. However, this demands the company to be adaptive enough so that it could move beyond institutional constraints.

2.1.3 Transaction cost analysis

Coase, the father of the transaction cost analysis (TCA) model, claimed that a company tries to expand until the cost of organizing an extra transaction within the company becomes equal to the cost of conducting the same transaction by means of an exchange on the open market. Thus, transaction cost analysis is a theory stating that a company will execute internally those activities it can undertake at lower cost through establishing an internal (hierarchical) management control and implementation system, while relying on the market for activities in which independent outsiders, such as export intermediaries, agents or distributors, have a cost advantage. Transaction costs appear when markets fail to operate under the requirements of perfect competition. The cost of operating in such markets, that is the transaction cost, would be zero, and there would be little or no incitement to decree any barriers to free market exchange. Nevertheless, in practice there is always some kind of friction between buyer and seller which impacts transaction costs. (Hollensen 2011, 77-78)

The idea of the approach is that in the real world there exists some friction between the buyer and seller in connection with market transactions. Opportunistic behavior primarily causes it between a producer and an export intermediary. For an agent to receive a reward or commission, the producer specifies sales-promoting tasks that the export intermediary needs to resolve. In an importer's case, the export intermediary has more freedom as the intermediary itself, to a certain extent, can fix sales prices and therefore base its earnings on the profit between the producer’s sales price (the importer’s buying price) and the importer’s sales price. There will always be some repeating factors that might result in conflicts and opportunistic actions: 1) size of the export intermediary's stock; 2) extent of technical and commercial service that the export intermediary is to offer for its customers; 3) division of marketing costs between producer and export intermediary; 4) fixing of prices: from producer to export intermediary, and from the export intermediary to its customers; 5) fixing of commission to agents. (Hollensen 2011, 320) All in all, TCA is one of the most applied theory of international entry and it describes also mode choice. The main implication of TCA is that companies select governance structures to advance asset utilization, meanwhile protecting against risks. Additionally, MCEs evolve as a reaction to market imperfections for different types of cross-border transactions (Welch et al. 2007, 24).

When one wants to understand the business strategies in emerging markets, it is important to scrutinize investment decisions in various institutional contexts, and the role and impacts of institutions in minimizing transaction costs (TC) in particular (Hoskisson et al. 2000). The core of economic transition "*from plan to market" means* substituting one coordinating mechanism by another. The socialist administrations had powerful vertical coordination of society and economy, however they were unsuccessful, because horizontal linkages were frail (Vlachoutsicos 1998). This all lead to high TC between enterprises within supply chains. Transition's purpose was to present more effective coordination mechanisms. (Meyer 2000, 2-3)

Institutions minimize both transaction and information costs by decreasing volatility and founding a steady structure to ease interactions (North 1990). Unfortunately, these were not in order when the socialist system collapsed. By dissolving the plan, administrators became independent economic agents who had to operate on markets that did not even exist. Lacking experience of a market context, agents had to recognize different types of business and possible business partners. Moreover, agents had to learn to assess the structure of demand and supply, especially to predict demand elasticity. Therefore, they involved in vast search processes to set up transactions and to locate the right prices. All this raises TC of establishing new business relationships, and can limit many possible transactions (Swaan 1997, Meyer 2001). The fast progress in founding market-based institutions in emerging markets has reduced, but not removed, these high TC. (Meyer 2000, 3)

According to Hoskinsson et al. (2000, 254) measurement and enforcement are two important transaction costs in emerging markets. Measurement cost should be high in a country where the price system does not precisely give signals for efficient resource allocation. Moreover, enforcement costs will be high in a country where officials, rather than law determine, property rights. High transaction cost refers to a preference of hierarchical governance structure rather than on private market. Opportunistic behavior is also much more possible in this kind of circumstances because law, trust and reputation do not reduce it anymore. Moreover, hybrid governance structures are dominant both in markets and hierarchies in emerging markets. This makes it hard for emerging market companies to grow internally through mergers and acquisitions because of inadequate property rights and unsteady political structures. Therefore, it would be wise for a company to use networks as a hybrid strategy because networks and contacts can be used to minimize uncertainty.

2.1.4 Resource-based view

Resource-based view (RBV) claim that cross-border acquisitions can be utilized by companies wanting to move existing firm-specific resources in the target company's market, or to internalize new resources and capabilities (Wernerfelt, 1984). Via these cross-border acquisitions companies can shift and make good use of firm-specific advantages, or get information and resources that are not accessible in their home country. Thus, the acquisition motivations are usually dichotomous (Kuemmerle, 1999). Company motives for undertaking acquisitions are probably both exploitative and augmentative. (Hoskisson, Kim, White, & Tihanyi, 2004).

Moreover, RBV refers to proactive quest for markets that allow exploitation of the company's resources. RBV is an inside-out-perspective which place special interest on the importance of firm-specific assets and knowledge, and assumes that success factors lie within the company itself in terms of its resources, capabilities and competences. RBV binds together a company's internal capabilities and its external industry environment. In RBV perspective, resources are categorized into tangible and intangible resources. Tangible resources are quantified plants, raw materials, finance and workforce. Intangible on the other hand are intellectual property rights such as patents, trademarks and copyrights. The goal according to RBV is not just to adapt to the environmental forces but to choose a strategy that enables the best exploitation (the best return) of resources and competences given the external opportunities. Therefore, primary access to raw material might be a source of competitive edge. In order for resource to give competitive edge it has to be: 1) competitively superior and valuable in the product market; 2) difficult to imitate; 3) hard to replace by an alternative capability; 4) must be durable and; 5) difficult to move. (Hollensen 2010, 48)

According to Lau and Wright (2000) RBV is one of the most interesting theories when examining entry into emerging economies. In emerging markets intangible resources are the ones that create competitive advantage. However, they can be other than product-market-based, as would be proposed by the knowledge-based view of the company (Conner & Prahalad, 1996). Even though some capabilities are the same across all markets, for instance first mover advantages, but some are even more effective in emerging markets. MNEs usually concentrate on the revenue-generating potential of emerging markets. Therefore, MNEs have concentrated on creating and capturing the vast latent value related with big emerging economies such as China, India and Russia. Companies that survive and are able to operate in precarious circumstances at emerging markets get the benefits of first mover advantages which include being the first participants in the new product markets, reputation effects, and the economic advantages of sales volume and of preventative control of distribution and communication channels. (Hoskinsson et al. 2000, 256)

However, in emerging markets, such advantages are hard to found without good relationships with home governments. These early relationships offer tangible benefits, such as access to licenses, because licenses are often limited by a government. This is the reason why in many emerging markets diversified business groups usually get licensing advantages because they have good relationship to the government. In emerging markets, local competitors may have evolved skills for relationship-based management in their environment that substitute for the scarcity of institutional infrastructure. In an emerging market a domestic company can develop distribution mechanisms that may protect the company against entry by foreign companies. All in all, a company should understand the relationship between its company assets and the fluctuating nature of the institutional infrastructure and the features of its industry. (Hoskinsson et al. 2000, 256)

In centrally planned economies, characteristics of local companies that were resources under the former administration, such as managerial skills and technology, may not be sufficient enough in the transition to a market economy. This demands local companies somehow to acquire the needed resources and the barriers to doing so. Meanwhile, incumbent companies with scarce resources are vulnerable to the entry by foreign companies that have the needed resources. Thus, JVs and alliances with foreign partners may be important for them to gather the necessary resources. (Hitt, Dacin, Levitas, Arregle & Borza, 2000)

2.1.5 The Uppsala internationalization model

In the 1970's Swedish researchers at the University of Uppsala studied the internationalization of Swedish manufacturing firms. The Swedish researchers scrutinized the patterns in the internationalization process they had observed in Swedish manufacturing companies. They noticed that companies seem to begin their operations abroad in relatively nearby markets and gradually penetrated to more distance markets. Thus, psychic distance or differences in language, culture and political systems are taken into consideration. Market knowledge is acquired through experience and this knowledge can be transferred from one country to another. Moreover, it was noticed that companies entered new markets through exporting. It was not very usual for companies to enter new markets with their own sales organizations or manufacturing subsidiaries. After several years of exporting to the same market, only then were wholly owned or majority owned operations established. (Hollensen 2011, 74)

According to Johanson and Wiedersheim-Paul (1975) there exists four different modes of entering an international market, where the successive stages represent higher degrees of international involvement/market commitment:

Stage 1: no regular export activities (sporadic export).

Stage 2: export via independent representatives (export modes).

Stage 3: establishment of a foreign sales subsidiary.

Stage 4: foreign production/manufacturing units.

The Uppsala internationalization model has received some critics also. For instance, the theory do not sufficiently reflect the underlying factors which have impact on the internationalization patterns of small software companies. Due to the fact, that there isn't much support for the believe that small software companies progress systematically from exporting to other market entry modes. There exist also strong evidence that the process is influenced by the targeting of niche markets and industry-specific considerations, rather than by the psychological or geographic proximity of export markets. Thus, companies do not go through a complex analysis of geographic, cultural and political factors when initiating export activities, as the psychic distance concept implies. Moreover, there is very little support for the opinion that companies internationalize in small incremental steps. The results imply that the process is less deterministic than these theories and models indicate. A big limitation of all stage theories is in their use of linear models to try to explain complex, dynamic, interactive and frequently non-linear behaviour. (Hollensen 2011, 74)

Progress in emerging markets brings their economic structure of closer to Western European patterns. The composition of the economy in terms of market size, competition and institutions is an significant perspective of psychic distance. When operating in psychically distant countries, companies need to figure out how to get over the "*liability of foreignness*". Thus, they have to acquire information, train local workforce and adapt management to the local environment. Additionally, risk assessment is difficult because the company is not used to the nature of various sources of risk and due to the political impacts on trans-border. Psychic distance also raises the expenses of all forms of business to different degrees. Moreover, psychic distance diminishes trust, and hence limits the formation of hierarchies. Simultaneously, costs of organizational learning raises, which influences particularly JVs and acquisitions. When psychic distance is high, companies tend to prefer external modes. The psychic distance effect strengthen the influence of progress in transition as less reformed economies demand more local adaptation. Finally, psychic distance is lower for source countries nearer to the area. In addition, neighboring countries usually have a history of private and business contacts. (Meyer 2000, 5)

2.2 Foreign operation modes

The choice, use, management and change of foreign operation methods is an important part of international business activity. One can describe it even as a frontier issue in international business. FOMs can be described as "*foreign market servicing methods or modes"*. It has been discussed that the choice of entry mode almost determines how foreign market operations will be conducted. (Welch et al. 2007, 3)

Foreign operation modes can be divided in different ways. For instance, Welch et al. (2007, 3) divided them into three main categories: 1) contractual; 2) exporting and; 3) investment modes. Contractual modes include franchising, licensing, management contracts, international subcontracting and project operations. Exporting can be indirect or direct and include own sales office. Investment modes include minority share-, 50/50-, majority share JVs and wholly owned company. In addition, few FOMs can be divided also to more than one category for instance contractual joint ventures. (Welch et al. 2007, 3) See Table 1.

Table 1. Major foreign operation mode options (adapted from Welch et. al 2007, 4).

Contractual modes	Exporting	Investment modes
Franchising	Indirect	Minority share (alliance) JVs
Licensing	Direct: agent/ distributor	50/50 JVs
Management contracts	Own sales office/ subsidiary	Majority share JVs
Subcontracting		Wholly owned
Project cooperations		
Alliances		

However, according to Peng (200, 231) FOM options can be divided into two main categories which are non-equity modes and equity modes. Furthermore, these two main categories can be then divided into four subcategories: 1) exporting; 2) contractual agreements; 3) joint ventures and; 4) wholly owned subsidiaries. See Figure 2.

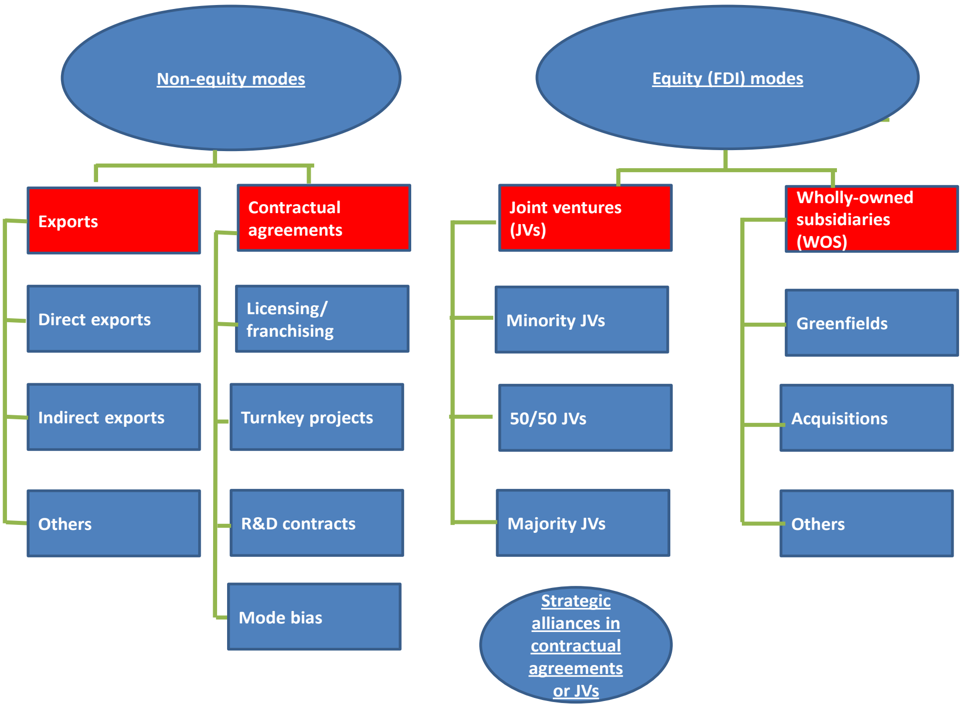

Figure 2. The choice of foreign operation modes: A hierarchical model (adapted from Peng 2006, 231).

Moreover, Hollensen (2011, 317; 334; 355; 385) divided foreign operation modes into three main categories which were: 1) export modes; 2) intermediate modes and: 3) hierarchical modes. The difference compared for instance to Peng's categorization is that intermediate modes include contractual agreement and joint ventures, whereas in Peng's classification they are segregated. In addition, hierarchical modes only include WOSs.

According to Hollensen (2011, 317) export-, contractual- and investment modes are available to the company when entering foreign markets. Different degrees of control, risk and flexibility are related with each of these FOMs. For instance, investment modes provide to a company ownership and, thus high control, but investing lot of resources to foreign markets also represents a higher potential risk. Simultaneously this heavy resource commitment causes exit barriers, which weaken the company's possibilities to change the chosen entry mode in a fast and easy way. Therefore, the company cannot have both, that is high control and high flexibility. See Figure 3.

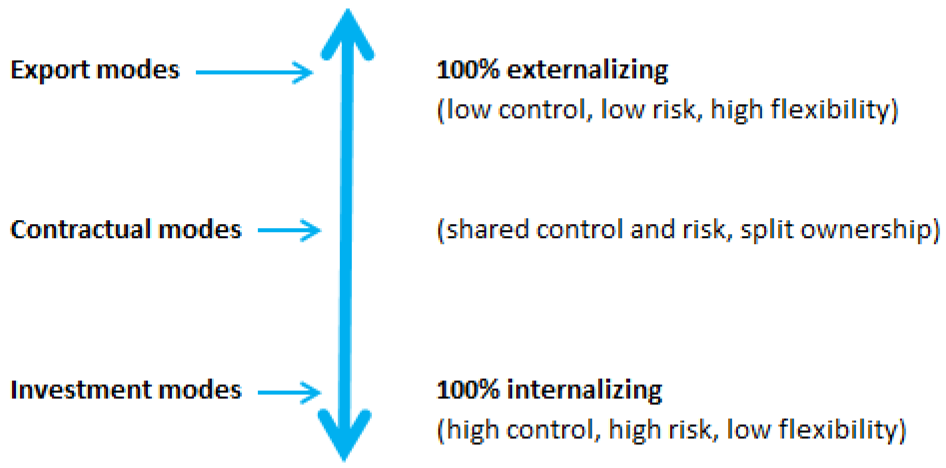

Figure 3. Broad classification of foreign operation modes (adapted from Hollensen 2011, 317).

This study applies the FOM classification of Welch et. al (2007, 4) where the FOMs are divided into contractual-, exporting- and investment modes.

2.2.1 Contractual modes

FDI is not always the most suitable option. The foreign companies can be present in a particular country by contracting an agreement in the form of a license, a franchise, an agency or a distribution contract. These options are used if one or more characteristics is present: 1) the market is too small for a full investment; 2) the country is seen as too risky; 3) there exist already a FDI in a nearby country and an additional investment would be redundant; 4) the government doesn't allow any other form of presence and/or; 5) the company wants to test the market. (Lasserre 2007, 205)

Franchising for instance is a contractual mode where the franchisor gives a right to the franchisee against payment, for example a right to use a total business concept/system, including use of trademarks/brands, for an agreed royalty (Hollensen 2011, 361). Franchising has two versions: “product and trade name franchising” and “business format franchising”. First one is defined as an independent sales relationship between supplier and dealer in which the dealer acquires some of the identity of the supplier. Franchised dealer focuses on one company’s product line and to some extent identify their business with that company. On the other hand, business format franchising is characterized by a continuing relationship between franchisor and franchisee that includes not only the product, service and trademark, but also the whole business format, which consists of a marketing strategy plan, operation manuals and standards, quality control, and continuing 2-way communication. (Welch et al. 2007, 52)

Thus, the franchisor transfers a full business system that makes it possible after training that the franchisee starts operating an independent business. However, this will happen under the guidance of the franchisor’s overall business model and framework, usually with a strong marketing emphasis, within an active, ongoing relationship. Therefore, the franchisor is heavily involved in the continuing operations of individual franchisees (Welch et al. 2007, 52)

Nevertheless, numerous factors have affected to the fast growth of using franchising. For instance the worldwide drop of traditional manufacturing industry, which has been replaced by service-sector operations, has supported franchising. Franchising suits extremely well in service and people-intensive economic operations, especially where these demand many of geographically spread out outlets serving local markets. Moreover, self-employment is getting also more popular. This is an important factor to the growth of franchising. In large number of countries, government policies have created a fruitful climate for small businesses as a means of stimulating employment. (Hollensen 2011, 361)

Moreover, franchising provide an easier way to deliver culturally sensitive services by drawing on local management knowledge. Consumer services demand greater cultural adaptation than do business-to-business services. Thus, franchising is usually used by restaurant and food service industries for indirect entry into a foreign market. The particular concept can be copied as much as there is demand for it in the foreign market by providing the local service companies the right to a marketing concept and sometimes rights to a particular operational mode. The franchisor gets an access to the local knowledge that franchisees have, while franchisees get a possibility to grow with the new and established concept. (Hollensen 2011, 93-95)

In addition to Franchising, licensing is a foreign operation mode that includes a broad range of activities, users and diverse roles (Welch et al 2007, 94). Licensing agreements are contractual arrangements by which the licensor transfers to the licensee its product and/or process technology with the right to benefit from it commercially (Lasserre 2007, 206) Technology licensing can be seen also as "*a transfer of technology for a fee from technology dominant firm to technology deficient firms*" (Kotabe et al. 1996, 74). Licensing covers the sale of a right to use certain proprietary knowledge, intellectual property, in a determined manner. The intellectual property may be registered publicly, for example as a patent or trademark. It may be also kept within the firm, as in the form of a knowhow which usually base on operational experience. Knowhow for licensing may include commercial and administrative knowledge or also technical knowledge. The licensing agreement is the legal agreement clarifying what shifts from licensor to licensee and under what conditions. Licensing does not mean the sale of the intellectual property, only the rights to use it. (Welch et al. 2007, 97)

Licensing is a faster form of market expansion and penetration than investment and JVs. (Kotabe et al. 1996) However, there exists also risks related to licensing. Seven risk factors have been discovered: 1) sub-optimal choice; 2) risk of opportunism; 3) quality risks; 4) production risks; 5) payment risks; 6) contract enforcement risks and; 7) marketing control risks. Each of these risks can be seen in the context of market-based and firm-based risks (Buckley & Casson, 1998). Sub-optimal choice is either the value of opportunity cost of not making the best choice overall or the choice of licensee such that a company chooses the wrong licensing partner and does not understand all the advantages of the relationship (Mottner & Johnson 2000, 179).

According to Beamish and Banks (1987), risk of opportunism is the risk that the licensee will appropriate the technology that has been licensed to it, and internalize it. This kind of opportunistic licensee could be addressed also as a "*learning licensee*", someone who takes the technology and makes it his own. Most of the times small companies do not have the information networks, which can expose opportunism, or the financial assets to monitor the contract enforcement. Quality risk refers to the concern that the licensee does not produce or distribute goods in a way which meet the licensor's standards. Small company may have also problems in addressing quality issues because of limited information and scarce resources to pursue contract enforcement. (Mottner & Johnson 2000, 179-180)

Production risk refers to a risk where the licensee will not produce in a timely manner, or will not produce the volume needed, or will overproduce (Mottner & Johnson 2000, 180). Payment risk occurs when the licensee does not pay the licensor or pays in an untimely fashion, or under-reports earnings. Payment risk relates to also currency risk and different means of payment. (Mottner & Johnson 2000, 180) The contract enforcement risks relate to the risks of opportunism, quality, production, payment and marketing control. Small companies may not notice if the contract has been violated. (Mottner & Johnson 2000, 181) Marketing control risks refer to the fact that in an arm's-length licensing arrangement the licensor loses control of the licensee's marketing of a product. There is a risk that the product will be undermarketed or otherwise not marketed optimally. (Mottner & Johnson 2000, 181)

There exist also six management options for minimizing the risk: 1) planning; 2) licensee selection; 3) compensation choices; 4) on-going relationships; 5) contract specification and;
6) organization of the licensing function (Mottner & Johnson 2000, 181-182). Planning is the first step of the licensing and it includes well-considered strategic plan. An overall long-term plan significantly increases the company's chances of being successful in managing its licenses and meeting the expectations set. A well-thought plan helps the company to get where it wants by using licensing. Moreover, compensation choices can reduce many of the licensing risks because they are related to the continuous building of a relationship between the licensor and licensee. (Mottner & Johnson 2000, 182-183) According to Aulakh et al. (1998), an active interest in licensee performance on the part of the licensor is highly related to the compensation choice made. This ensures that opportunistic behavior does not happen, that quality and production expectations are realized, and that needed marketing of products is done.

Contract specification of products and marketing, minimize risk in production and marketing control. One of the most important issues in writing of licensing contract is the ownership and licensing rights to future technology that is developed by either the licensee or the licensor, including enhancements that both might make to the existing technology (so-called grant-backs). (Mottner & Johnson 2000, 184) Finally, a company that integrate its licensing to be an essential part of its business structure and bases that structure on its strategic planning will reduce the licensing risk and maximize the company performance (Porter 1986).

As mentioned earlier, management contracts are also part of the contractual modes. However, they are not the most popular options for a FOM. They are used particularly in hotel sector and airline industry.

Management contract can be defined as "*an arrangement under which operational control of an enterprise (or one phase of an enterprise) which would otherwise be exercised by the board of directors or managers elected or appointed by its owners is vested by contract in a separate enterprise which performs the necessary managerial function for a fee*". It can be hard to make a difference between management contracts and normal provision of management services and from increasingly outsourced arrangements for the provision of management functions; for instance accounting, research, and HR management. Management contracts can be confused with licensing arrangements. In addition, they can be mixed also with management consulting, which usually includes the provision of management advice, but without direct managerial role in the implementation of the advice or in general management of the client organization (Welch et al. 2007, 139-142)

Management contracts are usually used in situations where one company wants the management know-how of another company with long-time experience in the field. Management capability is often missing in developing countries. (Hollensen 2011, 375) According to Luostarinen and Welch (1990), the payment to the contractor for the management services provided is usually a management fee. The management fee can be fixed despite of the financial performance or it can be a percentage of the profit.

Management contracts demand long-time managerial engagement, about running a foreign organization or a part of it – on a contractual basis, for a set period of time. They differ also from franchising and licensing because they involve not only selling a method of operating a specific business, but demand the contractor to make the implementation process within the foreign organization. Management contract places the contractor on the inside of the recipient organization, where it has an excellent position to impact on range of short- and long-term decisions from which the contractor has the possibility to benefit, and to block competitive activity. (Welch et al. 2007, 140)

In conclusion, management contracts are used as an individual mode or as part of a broader package. It has been really useful as a stepping stone to deeper foreign market commitment or as a crucial link between operations over time, by giving the means for a company to build or keep its market position. As mentioned earlier, management contracts demand strong commitment of managerial and technical staff to the foreign company. Management contract can be an efficient mode option for a specific foreign market, but as a single individual mode in a company's general foreign activities, it might not be justified due to the stark initial learning costs and the problems of fulfilling the terms of the contract with regard to the provision of management staff. (Welch et al. 2007, 158)

International subcontracting (or outsourcing) on the other hand, has been seen as a strong way to reduce costs. However, it is not considered a good way to enhance the development of international operations. International subcontracting can be defined as "*all export sales of articles which are ordered in advance and where the giver or the order arranges the marketing*". Key issue is that the principal deals with the marketing and distribution of the output. The output may be for instance components or parts that are assembled into a final product by the principal, or for example a final product that is sold directly at the end-market or markets. The main thing about international subcontracting is the utilization by a company of another entity's facilities, or service provision capacities, than its own, as a base to serve foreign markets, or home markets as inward operations. (Welch et al. 2007, 161-164)

The importance of outsourcing relies in moving functions or activities out of an organization which are not the company's core competences, which are considered crucial to its success. Therefore, the question is which functions an organization should perform itself or source these activities from outside. A subcontractor is a person or a company that promise to provide semi-finished products or services wanted by another party (the main contractor) to perform another contract to which the subcontractor is not a party. The characteristics of subcontractors that differentiate them from other SMEs are: 1) subcontractors’ products are often part of the end product, not the complete end product itself and; 2) subcontractors do not have direct contact with the end customers, due to the fact that the main contractor is responsible to the customer. (Hollensen 2011, 406)

International companies are more often buying their parts, semi-finished components and other supplies from international subcontractors. Gaining competitiveness through the subcontractor relies on the understanding that the supplier can be important to the buyer, that is the contractor, because the company can: 1) concentrate on in-house core competences; 2) lower product/production costs; 3) improve general cost efficiency; 4) increase potential for innovation and; 5) answer to fluctuating demand. (Hollensen 2011, 409)

International subcontracting is a non-FDI form and it involves low commitment to found an efficient production base in a foreign market and might reduce cost, while aiding flexibility with regard to market contractors without investment. International subcontracting can be viewed as a balancing act between lower production costs abroad and lower transaction costs locally. It might be difficult for a company to distinquish which parts of the company should be outsourced. One way to tackle this problem is to concentrate on non-core activities. For instance IT-department is a common target for outsourcing operations. (Welch et al. 2007, 192-193)

Moreover, also project operations are contractual modes. According to Cova et al. (2002, 3) a project can be described as "*a complex transaction covering a package of products, services and work, specifically designed to create capital assets that produce benefits for a buyer over an extended period of time*". In most projects also the creation of human assets could be added as an additional goal. It is important to notice that a project has a definite start and end date. (Welch et al. 2007, 233)

Project operations usually cannot be thought as a direct alternative to other mode forms. They suit the idea of mode packages or combinations.

It is common for all major mode groups (exporting, contractual and investment) to be represented in project activity. There can be variation in the extent and way that they are applied over time, before, during and after construction. Governments, home and abroad, and other external influences, tend to have huge influence on the content of the project-related mode package, the character and pattern of the project cycle and the final project form. (Welch et al. 2007, 233)

According to Luostarinen & Welch (1993, 126) there are three different types of project operations: partial, turnkey, and turnkey plus projects. Project operators supply on a partial basis and contribute only a part of the final output in the case of partial projects. However, turnkey projects refer to a turnkey contract where one party sets up an entity, for example a plant, and puts it into operation. Therefore, a principal contractor, the signer of the turnkey agreement with the buyer, is totally liable for total delivery. The difference between a turnkey projects and turnkey plus projects, is that in turnkey plus projects entering foreign markets is usually not an independent method. Moreover, there are also contractual arrangements with a small equity interest by the supplier to put up a larger package to the client company. These can include for instance financing assistance, training or other technical services.

According to Petersen & Welch (2002) alliances are often included in broader mode combination packages that may include diverse mode use and they can play a supportive role to the primary mode in the package, for instance a marketing alliance that supports exporting activity. Using alliances companies can operate in foreign markets, exploiting numerous contributions of a partner or partner companies, rather than undertaking the enterprise by themselves. (Welch et al. 2007, 274) The increase of partnering in technology sector is needed because of the fast changes in technological development, the need for rapid preemption strategies, the complexities and uncertainties involved in technological development, and the need for large firms to monitor a broad range of technologies (Hagedoorn and Schakenraad, 1994). Through co-operation between different actors in the market, companies aim to increase their competitiveness (Santagelo, 2000).

Alliances are one way of meeting the all the time changing challenges of the business environment. In an ever more complex technological environment, no single company has all the necessary capabilities to succeed. There exists an increase in the usage of external technology resources via strategic technology alliances. (Hagedoorn & Duysters, 2002) Moreover, alliances and networks with other companies help the new venture to get access to new markets, and make it possible for them to provide a broad range of products or services. Alliances can also offer access to complementary skills and assets. (Mohr & Spekman, 1994) In a knowledge-based and information-technology-driven economy, co-operation and alliances provide superior value to single-company competitors (Contractor & Lorange, 2002).

2.2.2 Exporting

Internationalization has usually been viewed as an outward flow. However, gained knowledge from earlier inward activities, can have an impact on later outward activities. Regular way to internationalize would be first to start with inward activities (imports) and then to continue with outward activities (exporting). (Hollensen 2011, 28) Relationships and knowledge gained from import activities could then later be used when the company starts its export activities (Welch et al., 2001). According to Korhonen, Luostarinen and Welch (1996), major part of the Finnish SMEs start their international operations with inward activities, rather than on outward activities. Thus, inward activities are an important springboard for Finnish SMEs to outward activities. (Welch et al. 2007, 40)

Under the term "*exporting*" can be defined various activities and terms. The term was used in the beginning with respect to foreign sales of physical goods. It has now been applied also to services. The goods and services distinction is in reality often combination of the both, with one linked to and depending on the other. Exporting is usually seen as the one mode option, with no alternatives, for those wanting to start international activity. Exporting is used by LSEs and SMEs mainly in manufacturing and service sectors, at all stages of internationalization, but often in combination with other modes. (Welch et al. 2007, 237-239; 268)

For many internationalizing companies, exporting is a first step into international operations. Usually, any other mode options are not even considered. There exist various exporting form options that are available to the exporter. For instance the exporter can utilize a home-market based intermediary, such as a trading company, or undertake a most part of the exporting process on its own, direct or own exporting, short of the establishment of a sales subsidiary in the foreign market. Moreover, exporting is often used in a broader mode package, sometimes staying as the main component of foreign market servicing, but in other situations performing a more supplementary role. (Welch et al. 2007, 268-269)

Exporting via foreign intermediaries is a second major path which companies may use in servicing foreign markets. Companies usually begin exporting through foreign intermediaries. In addition, companies use more than one channel in their general exporting operations as a response to the circumstances faced in different foreign countries. There exist many reasons for exporter to use foreign intermediary. The lower cost and financial risk related to intermediaries are more advantageous for a company than to try to carry out same kind of operations through the company’s own staff, or by founding a selling operation in the foreign market. These are important considerations, especially when there is uncertainty regarding the size and viability of the market. (Welch et al. 2007, 251-252)

Moreover, using a local agent or distributor is most likely the most used mode of entry for SMEs who aim to reach international markets. For MNEs it is also a way to reach countries that are either risky or whose size does not demand a major investment. It can also act as an economic option to test markets without putting too many resources upfront. The difference between an agent and a distributor is that the latter carries out the logical the tasks of stocking, transporting and billing. The agent then is just a salesperson and an order-taker. In emerging markets it's possible to distinquish three categories of agents and distributors: 1) domestic companies; 2) government monopolies in planned economies or; 3) large international trading companies. The biggest advantage of distribution agreement is that they demand only a limited amount of resources from the company. However, the biggest disadvantages are the lack of contact with the market and the conflict of interest that can appear when sales reach certain level. (Lasserre 2007, 206)

The sales office, or representative office, is also popular operation mode. It can be seen also as a steppingstone or a beachhead. In Russia, this type of operation mode consists of sending and expatriate manager, or sometimes using a locally recruited person, to collect information, establish contacts, organize direct sales, lobby for licenses, negotiate distribution or JV agreements and recruit local staff. This operation mode uses resources economically and is useful in competencies-building but it reaches its limit when it comes to actually running a business. It suits companies that are selling big projects at the pre-bidding phase. In such cases, representative offices complement and control the local agents who are lobbying for information and access to decision-makers. (Lasserre 2007, 207)

2.2.3 Investment modes

Investment modes refer to foreign direct investments (FDI) and alliances. FDIs occur when the level of ownership via equity in a foreign enterprise reaches a certain level that is deemed to imply that the investing company acquires a significant influence, whether exercised or not, over the key policies of the foreign entity, through a long-term investment. Rough classifications are made between investments that produce wholly owned foreign subsidiaries and JVs with majority, 50:50 or minority equity levels. (Welch et al. 2007, 320-321)

Investment activity can be divided to follow two main paths: 1) acquisition of an equity stake, part of full, in an operating company within the target market or; 2) establishment of a new company, with or without partners and, operations from the beginning which is called a Greenfield investment. However, in the case of emerging markets, there exists also a so-called brownfield investment. In brownfield cases a local enterprise and its assets in the target foreign market are acquired. However, then the investing company undertakes wholesale restructuring and makes new investments in the acquired entity to the point where it comes to resemble a Greenfield operation. (Welch et al. 2007, 321)

However, a joint venture is a challenging concept, because it relates to several forms of partnership. In emerging markets JVs have been the main form of FDI. To benefit their own citizens, some governments can demand foreign investors to ally with local companies before granting entry to markets or access to resources. This concerns also Russia because it is a country with import-substitution policies. Moreover, some foreign companies can be motivated to choose JVs to win contracts for critical government infrastructure projects. Foreign companies look for a local partner with skills in distribution, sales, local market know-how, local production expertise or contacts with decision-makers and business networks. Managerial and human resources are usually the most important capabilities wanted from the JV partner. (Lasserre 2007, 199)

Equity JV's are important forms of FOMs and some of the different JV options can be seen in the figure 4. In the first situation, the JV between companies A and B is created in the source country X before establishing a fully-owned company in the foreign country Y. The second case illustrates a situation when two or more companies from the same country (A and B) form a new JV in a foreign country (Y). This can be because company B tries to penetrate to the target country, wanting to use the existing operational experience, knowledge and networks of company A within the country, formed as a result of A's former direct investment. In the third situation, the alliance is formed between companies from different countries, because operation is needed in a third country through the set-up of a jointly owned foreign entity. The JV is founded especially for a particular project in a specific country, and is closed down when the project is completed. (Welch et al. 2007, 279-280)

The fourth situation depicts the set-up of an equity JV in country Y between a local company and a foreign partner or partners. This type of JV is usually popular among host governments in situations where wanted technology transfer and notable financing are involved, and because it does not involve full foreign ownership. Fifth situation is similar to fourth situation due to final outcome, with an exception that it includes acquisition of an equity share in an existing local company by a foreign partner. Thus, the foreign partner does not need to participate in founding new operation from the beginning. However, it can start and implement restructuring and other changes when it undertakes different transfers to the existing company. (Welch et al. 2007, 280-281)

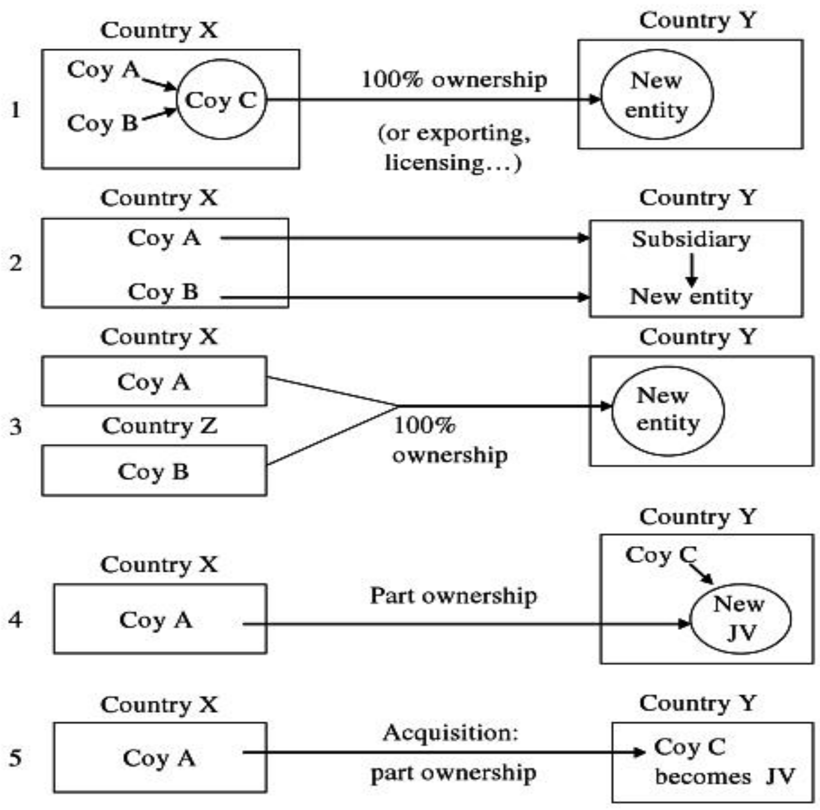

Figure 4. Diverse alliance arrangements in foreign operations (adapted from Welch et al. 2007, 279)

The important question in all of the JV situations is the level of equity of the different parties. The level of equity usually tells who has control of the JV operation. Typically 51 % equity means control, while 50:50 or minority equity situations do not. In the emerging markets JVs can be the only possible way to operate. As an example, Heinz, a company from United States of America, wanted to become an important player in Zimbabwe by achieving at least 51 % equity in each JV with existing local producers. However, the Zimbabwean government allowed only 49 % equity level. It took two years of negotiation for the 51 % level to be agreed to. In addition, the government became a partner in the JV operation. (Welch et al. 2007, 280-281)

Finally, the equity level is not always the most important factor in the JV involvement. The lack of equity control in minority JV situations can be compensated by using modes such as licensing agreements and management contracts. They can give more legal, intellectual, marketing and managerial control. Companies are often concentrated on the way alliance arrangements can provide different foreign market penetration benefits. (Welch et al. 2007, 280-281) According to Ohmae (1989), obsession with control through equity, can be even harmful to the progress of positive alliance relationships.

2.3 Foreign operation mode strategies

On the above were mentioned all the different FOM options. However, when deciding about the company's FOM strategy, the company's background, company mode concerns and foreign market influences are major factors which have an impact on the chosen FOM strategy.

Thus, the selection of suitable FOM for the company and different FOM strategies are discussed in the following four subchapters. Moreover, the pros and cons of each FOM option are summarized in table 2. Furthermore, the figure 4 earlier showed that wholly owned and acquisitions have the biggest market impact and later present value of the investment.

2.3.1 Foreign operation mode selection

All of the FOMs have strengths and weaknesses. See Table 2. In table 2, there are summarized the pros and cons of each FOM on different criteria. In table 2, the return on investment is scaled from high to moderate and close to the cost of capital. The reason for this is that it takes lot of time to establish a market presence and in the case of an acquisition the original investment demands an upfront premium. The residual value explains most of the return because it indicates that wholly owned and acquisition are valid for a long-time and thus, should be used only when country risks are limited. Moreover, licensing is very profitable from a return perspective because the absolute value is low but there is still a continuous flow of royalties and minimal upfront investment. This is optimal in the case of high risks and low commitment. The long-time influence of licensing agreement is weak. In addition, JVs are on the middle of the road. However, the theoretical value of this operation mode is often ruined by a weak implementation. (Lasserre 2007, 208)

Table 2. Comparing different operation modes (adapted from Lasserre 2007, 209).

	Wholly owned	**Acquisition**	**JV**	**Licensing**	**Representative office**	**Agent/ distributor**
Upfront investment, financial and managerial	HIGH	HIGH	MEDIUM	LOW	LOW/MEDIUM	LOW
Speed of entry	SLOW	QUICK	QUICK	MEDIUM	LOW	POSSIBLY QUICK
Market penetration	MEDIUM	HIGH	MED/HIGH	MED/LOW	LOW	MED/LOW
Control of market (customer knowledge)	HIGH	HIGH	MEDIUM	NIL	LOW	LOW/NIL
Political risk exposure	HIGH	HIGH	MEDIUM	LOW	LOW	LOW
Technological leakage	LOW	LOW	HIGH/MED	HIGH	LOW	LOW
Managerial complexity	HIGH	HIGH	HIGH	LOW	MEDIUM	LOW
Potential financial return	HIGH RISK HIGH/ MEDIUM RETURN HIGH PAYOUT	HIGH RISK HIGH/ MEDIUM RETURN HIGH PAYOUT	MEDIUM/ HIGH RISK HIGH/ MEDIUM RETURN MEDIUM PAYOUT	LOW RISK HIGH RETURN LOW PAYOUT	LOW RISK RETURN?	LOW RISK RETURN?

Additionally according to Hollensen (2011, 322-327), there are also many factors that affect to the company's entry mode selection for a given product/target. Those factors can be also conflicting. Moreover, entry mode decision is a difficult process with many trade-offs among alternative entry modes. Usually the choice of entry mode should be based on the believed contribution to profit. However, this can be hard because some foreign markets lack the relevant data. Almost all of the selection criteria are qualitative in nature because quantification is extremely hard. As mentioned in figure 5, four groups of factors are thought to have an influence to the entry mode decision. Those four groups are: 1) internal factors (company size, international experience and product/ service); 2) external factors (sociocultural distance between home country and host country, country risk/demand uncertainty, market size and growth, direct and indirect trade barriers, intensity of competition and small number of relevant intermediaries available); 3) desired mode characteristics (risk averse, control and flexibility) 4. transaction-specific behavior (tacit nature of know-how). The subsequent impact of the argument is formed for each factor that is how is each factor assumed to influence the choice of foreign entry mode? The direction of influence is also marked in figure 5. Due to the complex nature of the entry mode decision, the arguments are made under the condition of other factors being equal.

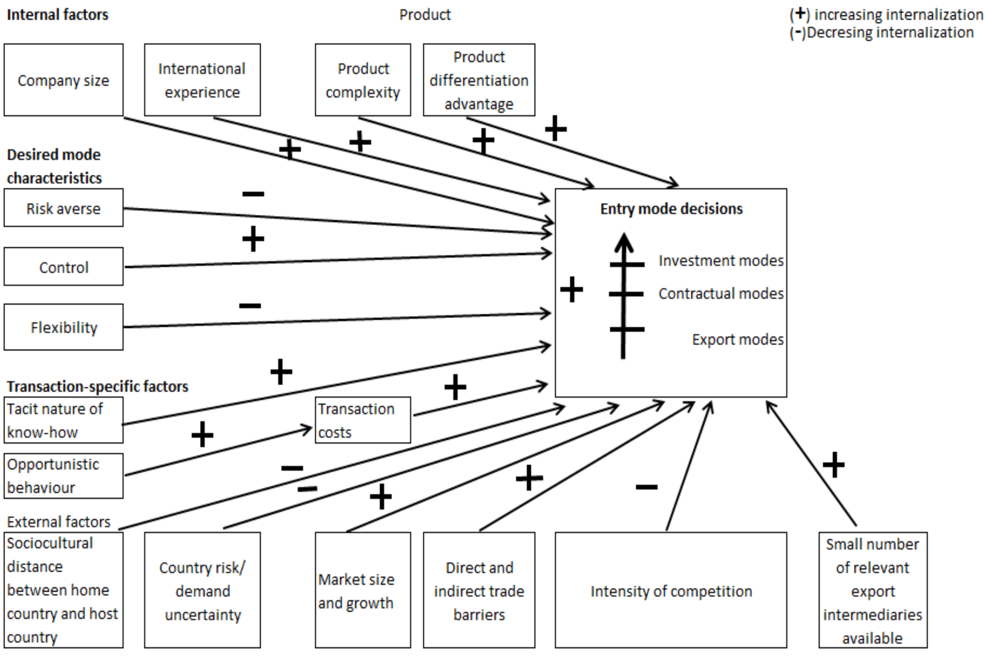

Figure 5. Factors affecting the foreign market entry mode decision (adapted from Hollensen 2011, 322)

Finally, it cannot be shown categorically which entry mode is the best. There are a lot of internal and external conditions which have an impact to the entry mode selection. Therefore, it should be point out that for instance a manufacturer wanting to internationalize can use more than one of these methods simultaneously. The company may have different product lines and each of them demands a different entry mode. (Hollensen 2011, 327)

In addition, as illustrated in figure 6, mode determination process includes various elements which have impact on the mode choice. The stimulus to mode use can appear in many different ways such as exposed foreign market opportunities or threats, external approaches and internal evaluation of ongoing foreign operations. It is also possible that there is not only one particular mode stimulus in mode change situations. According to Calof (1993), many companies wanted to change mode because of management demands of preceding activities and sales outcomes in foreign markets, and because of the mode learning process that these generated. Usually the mode solution was already established and was put into its place as foreign market changes gave right to change. (Welch 2007, 440-442)

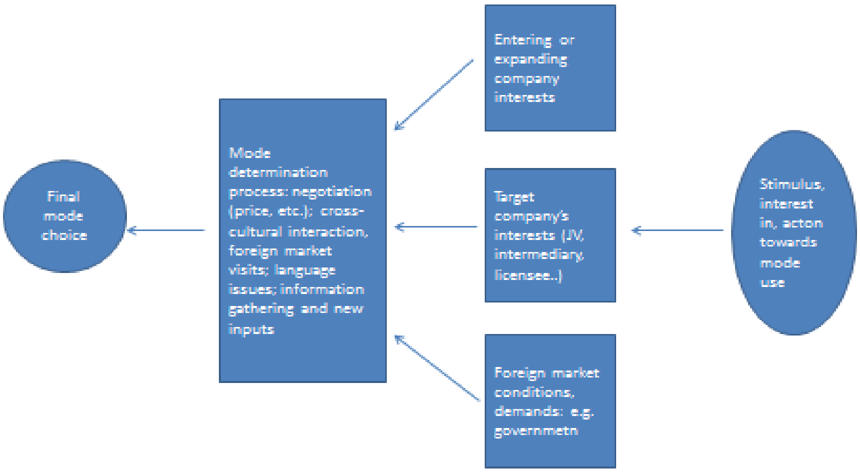

Figure 6. Foreign operation mode choice (adapted from Welch et al. 2007, 442).

2.3.2 Foreign operation mode switching

Companies conducting international operations at some point will experience switches of FOMs. Companies switch FOMs either as a correction of managerial mistakes or as an adaptation to new circumstances as foreign operations develop. Some companies can come up with standard routines for the FOM switches. Mode switching enables more intensive operations to be developed in the particular market, supporting a strategy or deeper market penetration. Mode switching can recover a problem situation in a foreign market related to present mode use. To avoid the high switching costs will demand managers to prepare the mode switch well ahead of the actual event. The managers need to create a mode switch strategy and follow it. (Welch et al. 2007, 361-363) Mode switch strategy aims to eliminate switching costs and to ensure that local operators see the mode switch as a natural and acceptable part of the collaboration. (Welch et al. 2007, 372)

Internationalization is a typical result of mode switches which means a change from serving the foreign market through an outside agent to an in-house operation in that market usually in the form of an FDI. For instance switches from independent distributors to sales subsidiaries, from licensing agreements to production subsidiaries and from franchised to company-owned outlets. Nevertheless, mode switches in the form of externalization are also possible. For instance a conversion of company-owned shops into franchised shops, and outsourcing of foreign subsidiary production to local contract manufacturers. Internationalization and externalization are inter-mode switches, which refer to a change of organizational form (mode). However, entrant firms can make also intra-mode switches. In this case the entrant company keeps the FOM but a new local operator is appointed. (Welch et al. 2007, 361-363)

There can be situations were external factors change noticeably after the initial foreign market entry therefore making the entry mode less suitable. Usually the situations involve changes on the local market, on the local operator or on the entrant company itself. Therefore, local market growth can be driver behind the mode switch. For instance it can be more suitable to have a local production instead of serving the market via exporting from home. This can lead not only to shift of location, but in addition change of ownership of the operation mode. Klein et al. (1990) noticed that sales volume is a discriminating factor in the selection between independent, local operator (foreign distributors and sales agents) and in-house arrangements (sales subsidiaries and home-based sales forces) where large sales volumes favor employee sales arrangements. In addition, change of local government policy on foreign ownership is a possible external factor. Governments in emerging markets can have restrictions on foreign ownership of companies especially in strategic industries. This forces entrant companies to alliances with local companies, in practice to form JVs with them. When these restrictions are removed entrant companies usually switch to wholly-owned subsidiaries. This market liberalization has been for many years a primary cause of shift from international JVs to wholly owned subsidiaries. Moreover, learning more about the local market and go-alone FOMs can induce mode changes when the entrant company has accumulated more knowledge from the target market. (Welch et al. 2007, 364-369)

However, it can be also that market integration and lowering of production costs pull in the opposite direction. Not being satisfied with the local operator is a usual reason behind intra-mode shifts, but less so for inter-mode changes. If the company can't appoint a new operator, for example there aren't any suitable operators available, then the entrant company can internalize its local operations. Changes of the management in the entrant company can be also a driver behind the mode shift. A new management team can be more eager to do changes to the existing FOMs. Manager can think of doing a mode shift if the advantages of replacing a FOM with another are greater than the estimated switching costs. Mode shifts are in practice problem-solving devices rather than systematic ways of streamlining the entrant company's organizational structure. (Welch et al. 2007, 364-366)

Change can also come from the entrant company itself. In the moment of foreign market entry, the entrant company may be limited in terms of capital and management resources. (Ali & Camp 1993; Welch & Luostarinen 1998) Thus, company does not choose any operation mode that demands vast requirements of capital and/or management resources, selecting instead some low-commitment mode in terms of capital and management resources such as independent distributors (Albaum et al. 2004), licensing (Contractor 1981) or franchising agreements (Oxenfeldt & Kelly 1969). However, in the future the entrant company can acquire capital and generate excess management resources, as an outcome of realized managerial scope economies (Lafontaine & Kaufmann 1994; Penrose 1956, 1959). In this situation it would be more suitable to change the low-commitment FOM to in-house arrangements such as sales subsidiaries and company-owned outlets. Finally, the company can grow bigger and become less risk-averse which can cause a FOM switch. (Welch et al. 2007, 367-368)

Switching modes is not always possible because there can exist barriers to mode switch. These barriers can be distinct and tangible or they can be more subtle. Usually switching barriers are not about expected costs but more about the opportunity costs of sales revenue that may be abandoned as a price for dismissing an outside agent who keeps strong bonds with local customers. Therefore, switching barriers refers to costs and possible loss of revenues. For instance, a change from a foreign sales agency to a sales subsidiary may include switching cost that can be severance payment to the former sales agent to compensate for the too early cancellation of its contract. (Welch et al. 2007, 370)

The choice, development and change of operation modes are illustrated in the framework of Benito et al. (2009, 1464-1465) in figure 7. The base of the framework is a behavior theory of the firm which implies that decision drivers are influenced by past experiences and present operations. Mode choice and change process is influenced by the vast amount of possible FOMs, however managers are custom to rely on their former experience and prefer modes that were good in other situations or restrict the mode choice set. These former experiences can have an impact on positive or negative bias which can lead to mode inertia. (Benito et al. 2009, 1464-1466.)

Mode inertia occurs when the manager prefers to use an existing mode rather than seek for other possibilities. Moreover, mode comparison and evaluation refers to how managers restrict decision intricacy so that the range of mode options evaluated can be extremely restricted. Next, mode choice and mode action phases can have very little mode alteration or package change to the degree that can reach to full mode change. Nevertheless, applying a specific mode is connected with the outcomes it creates. General market performance and different types of learning are these outcomes. To conclude, these changes and outcomes feedback into a company's mode experience, bias and competence base therefore having an impact on future mode decision processes. (Benito et al. 2009, 1464-1466)

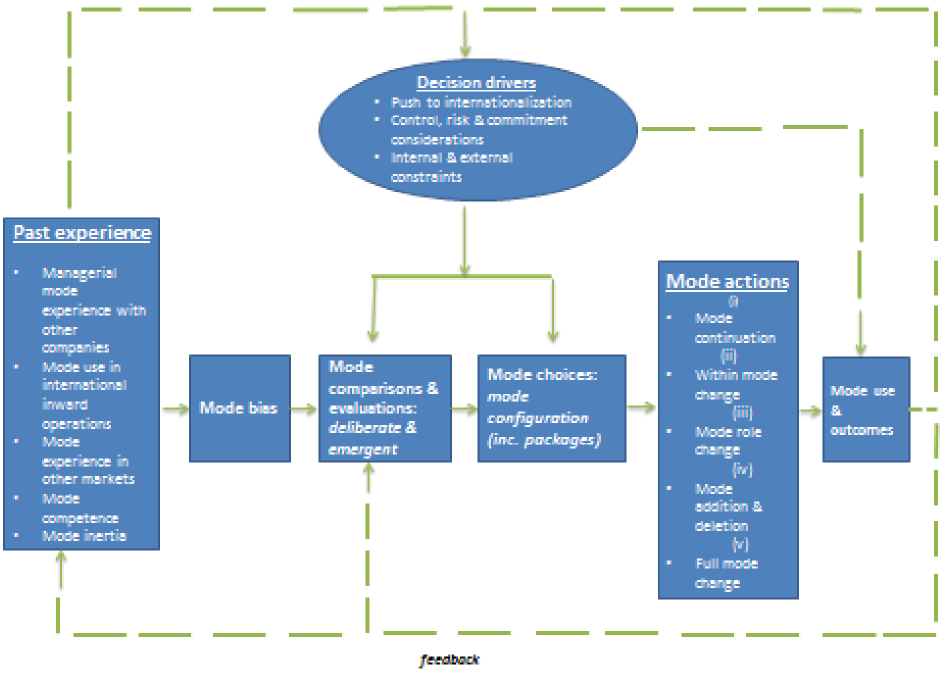

Figure 7. Mode choice and change (adapted from Benito et al. 2009, 1465).

According to Pedersen et al. (2002, 18) mode shifts are the result of changes of organizational and environmental conditions and of the switching costs associated with a shift. Therefore, the mode shift decision implicates a cost-benefit analysis. There can be so-called "*set up switching cost*" which means that recruitment and training costs influence negatively on the exporters' will to change their foreign intermediaries into sales subsidiaries and/or home-based sales forces. Moreover, lack of international experience may be a barrier to mode shift. (Pedersen et al. 2002,18)

According to Williamson (1985), a long relationship leads to asset specificity between the parties. Thus, in practice switching costs will increase as a relationship continues. However, as a relationship advances, the need for a mode shift decreases. Finally, according to internationalization process theory, over time companies become better prepared to involve themselves in market servicing modes that include a higher degree of resources and commitment (Pedersen et al. 2002,19).

2.3.3 Foreign operation mode stretching

Foreign operation mode stretching is an incremental process where a FOM almost melts together with another FOM (Welch et al. 2007, 367). Therefore, it is not always the case that a FOM is replaced by another with a clear-cut change (Welch et al. 2007, 386). Evaluating the importance of a mode switch from an internationalization perspective, regardless of the obvious pattern, a lot relies on the changes before the formal switch, and also on the form of the new mode. Therefore, the core of change is not seen solely by the existence of a mode switch. (Welch et al. 2007, 388)

Commonly, there exist many ways to smooth the path to mode switch which are not easily noticeable in the general form of operation mode. For instance, it is pretty usual that companies employ staff from their previous, or present, agent to ease the transition to use of a sales subsidiary. Cooperation with the agent may be used even after the sales subsidiary is established, acting as an organic extension of the existing arrangement and facilitating the demand and risk related to the mode switch. (Welch et al. 2007, 388)

Company's activities and organizational change dimensions indicate if there has been change in the use of certain FOM over time (Welch et al. 2007, 388). Added to the extension activity, the company most likely needs to make organizational changes to organize the within mode developments. For example, an export department could be found at the home base of the entrant company. Extension activities also require the staff to be used in different ways. (Welch et al. 2007, 389) The earlier mentioned could be applied also to other FOMs: the changing set of activities, organizational adjustments and resource commitments over time shows any mode of the extent and type of within-mode change, creating an understanding of the nature and importance of mode switch and finally the character of internationalization. (Welch et al. 2007, 389)

2.3.4 Foreign operation mode combinations

It is not unusual to view companies using more than one operation mode in a foreign country. (Petersen & Welch 2002, 2) Mode combinations can be a company's foreign market entry platform, or they might evolve through time, within and across different markets (Petersen & Welch 2002, 6). Thus, there does not exist only one ideal market entry strategy. Different market entry methods could be applied by different companies entering the same market and/or by the same company in different markets. Company usually combines FOMs to enter a particular foreign market. These FOM combinations are also called "*mode packages*" and they can take the form of concerted use of several operation modes in an integrated, supplementary way. Sometimes company can use a combination of modes that compete with each other. This can happen when a company tries to take powerfully over an export market. The present local distributor may be able to withstand giving up the market, depending on the nature of existing obligations. However, the exporter may establish a wholly owned sales subsidiary. (Hollensen 2011, 316)

According to Benito et al. (2010, 16) companies combine FOMs due to the internal and external factors. External factors can be for instance governmental restrictions, adaption to local regulations and market. On the other hand, internal factors can demand differentiation. Company's activities may need to be differentiated due to the control needed to manage them successfully.

A company can combine operation modes in various ways wanting to enter, or develop activities in, a foreign market. Nevertheless, if a company is using many modes in a foreign market does not always indicate that the company uses an integrated package. Multiple modes in one country can differ from unrelated activities to a closely coordinated total business package. More specifically, we can identify four different forms of multiple modes: (1) unrelated, (2) segmented, (3) complementary, and (4) competing. (Petersen & Welch 2002, 7). See Figure 8.

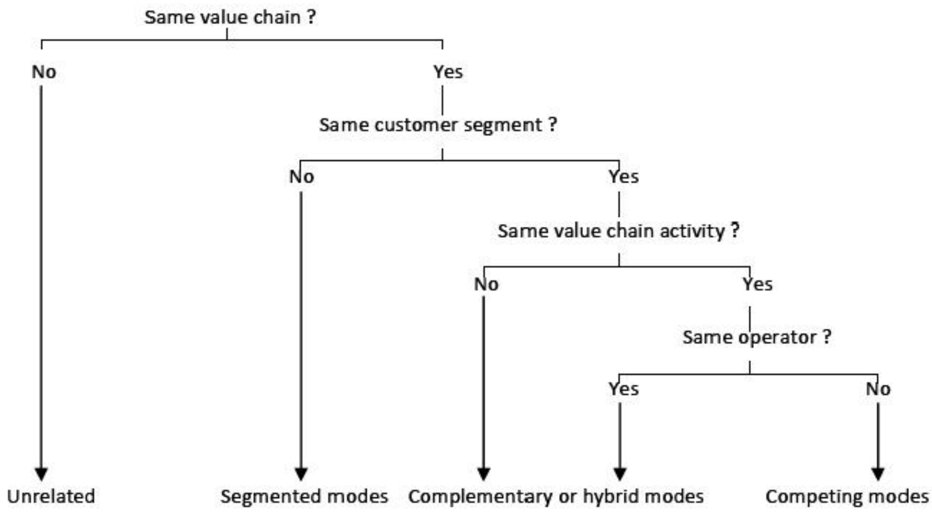

Figure 8. Different types of multiple mode operations (adapted from Welch et al. 2007, 396).

Unrelated modes refer to the multiple mode phenomena which can reflect the operations of an entrant company that conducts business across industries. Therefore, the operations of large, diversified multinational concerns in a foreign country are plausible to be dealt by different parts of the organization. Good example of this is the Norwegian multinational Norsk Hydro in India. Five of its product divisions use different market servicing modes and operate in an independent way. (Petersen & Welch 2002, 7)

On the other hand, segmented modes relate to a situation where an entrant company might use multiple modes that operate in the same industry, but serve different segments. Therefore, the entrant company may believe it to be advantageous to approach the foreign country as a collection of segments that should be handled differently in terms of operation modes. For example, the largest customers could be directly dealt with, while others are handled through distributors or sales subsidiaries. Beside the size of the customer, other segmentation criteria could include: geographical regions, households versus business organizations and infrequent buyers versus repeat buyers. Moreover, multiple mode phenomena can be observed also at the country level. Even though a company can share a product concept, however in practice the foreign operations relating to different segments can exist independently of each other. Additionally, small companies should use more than one operation mode in a large foreign market in order to achieve efficient nation-wide penetration. Actually, when more than one mode is being used in a foreign market it can refer to the type of market breakdown employed by the entrant company. (Petersen & Welch 2002, 7)

On the other hand, complementary modes relate to a situation where a multinational corporation (MNC) might hand over the manufacturing in a foreign country to a licensee but still operate the sales and marketing through its own sales subsidiary. Therefore, a clear cut of labor exists between the two operation modes: manufacturing and selling are in the hands of different entities. The separation of the manufacturing and marketing sides of foreign operations is popular in the global activities of sports shoe and clothing companies (Luostarinen and Welch, 1990). A sales subsidiary and local franchisees could both serve the same customer segment but the franchisees operate the retail sale activities, whereas the sales subsidiary handles the wholesale activities including logistics. This is called vertical division of responsibilities (Petersen and Welch, 1999). On the other hand, a horizontal division of responsibilities are practiced by international pharmaceutical firms. This means that the drug companies and their distributors communicate directly with prescribing physicians, but the manufacturers handle the flow of information while distributors take care of the flow of product, including stock rotation and inventory control. (Williamson, 1992:65).

Component sourcing from the parent is a popular strategy among European and Japanese manufacturing subsidiaries in the People’s Republic of China (Schroath, Hu and Chen, 1993). Thus, the division of labor requires a high degree of coordination between the foreign operation modes. The operation modes cannot operate independently, thus they operate in a complementary way. For instance, the multiple modes can be viewed as a package that cannot be unbundled. Therefore, mode combinations mean in practice that FOMs work together in an integrated, cohesive manner in order to reach certain foreign market objectives. (Petersen & Welch 2002, 7)

Moreover, when discussing about competing modes, the foreign country business units target the same customer group(s) and perform similar business activities but the ownership and location are different. For example, two modes, direct sales and sales via reps, can direct the same activities to the same segment, and thus are involved in head-on competition. Competing modes can happen also in the case where the entrant company tries a hostile take-over of an export market. The present local independent distributor might resist giving up the market and the exporter anyway establishes a wholly owned, local sales organization. (Petersen & Welch 2002, 7)

The level of integration or coordination of multiple modes within the complementary category can vary across different foreign markets even for individual firms. Unrelated and segmented multiple modes do not directly support each other. There are various ways where indirect support can offer a more general form as a result of having additional operations in the same market. For instance, through staff training the company transfers market information and contacts. Therefore, mode use is a dynamic process and may be changed through alterations such as mode additions or subtractions through a period of time changing the existence and form of mode packages. (Petersen & Welch 2002, 7)

The changed combinations are not usually discussed in studies of singular mode establishment chains because of the way they occur (Buckley and Ghauri, 1998). Some mode packages can be temporary in nature for purpose as companies seek to better position themselves for a move to a favored form of operations in the foreign market. Question relating to mode packages or combinations is: what does mode change mean when moving from one step in the establishment chain of a company to another? Does it mean that all modes in one package are dropped in moving to a new package, or just some or only one? (Petersen & Welch 2002, 7)

The scope of real change is concerned to the diversity and depth of roles performed by the different modes in moving from one combination to another. There can be shifts in the different roles within a package and of the weight given to the use of different modes in time. The presence of a given mode within a package can tell about its function and how it was contributing to the overall internationalization of the company in time. Mode development can be hard to distinquish through time for individual companies because there is not a clear individual mode pattern (Petersen & Welch 2002, 7) Good example is the Finnish multinational company, Kone, who applied mode addition over time, in response to evolving market circumstances and strategic objectives. Interesting is that in Japan Kone used quite cultivated mode packages. The company started with exporting, however over time Kone moved on to a broad operation mode package in its relationship with Toshiba. This mode package included an equity share in a separate company, licensing, technical and purchasing cooperation, marketing cooperation in China, and seats on each other's boards. (Benito et al. 2010, 3)

3 RUSSIA AND THE FINNISH COMPANIES IN THE COUNTRY

When examining the FOM use of Finnish companies in Russia, it is important to understand the dynamic context and the special characteristics of the country. The country is officially known as the Russian Federation. Russia's population is 143,4 million people (1.1.2013). Capital of Russian Federation is located in Moscow. (FRCC 2013a) See Figure 9.

Figure 9. Map of Russia (CIA 2013).

In December 1991 USSR broke down into Russia and 14 other independent republics. Afterwards, Russia has moved away from its post-Soviet democratic objects closer toward a centralized semi-authoritarian state in which the leadership seeks to legitimize its rule through controlled national elections, populist pleas by President Vladimir Putin, and so far continued economic growth. (CIA 2013)

3.1 Russian economy

According to its GDP, Russia is amongst 10th largest economies in the world. During the years 2000-2010 country's economy grew 5-10 percent per a year. The growth was supported by the rising world market price of raw oil and metals. During this decade Russia's economy has grown 3,4-4,5 percent per year. Diversification of the economy and modernization of the industry has been taken to the country's agenda. (FRCC 2013b) However, in 2014 Russia's GDP is expected to slow down (BOFIT 2014a, 1).

Russia's largest refining industry branches are: manufacturing of oil products, steel industry, food industry, manufacturing of vehicles and chemistry. Growing industries so far has been oil products, drug manufacturing and paper industry. The size of the service industry has grown to 60 percent of the GDP. Its growth industries are retail trade, financing business, telecommunications and real estate operation. Russia imports significantly machines and devices, iron metals, food, drugs, clothes, shoes and furniture. Exporting from Russia is largely based on raw oil, oil products and natural gas. (FRCC 2013b)

Regardless of the declining growth of production, investments are expected to recover because production capacity's utilization rate is already near year 2009. Additionally starting from the year 2014, the state will start large traffic projects as revitalizing activities which it will participate by giving long-term credits from its funds (National Welfare Fund) and also from the accumulated pension funds. (BOFIT 2013, 3)

3.2 Russian legislation, corruption and business culture

A company's home country's political environment can limit its international operations because it can limit the countries that the company may enter.

Moreover, the host country's government can regulate bribery and corruption. In emerging markets payments or favors are a part of life as a return for government services. Some companies doing international business systematically have paid bribes or did favors in the past for foreign officials to gain more contracts. Lot of managers says that their home country should not force its moral principles to other societies and cultures in which bribery and corruption are common. According to the managers, to compete globally they have to be free to use the most common ways of competition in the host country. Especially in industries that have small or decreasing markets, competition forces companies to find any possibilities to receive a contract. However, it is hard to picture that a company has different standards, depending on whether they do business abroad or domestically. Moreover, bribes can open a path to shady performance and loose moral standards among managers and employees. This can turn the company's focus away from best producing and marketing of the products, to bribery. (Hollensen 2011, 204-205)

Russia is no exception. The country offers plenty of opportunities but at the same time numerous challenges. Russia's business environment is difficult and unpredictable. In transition economy, bureaucracy, arbitrariness and corruption sprawl everywhere. However, now it seems that there is an ongoing change regarding business environment and attitudes. Officials for instance cooperate better at the moment than before. Though, Russia is a market economy by its legislation, however the transition economy's logic influences still. There exist strong distrust between private and public sector. Unofficial operation has been a way to survive and that what happens behind the scene still effects. (Aalto-yliopisto Kauppakorkeakoulu 2012)

Anyone who has worked in Russia or with Russians knows that in Russia it is possible to go around any restriction. By using a creative ways to approach a person through discussing, persuading, praising and appealing to kindness, it is possible to get even impossible things done.

Small and bigger applauses usually help greatly, though from there it is only small and dangerous step to corruption. Unaccustomed foreigner can feel oneself uncertain and uncomfortable, and even curse this way of acting, but sooner or later notices using it, wanting it or not, because the other option is that things just simply do not proceed. (Hultin et al. 1997, 26)

Furthermore, in Russian business culture lot is done in an opposite manner than in the Finnish business culture. For instance, Finns prefer to plan very precisely and well upfront as much as possible. Finns also like to stick with the plan, while Russians think that it is fine to make last minute changes to the plans. In addition, facts and written documentation are important for Finns who respect law and orders, unlike Russians who trust in their own intuition and do not respect laws. One good example of the different business cultures is that Finns often try to avoid taking risks but Russians see risks as opportunities. (Vihavainen 2007, 123-124)

Before starting a business in Russia, company needs to choose an operation mode that would be the most suitable for the company. Traditionally it has been thought that internationalization to Russia follows "*export-representation-subsidiary-production*"-pattern. (Pirnes & Kukkola 2002, 77). JVs which have been founded together with Russians seem to have plenty of difficulties relating to different operational culture and communication between partners. One of these difficulties relate to the long-term way of operating. Finnish partner, regardless of difficulties, usually tries to hold on to original business idea, while Russian partners are sometimes ready to run after every real or imagined possibility to make money. Focusing on the company's central operations does not seem so appealing when it seems that others are making money beside of their other operations. Moreover, changing unsuccessful CEO can be an impossible task because Russian partner sees the fail of their own chosen man as a failure of the whole mother organization who has appointed him. This is often hard to admit. (Hultin et al. 1997, 26) Therefore, societies and networks in

Russia are extremely important. For example if the CEO changes company where he or she works, then the closest subordinates might follow him or her. The role of the CEO is strong in Russian working culture. Even the smallest decisions are brought to the CEO to be approved. The CEO must also act according to his or her status. (Helsingin Sanomat 2013a, D4)

Moreover, the general ways of operating in Russian business culture differ from the Finnish because in Finland there is clear "*rules of the game*", while in Russia the rules are more complex. The portion of unofficial networking in Russia is crucial. Even though in Russia there are lots of factors which distort competition, for instance corruption, this is not the whole truth. Lot of Finnish companies have adapted to Russia and succeeded there. The important thing is to acquire information as much as possible to be able to analyze opportunities and risks. (Roslund 2013, 10)

If a foreign company wishes to succeed in Russia it has to be also able to avoid political pitfalls. This is said to be easiest in the field of business which is not considered to be strategic. For instance, retail trade is a good example of this kind of field. On the other hand, oil and gas industry are seen as highly strategic fields. Second advice is that the company should not be too depended about the weathered infrastructure of the country. Third advice is that the company should not trust that the laws of competition would protect foreign company in a similar way than in the west. Nonetheless, companies who are seriously operating in Russia still succeed in the country. Good example is a Finnish company called Fortum which invested 4,5 billion euros to an electric company which operates in Urals and in West-Siberia. (Helsingin Sanomat 2013b, A5)

3.3 Political environment and the role of government

A political risk can exist in every country but the range of risks varies lot from country to country. Commonly, in countries that have a history of stability and consistency, political risk is the lowest. There are three major types of political risk: 1) ownership risk, which exposes property and life; 2) operating risk which refers to interference with the continuing operations of a company and; 3) transfer risk which is usually met when companies want to transfer capital between countries. (Hollensen 2011, 208)

There can be also other types of political risks for example nationalization (expropriation). Nationalization is an official seizure of foreign property. Nationalization is the furthest government tool for controlling foreign companies. Fortunately, this radical action against foreign companies is happening less often as emerging markets begin to see FDI as a wanted matter. Other important example is domestication. Domestication can be viewed of as an incremental expropriation and is a process by which controls and restrictions put on the foreign company gradually decrease the control of the owners. (Hollensen 2011, 208)

Countries have many reasons wanting to trade with each other. However, an importing nation will take steps to prevent the inward flow of goods and services by effecting trade barriers. Trade barriers or trade laws are often tariffs that favor local companies and discriminate against foreign ones. Tariff is a tool that is used by governments to protect local companies from outside competition. The most common forms of tariffs are quotas, ad valorem and discriminatory. Moreover, quota is called a restriction on the amount, measured in units or weight, of a good that can enter or leave a country during a particular period of time. A quota is the second most used trade barrier after tariffs. Governments usually manage their quota systems by granting quota licences to the foreign companies or governments (import quotas), and domestic producers (export quotas). Usually governments grant these licences on a year-by-year basis. A government imposes import quotas in two cases: 1) to protect its domestic producers by putting a limit on the amount of goods allowed to enter the country and; 2) to force the foreign companies to compete against one another for the limited amount of imports allowed. (Hollensen 2011, 209-210)

Russia's present government was appointed on 21 May 2012. The country's so-called power ministries are Ministry of Foreign Affairs, Department of the Interior, Ministry of Justice, Ministry of Emergency and Ministry of Defence. These power ministries are accountable directly to the president. Moreover, other ministries are accountable to the prime minister. Government in Russia is appointed by the president and it is not accountable to the parliament. The president's workplace is Kremlin and prime minister's secretariat is located in the White House. (Ministry for foreign affairs of Finland 2013b)

This millennium Russia has become wealthier and is at the moment one of the biggest economies in the world. This brings authority and self-confidence to the country. Russia sees itself as an independent center of power, which influences to the formation of rules and situations. Generally this is true, but not so much as the country wishes. (Niemeläinen 2013a, B2) Many times repeated political estimation is that the president Vladimir Putin's power is based on unwritten social agreement that the president can have his power as long as the economy functions. Due to oil dependency, the system is seen to be based on high oil prices. According to this thinking, the declining of the world market price of raw oil below 60 dollars per barrel over half a year would lead to political crisis. (Hakala 2013, A27)

Today western part of the world view Russia not only as a strong superpower but also as a country that has lost its citizens' support. If Russia cannot keep order inside the country, it can cause trouble also to Finland. However, Russia offers vast opportunities to Finland which makes it necessary to increase the interaction between the two countries, lower borders, develop the capacity of the border stations and abandon visas. (Joenniemi 2013, A5) The relations between Russia and Finland are relations of a small country and a large country. Kremlin view Finland as an easy neighbor which isn't necessary to think even every week. However, the relationship turns worse if Kreml views Finland to become troublesome to Russia. (Niemeläinen 2013b, A4)

Generally Russia's view to matters is completely different than that of Finland because the country looks at the map also as a worried superpower. Situations in Russia may change if the country sees broader dimensions in particular projects. For instance the creation of high speed train connection between Saint Petersburg and Helsinki happened so quickly that Finns had hard time to keep up with the Russians. In addition, the brisk construction of the ports at the Gulf of Finland surprised Finns. (Kalliokoski 2013, A5)

Present politics in Russia leads to deteriorating investment atmosphere which does not improve the SMEs' development views. Moreover, too big state capitalism in Russia slows down the development. Companies do not receive enough support from the government. (Roiha 2013, 10) Though, Russia's accession to the World Trade Organization (WTO) has benefited the wood trade of Finland. However, the conflicts on the borders of Ukraine, Moldova and Lithuania and the problem with TIR-transportation insurance are examples of that the WTO-agreement hasn't work. (Pirilä & Mehtonen 2013)

Russia’s dynamic and erratic context demands from the foreign company a lot of patience. For instance during the year 2014, upon Russia has placed economic restrictions, the value of ruble has declined and the economic growth of the country was predicted to get worse (BOFIT 2014a, 1). Especially the devaluation of the ruble is bad for the Finnish companies. When they bring home the earned rubles and change them as euros, they get fewer euros than before. Moreover, the ruble’s devaluation means more expensive imported products and accelerating inflation for the Russian consumer. (BOFIT 2014b, 1) Due to Russia's worsening economic situation of trade and economy, protectionist objectives are already seen in the country's border, on its foreign trade and in the traffic between Finland and Russia. Fortunately, this does not show on the Finnish border so strongly as for example on the borders of Moldova, Ukraine, Lithuania and Belarus. Earlier Russia was found to be very strongly integrated to Europe but now Russia's leaders have started to emphasize more *"the Eurasian connection"* in their speeches. (Pirilä & Mehtonen 2013)

3.4 Foreign direct investments in Russia

During the good years of economic growth, years 2007-2008, FDIs to Russia exceeded the line of 50 billion euros. During years 2009-2012, the amount of new FDIs has been small. In year 2012, the value of the investments was 30 billion euros which is equivalent to two percent of the GDP. Balance of capital has remained negative because Russian companies invest more to abroad than foreigners to Russia. In addition, Russian companies have reduced borrowing from abroad. Cumulatively foreign investments have accumulated to Russia worth of over 250 billion euros. From these over half are loans and other short-time investments. Capital investments have been mainly made to oil industry, real estate sector and to trade. During the past years, investments to manufacturing industry, especially to car- and food industry have grown. (Ministry for foreign affairs of Finland 2013a) Foreign investors have shown increasing interest towards consumer markets. Due to the fact, that with corruption it is not possible to force a consumer to buy a particular product. (Sajari A31, 2013)

Moreover, these high reinvestments in the automotive and financial industries were reflections of foreign investors' interest towards the growing domestic market in Russia. The Russian Federation’s accession to the WTO has also influenced on the investors’ decision-making for some particular projects. The largest sources of inward FDI in the country came from developed economies, such as EU member states. Investment flows from offshore financial centers were also noticeable. (UNCTAD 2013, 64) Approximately half of the foreign investments are made by Russian companies themselves circulating through foreign finance companies. Largest foreign investors come from Cyprus, Virgin Islands and from Netherlands. They are also the largest target countries abroad for foreign investments. (Ministry for foreign affairs of Finland 2013a)

In addition, large part of FDI stock continues to be a return of offshore capital held by Russian residents in numerous financial hubs all over the world. See figure 10. As mentioned earlier, the major investments to the Russian Federation came from Russian investors located in Cyprus because Cyprus has good financial facilities and favorable tax conditions. Nevertheless, due to the country's worsening economic situation, Russian investors have started to use other countries than Cyprus as a base for their investments at home. In 2012, only 6 per cent of FDI flows to the Russian Federation came from Cyprus. (UNCTAD 2013, 64) See figure 10.

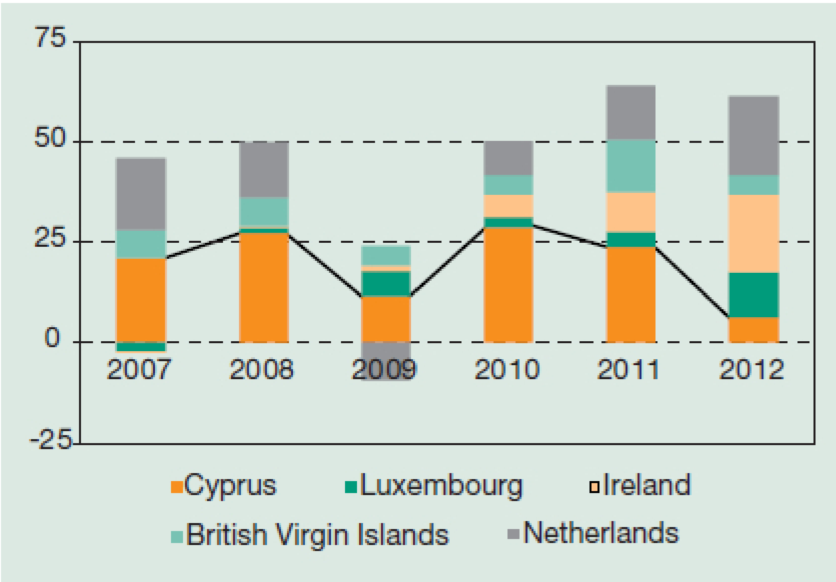

Figure 10. Shares of the five largest investors in FDI inflows to the Russian Federation, 2007-2012 (UNCTAD 2013, 64).

FDI inflows are predicted to rise slightly in 2013 because of an investor-friendly environment and the continuing round of privatization. As mentioned earlier, a large share of the FDI to Russia consists of "*round-tripping*". In addition to the common sources of FDI, this round-tripping is an obvious characteristic of the Russia's FDI patterns. Round tripping refers to a very high correlation of inward and outward investment flows between the country and the financial hubs, such as Cyprus and the British Virgin Islands. These two countries are all the time among the major source countries for inward FDI and also the primary targets of Russian investments. A more precise scrutiny at the FDI stock in and from Russia shows that the three major investors, Cyprus, the Netherlands and the British Virgin Islands, are also the major recipients of FDI stock. Approximately the same amounts in both directions. These two economies account for around 60 per cent of both inward and outward FDI stock. (UNCTAD 2013, 65) See figure 11.

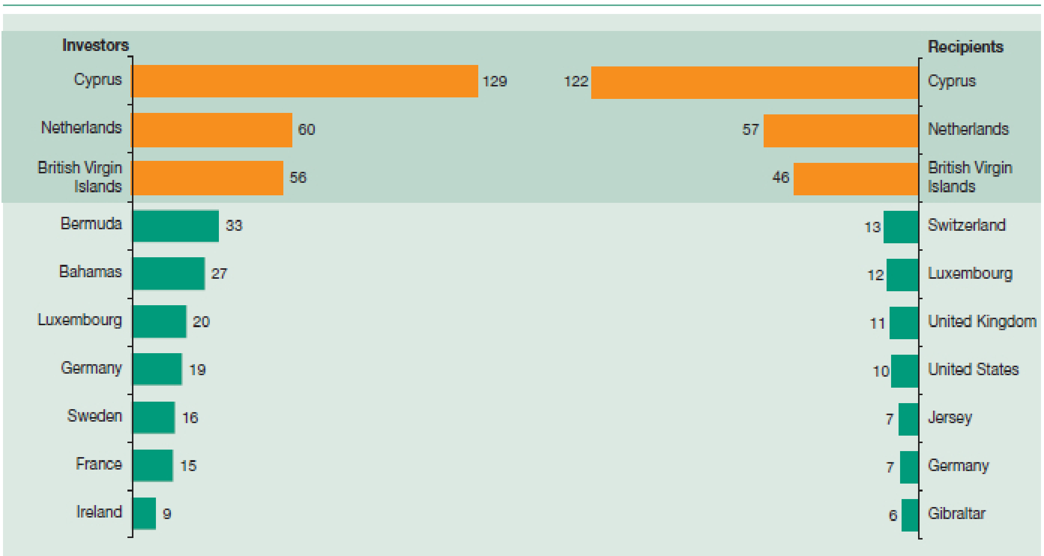

Figure 11. Russian Federation: top 10 investors and recipients of FDI stock, 2011 (Billions of dollars) (UNCTAD 2013, 65).

3.5 Finnish companies in Russia

In 2012, Finland's trade to Russia grew seven percent and Russia was the second most important export country for Finland (FRCC 2013c). Finnish companies mainly establish wholly owned subsidiaries in Russia. The future operations determine if it is more suitable to establish a subsidiary or open a representative office. Subsidiary of a Finnish company operates in Russia according to the valid legislation just as a Russian company. However, representative office's rights to operate are very restricted. For instance, it does not for have the right to practice any commercial operations. However, to transfer money to representative office is easier than to subsidiary. (Hultin et al 1997, 219) Furthermore, when compared to public sector players, lack of resources and worse bargaining position makes it difficult for Finnish SMEs to establish into Russia. This all usually manifest itself as difficulties with officials already in the establishing phase of the company. (Heininen et al. 2008, 9)

Still over 600 Finnish companies have settled to Russia. They employ approximately 50 000 person. (Ministry for foreign affairs of Finland 2013a) Approximately 2/3 of the Finnish companies are located in Saint Petersburg and in the surrounding Leningrad Oblast (Heininen et al. 2008, 3) However, at the Republic of Carelia there operates only few Finnish companies. Biggest ones are Rapala and Stora Enso. Rapala has a factory at Helylä, Sortavala and Stora Enso has a saw at Impilahti. (Salovaara 2013, A26)

As mentioned above, geographically Finnish companies' investments have focused especially on Saint Petersburg and broadly on North-West Russia. However, investments have been made also to regions of Moscow, Kaluga, Nizhny Novgorod, Perm, Sverdlovsk and Tver. Finnish constructing companies have expanded their house production from Saint Petersburg to Moscow and other rapidly growing million cities such as Yekaterinburg, Kaluga, Kazan and Rostov-Na-Donu. (Ministry for foreign affairs of Finland 2013a)

Most of the Finnish companies in Russia operate in the field of trade and services. However, approximately 100 companies have made industrial investments to the country. Investments of Finnish companies exceed already over 10 billion euros. Over three billion of the investments go to the energy industry and approximately one billion to the forest industry. Largest individual Finnish investment to Russia was made by OAO

Fortum, which produces electricity and heat in the Urals and West-Siberia. Other significant investments have focused on logistics, woodworking industry- and construction sectors. During the past years, investments to retail trade and to other service sectors have also increased. Moreover, investments are growing for the manufacturing industry. (Ministry for foreign affairs of Finland 2013a)

Russia's purchasing power concentrates on the regions of Moscow and Saint Petersburg. Also other million cities and the medium-sized cities locating near big cities grow rapidly and the interest towards them is rising. In the coming years, Russia plans to invest especially into the development of the arctic areas and the Far East areas. Large infrastructure and industry's modernization projects offer opportunities also for Finnish construction companies and ship manufacturers. Arctic energy projects are expected to create business opportunities to Finnish technology companies and sea industry. In the future, large scale events are organized, such as world championship of ice hockey in 2016 and world championship of football in 2018. The infrastructure projects of this events most likely interest also Finnish companies. (Ministry for foreign affairs of Finland 2013a)

4 METHODOLOGY

This chapter covers the selection of the empirical research method. Case selection process and data analysis are also discussed in this chapter. Finally, interview guide design and the issues relating to validity and reliability of the empirical research are handled in the end of of this chapter.

4.1 Research method

Choosing the most suitable research method is crucial. This study is done as a semi-structured qualitative within-case and cross-case research. The research approach in this study will be surveys. The purpose of this study was to compare different FOMs, reasons for FOM choice and FOM strategies, thus qualitative method was the most suitable for conducting this study. The qualitative research method was chosen as the research methodology because qualitative research tries to answer to questions such as "*why?"*" and "*how?*". Fundamentally qualitative methods are descriptive and inferential by their nature. Qualitative research can be described as soft, subjective and fickle. Especially subjectivity of qualitative study is one of its major strengths.

Qualitative work is based around the ideal of a purpose selection of a small number of cases from the population. Qualitative research tries to understand the research subject and explain the reasons and activity behind its behavior and decisions. Therefore, statistical generalizations are not the goal of qualitative research. (Gillham 2000, 10; Lee & Lings 2008, 209) The above mentioned benefits of the qualitative research method, gives aid to understand the fundamental reasons of how Finnish companies have used FOMs and which kind of FOM strategies they have used in Russia.

4.2 Data collection and interview guide design

The data collection of this study was conducted during the spring of 2014 to find out more about the FOM usage and FOM strategies of Finnish companies in Russia. The data collection started first by going through the Finnish-Russian Chamber of Commerce's list of Finnish companies operating in Saint Petersburg and Moscow. Potential case companies were then selected to represent the most prospective industries and business areas from the perspective of Finnish companies. It was important to acquire right contact information from the list about the higher management level persons of the potential case companies. Second step was to start contacting those companies. The companies were contacted first by email and asking a permission for an interview. All in all, 28 Finnish companies were contacted from various industries. The purpose was to get both Finnish LSEs and SMEs as case companies so that there would be variation also in the case companies' size, resources and age.

Usually in qualitative research, data can be collected by using traditional structured or semi-structured interviews. This study used an interview guide as a backbone for conducting the interviews. The interview guide can be relatively unstructured, with open-ended questions, targeted at depth interviewing, or relatively structured, with closed-ended questions (Lee & Lings 2008, 218). Finally, semi-structured interview guide was chosen. Semi-structured interview guide has the same questions in the same order for all the respondents but the respondents have to respond to the questions in their own words. The interview guide had five themes which were: 1) company background; 2) Russian business environment; 3) foreign operation entry modes; 4) changes in the usage of foreign operation modes and; 5) combination of foreign operation modes. The interview guide included 11 questions. The same questions were asked from all of the interviewees. The interview guide can be found from the APPENDIX A.

All the interviews were conducted by telephone with the interviewee. It was informed to the interviewee that the information they would give would be handled confidentially. Thus, the name of the interviewee or the name of his company, are not mentioned in the study. Afterwards, the answers were analyzed, collected on a table and compared. Challenges to the data collection process brought the managerial level personal changes which were implemented in some of the Finnish companies in the beginning of the year 2014. Therefore, some company executives who just started in their new position felt that they were not ready yet to give an interview.

4.3 Data analysis

Case study research is well-suited to increase our understanding of a complex issue or object. Case study research can also expand experience of what is already known through previous research. Case studies stress elaborated contextual analysis of a restricted number of events and their relationships. According to Yin (1984, 23), the case study research method is "*an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used*".

Moreover, different cases test understanding of theory and teach how to develop theoretical insights. Cases are a way to see how theory is used in practice or to identify the demand for theory. Cases give information about how work is organized in different environments, how systems function and how organizations compete. The case method helps to cope with new and complex situations. In today's world managers need to adapt to constantly changing situations. Through cases one commits to a process of learning how to learn. Additionally, every case is unique. (Leenders et al. 2001, 6-7)

In within-case analysis each case company is studied individually as a separate case to identify unique patterns within the data for that particular organization (Seawright & Gerring 2008, 306). In this study a within-case analysis is conducted and a detailed case company analysis is done for each organization. After within-case analysis, follows cross-case analysis. In cross-case analysis the point is to categorize the similarities and differences of the case companies to find patterns (Seawright & Gerring 2008, 306). The cross-case analysis of this study can be found from the chapter 5.9.

As mentioned earlier, for this study 28 Finnish companies were contacted on the basis of their industry, size and future outlook. Out of these 28 companies, seven companies were chosen as case companies for this study. The study acquired data through telephone interviews, where the interview guide was gone through with the interviewee. As mentioned earlier, the interview guide can be found from the APPENDIX A.

4.4 Validity and reliability

Validity and reliability describes the competence and credibility of the study. Together they are the most important requirements of the study and reveal the total credibility of the whole research. Reliability means that if the same phenomenon is measured over and over again with the same measurement device and the results are still similar, then the method is reliable. Moreover, validity means that the measurement method should measure the desired thing it is supposed to measure. (Lee & Lings 2008, 209)

During the data collection there were several factors which could have effected on the answers of the interviewee. Time, place and personal feelings can influence on the results of the interviews. In addition, some questions can be understood differently than meant or even wrongly. Due to the nature of the qualitative research all the interviews were conducted via telephone. Therefore, the data collection method was consistent throughout the data collection process. Seven case companies were seen as a good number to provide insightfully varying foreign operating mode patterns from different industries. The scope of different companies starting from manufacturing companies to service companies, gave also interesting additional value to the research.

5 RESULTS

This chapter present all the seven case companies (A, B, C, D, E, F, and G) followed by a detailed within-case analysis. A brief summary of the case companies and of the data collection process is depicted in table 3.

From each case company was selected a person for the interview who normally had the most experience in doing business and operating in Russia. Mainly, the interviewees were executive-level directors, such as country manager or export manager, responsible of strategy and operations in Russia.

5.1 Within-case analysis

As mentioned above, seven case companies were selected for this study from various industries. Only case companies A and G both operated in the construction sector, however, their business emphasis was still different. Company A focused on construction and real estate maintenance services, while company G beside construction conducted also infrastructure building operations.

All of the case companies' FOM strategies are discussed and analyzed in the following seven chapters. Brief summary of the case companies and of the data collection process can be found from table 3.

Table 3. Summary of the data collection process.

Case Company	Industry	Title of the respondent	Interview date	Data collection method
A	Constructing and real estate maintenance services	Head of the Russian area	3.2.2014	Telephone
B	Wholesale and retail trade	Real estate general manager	3.3.2014	Telephone
C	Machine- and process planning (turn-key boiler plants)	Business area director	17.3.2014	Telephone
D	Glass- and aluminum construction (balcony glazing)	Export manager	18.3.2014	Telephone
E	Other intermediate products' wholesale trade (industrial strapping)	CEO	25.3.2014	Telephone
F	Consulting	Country manager	26.3.2014	Telephone
G	Constructing and infrastructure building	Regional director	31.3.2014	Telephone

5.2 Company A

The head of the Russian area of the case company A was interviewed via telephone on 3rd of February 2014. Company A is a LSE founded already in 1912 and operates in constructing industry. In addition, it also conducts real estate maintenance services. At the moment, the company employs circa 25 300 employees and its 2012 turnover was 4 676 million Euros. In 2012 seven percent of the company's revenue came from Russia. Currently, the company is operating in St. Petersburg, Moscow, Moscow Oblast, Yekaterinburg, Kazan, Rostov-Na-Don and Tyumen. Moreover, beside Russia, the company operates in Estonia, Latvia, Lithuania and Slovakia.

Before entering to Soviet Union the company had operations in the Middle East in the 1950s'. In 1961, the company started to operate in Russia which was at that time called the Soviet Union. During the interview the head of the Russian area discusses about the reasons for entering to Soviet Union:

During the time when the company entered to Russia, the country was still ruled by the communist regime and the country was called the Soviet Union. The only way to do trade with the Soviet Union was through a bilateral agreement . In practice this meant that doing business with the Soviet Union was part of the Finland's foreign policy, thus the choice to enter was not solely the company's own decision. For example, in bilateral trade the oil that Finland imported from Soviet Union was paid by project exporting. After the collapse of the soviet regime, the main reason for us to do business with the new Russian Federation was growth because our domestic market was already saturated.

Company A's initial market entry mode was project exporting which the company conducted until the year 1990. As the head of the Russian area mentioned, project exporting was the only way to operate in Soviet Union. Starting from the end of the Perestroika era it started to be possible to establish a private company in the Soviet Union. At that time, the company changed its FOM and started the localization of its operations via investment mode and bought a local company. The head of the Russian area continued that:

If one wants to construct in Russia, it is possible only through a local subsidiary.

The interviewee still proceeds to discuss that the company has a long international experience and understands that every country has its own laws. So far the interviewee has not seen any changes in the business environment after Russia's accession to the WTO. All in all, construction is a local operation which has its own challenges. Moreover, the list of challenges in Russia is naturally very long. For instance, the bureaucracy relating to acquiring permits is very tricky. Therefore, the company has 25 lawyers to help the company's subsidiaries. Nevertheless, the interviewee does not seem to be too pessimistic about doing business in Russia because he still adds that:

Many of the Finnish companies think that all the countries in Europe should act just like Finland. If some countries don't, then it is considered immediately as a challenge.

CASE ANALYSIS

To summarize, case company A is an extremely old LSE which operates in big cities in Russia. Company A had prior international experience before the initial entry. The initial entry was made to the Soviet Union in 1961. The initial entry did not happen solely by the company's own decision. The used entry mode was project exporting according to the bilateral agreement. However, after the collapse of the Soviet Union, company A switched from exporting to investment mode and started to seek for deeper market penetration. The time span between the initial entry and the mode switch was 30 years.

Company A switched to investment mode and established a subsidiary to the new country called Russian Federation. It is common that governments in emerging markets have restrictions on foreign ownership of companies especially in strategic industries. Therefore, the mode switch of company A is in line with Welch et al.'s theory (see page 53) that when these restrictions are removed, entrant companies usually switch to wholly owned subsidiaries. This change of local government policy on foreign ownership is an external factor which enabled the mode switch of company A to be conducted. Moreover, learning more about the local market and accumulating information can also be one factor behind the mode switch. Main reason for company A to implement the mode switch was most likely to gain a stronger physical presence in Russia and therefore to better and more efficiently serve the company's local customers. Finally, being active in the Russian market for many decades, company A has learned to avoid the biggest pitfalls and to operate in the country in a very sensible way.

5.3 Company B

The real estate general manager of the case company B was interviewed via telephone on 3rd of March 2014. Company B is a LSE founded in 1940 and operates in wholesale and retail trade. At the moment, the company employs circa 23 900 employees and its 2013 turnover was 9 315 million euros. During the year 2013, approximately three percent of the company's revenue came from Russia. At the moment, the company is operating in Moscow, Saint Petersburg, Yaroslavl, Kaluga and Tula. In addition, beside Russia, the company operates in Sweden, Norway, Estonia, Latvia, Lithuania and Belarus.

The main reason for company B to enter into the Russian market in 1998 was its will to expand. Russia was chosen as a target market because there were huge profits to be made and almost no competition at that time. However, risks were also extremely high. In 1998 the company started to conduct business-to-business sales of construction materials to Moscow. The B2B-sales were a way of acquiring knowledge about the market and to do competitor analyses. Recession which was called "*Ruble crisis*" hit Russia in 1998 and continued until 2001, this caused a delay to the company B's strategy. After the Ruble crisis, company B bought small businesses from Russia. First they started with small business purchases and later moved on and bought three sites. In 2004, the company started to plan for a new strategy and in 2005 they started to implement the new strategy and opened their own stores on the earlier purchased three sites.

According to the real estate general manager, the main difference between Finnish and Russian business environment is the official activity which is worse than in Finland. In practice this means that it is extremely difficult to get any customer service from the public sector at all. Moreover, the shortage of good permanent workforce in Russia is reality. Therefore, the turnover of employees is extremely high in the country. Unfortunately, this does not concern only big cities, such as Moscow and Saint Petersburg, but the whole country.

When asked about the impact of the Russia’s WTO-membership to the company’s business environment, the real estate general manager says:

The WTO-membership of Russia has had zero influence to our operations. Only some new laws have come into effect to abate the WTO-agreement's influence. For instance, the term "custom regulation" has been changed to "license regulation". Changing the terms enable to evade the WTO-agreement. Maybe in the future we start to see more changes but now the changes have been minor and only cosmetic.

The real estate general manager argues about the industry's future opportunities:

Because the retail trade is such a small field of business in Finland, thus Russia is the only expansion area for us. Moreover, Russia offers us huge possibilities. For example, there exist a good amount of shops already in Moscow and St. Petersburg but in smaller cities the field of trade is still undeveloped. This offers a lot of possibilities for us.

CASE ANALYSIS

Company B is quite old LSE which operates only in the most potential areas in Russia. Company B had prior international experience from Sweden and Baltia before the initial entry. Therefore, it seems that company B follows the Uppsala internationalization model (see page 29) to some extent because its internationalization begun from nearby markets. Company B’s initial entry was made to the Russian Federation in 1998 by using an investment mode. At that time, company B made couple of brownfield investments. Due to institutional forces of emerging markets, a Greenfield investment may be too slow to achieve the desired strategic goals, especially if the company wishes to have first-mover advantages (see page 23). Additionally, Greenfield investments encounter extensive establishment costs as local bureaucracies in Russia are rigid. Moreover, in an emerging market an investing company has to restructure and invest in the acquired entity to the point where it almost transforms from a brownfield operation to a Greenfield operation (see page 45). Thus, it is hard to say if company B has actually switched modes. It would be more correct to say that company B has twice stretched the used investment mode. First, when the company implemented the brownfield investment and, second when the company simultaneously had brownfield investments and purchased the three sites and started to plan for the real Greenfield investments. This incremental FOM stretch took eight years for the company. Moreover, company B applies also RBV (see page 26-27) because it seeks for new markets that allow exploitation of the company's resources.

Finally, the real estate general manager also pointed out that Russia changed the term "*custom regulation*" to "*license regulation*". Russia had implemented these new policies after the country had accessed to the WTO. As mentioned earlier, this institutional change is typical characteristic for emerging market environments (see page 17) because governments in these markets all the time design, revise and implement new policies. To sum up, company B operates through investment modes only in very narrow area in Russia. The company operates mainly in the big cities where the markets are big and where can be found a lot of consumers.

5.4 Company C

The business area director of the case company C was interviewed via telephone on 17th of March 2014. Company C is an SME founded in 1990 and operates in machine- and process planning industry and specializes in turn-key boiler plants. At the moment, the company employs circa 27 employees and its 2012 turnover was 26,6 million Euros. Currently, company C is operating around the whole Russia. Besides Russia and Finland, the company operates also in Ukraine and Belarus.

In 1988 company C had a small role in a project at Afghanistan. However, in 1990 company C started really to implement their internationalization strategy and started to operate in Soviet Union through direct exporting. As mentioned earlier, the options to do business in Soviet Union were very limited and exporting was almost the only FOM option. Fortunately, the owner of the company C had good contacts to the Soviet Union. Moreover, according to the interviewee exporting at that time was the best FOM for the company to operate abroad. In 1994, company C headed to Russia as a subcontractor for a large Finnish construction company. The first boiler plants were ordered in small villages of Mulino, Novo-Smoline and Andreapol.

In 1995 company C signed a contract directly with the Russian gas company Gazprom. The contract increased the company C’s exporting to the East. Regardless of being a small company and carrying big risks, company C made a vast deal with Gazprom´s subsidiary and delivered 40 boiler plants within 11 months to various parts of Russia. Later the company switched its FOM from exporting to FDI and established a Greenfield. Therefore in 2004 the company founded a subsidiary in St. Petersburg. This subsidiary made it possible to use DDP delivery terms, meaning that forwarding and customs clearance are handled by the Seller. In 2014 the company bought a small-scale heating boiler plant business in Moscow from MW Power.

According to the business area director the main differences in the Finnish and Russian business environments are that to some extent the Soviet Union's historical load still exists. This manifests itself in the form of corruption and public sector bureaucracy. However, business activities are pretty similar everywhere. According to the interviewee:

We do not have any secret behind our success. Only that the company's base has to be in order.

When asked about the impact of the Russia's WTO-membership to the business environment the business area director of the case company C is strongly realistic:

There has been no impact at all. I did not even believed that the WTO-membership would have any impact to our business. I do not have any positive feelings that it would neither in the future facilitate the business conducted with Russia. Russia’s WTO-membership is a myth. Lot of Finnish companies has used it as an excuse to not to go to Russia because the country has not been a WTO-member. Now that Russia is a member, the Finnish companies complain that they still do not want to come to Russia, due to the fact that nothing has changed in the country. To us it is good if the WTO-membership improves things but we don't rely on it. Look at for example China. After China became a WTO-member there have not been any big changes.

The business area director discusses more about the company's future opportunities:

Energy sector has a good future opportunities, unless the climate starts to warm. Oil sector in Russia is also big. Everywhere where exists lousy infrastructure, create more possibilities for us. All in all, Russia offers high risks and high returns. In general emerging markets offer lot of possibilities.

CASE ANALYSIS

To sum up, case company C is a quite old SME which operates around the whole country. According to the business area director the company did not have any significant prior international experience before the initial entry. The initial entry was made to the Russian Federation in 1994. The initial entry mode was direct exporting. Choosing exporting as a way to internationalize operations is typical for Finnish manufacturing companies (see page 29). Company C specializes in turnkey projects which are categorized under contractual modes. As mentioned above (see page 41), in a turnkey project one party sets up a plant, and puts it into operation. The difference between a turnkey projects and turnkey plus projects, is that in turnkey plus projects entering foreign markets is usually not an independent method.

In 2004 company C switched from direct exporting to investment mode and established a subsidiary to the country. The time span between the initial entry and the mode switch was 10 years. This FOM switch from exporting to investment mode was extremely important because the subsidiary in Russia helps company C to fulfill the delivery terms more actively. Moreover, beside the investment mode, company C uses out-sourcing, another contractual mode. The company does only the core planning by itself and all the other activities it out-sources. In company C's case, international subcontracting can be viewed to enable the company to focus on its core competences (see page 40). To summarize, it can be viewed that company C uses multiple FOMs when operating in Russia. Due to the fact that company C is a SME, it is not using any of the cultivated mode combination strategies which some MNEs prefer (see pages 27-60). All in all, company C operates in a simple and pragmatic but still in an effective way in Russia.

5.5 Company D

The export manager of the case company D was interviewed via telephone on 18th of March 2014. Company D is an LSE founded in 1978 and operates in glass- and aluminum construction and specializes in balcony glazing. In 2012 the company had turnover of 78,3 million euros. At the moment, the company's most important operating areas are Saint Petersburg and Moscow and their surroundings. Company D also operates in Vladivostok, Volgograd, Voronezh, Yekaterinburg, Kazan, Krasnodar, Krasnoyarsk, Nizhny Novgorod, Novosibirsk, Omsk, Perm, Rostov-Na-Donu, Samara, Ufa, Chelyabinsk, Yaroslavl. In Saint Petersburg the company handles selling of the products and in Moscow is the company's production located. Moreover, beside Russia, the company operates in Sweden, Norway, Spain and Canada.

The main reason why company D entered to Russia was because its domestic market did not offer anymore possibilities to grow. Moreover, in 1995 from Russian customers started to roll in signals indicating that there would be demand for the company's products. As an initial entry mode company D used Ex Works (EXW). In practice EXW means that the product goes directly from the factory to the buyer. The buyer then arranges the logistics himself.

Later, the company switched from EXW to use direct exporting. Afterwards, company D started to wish for a deeper establishment at the Russian market and established a representative in the country. However, company D still switched back to using EXW. Finally in 2008 they established a subsidiary and their own production in Russia.

The export manager argues that there exist differences between Finnish and Russian business environments:

First thing is that the Russian business environment is unforeseeable. Moreover, problems cause the problematic authoritative and official practices which are not related to doing business. In addition, difficulties relating to ruble as a currency, logistics and business culture are more challenging than operating in the west.

When asked about the impact of the Russia’s WTO-membership to the business environment the export manager states the following:

To us it has had no impact at all. Analyzing from the angle of Russia's geopolitical situation it seems obvious that any drastic changes are not *either coming in the near future. Nevertheless, let's hope that in the future we start to see some benefits coming from the WTO-membership.*

The export manager seems confident of the industry’s possibilities in the future:

When thinking about in terms of our product offering, we are only in the beginning. Therefore, we have extremely strong expectations about our future.

CASE ANALYSIS

Case company D is quite old LSE which operates in various places in Russia. Company D had a lot of prior international experience before the initial entry. The initial entry was made to the Russian Federation in 1995 by using EXW as an entry mode. Later, company D gradually stretched the FOM from EXW to direct exporting. Afterwards, exporting was switched to investment mode and later again back to EXW. Finally, the company's own subsidiary was established. These back and forth actions fit pretty well to the theory of Welch et al. (see page 54) where mode switches are in practice seen as problem-solving devices rather than systematic ways of streamlining the entrant company's organizational structure. Company D is a good example of this kind of functional behavior.

According to the export manager, the switch from exporting to investment mode was conducted because EXW offers no manoeuvrability over it. Company D wanted more control over the FOM, thus they ended up using again investment mode and established their own subsidiary and production in Russia. In company D's case it is obvious that the mode switch raise from inside the company itself (see page 54-55). Thus, as company D acquired more resources and knowledge, it noticed that it would be more profitable to change the low-commitment FOM to more market-committed FOM such as FDI. Company D’s time span between the initial entry and establishing own subsidiary and production in Russia was 13 years. Thus, this steadily increasing involvement and strategy in the

Russian market follows pretty nicely the RBV-theory which argues that after the company gains experience from the foreign markets, it moves from simple operations to more complex structures and arrangements (see page 26). Additionally, also pragmatic rule (see page 19) can be applied to company D. According to pragmatic rule company begins doing business with a low-risk entry mode during the early stages of exporting, and if the specific initial mode is not executable or profitable, the company will look for another workable FOM. Thus, given the company D's numerous FOM decisions, pragmatic rule can also be applied to the company D. All in all, company D's substantial prior international experience has given a lot of confidence for the company to conduct operations in Russia. The company for instance operates in numerous regions in the country. Additionally, the export manager of the company was extremely optimistic towards the company's future.

5.6 Company E

The CEO and the other owner of the case company E was interviewed via telephone on 25th of March 2014. The company is a SME founded in 1993 and operates in other intermediate products' wholesale trade and specializes in industrial strapping. In 2012 the company had turnover of 0,6 million euros. At the moment, the company is operating in Kostroma and has an office in Moscow.

The reason why company E entered to Russian market was because it offered a lot of possibilities and it was a familiar market for the owner. In 1993 company E started to export steel to the young Russian Federation. Then in 1998 big steel companies wanted themselves to start exporting steel, thus company E changed its strategy and started to import packing material for these steel companies. This business was successful and company E noticed that the level of demand started to be on the level where it would be wise to open a factory in Russia. Finally, in the fall of

2005 company E bought a site from Kostroma and a year from that the factory was already in test use. Kostroma is located 300 kilometers from Moscow and it is a city of 350 00 citizens. In 2007 the company started their marketing activities in Russia.

The CEO discusses about the main differences in Finnish and Russian business environments:

The biggest problem in the Russian business environment is the lack of constitutional state and the ubiquitous corruption. Moreover, the state's role in the economy is huge which is on the other hand good for the state-driven investments. It can be seen also as a stabilizing factor.

The CEO is positive about the future progress of the country:

The demographic factors in Russia are good which means that the largest share of the population is between 25-50 years. The largest share has money and they are willing to spend it.

The interviewee was hopeful for seeing improvements coming from the Russia's WTO-membership:

Russia's accession to WTO can be a strong launch to take more serious approach to economic reform and industrial efficiency.

CASE ANALYSIS

Case company E is a relatively young SME which operates around the whole country. Company E had no prior international experience before the initial entry. The initial entry was made to the Russian Federation in 1993 using direct exporting. Start international activity through exporting is the usually the most popular mode option, with no alternatives (see page 43). Moreover, this FOM option is often used by Finnish SMEs which operate in manufacturing sector.

Later company E switched from exporting to importing and then to investment mode. All in all, it took only 16 months for company E to open their own packing hoop factory in Kostroma. In general emerging markets usually have numerous institutional restrictions (see page 17). Therefore, the opening of the factory can be viewed to happen quite rapidly in the Russian bureaucratic context (see page 65). Moreover, SMEs from Finland, which is a higher-income country, often encounter barriers because of Russia's institutional constraints, than those in higher-income environments with high quality institutions (see page 23). However, it is interesting to view that this is not the case for company E who do not seem to have encountered any major barriers because of institutional constraints. All in all, for being a relatively young company, company E has plenty of experience from bold operations in Russia.

5.7 Company F

The country manager of the case company F was interviewed via telephone on 26th of March 2014. Company F is a LSE founded in 1958 and who is an international consulting and engineering company. Focus sectors of the company F are power generation, transmission and distribution, forest industry, chemicals and biorefining, mining and metals, transportation, water and real estate sectors. In 2014 company F had 5 704 employees and in 2013 its turnover was 650,8 million euros. At the moment, the company is operating in Moscow and Saint Petersburg. In Saint Petersburg the company employs 40 people and in Moscow ten people.

In 1993 company F started to operate in Russia when its subsidiary was established in the country. The subsidiary started to operate as a private limited company. This company form was chosen because it enabled greater freedom to operate. A private limited company's courses of actions are also closer to the Western company's ways to operate. This FOM was also a result for strategic planning because it gives an opportunity to become rapidly a strong player at the market. The company has not made any changes to its initial FOM. It has maintained its original strategy's foundations and courses of actions.

The country manager takes a pragmatic stance towards the Russian business environment:

Russians have their own unique way of thinking which differs a lot from our Finns' Western way of doing and analyzing things. This can be seen as an obstacle but it should not limit anyone from doing business in the country. The main problem however is the rigid and outmoded public sector which can cause delays and, thus should be taken into consideration forehand.

When asked about the future prospects of the company F’s industry the country manager says:

For example, the demand for planning power plants fluctuate quite heavily because the development of the demand, depends strongly on the planned development's realization in the energy market. Thus, in the usage of our resources the company has sometimes overload and sometimes scarcity of resources. We try to balance our resources by using a local subcontractor. Still, Russia stays as a big market for us.

When asked about the WTO-membership's influences to the company's business environment, the country manager argues that:

Our services are immaterial expert services which are produced mostly by using local resources and subcontractors. Therefore, Russia's WTO-membership has not had any influence to our actions or our industry in general.

CASE ANALYSIS

Case company F is an old LSE which operates around the whole country. Company F had no prior international experience before the initial entry. The initial entry was made to the Russian Federation in 1993 using investment mode. Company F emphasized the speed perspective when selecting the FOM. Afterwards, company F has not changed its initial FOM and has maintained its original strategy. This does not necessarily mean that the FOM strategy has been a success and therefore it has not been changed. According to Welch et al.'s theory (see page 54-55), switching modes is not always possible because there can exist barriers to mode switch. These barriers can be distinct and tangible or they can be more subtle. For instance lack of international experience may sometimes be a barrier to mode shift. As mentioned earlier company F did not have any prior international experience before the initial entry. It is hard to accurately say which of these factors lay behind company F's decision to stick with the initial entry mode.

Furthermore, company F uses multiple modes in their Russian operations. The company's mode package consists of FDI and subcontracting. FDI is needed to serve the local customers and subcontracting is used as a way to balance the company's resources. Finally, upon company F can be applied also the institutional theory (see pages 20-22). Company F preferred to use a private limited company because it has similarities with the western version.

5.8 Company G

The regional director of the case company G was interviewed via telephone on 18th of February 2014. Company G is an LSE founded already in 1910 and operates in constructing industry. In 2013 the company employed 7 049 employees and its turnover was approximately 2 218 million euros. At the moment, the company is operating around the whole country. However, the West-Russia is their most important area. In addition, the company operates in the Nordic Countries and in the Baltic.

In 1972, company G entered to Soviet Union through a trade relation called "*Clearing*"-agreement which is just another term for bilateral trade. Company G started to operate in the country through mandatory project construction as a part of the bilateral trade. The trade was done under the Soviet Union's project legislation and it was extremely controlled by the country. For instance, the projects in the country were applied and competed against Soviet companies who the state often favored. When the Soviet Union collapsed, company G changed its FOM from project construction to FDI and established their subsidiary to the country.

The regional director discusses about the business circumstances in the Soviet Union:

In the Soviet Union it was not possible to establish a private company before the end of the 1980's. In 1987 during the Perestroika, a new law made it first time possible to form a joint-venture with a Russian company. This meant that the maximum share of ownership for a foreign company could only be 30%. Over time, the share of ownership was raised to 49% and finally to 100%.

Company G's ways to operate in Russia are interesting. For instance when the company is the main contractor of the project, it prefers to keep the matters in their own hands. But in the case of infrastructure building the company is a subcontractor and uses outsourcing. According to the regional director, subcontracting enables better control over smaller parts of the project.

Moreover, the regional director discusses about the primary differences between Finland's and Russia's business environments:

When operating in Russia it is important to prepare oneself for rapid changes and fast decision making. This is due to the fact that operating in Russia is always highly uncertain and the market can rise or sink *extremely fast. These rapid changes in the business environment are typical characteristics for all BRIC-countries.*

When asked about the impact of the Russia's WTO-membership to the business environment, the regional director states:

So far Russia's accession to WTO has not had any influence to our business. Maybe after five years we start to see some changes. Unfortunately, the general truth is that big states like United States of America and Russia operate according to their own interests, not according to some paper. These superpowers can do against what is agreed and no one will stop the trade with them because their importance is so high.

When discussed about the future opportunities in the industry the regional director says that:

The company's strategy still sees growth potentiality in the housing sector of the million cities. In the million cities there are big centers which enable to build block of flats in an industrial way which is not possible in Finland. This enables high efficiency. Moreover, the infrastructure building offers a lot of opportunities, however there still exist restrictions for instance auctions, corruption and just plain bluffs.

CASE ANALYSIS

To summarize, case company G is a very old LSE which operates around the whole country. Company G had prior international experience from Africa before the initial entry. The initial entry was made to the Soviet Union in 1972. The initial entry mode was project exporting according to the bilateral agreement. According to the interviewee, in the Soviet Union it was not possible to establish a private company. In 1987 during the Perestroika, a new law made it first time possible to even form a joint-venture with a Russian company. This kind of behavior is common for emerging market governments, which usually makes alliances with local companies obligatory for foreign investors before allowing an entry to the market (see page 45).

However, after the collapse of the Soviet Union, company G switched from project exporting to investment mode and established their subsidiary to the new country. The time span between the initial entry and the mode switch was 31 years. According to the interviewee, the transition from project construction to own subsidiary happened incrementally in the local level through contract after contract. Sometimes for individual companies, mode development can be hard to discern over time because there is not a clear individual mode pattern (see page 62).

At the moment, company G uses mode combinations in the housing construction. When the company is the main contractor it prefers to keep the matters in their own hands. But in the case of infrastructure building when the company is a subcontractor it prefers to use outsourcing. Due to the fact that subcontracting enables better control over smaller parts of the project. To conclude, company G can be describe to be a Russian trade veteran. The company has accumulated business experience from Russia over several decades. This long presence in the country has been in great assistance for the company.

5.9 Cross-case analysis

As mentioned earlier, due to the nature of the qualitative research all the interviews were conducted via telephone. Therefore, the data collection method was consistent throughout the whole data collection process. Moreover, in this study the sample of the Finnish companies operating in Russia was heterogeneous. The Finnish companies varied a lot for instance in terms of their size, age, turnover, industry and their operating area in Russia. Some case companies operated only in the big cities in Russia, for example company B, whereas others operated around the country, for example company G. The industries where the companies operated were also different from each other. As mentioned earlier, only case companies A and G both operated in the construction sector, however, their business emphasis was still different. The sample included companies from various industries such as constructing, wholesale- and retail trade, machine- and process planning and consulting.

Based on the answers of the interviewees, there can be observed a psychic distance between Finland and Russia, though Russia is a neighbouring state. For instance, what comes to the major problems when operating in Russia, five out of the seven interviewees argued that bureaucracy is one of the biggest problems in the country. Corruption, ruble as a currency, rapid turnover of the workforce, unforeseeability and uncertainty of the Russian business environment were also mentioned. It was interesting to notice that none of the interviewees mentioned anything about language problems, even though Russia can be seen as a complex language and Russians are mainly monolingual.

Almost all of the case companies did not saw any facilitation to their business or changes coming in the near future from Russia’s accession to the World Trade Organization. Only the CEO from case company E was moderately positive and slightly hopeful towards Russia's WTO-membership. The CEO saw Russia's WTO-membership as a catalyst for the economic reforms in the country. According to the interviewees, their way of doing business in the country will continue in the same manner as it was before the Russia’s WTO-membership.

Six of the seven case companies were founded during the Soviet Union era. However, company C was founded during the Perestroika era and just before the collapse of the Soviet Union. Moreover, company E was the only one founded after the Russian Federation was already born. All the case companies who operated already in the Soviet Union, had project exporting as their initial entry mode. As mentioned earlier, it was as if "*obligatory entry mode*" and the only operation mode accepted by the Soviet Union. Project exporting from Finland to Soviet Union was also part of the bilateral agreement between the countries. However, during the

Perestroika era, these companies started to prepare for a mode switch, and right after the Soviet Union collapsed, they changed immediately their FOM from exporting to investment mode and established their own subsidiary to the new country. The initial entry mode to Russia for these case companies could have been different if they would have encountered less restrictions concerning the selection of entry mode options. However, three case companies who made their initial entry to Russian Federation, still selected exporting as their initial entry mode. As mentioned above, for many internationalizing companies, exporting is a first step into international operations (see page 43). This was the case also for companies C and E, who did not have any prior international experience. Moreover, these companies were SMEs operating in manufacturing industry. This strenghtens the understanding that choosing exporting as a way to internationalize operations is common for Finnish manufacturing companies. Finally, it is also interesting to notice that most of the case companies who had prior international experience, had it from the developing markets. Most likely this prior emerging market knowledge influenced to some extent to these case companies' post-operations and decision-making in Russia.

Naturally, the company’s age and size influenced for the case company to have any prior international experience. All of the older LSEs had prior international experience before their initial entry to the Russian market. On the contrary, none of the SMEs had any significant international experience prior to the entry. Russia was their first area for expanding their operations. Thus, it seems that Finnish SMEs, which were selected for this study, followed the Uppsala model where internationalization starts in nearby markets by using exporting (see page 29). Furthermore, companies who chose exporting as their initial entry mode operated in manufacturing industry. However, companies B and F selected investment mode as their initial entry mode. Company B was a LSE operating in wholesale- and retail trade, and company F was a LSE operating in consulting. Therefore, it seems that the company's size and operating industry influenced to these companies' initial entry mode selection. LSE with big resource pole can select right from the start an equity-mode, while SMEs with less resources have to settle for non-equity modes such as exporting. To conclude, Finnish companies seem to have mainly started with exporting, and only after years of exporting to Russia, were wholly owned operations established.

It was significant to notice that none of the Finnish companies used JVs. According to Hultin et al.'s theory (see page 66) JVs which have been established together with Russians seem to have plenty of difficulties relating to different operational culture and communication between partners. Probably due to these various problems none of the case companies preferred to use JV when operating in Russia, instead they preferred WOS as an investment mode. Another interesting observation was that none of the case companies had stopped their operations and retreat even for temporarily to Finland. Regardless of the Russia's turbulent business environment all of them preferred to firmly stay in the market after the entry was made. The reason for this can be that once the company's Russian customers notice that the company is not serious and leaves when circumstances get difficult, it is hard to earn their trust back anymore.

6 DISCUSSION AND CONCLUSIONS

This chapter goes through the major findings of the data collection results and gives answers to the research questions. In addition, managerial implications are given on the basis of the data collection results. Moreover, theoretical literature and the Russian cultural context are taken into consideration in the managerial implications. Limitation issues of the research are discussed in the end of the chapter. Finally, suggestions for further research are presented.

6.1 Summary of major findings

The results of the study were introduced, analyzed and presented by first applying within-case analysis and then cross-case analysis so that the main similarities and differences of the case companies would be noticed and to discover patterns. See APPENDIX B. This study aimed to provide new insights to the know-how of Finnish companies' FOM usage in Russia. The previous research relating to FOMs were also reviewed and applied empirically on the Finnish companies' FOM strategies in Russia. The research questions which were raised are now answered based on the results of the study.

Research question:

- *Which kind of foreign operation mode strategies Finnish companies have used in Russia?*

According to the study, Finnish companies have mainly used exporting as their initial entry mode to the Russian market. After they had gained understanding and experience of the Russian market, they switched from non-equity and simple foreign operation modes to more challenging and equity demanding foreign operation modes, such as investment modes, and established wholly owned operations. It is important to notice that companies which did their initial entry to the Soviet Union could not freely choose their initial entry mode. They had to operate according to the bilateral agreement which was established between Finland and the Soviet Union.

Sub question 1:

- *Which factors have influenced on the foreign operation mode strategies of Finnish companies in Russia?*

Institutional forces where high on Soviet Union before Perestroika era and the privatizations. However, Finnish companies adapted well to these challenging institutional and external factors. In addition, Finnish companies switched their FOM strategy when the Soviet Union collapsed and the Russian market finally opened. Generally speaking, factors which have influenced on the FOM strategies of Finnish companies in Russia are resources, industry, political factors, environment, cultural context, controllability over the chosen FOM and the FOM's customer service capabilities. Prior international experience have also influenced to the FOM selection of the Finnish companies.

Sub question 2:

- *Which foreign operation modes Finnish companies have used in Russia?*

Finnish companies have used different FOMs in their Russian operations. The used FOMs of the case companies were: exporting (project exporting, Ex Works and direct exporting), contractual modes (subcontracting and turnkey projects) and investment modes (FDI and WOS).

Sub question 3:

- *Have Finnish companies switched, stretched or combined their foreign operation modes?*

Initial entry mode for five case companies (A,C,D,E and G) were exporting and for two (B and F) it were an investment mode. Five out of the seven companies (A,C,D,E and G) have switched their FOM since their initial market entry to Russia. These five case companies switched their FOMs from exporting to investment mode, so from non-equity mode to an equity mode. All the switches were inter-mode switches. Inter-mode switch refers to a process of changing the organizational form (Welch et al. 2007, 363). Furthermore, company D used mode switching more as a functional problem-solving device (see page 92). On the contrary, company F did not make any post-entry mode changes. Moreover, two of the case companies (B and D) strecthed their FOMs. Company B from brownfield to Greenfield, and company D from Ex Works to direct exporting. Three of the case companies (C, F and G) used mode combinations. Mode combinations included combinations of an investment mode and contractual mode. Company C operated in Russia through FDI, turnkey projects and subcontracting. Furthermore, companies F and G operated in Russia by using both FDI and subcontracting.

6.2 Managerial implications

Some managerial implications can be given on the basis of the research results. Managers should understand the importance of selecting the most suitable FOM option for the situation at hand. Therefore, it is important to acknowledge how different internal- and external factors influence on the company's FOM selection and use. The influence of external factors in emerging market is extremely high. In Russia the circumstances change rapidly, thus managers should be prepared for fast decision-making and adjustment of the used FOMs to meet better the changed conditions. Consequently, it is possible to create more effective FOM strategies in Russia.

Furthermore, managers should have clear objectives before and after the entry to Russia. It is extremely important to understand all of the emerging market characteristics when operating in Russia. Russia is a big emerging market where the growth of the market is rapid but it only last for a short period of time. As one interviewee put it: "*Russia offers high risks and high returns*". Thus, fast decision-making is crucial.

Finally, in Russia there are a lot of factors which distort competition for instance corruption. Therefore, the key issue is to adapt to the circumstances of the country by acquiring information as much as possible. Through this acquired information the company can analyze the possible opportunities and avoid risks.

6.3 Limitations and suggestions for further research

This study has methodological limitations. Selecting qualitative research as a research methodology created the main limitation for this study. As mentioned earlier, qualitative research tries to understand the research subject and explain the reasons and activity behind its behavior and decisions. Therefore, statistical generalizations are hard to make based on the study's results. The study focused only on Finnish companies operating in Russia.

Advisable subject for further research would be to study those Finnish or foreign companies which have made the decision to retreat from the Russian market, thus study the factors behind the exit-decision and the used exit strategies. Furthermore, the subject of the research could be narrowed down to concern only Finnish SMEs or LSEs from a specific industry.

Finally, it would be interesting to see how the FOM strategies of Finnish companies in Russia differ from those FOM strategies which Finnish companies implement in the Commonwealth of Independent States (CIS) for example in Belarus. CIS-countries are pretty similar to Russia by their cultural context but the history and the geographical distance between Finland and the CIS-countries are different.

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APPENDICES

APPENDIX A: Interview guide

INTERVIEW GUIDE

1. Company background

<u>Position/title of the respondent in the company:</u>

<u>The year when your company entered to Russia:</u>

<u>Regions in the Russian Federation where your company is operating at the moment:</u>

<u>Prior international experience of the company before entering to Russia:</u>

2. Russian business environment

<u>Question 1:</u> What are the main differences in Finnish and Russian business environment

<u>Question 2:</u> How have the Russia's accession to the World Trade Organization (WTO) influenced in your activities in the country?

<u>Question 3:</u> How do you view the future opportunities of your industry generally in Russia and in the particular region(s) where you operate?

3. Foreign operation entry modes

<u>Question 1:</u> Why did you start to operate in Russia?

<u>Question 2:</u> How did you first enter into the Russian market? For instance did you use exporting, licensing, franchising, management contracts,

international subcontracting, project operations, alliances, joint ventures or foreign direct investments?

Question 3: Why did you choose that particular entry mode?

4. Changes in the usage of foreign operation modes

Question 1: Have you switched the entry mode(s) after entering to Russia? Please explain why or why not?

Question 2: Have you stretched the entry mode after entering to Russia? Please explain why or why not?

5. Combination of foreign operation modes

Question 1: Do you use various forms of foreign operation modes? If yes, then please explain why and how do you use them?

Question 2: Do you "*weave*" them together into so called "mode combinations"?

Question 3: Which factors have affected on your use of mode combinations (for instance business-, political-, administrative-, taxational-, market's infrastructure factors, etc.)?

APPENDIX B: Table 4. Summary of major findings

Case Company	Industry	Year of foundation	Size (*LSE or SME*)	Company Form	Turnover	Operating area in Russia	Prior international experiece	Year of entry	Entry mode	Mode switch	Mode stretch	Mode combination	Observed impact of the WTO-agreement to the business environment
A	Constructing and real estate maintenance services	1912	LSE	PLC	4 676 Million €	St. Petersburg, Moscow, Moscow oblast, Yekaterinburg, Kazan, Rostov-Na-Donu, Tyumen	In the 1950´s from the Middle East	1961	Project exporting	From project exporting to FDI	No	No	LOW
B	Wholesale and retail trade	1940	LSE	PLC	9 315 Million €	Moscow, Saint Petersburg, Yaroslavl, Kaluga and Tula.	From Sweden and Baltia	1998	FDI	No	From Brownfield to Greenfield	No	LOW
C	Machine- and process planning (turn-key boiler plants)	1990	SME	PLC	26,6 Million €	Whole country	None	1994	Direct exporting	From exporting to FDI	No	FDI, turnkey projects & outsourcing	LOW
D	Glass- and aluminum construction (balcony glazing)	1978	LSE	PLC	78,3 Million €	Moscow, Saint Petersburg, Vladivostok, Volgograd, Voronezh, Yekaterinburg, Kazan, Krasnodar, Krasnoyarsk, Nizhny Novgorod, Novosibirsk, Omsk, Perm, Rostov-Na-Donu, Samara, Ufa, Chelyabinsk, Yaroslavl	20 years of international experience	1995	Ex Works (EXW)	From exporting to FDI	From EXW gradually to direct exporting	No	LOW
E	Other intermediate products' wholesale trade (industrial strapping)	1993	SME	PLC	0,6 Million €	Whole country	None	1993	Direct exporting	From exporting to FDI	No	No	MODERATE
F	Consulting	1958	LSE	PLC	651 Million €	Whole country	None	1993	FDI	No	No	FDI & outsourcing	LOW
G	Constructing and infrastructure building	1910	LSE	PLC	2 218 Million €	Whole country	In the 1970's from Africa	1972	Project exporting	From project exporting to FDI	No	FDI & outsourcing	LOW