THE ROLE OF NETWORK COMPETENCE AND INTERNATIONAL BUSINESS COMPETENCE IN MULTINATIONAL CORPORATIONS: SUBSIDIARY PERSPECTIVE
ABSTRACT

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On-going process of globalization makes companies all over the world to go beyond the national markets and internationalize. Organizational form of multinational corporation (MNC) has capabilities for establishing the affiliate companies in several countries. Thus, the relocation of resources occurs and particularly, the cross-border transfer of knowledge which possesses the competitive advantage. However, differences in countries` business environments and cultures may constrain this capability.

The research aim of this thesis is to investigate the role of subsidiary’s network competence (ability to build and manage the relationships with other local business units) and international business competence in relation to the benefits that MNC receives from a subsidiary. Additionally, subsidiary’s business adaptation, partnerships and knowledge transfer mechanism with parent company and external partners are investigated.

This research, conducted in the Finnish-Russian context, consists of theoretical and empirical parts. The qualitative approach in the form of multiple case studies is employed. The empirical data incorporated primary and secondary data in the form of interviews collected in 2013 and 2015 years. Interviews were collected from four Finnish case companies in Saint-Petersburg and Kaluga region and five Russian partner companies. Results are drawn from two cases from Saint-Petersburg. The abductive research approach for the results analysis is adopted.

The results indicate that both competencies lead to the subsidiary's local embeddedness in the form of mutual business activities with local business partners and product adaptation for the local market needs. In addition to the monetary benefits in form of payments or turnover share, local embeddedness brings the knowledge of the local environment which is utilized by an MNC in the long-term planning. Another found tacit benefit is the access to the national market. This is strategically useful benefit not only for parent MNC but also for the subsidiary's partners, i.e. international suppliers.
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Sincerely,

Maria

July 24, 2015
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1. INTRODUCTION

This first chapter provides an overview of the current thesis. It starts with the background information and related literature review and followed by the research problem statement and presenting of the theoretical framework. Chapter discusses the research methodology, delimitations and structure of this study. Definitions used in the research are also provided in this chapter.

1.1. Background

The official relations between European Union and Soviet Union have started in 1989 with signing the “Agreement on Trade and Commercial and Economic Cooperation”. Later on, in 1994, these relations continued and were strengthen by the “Partnership and Cooperation Agreement” between European Union (EU) and Russian Federation (Russia). The trade turnover between the parties has been increasing constantly with the peak in 2012 when EU-Russian trade was 215 billion of Euros. Even though the trade volume dropped down by 15% in 2014, Russia remains 3rd trade partner for EU after USA and China. (Russian Mission 2015, Eurostat 2015a,b)

Russia has a border with five European Union members one of which is Finland – a member of EU from 1995. The short physical distance of two neighboring countries such as Finland and Russia involve both countries in economic and business interaction. The trading volumes between countries have been gradually growing from 1990’s (Figure 1). Russia for a long time was the first trading partner for Finland before the financial instability of 2014 when Germany took its place.
Figure 1 Trade volumes between Finland and Soviet Union 1983-90 and between Finland and Russia 1991-2014 (Tulli 2015)

Beside the rapid development of the trade relations, 1990’s became the point when Finnish enterprises have actively started to invest in Russia. Then, Finnish foreign direct investments (FDI) to Russia were 2.8 billion Euros in 2013. (Statistics Finland 2013)

However, geographical proximity of Finland and Russia does not mean the similarities in business environment. Business culture of BRIC (Brazil, Russia, India, and China) countries is known to be different from this in EU countries (Trade Commissioner Service 2012). These differences may refer to the “eastern” management style. For instance, Russian business culture is characterized with the hierarchy in the company management and control systems where senior positions are holding power and responsibility (Herman Miller 2010). Constrain for smooth business operations for foreign company may be imposed by the fact that Russian business is wholly held in Russian (Trade Commissioner Service 2012). Particularly, business adaptation of Finnish companies in Russia found by Kosonen et al. (2008) to be highly affected by the relationships with the Russian authorities. Features, which set the barriers, are legislation instability that affects the company’s registration process, bureaucracy that slows down the processes of decisions acceptance, uncertainty in law interpretations by the authorities, which make some Finnish companies left Russia and, finally, corruption.
The central feature of Russian culture, consequently affecting the business environment is a high importance of close personal relations between the people. World Business Culture portal states that in Russia, close personal relationships are the only things that can be relied on and suggests networking as a key for business success and essential instrument for good quality relationships development (World Business Culture 2015).

The importance of the long-term commitment in business relationships between the companies may be reflected by the quotation of Canadian Trade Commissioner David Mallette who stated that in Russia “companies need to make periodic trips, attend trade fairs and visit partners, clients and distributors on a frequent basis to build, maintain and strengthen relationships. It can take months, if not years, before any benefit is reaped.” (Trade Commissioner Service 2012)

Willingness of companies to entry the market of particular country is affected by different factors, and cultural aspects play significant role there. It becomes the important issue in terms of on-going globalization and expansion of companies across the borders of home country. How these cultural differences affected the inter-organizational processes of Finnish multinational corporations which established their subsidiaries in Russia is broad and competitive area of study. The ability of the subsidiary to establish and maintain the relationships with the local external partners is called network competence. Its effect on the local embeddedness of subsidiary and then, the utility of the last for the whole MNC will be discovered in this study. Knowledge transfer mechanism is considered as an accompanying process which facilitates the benefiting from subsidiary. Understanding of Russian culture by Finnish companies which have already entered the market is represented in this study by international business competence.

There is a lack of research in the Finnish-Russian context on the MNC’s and subsidiaries which relates to the network competence and local embeddedness. The only studies executed in the context of Finnish MNC and Russian subsidiaries is the research on human resource management, knowledge flow and absorptive capacity (Minbeva et al. 2003), corruption and relations with authorities (Karhunen & Kosonen 2013) and Finnish companies internationalization (Zimin & Rautio 2012). Most of the studies in the Finnish-Russian research setting are concentrated on the internationalization of small and medium enterprises (SME) (Ivanova &Torkkeli 2013). Here the research gap is identified.
This research is also driven by personal researcher’s interest in the investigating of the intercultural business setting between Finland and Russia and practices applied by Finnish companies to establish the business operations in Russia. This study is focused on the contribution to the research field and providing the Finnish companies with valuable practical insights.

1.2. Literature review

Reasons for forming the relationships with other organizations are different. Relations could provide the access to the resources, reduction of costs or knowledge acquiring and thus, learning (Czakon 2009). Relationships with different business partners has impact on local company’s operations. The competitive advantages of MNC are seen differently depending on the underlying theory. Pesalj (2011) discussed two theories appeared to be relevant for the present research. These are knowledge-based and network-based theories of MNC.

Network-based theory considers the long-term partnerships of MNC with external local partners as a competitive advantage. It is secured by the tacit knowledge which is extracted from the local context through the relationships with other business parties (Pesalj 2011). Particularly, involvement in local networks or embeddedness is a main source for competitive advantage. Embeddedness is wider than just involvement in the relationships and includes information exchange and adjustments between the business partners (Lam 2000). Embeddedness of subsidiary within and beyond the borders of MNC is widely discussed in the works of Ulf Andersson and Mats Forsgren (1996, 2001, 2002, 2005). Studies consider the performance of subsidiary, its importance within the MNC, control mechanisms and competitive advantages that brings embeddedness.

Knowledge-based theory views competitive advantage of MNC in superior ability to transfer and utilize knowledge across the countries’ borders. Gupta et al. (1991, 2000) and Minbaeva et al. (2013) studied the knowledge transfer mechanisms within the MNC and processes related to it. It has been assumed that embeddedness determines the market performance of subsidiary (external performance) while knowledge transfer to other MNC units determines the organizational performance of subsidiary (internal performance) (Pesalj 2011).
Mitrega et al. (2011) provide a summary of evidences of beneficial networking-related performance from literature. Performance outcomes beside company performance include company innovativeness, entrepreneurship, learning, internationalization, improving of relationship quality and portfolio. Examples of the outcomes are discussed in more details in Table 1.

<table>
<thead>
<tr>
<th>Effect of</th>
<th>Effect through</th>
<th>Effect on organizational...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ahuja (2000)</td>
<td>Network of relations</td>
<td>Direct and indirect ties</td>
</tr>
<tr>
<td>Tsai (2001)</td>
<td>Central network positions</td>
<td>Access to new knowledge produced by other network units</td>
</tr>
<tr>
<td>Baum et al. (2000)</td>
<td>Alliances</td>
<td>Establishing and configuration</td>
</tr>
<tr>
<td>Shan et al. (1994)</td>
<td>Interfirm cooperation</td>
<td>-</td>
</tr>
<tr>
<td>Lane et al. (2001)</td>
<td>International joint venture’s absorptive capacity</td>
<td>Understanding, assimilating and applying new knowledge</td>
</tr>
<tr>
<td>Lyles &amp; Salk (2006)</td>
<td>International joint venturing</td>
<td>Capacity to learn, articulated goals and structural mechanisms</td>
</tr>
<tr>
<td>Calia et al. (2007)</td>
<td>Technological innovation network</td>
<td>Resources for changing business model</td>
</tr>
<tr>
<td>Lu &amp; Beamish (2001)</td>
<td>Alliances with partners with local knowledge</td>
<td>Overcoming resources and capabilities constrains</td>
</tr>
<tr>
<td>Ojaka (2009)</td>
<td>Network relationships</td>
<td>Utilization and development</td>
</tr>
<tr>
<td>Lee et al. (2001)</td>
<td>External networks</td>
<td>Linkages to venture capital companies</td>
</tr>
</tbody>
</table>
However, these studies capture the networking and alliances within the start-ups, small and medium enterprises, and international joint ventures. None of these considers the context of multinational corporations and particularly local subsidiary unit. Geography of these studies discusses Hungary, Canada, New Zealand, Korea and Japan. The only one study (Ojala 2009) discusses the internationalization of Finnish SMEs to Japan.

So far, none of the research has followed subsidiary’s network competence role in MNC performance for such culturally distant countries as Finland and Russia in the form of qualitative study. The present thesis aims at filling the gap in the literature.

1.3. Research problem and questions

The reviewed literature suggests that position in the network of local business players is beneficial for the company in different ways. The active networking and establishing of long-term close relationships lead to learning, innovation and better performance for the company. Hence, this research will study what are the benefits imposed by local embeddedness of one subsidiary unit for the multinational corporation. Network competence is seen as one of the factors which affect local embeddedness. Taking into consideration that multinational corporation is widely experienced internationally the present thesis will follow the role of international business competence of subsidiary in its local embeddedness and its relevance in culturally distant countries. Combining the previous studies with the objectives of this thesis the main research question is:

*How does multinational corporation benefits from the network competence and international business competence of the locally embedded subsidiary?*

To answer the main research questions, the additional questions are needed. They will inspect the problem while considering the knowledge transfer within the MNC. Knowledge extracted from the local environment is tacit and idiosyncratic due to the specific features of operations, technologies and individuals who share the common background or experience. Such uniqueness possesses difficulties for the further knowledge transfer and utilization. Thus, first sub-question is stated.
What is the knowledge transfer mechanism?

This question investigates a subsidiary’s knowledge acquisition from external parties and local environment and knowledge exchanges within the multinational corporation. During the study, the mechanisms of knowledge transfer from Russian subsidiary to Finnish headquarter, further utilization of this knowledge and the degree of benefiting from this knowledge in the scale of the MNC will be discovered.

Ritter (1999) discusses the several antecedents of network competence which affect its degree. This research considers them and then, tries to investigate the other related factors. The next sub-question is aimed at understanding the factors that affect both organizational competencies.

Which factors affect the degree of network competence and international business competence?

Answering this sub-question will contribute in understanding of the differences which may arise in the benefits which MNC get from the local subsidiary.

1.4. Theoretical framework

The theoretical framework which includes the concepts discussed in the literature review is presented in Figure 2.

![Figure 2 Theoretical framework](image-url)
The figure above includes the main theoretical concepts used in this study and relations among them. The theoretical framework outlines the propositions of this research: network and international business competencies of subsidiary unit lead to the benefits for the MNC on the corporate level through the local embeddedness. Through local embeddedness subsidiary may be a connector of headquarters to rare strategic resources of subsidiary’s local environment and thus, be beneficial to headquarters (Forsgren et al., 1999). Moreover, locally embedded subsidiaries are argued to perform better and this may result in benefits for the parent company (Andersson et al. 2001, 2002). On the other hand, if there is no such mechanism, the straight influence of either network competence or international business competence or both for the Finnish MNC’s benefit may be found out. Knowledge transfer within the MNC may serve as a source of competitive advantage (Pesalj 2011) thus, knowledge transfer mechanism is an influencing factor in this process.

1.5. Definitions

*Network competence* in firm-specific context was discussed in 1997 and then conceptualized by Ritter in 1999. It is defined as “the degree of network management task execution and the degree of network management qualification possessed by the people handling a company’s relationships”.

In this thesis another definition from the one presented above will be used as it better suits the setting of MNC’s subsidiary and its relationships with the external partners. Network competence is “the ability of a firm to develop and manage relations with key suppliers, customers and other organizations, and to deal effectively with the interactions among these relations” (Ritter et al. 2002).

Another concept, which is related to this research, is *local external embeddedness*. The total embeddedness of subsidiary consists of two types – corporate and external which are opposite to each other. While corporate embeddedness means the exchange relationships within the MNC or with other subsidiaries of the same MNC, the external embeddedness relates to the exchanges with the counterparts which are external to the organization. The local external embeddedness or network embeddedness then refers to the knowledge acquisition out of the individual relationships in local market with customers, suppliers, competitors as well as with governmental structures.
International business competence is defined by Hallén (1982) as the “degree to which company’s employees are qualified for export activities”. This includes not only expertise in export activities but also identification of cultural patterns. (Belich & Dubinsky 1995)

Knowledge transfer on the intra-organizational level is defined by Minbaeva et al. (2013) through the stages of identifying the knowledge, its transfer and its utilization in the receiving unit which is in the context of MNC is the focal subsidiary.

The interrelated to the knowledge transfer term of absorptive capacity is used in the papers of D. Minbaeva and U. Andersson. It is mentioned that the transfer of knowledge is highly dependent on the ability of the receiver to assimilate and then commercialize new knowledge which refers to the definition of absorptive capacity from Cohen et al., (1990) – “ability to recognize the value of new external information, assimilate it, and apply it to commercial ends”.

1.6. Research methodology

This research utilizes the qualitative methods in research design, data collection and data analysis. The research approach logic is abductive which combines the elements from both: inductive (from theory to data collection) and deductive (from collected data to theory building) approaches.

The case study has been chosen as the preferable method of qualitative research. Case study allows exploring the phenomenon in the real-life setting which is beneficial for the little researched phenomenon. In this research the multi case study approach was applied and the total number of cases equals to four. Each case represents one Finnish MNC and consists of data collected from corporate level in form of headquarter in Finland, subsidiary located in Russia and external party - subsidiary’s partner company also located in Russia. For acquiring the data both questionnaire with the structured questions and semi-structure interview were utilized complemented with the analysis of secondary sources of data. The set of questions for the interview varied depending on the properties of the studied organizational form. For two of the cases the existing secondary data was utilized. This data was acquired in 2013 from the MNC’s subsidiaries located in the Kaluga region, Russia and their partners for the pilot study in the form of Master’s Thesis. For two other cases the primary data from the representatives of MNCs whose subsidiaries are located in the Saint-Petersburg region has been collected. Even though four cases are
studied, two latter cases are primary for drawing the conclusions in this research due to their high conformity for the research purposes. Two others provide the cross-case view and comparability of the results.

Both primary and secondary data was transcribed, translated and then analyzed with the help of Computer-Aided Qualitative Data Analysis Software (CAQDAS), particularly, NVivo 10. This contributes to transparency and standardization of data analysis procedures.

1.7. Delimitations

The present research has several delimitations. The first limitation is specific Finnish-Russian context which limits the applicability of the research results in other geographical area due to unique features of Russian business environment.

Other limitations are imposed by the time frames of the research. In most cases, there is only one informant inside the subsidiary and one of subsidiary’s partners was interviewed. Incorporating more informants for the research inside the company and external partners will contribute to the data richness. No validation of collected data with the interviewees has been performed.

The network competence of the firm is based on the dynamic capability view, so another limitation refers to the fact that competence development requires a longitudinal study.

The research will be concentrated on one Russian subsidiary of MNC and its relationships with headquarters but not with peer-subsidiaries. This is caused by the comprehensive study of one single subsidiary equally from external and internal side without deepening any of the sides.

1.8. Structure of the study

The thesis will consist of empirical and theoretical parts. The following chapters will be structured as following. In the Chapter 2 the theoretical background around the multinational corporation in the network theory and the knowledge transfer within it is built. The phenomenon of local embeddedness is discussed in the same chapter. Then, the organizational competences and, particularly, network competence and international business competence are discussed in Chapter 3. Chapter 4 provides an overview of
Russia and attractiveness of the Kaluga region and Saint-Petersburg in the perspective of foreign direct investments (FDI) in the recent years.

Chapter 5 presents the research approach, qualitative methodology in the form of case study, process of interview design and discusses the validity and reliability of the study.

The empirical part of the study starts with the Chapter 6 which includes the description of case company and informants’ choice, data collection and analysis methods. Chapter 7 presents the descriptive results of the research. In Chapter 8 discussion and analysis of the findings is provided.

Chapter 9 is the final chapter of the thesis. It concludes the research with revised theoretical framework and answers the research questions stated in the introduction chapter. It is followed by providing the theoretical contribution and managerial implications. The chapter finalizes with the presentation of research limitations and recommendations for future research.
2. MULTINATIONAL CORPORATIONS

Chapter 2 discusses multinational corporations, knowledge transfer and subsidiary’s embeddedness.

Globalization process meaning the “process by which people, products, information and money can move freely across borders”, has pushed the companies to internationalize even stronger than before. In order to gain the advantage in cost reductions, access to the resources or gaining new customers the internationalization is crucial. (Lassere 2012)

Multinational corporations are characterized by (1) entering the local markets all around the world through establishing the subsidiaries, (2) performing the control functions over the subsidiaries and (3) developing and implementing corporate strategies in marketing, production, finance and other functions that are transferred through country borders. (Root 1994, 203)

Hence, MNCs comparing to SMEs are considered as more powerful international players and the companies with financial and other vital resources (Knight & Kim 2009). They are holders of combinations of factors such as qualified personnel, good infrastructure, technological competences or managerial capabilities (Fabry & Zeghni 2002).

MNC type considered in this research has the phase of global development named Full multinational which is characterized by geographical structure. Subsidiaries are reporting to the regional headquarters which then report to corporate level, each of the subsidiary reflects the national culture, careers are mostly local and the company differentiate among the international units (Lassere 2012).

2.1. MNC in network theory

The firm-specific advantage is seen differently depending on the underlying theory. For example, the transaction cost reduction as a firm-specific advantage named by the internationalization theory and conducted through the following the production process. Organizational capability view emphasizes the set of organizational characteristics which are hard to replicate and which are hidden in managerial and organizational processes. In this theory the internationalization process is seen as transferring of firm-specific advantages on the new geographical place, new setting. To execute this transfer the
combination of internal and external company capabilities is necessary. (Forsgren 2008, 101-124)

Networks of the interconnected firms and other related actors of business network have replaced the traditional markets. This has happened due to the globalization of the competition which partially increased the difficulty reaching the customer and broaden the customer’s requirements of the high-quality and fast delivered products for a competitive price. This determines the companies to focus their competencies around the supply chains, for example, by building efficient logistics and using electronic systems for better respond to the customer needs. (Möller & Halinen 1999)

In the business network, setting company cannot be studied as an individual player. Commonly, each of the companies in the network is connected to other external business units with the relationships which include transfer of knowledge or resources. Constantly developing, these relationships require both parties to invest their experience or knowledge. The investment into the relationships may also be performed in the form of product, process and activities adaptation between the partners. The degree of involvement in the partnerships differs depending on the proximity in the relationships between partners. Thus, each company in the business network has in its relationship portfolio both close and arm-length relations. Close interaction of the players in the network may result in either negative or positive influence. (Håkansson & Ford 2002, Forsgren 2008, 101-124).

Involvement of the company in the business network includes relationships with the different types of business units in this network. The value net discussed by the Brandenburger and Nalebuff (1997) point out the four main types of relationships in which the company is directly involved – customers, competitors, complementors and suppliers. This value net was extended by Ritter et al. (2004) and in broaden view includes besides those four groups, the focal firms, distributors, consultants, governmental structures, associations, R&D universities and institutions.

Möller and Svahn (2003) categorize the networks depending on their function. It could be, networks of suppliers which are also called supplier nets. The terms net and network are used to refer to the different phenomena in their study. The term “network” is related to macro networks while “net” means the group of interconnected actors. Nevertheless, in
this study the term “network” will be used in relation to the group of business interconnected actors.

The network theory discusses in details the relationships between MNC and the environment. It assumes that MNC’s subsidiaries are embedded in several networks and business networks affect the most of their operations. In this case, MNC competes with these networks for the control over the subsidiaries. (Andersson et al. 2001, 2002)

In the context of MNC which can be seen as one of the actors, in practice, due to its structure it operationally consists from number of actors inside one organizational form. Commonly, headquarters is the part of MNC which lays outside of the subsidiary’s external network. Hence, it lacks the knowledge about subsidiary’s activities to control. Each subsidiary of the MNC is locally embedded into the network of the foreign market and to some extent autonomous from the other MNC units’ networks. The network theory emphasizes the external subsidiary’s relationships while the internal administrative interactions within the MNC are complementary (Forsgren 2008, 101-124).

Forsgren (2008, 101-124) conceptualizes the MNC in the business network theory as depicted in Figure 3.

Figure 3 MNC in business network (adapted from Forsgren, 2008)
In Figure 3 multinational corporation is reflected as main triangle consisted of headquarters (HQ triangle) which is connected administratively with its subsidiaries (Sub blocks). The subsidiaries in the network contexts are surrounded by business actors which are external for MNC (small circles). The relationships with them divided into embedded (bold line) and arm-length exchanges (thin line). Each subsidiary may have its own network of partners (Sub B) or several subsidiary units may have partners united in the same network.

2.2. **Knowledge transfer**

Rising technological complexity forces the industries to become more knowledge intensive (Moller & Halinen 1999). Knowledge is seen as one of the main value-adding resources which companies have (Yli-Renko et al. 2002). Knowledge acquisition by firm is more beneficial when gained from several individual sources. This idiosyncratic knowledge brings the competences to the company. Transfer reflects the movement of knowledge from one party to another and depends on the characteristics of the involved sides (Szulanski 1996).

One of the competitive advantages of MNC as a networking organization is in the cross-border transferring of knowledge within its subsidiaries among the countries of presence through the internal knowledge transfer. The knowledge transfer consists of different stages. In most of the cases, main stages are decision on transferring the knowledge, its transmitting and then further utilizing. Without the utilization, there is no sense for transferring it (Minbaeva et al. 2003).

Szulanski (1996) depicts the process of knowledge transfer as four stages process. Initiation is the first step which signs all the events that resulted in the decision to transfer the knowledge. This is the moment where the need for a knowledge and sufficient knowledge meets. Next step – implementation, starts with the decision to transfer the knowledge and at this step the actual transition of knowledge is performed. Third stage is ramp-up when the acquiring side starts to implement the received knowledge. The last stage - integration indicates the routinized process of usage the transferred knowledge by the recipient.

The knowledge transfer between headquarter of MNC and its subsidiary is researched by Gupta et al. (1991). The authors suggested to consider the MNC not as a one holistic unit.
but as the number of parts (subsidiaries) united by one company name and as a network of transactions between them. These transactions of knowledge have several patterns depending on the characteristics. The knowledge flow within the MNC may include skills, capabilities or external data, for instance, about the market. The authors while defining the transfer of knowledge within the MNC, refer only to the knowledge which exists in the form of "know-how", and do not include such communication as exchange of the internal reporting data.

The focus of the research is limited to the one individual subsidiary only and thus, Gupta et al. (1991) have assign the four roles for the subsidiaries depending on the knowledge flow intensity (see Figure 4). The dimensions in which subsidiaries differ affects subsidiary’s engagement in the knowledge inflows and outflows to the rest of MNC.

![Figure 4 Knowledge flows-based framework (adapted from Gupta et al., 1991)](image)

Subsidiary as *Global Innovator* is the provider of knowledge to the rest of the company with the high outflow from subsidiary and low inflow into it.

Subsidiary with the role of *Integrated Player* is similar to the role of Global Innovator in the volume of the knowledge outflow produced but also the knowledge inflow is high.

Subsidiary as *Implementor* creates little knowledge but uses the knowledge from the other subsidiaries.
Local Innovator is the subsidiary which creates the knowledge for itself and utilizes it without transferring it elsewhere in MNC.

Knowledge transfers in the MNC context may occur in different directions: from external parties to MNC, between parent company and subsidiaries or only between the subsidiaries. This research is discussing the knowledge flow between headquarter and subsidiaries in both directions. Yang et al. (2008) see headquarter as a valuable source of knowledge for subsidiaries. Their research is focused on the subsidiaries acquired in the transition economies while headquarters are located in the developed one. In such case, knowledge contribution of headquarters tends to be bigger than the one from subsidiaries due to the “teaching” nature of knowledge from the corporate level. Particularly, there are two types of flows exist which involve different transfer logic: conventional from headquarter to subsidiary and opposite to it, a reverse one. Reverse knowledge transfer known to be more complicated as having “persuading” nature. The sender – subsidiary, modifies content of such knowledge, according unit’s beliefs of what will be beneficial to know for the corporate level.

The internal knowledge transfer within MNC is mostly determined by the absorptive capacity of the receiving units which is considering both on the dyad level and firm level. The aspects of the absorptive capacity which initiate the internal knowledge transfer are the employees’ characteristics such as motivation and ability. The ability may be raised by the investments in training while motivation is affected by the internal communication and performance-based compensation (Minbaeva et al. 2003).

Absorptive capacities of parties depend also on the types of the relationships. Consequently, the closer the established type of relationship, the higher is the absorptive capacity. (Forsgren 2008, 101-124)

Beside the absorptive capacity which exists on some basic level even without the employees’ motivation, the “tacitness” of knowledge is the possible barrier for knowledge transfer (Gupta et al. 2000).

According to Lam (2000) tacit knowledge is based on the experience and “can only be acquired through practical experience in the relevant context, i.e. ‘learning-by-doing’”. Hence, the quality of tacit knowledge differs much on the individuals who own it. This reflects contextual nature of tacit knowledge. Individuals are the sources of tacit
knowledge in the form of ideas, mental models and beliefs. Tacit knowledge in organizations is embedded in the procedures, structures, processes and routines. Through this uniqueness, the company develops its firm-specific knowledge and competences (Knight & Kim 2009, Pesalj 2011).

Other major elements which affect the knowledge inflows and outflows between the subsidiaries and headquarter and between the subsidiary and peer-subsidiaries, named by Gupta et al. (1991) are entry mode, size of subsidiary and level of economic development of the subsidiary’s country.

2.3. Local embeddedness

Embeddedness in the local networks is seen to be crucial for small technology-intensive companies at the early phases of development. In that case, embeddedness serves as a gate to the innovative ideas, opportunities for scientific collaboration and connection with existing informal and formal networks. Surprisingly, it has been discovered that internationally oriented SMEs have higher degree of involvement in the domestic networks than the national-oriented SMEs (Keeble et al. 1998).

Andersson et al. (2001) state that closeness of the companies’ relationships in the dyads determines the degree of adaptation of the resource and knowledge exchange. This closeness is called embeddedness. Furthermore, embeddedness is seen as all the interdependencies that the subsidiary has because of the involvement into the business network (Andersson et al. 2002).

Ulf Andersson with the colleagues, widely discusses and defines the types of the embeddedness in the context of MNC. The relational embeddedness which is undertaken as a basis in their research, reflects the individual perspective of subsidiary’s manager and his role as a central one in the direct relationships. The structural embeddedness applied to the whole system in which the MNC’s subsidiary is embedded. According to Andersson the relational embeddedness may be then divided into technical embeddedness and business embeddedness depending on the context of the relationship. (Andersson et al. 2002)

Technical embeddedness is defined as the cooperation and interdependencies between the organizations in terms of R&D functions and product or production developing processes. Its development is stimulated by the external embeddedness and it reflects the
value of the relationships through the ability to absorb the new technology. Degree of subsidiary’s technical embeddedness into the external network, positively relates to the subsidiary’s role in providing the rest of the MNC with the knowledge about the product and production process. The higher the technical embeddedness the subsidiary has, the higher its market performance and it is more important for the development of other MNC units. It is found that network embeddedness has a great importance for the MNC’s competences and performance. (Andersson et al. 1996, 2002)

Applied in the Thomas Ritter’s works discussing network competence term “technological interweavement” suggested by Gemunden et al. (1992), is close in its meaning to the technical embeddedness. This term reflects the technology-oriented relationships of the company having its aim in receiving, proceeding and developing the technological expertise together with partners. Aside the transactions, the higher the involvement of subsidiary in the mutual R&D activities with the external parties the more context-specific will be the outputs. (Andersson et al. 2002)

Importance of the embeddedness for subsidiary is supported by the improvement of subsidiary’s absorption of new information from its environment, creation and transportation the knowledge within the MNC. The strong close relationships grant the better position for information exchange between parties and, consequently, may lead to the innovative behavior. Moreover, relationships with other business parties are positively correlated with the development of MNC competences. According to Figure 3, not all of the relations are equally close, thus, only the most lucrative must be developed. (Andersson et al. 2005, 2001)

Relational embeddedness in study of Figueiredo & Brito (2011) is not used as the individual manager perspective but as subsidiary’s relationship network with local organizations. Subsidiary’s relationships are divided into two groups: business and learning links. Business links include the business operation transactions and exchanges and do not lead to the acquiring of new capabilities. Learning links, in turn, include the transactions of tacit knowledge and positively affect accumulation of competences. Usage of last not only for acquiring the knowledge from external partners but also utilization of them in the internal business development, leads to the higher level of innovation performance over the time.
Among the factors which affect the local embeddedness, emphasizing knowledge creation importance through the implementation of the related metrics for evaluation subsidiary’s performance, shows positive effect. Surprisingly, use of expatriates in subsidiaries has a negative effect on the local embeddedness because the expatriates tend to accent on the activities important for MNC rather than to subsidiary. (Andersson et al. 2005)

Business embeddedness reflects adaptation of business operations, behavior and contact pattern with the external actors. It positively relates to the external technical embeddedness which then positively impacts on the subsidiary’s market performance and subsidiary’s importance for other units’ competence development. (Andersson et al. 2002)

The degree of the embeddedness differs not only on the dimension of relationships. It differs along the adaptation of resources and dependent activities through the long period. Such factors as market characteristic and its structure, industry features, size and age of the subsidiary will affect the relationships. Thus, long time of relationships with the transactions, adaptations in business operations and exchange of market information will indicate the high degree of embeddedness. (Andersson et al. 1996, 2002, 2005)
3. ORGANIZATIONAL COMPETENCES

The purpose of this chapter is to discuss in details the network competence and international business competence which form the base of theoretical framework.

3.1. Network competence

In the company scale, the networks help to utilize the market opportunities and respond to the competition. The networks can be divided into two groups. Fundamental networks are those obtained and held by manager or owner from the birth of the company, while secondary networks refer to those built during the growth of the company. (Mort et al. 2006)

The firm which is strong in some of the aspects, for instance, it owns a technological know-how or unique resources, will most likely attract other interested companies to join its network. If the hub company has the strong position it can be more demanding while choosing the partners among the existing actors. (Møller et al. 2003)

The network competence appeals to the question of management the networks in which company is involved. Managing these networks is complex process due to the company’s disability to orchestrate the whole network only by itself. Commonly, managing of some of the relationships is performed according to the stated goals. The type of the relationship that the company involved in, mostly determines the process of network management. Ritter et al. (2002) distinguish the followship, leadership and collaborative relationships. Each type may include both negative and positive dependencies of the business actors on each other.

Møller & Halinen (1999) address the question of management of network by the company at four levels from the wide scale to the narrower one: (1) industries as networks, (2) firms in networks, (3) relationship portfolios and (4) exchange relationships. Ritter et al. (2003) approach the network management on the four levels from the narrow scope – (1) individual actor, through (2) individual dyad and (3) connected relationships to the wide scope – (4) management of the whole network. Ritter et al. (2002) rise a question of managing the networks through the nature of components of organization’s networking ability. Obviously, no universal network management toolkit is available for the managers
because of the uniqueness of each company and the network it involved in (Möller & Halinen 1999).

According to Thomas Ritter who was one of the first in conceptualizing the network competence, management of interactions with other actors of business network demands the initiating, using, developing, routinizing and dissolving the relationships. This relates to the exchange and coordination relationship tasks which are the part of the company’s network competence framework (see Figure 5). Relationship-specific tasks refer to managing the single relationship or the dyad and include the initiation phase. The interconnectedness of the relationships requires from organization the conduction of planning, organizing, staffing and controlling activities for better coordination of its position within the network. These activities may be found under the cross-relational part of network competence framework (see Figure 5). For successful task execution, the qualifications of managers such as specialist qualification and social qualification are needed. Specialist qualification indicates the manager’s knowledge of legislation, other actors, experimental knowledge and high proficiency in the area of the company’s operations. (Ritter et al. 2002, 2003)

![Network competence framework](adapted from Ritter 1999)
Ritter sees the antecedents of network competence within the four crucial areas. The first one is the access to the range of the resource which covers the spheres of company’s operations: finance, personnel, and information and physical resources. The second area is the network orientation of human resource management which includes the network focus through the processes of recruitment, development and assessment of personnel. The third area is the integration of communication structure in, for example, cross-departmental projects (formal channels) and day-to-day collaborations (informal channels). The last one is the openness of corporate culture which can be seen as a predictor of firm’s innovativeness due to the open corporate culture. (Ritter 1999)

The whole company has to have its orientation towards the networking because the network competence is impossible to develop in one separate part of the company (Ritter et al. 1999). Those companies which are strong in learning and, at the same time, have network competence will gain knowledge faster and from the wider range of experienced and competent partnerships they involved in (Möller & Svahn 2003).

Torkkeli et al. (2013a) applies the notion of network competence and focus on the time of the development of the network competence within the SME. The findings reveal that the network competence is tending to change sometimes dramatically along the time of company’s development.

The reviewed studies (Mort & Weerawardena 2006, Möller & Svahn 2003, Ritter et al. 2002) consider the network competence as a dynamic capability. The framework of dynamic capabilities discussed by D. Teece, G. Pisano and A. Shuen in 1997 aims to explain the sustainable competitive advantage built by the firm in rapidly changing environment. The different combinations of internal and external organizational capabilities are addressing the rapid change and called dynamic capabilities. The network competence of the firm secures the learning through the interactions with the other business actors and leads to the change of the internal capabilities according to the strategy. Such a vision mostly concentrates on the organizational level rather than on individual dyads. In this study, it is assumed that, comparing to SMEs, the MNCs have more resources for successful conducting the network competence activities.

Even though Ritter et al. (1999, 2002) have not discussed the network competence in the international context, this research focuses on the subsidiary in its own local rather than international setting and thus, utilization of Ritter’s findings considers as applicable.
3.2. Related terms

In spite of in this study, the network competence conceptualized by Ritter is used, several authors are found to adopt the close terms. In this research, close terms which appeared to be close semantically and reflected the resembling phenomena are equated to “network competence” and deserve consideration.

The wide spread term is “network capability”. There are four dimensions of network capability recognized by Walter et al. (2006) - *coordination, relational skills, market knowledge and internal communication*. The coordination activities between the partners considered on the both individual and network level. Relational skills emphasize the individual interactions within the managers of collaborating firms and help to conduct communication, respond to the different situations properly and utilize the company-related information. Partner knowledge is named to be the integrated part of the network capability and is paralleled to the market knowledge. Market knowledge includes information about customers, suppliers and competitors. Internal communication is seen as the essential process inside the company in orchestration its external partners. Walter et al. (2006) have underlined that network capability through the connection of resources among the companies and learning from the customers, leads to further innovation process.

Möller & Halinen (1999) focus on the buyer-seller vertical relationships and networks and formulate the concept of network management capabilities. It refers to the company’s competence in managing the exchange relationships between the individuals and include two main groups of activities, one of them is net management capability. This capability has its aim in coordination of other network actors’ resources, for forming the value-creating net of the firm.

Möller & Svahn (2003) explore the strategic nets and propose that involvement in networks requires special capabilities from the organizations. The study operates the term of network capability which is partially equated with the network competence suggested by Ritter. Researchers base the network capability on the dynamic capabilities view and industrial network approach. They state that network capabilities provide the company with possibilities to transfer complex knowledge and participate in creation of new resources. In their study, network capabilities consist of net mobilization, net management, network visioning and net orchestration capability.
Network competence in this study is considered on the firm level while some studies discuss it in the individual level of the manager. Yli-Renko et al. (2002) have a concept of “social capital” as a central in their study. This concept unifies the pool of resources which become reachable for the firm through the involvement in the network of relationships. At the same time, social capital aims at leveraging individual relationships in order to enhance the knowledge exchange. Social capital serves as facilitator of technological learning through the improvements in the internal communication, more efficient technical problem-solving and assessment of new technological information.

Previous research has shown that conceptualization of the phenomenon “network competence” is understood differently by the managers from Russia and from Finland. Depending on the cultural differences and perception of the term “business networking”, Finnish managers consider the network competence at the organizational level, while Russian managers see the concept in terms of interpersonal communication and individual relationships (Torkkeli et al. 2013b).

The wide topic of networks include such types of intercompany relationships as alliances and partnerships. Möller & Halinen (1999) point out the alliances as horizontal relationships which occur with the competitors in knowledge-intensive industries, or against one big competitor. One of the reasons for participating in the alliances may become the collaboration among the industry leaders for settling the industry standards. It is argued that relationship capability and alliance management are not enough for building the strategic business nets and acting within them (Moller & Svahn 2003).

To summarize, Table 2 provides a summary of the reviewed literature on the network competence and related terms.

<table>
<thead>
<tr>
<th>Authors</th>
<th>Concept</th>
<th>Theoretical Background</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Möller and Halinen, (1999)</td>
<td>Network management capabilities</td>
<td>Industrial networks, relationship marketing, supply chain management, strategic alliance literature</td>
<td>A firm</td>
</tr>
<tr>
<td>Möller and Svahn, (2003);</td>
<td>Net management capabilities</td>
<td>Industrial networks approach, strategic management, dynamic capabilities view</td>
<td>A firm</td>
</tr>
</tbody>
</table>
3.3. **Network competence influence**

Reviewed literature on the network competence and network capabilities is concentrated on the context of SMEs, born global companies, small technology-intense firms and even spin-offs. Hence, no study has been found which analyses the network competence in the MNC context and here the research gap is identified.

Mort & Weerawardena (2006) concentrate their research on the networking capabilities of the born global companies in the connection with internationalization, exploiting of market opportunities, development of knowledge-intensive products and international market performance. Definition explains that it is the firm’s capacity for development of the operations which will result in the new resource combinations and configurations. Their study resulted in the conceptual model where the networking capability plays the central role and positively affects all researched questions for the small international entrepreneurial firm.

One of the focuses in the literature, is the research of influence of company’s network competence on its technological interweave and innovation success. Ritter et al. (2002) state that network competence has a positive impact on the innovative success both for product and process innovation. It also has a positive impact on the degree of local embeddedness of the organization.

There has been found a positive relation between the network competence and technological interweave. It is explained by the fact that well-developed networking ability of the company helps to create new relationships and causes further involvement of them into the development processes. Findings indicate that degree of innovation success of the company, in terms of technological development, is highly related to the involvement in communication with clients and other companies. Considering the company’s product development as a part of innovation process, three parties of

<table>
<thead>
<tr>
<th>Authors</th>
<th>Network Capability</th>
<th>Literature Focus</th>
<th>Perspective</th>
<th>Firm Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Möller, Rajala and Svahn (2005)</td>
<td>Networking capability</td>
<td>Dynamic capability literature, international entrepreneurship</td>
<td>A firm</td>
<td></td>
</tr>
</tbody>
</table>

Table 2 Summary of literature on network competence (adapted from Äyväri & Möller, 2008)
subcontractors will play a significant role: lead users, research institutes and other organizations. Through acquiring new clients and selling them the new innovative products, networking ability directly increases the innovation success of the company. (Ritter et al. 2003)

Moreover, technological interweavement addresses to the coherence of the internal resources with external knowledge of the company and its further technological innovation success. The proper network management within the company leads to better utilization of the external knowledge. Thus, technological innovation success leads to both commercial success and overall success of the company. (Ritter et al. 2003)

Network capability positively influence university spin-offs’ performance. This influence is performed not only directly but also through moderating the relationship between entrepreneurial orientation and spin-off’s performance. Walter et al. (2006) define the network capability in the context of university spin-offs as the ability to initiate, maintain and utilize the relationships with various external partners. Organizations with the network capability are seen strong in the constant following the changes in customers’ needs and actions of competitors. In such a small firms, the establishment of network capability is advised to be done on the early stages of the company existence. The responsiveness to the customer needs may roots in open corporate culture utilized in the Ritter’s framework.

In the entrepreneurial firms, the wider their external contacts, the more information they gain from the external source and as a result perform better (Walter et al. 2006). Thus, the interconnection with external partners found out to be beneficial for the firm’s knowledge-intensity (Yli-Renko et al. 2002).

3.4. International competence

International business competence within the SME context is more widely discussed in the literature, as such companies considered to be in a weaker position comparing to the large corporations. The internationalization process requires innovativeness to struggle with the lack of resources from them. The term of “international business competence” used in this study has been introduced by Knight & Kim (2009) in the context of SMEs. Authors see this competence as source of competitive advantage for small and medium enterprises. Large companies are seen to be more knowledge intensive and hold better knowledge of foreign markets than the small ones, due to their internationally dispersed
organizational form. In the MNC context, start of subsidiary’s operations abroad may probably require the existence of subsidiary’s own international business competence. In this study, the components of the suggested international business competence term, will be applied to the subsidiary’s context.

Knight & Kim (2009) define international business competence as a company’s capabilities which lead to the effective handling of the international activities and which are hard to replicate by other firms. It includes four following dimensions.

*International orientation* is essential for company’s internationalization and expressed in the proactive company’s culture and management which will stimulate the strategically right actions and decisions on the new market. The international orientation in the organization gives a push for a number of actions and processes aiming on entering the new markets which possibly contribute into the performance of the organization.

*International marketing skills* refer to the special efforts of the companies on the new market to communicate with the customer and advertise the product to the right segment of customers, in other words, they create value. The marketing skills organize the activities of the company in the way that provide inimitable value and differentiation from the competitors, which, consequently, brings the improvements in the performance.

*International innovation* is the ability of the company to innovate in their processes, products and services for the international markets. The company’s R&D and marketing intelligence improve the performance on the particular market through achieving the leading position in the technology solution.

*International market orientation* refers to the responsiveness of the company towards the particular market or customer needs. Through that companies with the market and customer orientation achieve better international performance.

Out of these, two dimensions – international market orientation and international orientation, named to be the strongest indicators of the international business competence within SMEs. The same study measures company’s international performance with international profitability, international market share, export intensity and international sales. It has been found that international business competence positively affects all of the above-mentioned indicators. (Knight & Kim 2009)
Company’s knowledge of foreign markets has a central role in the internationalization process, mostly due to its mobility as a company’s resource. It refers both to the knowledge-intensity of the company’s resource and management’s knowledge in allocation and utilizing these. It has been proposed that the knowledge is the facilitator of the company’s growth on the foreign markets. The knowledge of the foreign markets “possesses the information and experimental knowledge about its international operating environment such as customers, competitors or market conditions”. Higher level of the foreign market knowledge may be achieved through the rising the level of company’s managers’ individual contacts with the partners. (Yli-Renko et al. 2002)

Knowledge of the foreign market is central in the networking theory and known as driver of the internationalization process. Theory postulates a company’s need to understand the functioning principles of the local network and its major players. This understanding is often acquired through the “learning by doing” process. (Forsgren 2008, pp 104)
4. RUSSIA AS A TARGET FOR INVESTMENTS

This chapter presents investment climate in Russia and studied regions. Its purpose is to introduce the country and region-specific context of this research to the reader.

4.1. Country

Russia or Russian Federation is the largest country in the world (more than 17 000 000 km\(^2\)) is located in the Eurasia with the population about 144 million people. Capital and the biggest city is Moscow. According to the Constitution of the Russian Federation, Russia has 83 subjects and out of them, there are 55 regions, 21 republics, 2 cities of federal statute (Moscow and Saint-Petersburg), 4 autonomous districts and 1 autonomous region. Russia borders with 18 countries and has the border by land with Norway, Finland, Estonia, Lithuania, Latvia, Poland, Ukraine, Belarus, South Ossetia, Abkhazia, Georgia, Azerbaijan, China, Mongolia, Kazakhstan and North Korea. (Russian Investment Agency 2013)

Being relatively young country that was born after the collapse of Soviet Union in 1991 it has a developing economy with the GDP equal to US$ 2.097 trillion in 2013. Fabry & Zeghani (2002) mention that being the largest country, rich with mineral resources and workforce, Russia has been unattractive destination for the foreign investors. Russia had the share of foreign direct investments less than 1% of GDP and was significantly behind China in the beginning of 2000s. The reason for that is seen in the lack of openness and ability to change, or flexibility, expressed by Russian business players together with the overall poor business climate, corruption and little protection of property right.

In Figure 6 below, it is seen that Russia’s attractiveness has increased about 4 times, from 5% in 2006 to 19% in 2014.

<table>
<thead>
<tr>
<th>Region</th>
<th>2006</th>
<th>2010</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>68%</td>
<td>38%</td>
<td>48%</td>
</tr>
<tr>
<td>CEE</td>
<td>52%</td>
<td>24%</td>
<td>29%</td>
</tr>
<tr>
<td>North America</td>
<td>48%</td>
<td>22%</td>
<td>31%</td>
</tr>
<tr>
<td>India</td>
<td>18%</td>
<td>22%</td>
<td>17%</td>
</tr>
<tr>
<td>China</td>
<td>41%</td>
<td>39%</td>
<td>44%</td>
</tr>
<tr>
<td>Brazil</td>
<td>8%</td>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Russia</td>
<td>5%</td>
<td>14%</td>
<td>19%</td>
</tr>
</tbody>
</table>

Figure 6 The most attractive regions to establish operations (EY’s 2014 European attractiveness survey)
By the volume of FDI inflow Russia was on the 3rd place in 2013 among top 20 host economies after United States and China with the level of US $94 billion (UNCTAD 2014). Nevertheless, due to the relatively complex situation in Russian economy the volume of FDI has decreased in 2014 (see Figure 7).

According to UNCTAD (2015) FDI inflow to Russia dropped and equals to US $19 billion after year 2014. The economy, which is based on the natural resources, has progressed a lot in latest decade due to the high oil prices on the world market (Ernst and Young 2013). Hence, the oil prices decrease in 2014 together with economic sanctions and geopolitical uncertainty, led to the slowed down economy and depreciation of the national currency – Russian ruble (The World Bank 2015).

4.2. Regions

In 2007–2011 more than 40% of FDI projects are concentrated in the Federal cities of Moscow and St. Petersburg. While Moscow attracted the biggest number of projects – 231, St. Petersburg named as financial and industrial center in Russia created the biggest number of FDI jobs – 9 843. (Ernst and Young 2015)

Besides the biggest federal cities, the regions of Nizhny Novgorod and Kaluga are the other places at the West of Russia which attract FDI. In 2012 they were ranked 3rd and 4th respectively in the European Investment Monitor 2013 (see Table 3).
<table>
<thead>
<tr>
<th>Rank</th>
<th>Region</th>
<th>Projects</th>
<th>Share of Total</th>
<th>Jobs</th>
<th>Share of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Moscow</td>
<td>40</td>
<td>31.3%</td>
<td>63</td>
<td>0.5%</td>
</tr>
<tr>
<td>2</td>
<td>St. Petersburg</td>
<td>11</td>
<td>8.6%</td>
<td>606</td>
<td>4.5%</td>
</tr>
<tr>
<td>3</td>
<td>Nizhny Novgorod</td>
<td>9</td>
<td>7.0%</td>
<td>1780</td>
<td>13.3%</td>
</tr>
<tr>
<td>4</td>
<td>Kaluga</td>
<td>7</td>
<td>5.5%</td>
<td>2180</td>
<td>16.2%</td>
</tr>
<tr>
<td>5</td>
<td>Chelyabinsk</td>
<td>3</td>
<td>2.3%</td>
<td>1000</td>
<td>7.5%</td>
</tr>
<tr>
<td>6</td>
<td>Ulyanovsk</td>
<td>3</td>
<td>2.3%</td>
<td>850</td>
<td>6.4%</td>
</tr>
<tr>
<td>7</td>
<td>Togliatti</td>
<td>3</td>
<td>2.3%</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>8</td>
<td>Lipetsk</td>
<td>3</td>
<td>2.3%</td>
<td>80</td>
<td>0.6%</td>
</tr>
<tr>
<td>9</td>
<td>Voronezh</td>
<td>3</td>
<td>2.3%</td>
<td>12</td>
<td>0.1%</td>
</tr>
<tr>
<td>10</td>
<td>Belgorod</td>
<td>2</td>
<td>1.6%</td>
<td>180</td>
<td>1.3%</td>
</tr>
<tr>
<td></td>
<td>Others</td>
<td>44</td>
<td>34.5%</td>
<td>6625</td>
<td>49.6%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>128</td>
<td>100%</td>
<td>13356</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 3 Russian FDI by region in 2012 (European Investment Monitor, 2013, Ernst & Young)

Moreover, as seen from the Table 3, the Kaluga region became a leader in the number of the created jobs among all other regions.

US, Germany, France, Japan and Finland in 2011-2012 were top-5 countries from which Russia has received FDI. It is equal to 66.4% of total FDI investments in those years. (Ernst & Young 2013)

According to Finnish-Russian Chamber of Commerce (2013), Russia has been Finland’s biggest trade partner in the volume of trade. Moreover, Finnish companies’ have made direct investments totaling around €10-12 billion. It is stated that there are over 600 companies from Finland have their business operations in Russia and they employ more than 50,000 Russians.

**Saint-Petersburg**

Saint-Petersburg is the federal city on the North-West of Russia with the population more than 5 000 000 inhabitants and area equal to 1 500 square kilometer. It is also the most North city with the population over 1 000 000 in the world.
This city is second popular destination for foreign direct investment in Russia. Due to its proximity to European and Asian markets, it rises the investors’ interest in automotive industry, software industry and transport services. (Ernst & Young 2013)

The attractive factors of Saint-Petersburg region named by Committee for Economic Development and Investment Activity of Leningrad region (2015) are the following:

- unique geopolitical location of the region:
  - "Russia's gateway to Europe" and "European gateway to Asia";
  - prime seaside location, the availability of existing and construction of the new sea ports;
  - a powerful transportation hub, located in nine European transport corridors;
  - the intersection of sea, river, rail, road, air, pipeline and telecommunication routes;
  - border position (the border with the European Union).
- strong innovation, industrial and human resources;
- the existing system of legislative support to promote investments activity;
- the system of tax incentives and governmental support programs for the investors;
- information transparency and openness;
- high level of political, social and economic stability.

Besides the city itself, the suburban area of Saint-Petersburg – Leningrad region, is the place with the high investment potential. According to Leningrad region Investment portal (2015) there are 14 industrial parks within the borders of Leningrad region. There are 15 successful foreign investment projects are listed in the portal, including two Finnish companies – Nokian Tyres and YIT which have their premises and production plant in the Leningrad region area.

World Bank Group research has shown that process of starting the business in year 2011 in Saint-Petersburg is conducted in approximately 7 steps and took about 20 days (World Bank Group 2012).

Saint-Petersburg due to its proximity to Finland has a long history of establishing the partnership agreements with Finland and Finnish companies. In 2010 Finnish companies constituted about 20% of all foreign companies in the region (Kosonen 2010). On its territory are located such organizations as Finnvera (Finnish specialized financing...
company), FinPro (promotion of Finland as FDI destination), Registered Association Finnish-Russian Chamber of Commerce and Finnish Funding Agency for Innovation TEKES. They are unified under the roof of “Finland House” in the center of the city and have mutual aim in strengthening the relationships between Russia and Finland and helping Finnish companies to enter the market and then operate in Russia.

*Kaluga region*

Kaluga region is located on the West of Russia with the administrative center Kaluga city has the area 29 900 km² and population slightly more than 1 000 000 inhabitants. The procedure of opening the business in the Kaluga region consisted from nine steps and took around 26 days in 2011 (World Bank Group 2012).

Kaluga city and its region is named to be the third most attractive area for FDI in the Attractiveness survey. It mostly attracts Western European companies for opening the manufacturing there due to its proximity to Moscow and number of industrial parks. (Ernst & Young 2013)

Agency for Regional Development of Kaluga Region (ARKKO) is operating on the territory of the Kaluga region. ARKKO has named mechanical engineering and metal processing as the main industries which is equal to ¾ of all industry in the region. Among the advantages of the region as a place for doing business, ARKKO emphasizes availability of project support on the federal level, tax benefits, legislative warranties and free project supporting possibility. The region has 10 industrial parks, two airports, two freight villages and convenient transport connection to Moscow, locating 180 km from the capital of Russia. Such Finnish companies as Lemminkäinen, Kiilto, Stora Enso and few others have their subsidiaries in the Kaluga region. (ARKKO 2015)
5. RESEARCH DESIGN

This chapter discusses study’s research approach, research methodology and interview design process. The qualitative methodology in the form of multiple case studies was applied. This chapter is finalized with the validity and reliability of study.

The research aim of this study is to explore the role of network competence and international business competence of Russian subsidiaries in the benefits for Finnish MNC performance. The importance of this study is high because the MNCs in Finnish-Russian business context are not discovered enough yet.

The study “Local Embeddedness and Knowledge Acquisition and How They Affect Finnish Business Operations in Russia” conducted by Ilnitskaya P. in 2013 as a Master’s project, has become a prerequisite for this research. It has covered the Finnish-Russian business context and particularly the subsidiaries of Finnish MNCs in the Kaluga region, Russia. The data from this pilot study has been partially used in this research.

5.1. Research approach

There are two main types of research approach – induction and deduction. The underlying logic of these types cause differences in the research process and the outcome of the research (Ghauri & Grønhaug 2010, 15-16).

Often associated with the qualitative research, induction has a theory and general conclusions as a result of the research. The research process flows from the evidences to findings and then, to the theory building. With this research approach, the generalizability of the conclusions assumed to be very high, but no 100% assurance may be applied to the findings.

In the deduction approach, the logical reasoning is the basis for the conclusions. The research process starts with the hypothesis building out of the earlier existing knowledge. It finalizes with either hypotheses’ rejection or acceptance according to the collected facts. Such approach often relates to the quantitative type of research.

The selection of the research approach is often dictated by the research phenomenon and researcher’s background. While deductive approach requires the broad literature base for theorizing the phenomenon, it might be not suitable for the new or relatively narrow
research topics. Thus, elements of the inductive approach may be applied for data generation and its analysis. As suggested by Ghauri & Grønhaug (2010,16), none of the approaches excludes one another; hence, combining of them is not restricted.

Present study based on the extensive organizational theories concerning MNC which provide the impulse for this research. However, the phenomenon of the network competence and international business competence is relatively narrow and underexplored area due to the plenty of semantically similar phenomena. Moreover, the context of MNC and cross-border international business setting makes it even more specific. As a result, current research applies the abductive logic.

Dubois & Gadde (2002) suggest the systematic combining which stronger relies on the theory than the inductive approach, and, at the same time, is remote enough from the deduction logic. Abductive approach is defined as systematic combining and known to be highly applicable for the case studies. The continuous matching of the theory and empirical evidences with each other throughout the research process verifies its applicability for this research. As opposite to the classical linear step-by-step research process, systematic combining makes the researcher to move back and forth during the research. This approach allows modifying the initial theoretical framework according to the results obtained during the study and, thus, gaining the combination from the established theory and newly developed concepts.

5.2. Research methodology

The qualitative research applied in this research is discussed by Creswell (2013, 43-51) and characterized by the study of the phenomenon in the natural setting. In practice, it is executed by collecting from the individuals or groups the evidences which reflect their thoughts and perceptions. Qualitative research is also beneficial in the social sciences or when the discovering of personal behavior and experience is needed (Ghauri 2004). When search for explanations of the phenomenon under the investigation is conducted, in other words, the research is exploratory, the flexible qualitative methods are most suitable for that purposes (Ghauri & Grønhaug 2010, 105-106).

In qualitative study, the researcher is the person who interprets and describes the problem after analyzing the multiple sources of data. One of his aims is to collect open-ended emerging data for further building the themes out of it (Creswell 2003, 18). Such analysis
will help to examine the initial assumptions in order to find the coherent evidences for their further acceptance or declining. The objectivity in the conclusions is one of the primary goals for the researcher in the qualitative research (Ghauri & Grønhaug 2010, 14).

The importance of the researcher’s personal assumptions and interpretations tends to be higher in the international setting where different cultures are involved. This suits to the Finnish-Russian context of this study. Moreover, the method of qualitative research completely correlates with the exploratory nature of this study. Thus, exploration of the phenomenon within the organization is conducted through the direct communication with the members of the selected organization. Members are not only the source of knowledge about the competences of organizations but they are also keepers of the experience. This unique experience understood by the researcher will allow further interpreting.

**Case study research**

Among five approaches named by Creswell (2013, 97-102) the case study approach has been selected. In-depth case study allows understanding the interaction between the context and phenomenon (Dubois & Gadde 2002). The center of the research in the case study is a real-life system framed in bounds. For the research within the system, the collected data for the case study is likely to be acquired from different sources of information from past (archives, news) and present (interviews, on place observations) (Eisenhardt 1989).

Following the case study method presented by Yin (2009, 57), the development of the theory is at the first place in the research design before the empirical data collection. On the other hand, according to the selected abductive approach the theory development of the theory takes place also in the concluding part of this research after analysis of the empirical data. Theory development on MNC knowledge transfer, network competence and local embeddedness has been performed in chapters 2 and 3 by reviewing the existing literature and theoretical framework composition.

Method of the case study has an explanatory nature and thus, provides the answers to “how” and “what” questions (Yin 2009, 10). However, the results acquired by the method of a single case study perceived as narrow and it is difficult to generalize to the wide scope, and hence, the replication in the method of multiple-case study contributes to the generalization (Yin 2009, 15). The sufficient number of cases for the case study
suggested by Eisenhardt (1989) is either one or from four to ten. In the situation when several cases are selected for the research, the within-case analysis is to be executed first followed by the cross-case analysis to provide the comparison (Creswell 2013). This research includes four case studies in order to follow the repetition of the findings.

5.3. Validity and reliability

According to Andersen and Skaates (2004, 475-480) validity has the aim to ensure the rigor in the research and serves for two purposes. The first one is to establish the validity throughout the research process. This could be achieved by performing the critical self-assessment during the process. The process of data analysis, where the researcher collects data and implements the theory-based analysis simultaneously, leaves the space for the gaps identification. Several iterations of returning to the theory and backwards during the analysis strengthen the process validity by deep exploration of the informants’ phenomena understanding supported with the theory background.

Second purpose is to provide reader the understanding on the quality and accuracy of the results. For these reasons, the data collection elements and process must be accurately presented. Ideally, the evidences are represented, for instance, in the form of informants’ quotations.

Creswell (2013, 243-268) refers to the validity in the qualitative research as to the accuracy of the results and considers the report of the study as a representation made by the researcher. The field research and close interactions between the researcher and informants is seen as factors which contribute to the accuracy of study. Thus, the process side of the research is emphasized in this perception of validation. In this research, the straight interaction between the researcher and informants is ensured during the interviews supplemented by the case companies’ environment which is considered as a source of additional information.

Dependability, which in qualitative research is parallelized with the reliability in the quantitative, is concerning that the results are stable over the time (Sinkovics 2008). Ghauri (2004) suggests that reliability relates to “authenticity” which aims to conduct the analysis with respect to the context and background data in order to understand the experience of people under the study rather than just their point of view. Credibility of the research which ensures that results reflect unbiased interpretation of informants opinion,
is built on the usage of multiple sources of data and each of these is supplementary or contradictory to another (Creswell 2013, 243-268).

Creswell (2013, 250-252) provides a framework for a validation called “validation strategies” which consists of eight strategies. They are (1) member checking, (2) external audits, (3) clarifying researcher bias, (4) peer review or debriefing, (5) thick description, (6) negative case analysis, (7) triangulation, and (8) prolonged engagement and persistent. Among these, author recommends to apply at least two of them to the research.

For this research triangulation strategy has been selected due to its advantage in providing “a more complete, holistic and contextual portrait of the object under study”. It appears to be the most suitable in the case study method as the information from several sources should be examined and validated from different angles. (Ghauri 2004)

Creswell (2013, 251) and Andersen and Skaates (2004) emphasize that different types of triangulation ensures the validity. The triangulation with usage of different data sources and methodological triangulation is applied in this research. The methodological triangulation is performed by usage of survey with pre-defined questions in order to support the interview material. Several similar questions in structured questionnaires for informants from different parties contribute to the validity of given information. Moreover, the information from interviews is supplemented by the examination of the secondary data sources in the forms of news, blog posts and documentation related to the case companies.

Second selected procedure for this research validation is thick description. Full detailed description of methods, cases, themes and participants gives an opportunity for the reader to apply the setting of the research elsewhere, in other words, it ensures transferability of the given information. (Creswell 2013, 252)

Another validation strategy applied in this study is a reviewing from the examiners’ side and it may be considered as external audit (Creswell 2013, 252). In this research, two examiners guide through the consultations, provide the researcher with the comments and advices, share the professional experience and follow the process of the research on the constant base. Being the experts in the research field, the examiners assess the result of the research critically and conclude on the reliability of the study.
Usage of the computer assisted methods during the processes of qualitative data collection and analysis increases the trustworthiness through the transparency of the procedures (Ghauri & Grønhaug 2012, 225). This research applies coding process using NVivo 10 software during the data analysis. It is discussed in more details in the next chapter. Creswell (2013, 253-255) refers to intercoder agreement in reliability question. Intercoder agreement is applied when the multiple coders proceed with the taped and transcribed interview data. The reliability in this situation is the stability of informants’ answers to these multiple coders. In this research, it won’t be applicable due to the fact that the only one researcher is involved in coding.
6. EMPIRICAL STUDY

This chapter presents the choices made for the case study research. It starts with the interview design where structured and semi-structured interviews have been utilized for data retrieval and obtaining the personal insights. Chapter continues with the choice of four case companies and informants in these companies. Then, procedures of data collection and data analysis are discussed.

6.1. Case company choice

The four cases have been chosen on the criteria preset by the research context. It has to be a subsidiary of Finnish MNC located in Russia with the sales of the products on Russian territory.

The four case companies were preliminary divided into two categories according to subsidiary’s location in Russia: the subsidiary located in the Kaluga region (“Kaluga region”) and the subsidiary located in Saint-Petersburg (“Saint-Petersburg”). Including into the research another geographical area has been done purposefully in order to extend the existing knowledge obtained from the pilot study.

For the category “Kaluga region”, the secondary data available from the existing pilot study of Ilnitskaya (2013) has been utilized. It includes structured questionnaire data as well as semi-structured interview audio tapes and transcripts from four case studies. This research setting requires the availability of the information obtained from three parties in each case – headquarter in Finland, one of the company’s Russian subsidiaries and local partner of that subsidiary. Two case companies out of four which suit the research setting have been selected for this research from the pilot study to provide the comparison of the descriptive results.

For the category “Saint-Petersburg” the collection of primary data has been executed in period March and April 2015. Data has been collected from 2 Finnish companies which have their subsidiaries located in Saint-Petersburg and 2 subsidiaries’ partners. The choice of Finnish companies has been made according to the criteria such as time of operations and several locations of operations worldwide. Subsidiaries have been chosen according to the geographical location and all of them are dealing with B2B businesses. The chosen case companies are codified in order to ensure the confidentiality.
The informants for these cases have been chosen in accordance to the informants’ choice of “Kaluga region” cases and existed secondary data. Informants in these cases were top management of the companies – CEO or financial director.

For “Saint-Petersburg”, in the first case the marketing manager of subsidiary has been contacted electronically. The purpose of contact was to obtain the contact information of company’s top management who suits the research purposes and subsidiary’s partner representative. After that, the Head of Russian direction who has CEO position for all Russian subsidiaries has been reached by e-mail and interview meeting was arranged. The partner’s representative has a position of General Director of partner’s company and has been reached by phone.

In the second case, the CEO of Russian subsidiary has been directly reached by e-mail and the interview meeting was scheduled. The contact information of partner’s representative and the informant from headquarter has been obtained personally by the researcher during the meeting. According to the named criteria, subsidiary’s CEO and sales manager provided the information about the knowledgeable persons. Both partner and headquarters representatives have been contacted via telephone and interviewed. Partner’s representative is a partner’s Executive manager who is responsible for company's operations in Saint-Petersburg. Headquarters’ representative is CEO of Finnish parent company.

6.2. Data collection

Interview design

In the pilot study research (Ilnitskaya 2013) four sets of questionnaire have been developed – one for headquarter, one for subsidiary’s partner and two for subsidiary (structured and semi-structured). In this research, the data collection procedures utilized in pilot study has been taken as a framework. For this purposes the existing questionnaires have been analyzed and revised. The questionnaires aimed for headquarters and subsidiaries’ partners remained unchanged (Appendix 3 & 4). This has been done purposefully in order to ensure concordance of the new primary collected data with the existed set of data and further comparison the data.

According to the focus aiming on deeper study of the subsidiary unit, both questionnaires for subsidiaries (Appendix 1 & 2) have been modified and complemented with the parts of
questions directly related to the network competence and international business competence. These themes have been developed from literature reviewed in the theoretical part of the study on network competence (Ritter et al. 1999, 2002, 2003), international business competence (Kim & Knight 2009), knowledge transfer (Gupta et al. 1991, 2000) and local embeddedness (Andersson et al. 1996, 2001, 2002, 2005).

No major changes have been done to the existed set of questions except order rearrangements in semi-structured interview (Appendix 2). Questions developed for the pilot study refer to Il’inskaya (2013) while questions newly designed for purposes of this research together with the supervisors are referenced as own.

For this research, the face-to-face interview with the heads of Russian subsidiaries has been implemented. Prior conducting it, subsidiary informants had to fill in the structured questionnaire (Appendix 1) in the electronic form (Google Forms) through the link sent them in the e-mail before the interview. That has provided the researcher with the preliminary information about the particular company for the interview preparation. This questionnaire also serves as a source of information for the interviewee about the topics that will be covered in the interview.

Structured interviews are useful for identifying the facts and answering the questions “what”, “where” and “when”. They allows low level of flexibility in given answers and have pre-defined options which help in further structuring of the acquired data for the researcher. (Eriksson & Kovalainen 2008, 81) In this research, the structured questionnaire besides collecting the facts about the company also includes the Likert-scale questions. These questions allow identifying the points of interest for the researcher in the upcoming face-to-face interview. Moreover, during the interview the further clarification or revision of given answers is possible.

The face-to-face interviewing has its aim in getting into the informants head and look at the situation from his point of view. Informants are the source of information for what they have observed which is impossible to observe by researcher (Stake 1995, 64). Sometimes, the informant is the source of information but it does not exist before the question has been stated. In such situation, the previously unshaped knowledge is co-created together with the interviewer which often leads to the new unexpected findings for the researcher. To stimulate this process the developed interview questions have to give the freedom for the informant to express his thoughts. (Wilkinson and Young, 2004)
The answers for “what” and “how” questions are obtained with semi-structured or guided interview, so “no” or “yes” answers are not acceptable. Each informant through his or her unique experience are endorsed to tell the story, an explanation, episode or linkage. (Stake 1995, 65) Not to sink in the volume of information and run out of time reserved for the interview, the topics or themes prepared in advance have their aim to guide the conversation with the informant according to the needed structure. In such question-based interview while wording of questions is the same, additional questions from the researcher and the tone of conversation is most likely to be different in each interview. (Eriksson & Kovalainen 2008, 82)

The unilingual approach has been chosen as an interview language for both the subsidiaries and headquarters. Cross-cultural interview setting has the informants’ with the Finnish nationality and native language and Russian interviewer’s nationality and native language. Hence, English was chosen as a language for communication although the corporate language in half of the cases was Russian and CEOs of these companies speak fluent Russian. Nevertheless, this choice has been done naturally basing on the fact that Russian and Finnish languages were the third languages in use for the informants and interviewer consequently. Thus, neither researcher nor informant had no linguistic advantage and had not affect power balance which may occur when one of the parties operates with the mother tongue. In other words, mutual linguistic challenge took the place during the interview process (Marschan-Piekkari & Reis 2004, 228). Another factor affecting this choice has been the research terminology, which has been developed and utilized by the scholars in English and no sufficient academic equivalent in Russian has been found.

For interviewing the Russian subsidiary partners, Russian language has been chosen because it is mother tongue for both parties. Partners’ representatives in all four cases have been contacted by telephone for answering the semi-structured interview (Appendix 4).

All face-to-face and phone interviews have been audio recorded with the permission of the informants for further data analysis. Audio recording has been chosen as a convenient and reliable method of detailed information collection while writing notes on place without recording distracts from conducting the interview and has a risk of missing the details (Eriksson & Kovalainen 2008, 84). Nevertheless, using some spot and afterward notes
with researcher reflections and observation contributes to the completeness of information.

Table 4 below reflects the timeline of interviews with the case companies.

<table>
<thead>
<tr>
<th>Company</th>
<th>Preliminary questionnaire</th>
<th>Interview at Subsidiary</th>
<th>Interview with HQ</th>
<th>Interview with Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>2013</td>
<td>13 May 2013</td>
<td>13 May 2013</td>
<td>11 June 2013 (2)</td>
</tr>
<tr>
<td>D</td>
<td>19 March 2015</td>
<td>23 March 2015</td>
<td>2 April 2015</td>
<td>3 April 2015</td>
</tr>
</tbody>
</table>

Table 4 Data collection timeline

All together for four cases, two face-to-face taped interviews, one face-to-face not taped interview (marked in brackets), three taped phone interviews and three filled-in preliminary questionnaire forms have been collected as primary data. Secondary data consists of five tapes and transcriptions of face-to-face and phone interviews and number of press releases, website news for several years’ period, newspaper articles, magazine interviews and presentations shared by companies’ representatives or found by the researcher. This has been done to provide data source triangulation (Creswell 2013, 251). Combining the interview with document review relates to methodological triangulation and increases the confidence in the researcher’s interpretation (Stake 1995, 114).

6.3. Data analysis

Yin (2009, 127) states that “analysis of case study evidence is one of the least developed and most difficult aspects of doing case studies”.

Qualitative approach involves combination of theoretical and empirical data. Hence, direction of data analysis may starts from theory (deductive) or backwards from the existed data (inductive). In the deductive approach, theoretical base guide but not direct the analysis. Inductive approach facilitates theory building based on the data analysis. Nevertheless, theory is a crucial element in both of the approaches. (Ghauri & Grøenhaug 2010, 205-207) In this research, the combination of both approaches is adopted. The
The initial stage of the analysis is based on the predefined topics derived from the research problem.

Prior the process of analyzing, the transcribing of six recorded interviews has been performed by the researcher itself. Transcribing by the research contributes both to the researcher’s revising of the collected data and to the reliability of interpretation. After that, the data in textual form has been revised and complemented. Translation from Russian to English has been done for the interviews with the Russian partners for standardization of analyzed data. The researcher who is being the same nationality as respondents may competently transfer the specific cultural aspects into the translated form and thus, has performed the translation.

This research utilizes the process of data analysis suggested by Miles and Hubermann (1994,10) and displayed in Figure 8.

According to this model, the analysis process starts after data collection with data reduction. This process happens alongside the analysis by handling the data, summarizing or coding leading to more focused and organized data, ready for further conclusion deriving. Data display helps in systemizing and structuring the raw data in the form of graphs or networks. Last step is conclusion drawing and verifying, which is necessary for the trustworthy conclusions. This process, as depicted at the figure may be cyclical and lead to several analytical iterations. Conclusions are derived after the full data collection and the overall process is not complete until the end of the research. (Miles & Hubermann 1994, 11-12)

**Coding**
Codes are the labels tagged on the block of information of different size from one word to the whole paragraph depending on the context meaning. Coding is the part of the analysis process aiming at meaningful systematization of the raw data such as textual transcriptions. This process keeps the existing relations between the pieces of information from the original source while helping in identifying the larger patterns by organizing evidences according to the context. (Miles & Hubermann 1994, 56-57).

Sinkovics et al. 2008 argue that validity and objectivity are nearly inapplicable for the qualitative research. The formalization of procedures of processing the qualitative data will contribute into the reliability of the results. It can be achieved with the usage of computer assisted qualitative data analysis software (CAQDAS).

CAQDAS is helpful in working with large volumes of textual data which appear as a result of qualitative research in the international business context. It assists the researcher in process of analyzing and coding the text but it does not allow using the software outputs as an analysis results. Computer assistance leaves for the researcher the main analyst’s power to interpret the data and draw the conclusions. For that purposes the underlying analysis strategy is needed. (Yin 2009, 128-130) NVivo 10 (NVivo) is name of one of the CAQDAS and the primary and secondary data has been analyzed in this research with its help.

Following the research approach which takes its start in theory even in the abductive logic, the preliminary codes have been developed. Preliminary codes are based on the theory part and interview design and combined prior the data collection. The list of preliminary codes is presented in Appendix 5. Predefined codes are aiming at assisting the data systematization but not strictly dictate or rule the following coding process. Redefinition and addition are naturally occurs after gathering the data. (Miles & Hubermann 1994, 65).

Data range consisted from four corporate level interviews, four subsidiary level interviews, five partner level interviews and number of secondary which data has been imported into NVivo. Navigation, data storage, organizing, searching, coding and retrieval are easily performed in the NVivo software. Codes are called “nodes” and may be hierarchically divided into “parent” and “child” nodes. Applying of two coding strategies – a priori and a posteriori have been simultaneously utilized for codifying the data according to the existing theory but not omitting the topics emergent from data. Coding process iterates
until no more themes are retrieved from the data. (Sinkovics et al. 2005) Result of the coding process is the final list of the codes.

In this research, first the manual coding was applied for the subsidiary level interviews as they are the richest source of the information for this research. The process of coding in NVivo is reflected in Appendix 6. Larger number of emergent themes forced to form the intermediate version of code list which then was reorganized to the final code list. The part of intermediate version codes is placed in the Appendix 7 and shows the parent and child nodes in the alphabetical order. The final code list is placed in the Appendix 8 and demonstrates only parent nodes. Final list of codes is a combination of the theoretically driven themes and complementary information extracted from raw data during the coding.

Autocoding function has been applied to other levels of interviews because their structure is straightforward and allows tagging the code for particular question. During the autocoding in NVivo answers on each question are aggregated so that answers from different sources are collected under one question which provides the researcher with easy comparison. The result of autocoding could be seen in Appendix 9.
7. DESCRIPTIVE RESULTS

In this chapter, the empirical results are presented in the cross-case format. This is done as a result of the comparison between the cases. Results presented here have a descriptive nature and thus, include the quotations and theory references where applicable.

7.1. Case description

*Multinational A*

This company has been established in late 1980’s in Finland as windows renovating company. Now the company’s primary business fields are frameless balcony glazing, terraces, related glass, aluminum production, and installation. Total number of employees was around 600 in 2013 and 1/6 of them was engaged in export activities or worked at the subsidiaries. In 2012, the net sales were around EUR 73 million, the one-third of which related to the subsidiary and export operations.

Parent company in Finland has its own production in Kouvola, sales department, installation service and the department responsible for the export activities. In 2014 corporation acquired another Finnish company – producer of supplementary products. The MNC is presented through the network of subsidiaries in Norway, Sweden, Switzerland, France, Spain, Canada, Germany and Russia. Besides that, it has sales in Netherlands, England, Iceland, Denmark and others.

Multinational A has its own registered legal entity in Russia in the form of Close Joint-Stock Company. It operates through the head subsidiary for Russia located in Moscow and a subsidiary’s branch in Saint-Petersburg.

*Multinational B*

Seven Finnish companies founded a groupop in the beginning of 1960’s in order to provide the Finnish industries with metal and steel. Its main production consists of steel structures for the construction of buildings, sandwich panels, façade cladding, corrugated board, metal roofing, rainwater systems and others. At the end of 2013, the multinational corporation employed about 9 000 employees, had about 2,500 million euro of net sales (34 million euro operating profit) and 38 subsidiaries all over the world.
Multinational B is represented in Russia by the registered legal entity in the form of Limited Liability Company which consists of 3 production plants and 18 sales points. Net sales in Russia were about 230 million euro in 2013 year (Annual report, 2013). Head office of company in Russia is located in the Kaluga region. Two production plants in the Kaluga region with total area of 57 000 m² are representing the building department of the company.

Multinational C

This multinational is the largest European company specializing in the production of packaging materials and polymer-based agricultural feed. Multinational was established in middle 1950’s as a family company. Nowadays it is the group of companies which consists of four subsidiaries, four joint ventures and two real estate companies. Its annual production volume is about 100 thousand tons, annual turnover around 300 million euros and export activities to more than 30 countries.

Company is represented in Russia by one subsidiary in the Kaluga region which is registered in 2010 as a legal entity in the form of Limited Liability Company. The production on the plant has started 2 years later in 2012.

Multinational D

Group of companies was founded in late 1960’s after the merging of several Finnish interior construction services. Company is focusing on the ceilings and walls contracting, related products marketing, as well as a comprehensive internal construction. Subsidiary in Finland offers a painting shop and sheet metal services. Other forms of Finnish subsidiaries are dedicated for decorating and inner constructions. In 2011, the multinational had 330 employees and annual turnover of more than 40 million euro.

Industrial powder painting relates to the main activities of the Group. Therefore, for this purposes the foreign subsidiaries operate in three countries – Russia, Lithuania and Estonia.

Company is represented in Russia by the only one subsidiary which operates in the form of Limited Liability Company. The subsidiary is located in Saint-Petersburg and has its own paint shop on the same territory. Powder coating shop in Saint-Petersburg is specializing in powder painting of the aluminum products for use in the rough conditions.
Most of these aluminum products are used in the manufacture of building facades, windows and doors. Table 5 Summary of case companies provides an overview of the case companies.

<table>
<thead>
<tr>
<th>Subsidiary</th>
<th>Name</th>
<th>Year of establishment</th>
<th>Employees</th>
<th>Entry Mode</th>
<th>Corporate language</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>2013</td>
<td>5</td>
<td>Green field</td>
<td>Russian</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>2006</td>
<td>1500</td>
<td>Acquisition</td>
<td>English</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>2010</td>
<td>33</td>
<td>Green field</td>
<td>English</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>2003</td>
<td>25</td>
<td>Green field</td>
<td>Russian</td>
<td></td>
</tr>
</tbody>
</table>

Table 5 Summary of case companies

Further, any name in the format “Company X” means the local Saint-Petersburg or Kaluga region subsidiary. Partners of the subsidiaries or headquarters named separately.

7.2. Prerequisites for coming to Russia

Decision to come to Russia through the particular location has been studied and some predefined options were named: to access markets, to access low-cost production, to access local skills.

The reasons for choosing particular location are tightly connected with the main reason of coming to Russia. These reasons have been mostly revealed during the interviews with headquarters party. The companies established in the form of greenfield were following one or several main customers in their decision to come to Russia. The established international companies already having their business in Russia or local customers were the influencers in raising the interest of Finnish company to enter the market. Together with that, from the companies’ point of view, the potential of Russian market was highly appreciated.

“Our main customer, German company asked us to join them in Russia, helping them in build up the market share in Russia [...] [we have worked] together with them earlier in other countries, so it was logical for them to ask us to join them on the market. That was one reason. We built a factory because of that. But then, what was the key interest, there was a big potential, the big market, the huge building sector and of course the know-how that we had at that time in Finland.” – Company D
Company D continues about the market potential:

“We looked after the possibility to come to the market that was a bit undeveloped, in order to make a good profit in a short time, relatively short time.” – Company D

The interviewee from Company A supports this – he stated that Finnish market is already highly saturated with their product while in Russia, according to product lifecycle concept, the product is in its introduction stage meaning a huge potential for the developments.

Serving the customers in Russia has its named advantage in easier logistics and avoiding customs procedures. Interestingly, while for some companies the availability and usage of raw materials for the production from local suppliers turned out to be an advantage, others apply the Finnish technology and materials and do not have the need in usage of local materials.

Moreover, some companies are not only serving the clients all over the Russia but also receive orders from Kazakhstan and Belarus. It appeared to be clear that presence in Russia is beneficial for the company in terms of the access to the whole CIS (The Commonwealth of Independent States) countries’ markets.

Company B that gains its subsidiary in Russia through the acquisition, has acquired the market leader in the area. This placed the subsidiary in the advantageous position because readiness of the market was already on a high level.

The highlighted advantage of Saint-Petersburg as a location for Finnish companies is in its proximity to Finland with 200 km to Finnish-Russian border and about 400 km to Helsinki. Companies comment:

“Saint-Petersburg has always been some kind of “window” to the West. The influences what come to architecture, and maybe it is easier to come first to Saint-Petersburg. Saint-Petersburg architects visit Europe, they visit Finland [...] and they are big Finnish players on Saint-Petersburg market.” – Company A

“At that time we had this dilemma, [...] we want to speak Finnish and we want to be close to Helsinki, because the same persons [...] had an active role in Saint-Petersburg [and in Finland]” – Company D

Even though no strong disadvantages were noticed there are certain regrets have been raised while providing the comparison between Saint-Petersburg and Moscow in terms of the location.
“It is appealing city but there will be more advantages in Moscow. So it was mistake not to go to Moscow. <...> Moscow could have been much better [choice].” – Company D

Company A that had already has the Moscow subsidiary is more positive about Saint-Petersburg. It highlights the “atmosphere” and “more modern views” and resumes it was a luck to come to Saint-Petersburg.

Companies located in the Kaluga region, mention region’s location saying that it is conveniently placed near the Moscow, “in the heart of these growing markets”. Moreover, Kaluga region has lower salary level and no traffic jams which are typical for Moscow. Such closeness to Moscow enhanced with the good transport connection is logistically beneficial:

“Our big customers, most of them are in greater Moscow area. We are two-three hours from them. Location is great.” – Company C.

All four subsidiaries have different premises conditions. While one subsidiary consists from only one office, others had to establish the production plant on the same territory. Company C was offered a place in the industrial park with the turnkey premises – production plant, roads, infrastructure, water supply, IT and offices. This appeared to be one of the main reasons in decision to come to exactly this location in the Kaluga region:

“We don’t need to get the expertise of negotiating about everything like electricity, water, but they are just a part of the deal.” – Company C.

This kind of package is highly advantageous for the greenfield companies whereas Company B which entered the country through the acquisition, has already had the entire infrastructure established. Proved by an example below, the negotiations about the infrastructure for an inexperienced in Russian business company may become a stumbling-block during the subsidiary establishing:

“We had an option to move to Moscow and we were considering it and main client, Germans, they were in Moscow, but it was too big corruption to go there. Too big corruption in terms of electricity connection. It was unbelievable <...> And we didn’t like to do it, so we remained in Saint-Petersburg.” – Company D

Among other factors which disturb the business, one company in the Kaluga region pointed out the costs, particularly the labor costs, which make this region “not the cheapest place to operate”. Company A stated that aside the region features the overall
macroeconomics and Russian internal politics have impact on their business. Company A has name them "external reasons". To the internal reasons, which may, theoretically, slow down the business development, the disability to maintain the strategy, to answer the customer needs, to find new customers and to find enough expertise are related.

Summing up, even though all companies have their own vision of the different location aspects, most of them name the same advantages and features of both regions mentioned in the regions’ investment potential promotions.

7.3. Business adaptation

Company A

Parent company has been working with Russia since 1999 through the representative office in Moscow. Later, it was forced to close down one in 2001 due to the tough time after the 1998 crisis and continue their operations through the local resellers. In 2007, present Russian CEO, who today has about 16 years of experience in Russian operations, has registered the affiliate company and Moscow subsidiary was open. Five years later the branch of Moscow subsidiary has appeared in Saint-Petersburg. Nowadays, company has a production in Russia licensed by the parent company, registered trademark and paying the royalty fee to the parent company.

Preparation for opening the subsidiaries in Russia took about 7 months of active acquiring of information from the resellers, open sources in the Internet, Finnish building companies and Finnish-Russian Chamber of Commerce. The paperwork was outsourced to the Finnish-Russian company when consultancy with “Russian veterans” helped a lot in business plan arrangements:

“I would like to emphasize one thing - without reliable, without experience professional Russians who have worked earlier with us we wouldn’t have succeed in it.” – Company A

Close cooperation with one of the resellers was conducted due to the strategic plan of opening the joint stock but its execution has failed. Nevertheless, companies remained the close partners and Company A’s Moscow subsidiary even employed four people from that reseller. Yli-Renko (2002) has found that contacts of management have positive relation with knowledge of foreign market and entry mode experience.
While old contacts were used for entering the market, the establishing of new contacts was not problematic for the newborn company. The widening of the reseller net was done mainly through the participation in big exhibitions for 3 years in a row.

The development strategy in Russia implied entering first the reseller market and 2 years later entering the project market. By chance, the company entered the project market from the beginning of its operations and what looks as a success from the aside was a problem for the company’s management:

“We started with resellers but at the very same time we were obliged to take care of projects and our knowledge at that time were zero: what comes to logistics, what comes to legislation, what comes to the tests and documents and so on. That was more or less bigger question which was in contradiction to our business plan. We were trapped into the project business by the way.” – Company A

**Company B**

Company B is a big company which has acquired the successful local company in the Kaluga region in 2006. This type of market entry makes the knowledge transfer from Finland to Russia less valuable for Company B due to already established knowledge and technology base. Instead, the main accent is made on the knowledge transfer in opposite direction through the communication with headquarters.

Subsidiary’s success factor is a good reference list of successful projects which serves as a demonstrable strength keeping the brand and meaning the company keep the promises.

**Company C**

The local CEO has performed opening of the subsidiary mostly individually and acquiring of information has been done well in advance. Before signing the contract, the information collection has been performed:

“Then I came here early, rather early and I looked around and tried to learn something. <…> I was getting it by talking to administration people, by customs people, with customers, suppliers, logistic companies.” – Company C

Additionally, Company C is supporting the idea of Company A and advices for Finnish companies to find “right persons” meaning someone local who will assist with establishing the business in Russia.
Being the small company the success factor of subsidiary is seen in finding the new customers together with the skilled workforce to support the pace of rapid expansion.

*Company D*

Current local CEO, the only one expatriate, works in the company for 3.5 years and previously had worked for few years in Russia in the related field. Current CEO has no information about the process of subsidiary establishment because it has happened 13 years ago. Studying in Finland gave him Russia-related background and nowadays he speaks fluent Russian.

Company D’s subsidiary in gaining the success relies on the combination of the production efficiency and good quality which will be delivered to the interested customers.

Summing up, none of the subsidiaries interviewees has named any significant issues which Finnish companies should change while adapting business in Russia. Only few advices were provided. Besides the main one mentioned earlier – to find the proficient people, first, it is critical to start business correctly from the beginning. Under that, having the right resources and choosing the track for development are understood because afterwards it is more difficult to adjust that direction and get the control. Then, avoiding being the “Soviet company under the Western brand” meaning that the way of working is inefficient, the bureaucracy is high and employees are not motivated to work in such way which leads to the high employee turnover rates. Company D formulates the recipe for success:

> “Take the good sides of Soviet Union, which means that employees working together, the speed of working, which is the best side of Russia and a quality of Western society and client service of Western society, then you have best sides of running business in Russia.” – Company D

Support data provide deeper insight to the results. Appendix 10 demonstrates the efficiency of communication tools used by subsidiary in contacts with headquarters. The most efficient tools according to all of the case companies were telephone and corporate e-mail followed by face-to-face meetings.

Figure 9 below shows the most important factors which affect the success of the local subsidiary revealed by case companies in the preliminary questionnaire.
As it is seen from the above, close relationships with authorities are important only for a half of the case companies. Relationships with local companies by half of the cases were marked 4 and 5 meaning high importance while overall reliable partners are highly important for 75% of companies. Valuable knowledge about customer needs and preferences appeared to be highly important for all of the companies.

7.4. Product development

Company A has made a product modification at the beginning of operations in Russia due to the different requirements for the installation process. The process applied elsewhere appeared to be expensive and insufficient in Russia, thus the modification makes it much more simple and cheaper. This product development has been done by the parent company in Finland. Another modification relates to the raw material processing which is slightly different in Russia. However, these modifications have not bring any significant changes to the product.

The possible differences of Russian market caused additional testing and research of the local market needs. Together with that, required by Russian authorities certifications and product registrations have been obtained. Interestingly, Company A in Russia still
produces and sells the type of product which is out from the Finnish market for 10 years. Nevertheless, the degree of product standardization allows introducing it to any other market “without any bigger problems”.

One of the resellers which has started the copying of Company A’s product has been dropped off from the partnership agreement with the company. In spite of that, company considers the copying and production of exactly the same product as nearly impossible due to several components imported from Finland and company’s unique know-how. Interviewee has noticed that the risk of the copying is a concern when doing business in China not in Russia.

The competitors of the company are mostly international companies which are presented on the Russian market. Company A does not afraid of the competitors and considers them as signs of the market’s growth where the interest towards the company’s product is growing.

Company B has developed the elements of products for Russian market which are then impossible to apply elsewhere in Western Europe. The need for the development is explained by the mismatches of common practices applied in the designing of metal or building constructions in Russia. Therefore, these local adjustments are not forwarded to Finland or any other countries of operation. The competitors of Company B are sometimes in more profitable position if they operate in the regions of Russia which are cheaper in terms of labor and logistic costs than the Kaluga region.

Company C has done the partial modifications droved by relatively high product price for Russian market. Replacement of raw materials with local and Belorussian substitutes reduced the price. Otherwise, the product remained the same and that led to the high degree of product standardization. Moreover, the solution developed in Russia has been transferred to headquarters in Finland and the product has already been applied on Sweden and German markets. Headquarters holds all the product developments in the company.

Company D’s business specific includes individual solutions for the each project. Thus, subsidiary facilitates the process modifications nearly every time, to fulfill individual customer need. Interviewee adds:
“In the West, you can make a deal, supply the same package for 10-15-20 years but in here you have to make a package every single time, once all over again. So you have to add things in order to keep it living, you have to be flexible, you have to listen to client, you have to try, to buy. <…> We have to sell more, we have to add more all the time, we have to make every single time the best offer and that keeps us moving” – Company D

The need for constant R&D activities makes this subsidiary the development leader among peer-subsidiaries. The introduction of such a complex product on other markets is possible but not necessary. This happens due to the fact that the scale of other markets is smaller, and customers are not demanding. Interviewee shared that “in Russia clients ask the most, they want to get it all and at the cheap price”. This kind of Russian culture’s aspect affects the rules of business a lot. Customers seek for cheap solution often without caring about the quality and long-lasting result. This makes companies to search for the new ways to add value into their offer and stay competitive. Such Russian culture attribute as seeking for the cheapest solution was called “consumer price consciousness” and appeared as a cultural difference of managers from Finland and Russia in SME context (Ivanova & Torkkeli 2013).

Company D, being the early entry with the unique technology at that time, has noticed the first companies which started the copying of the product about 10 years ago. A negative thing in terms of business, nevertheless, has stimulated the company for benchmarking and looking for own product improvements. According to interviewee, Company D has adopted the role of market leader that is trying to show the Western behavior and influence the direction of market development.

All of the companies have adjusted their products to some extent to the Russian market or Russian customer preferences. This kind of adaptation may relate to the responsiveness to the market needs that all companies have, their proficiency in local market knowledge and high degree of embeddedness.

Table 6 provides a summary of the chapter.
<table>
<thead>
<tr>
<th>Place of development and transfer to headquarter</th>
<th>Finland</th>
<th>Russia, not transferred</th>
<th>Russia, transferred, applied</th>
<th>Russia, transferred, not applied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of standardization of product sold in Russia</td>
<td>High for most of the products</td>
<td>High or low depending on the product</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

Table 6 Product adaptation chapter summary

7.5. Embeddedness

All four companies stated that to the big extent they understand Russian culture and business. This mostly happens thanks to the Russian employees who know the business environment and understand different cultural issues. This is also a reason why no cultural misunderstandings occur in the companies during the dealing with Russian counterparts.

Even though Company A relies on the rich personal experience of Russian CEO, it was mentioned that 2 years old subsidiary is still lacking the knowledge in methods of doing business. Company B evaluates the company’s country knowledge on a high level mainly due to the local presence. Presence provides the subsidiary with the local insights not available for headquarter in Finland:

“Sometimes it’s that we are not sharing the same knowledge in headquarters that there can be beliefs, how they think that it works, but it actually not. <…> We transfer part of the knowledge how the business is working here in Russia because it’s definitely different than it works in Finland or other parts of Europe. <…> Certain solutions are more preferred in Russia which is not preferred, for example, in Western Europe. And sometimes it can make this kind of misunderstandings between the units. But of course we are working on that. We get that gap smaller.” – Company B

Company C sometimes has certain difficulties with the understanding of the Russian legal procedures, for instance, customs. Such procedures are always associated with large investments, thus in such situations, the local CEO adopts following the law and make “everything as instructed”. In spite of this, there are no problems occur, regarding the fact that local CEO does not speak Russian, because the people in company are “always ready to help”. This is confirmed by the company’s partner who shared that here is no problem in using English in the communication process.
However, in the opinion of Company D’s partner, it is beneficial for both parties - subsidiary and partners, that local CEO is able to fluently communicate in Russian without the interpreter. The interviewee from headquarters supports it:

“We have a manager who wasn’t able to speak Russian; he did everything in Finnish, which was a problem. [Present local CEO] knows Russian language. There are very few Finnish CEOs, general managers in Russia who are leading their groups by speaking Russian, he is one of them.” – Company D

Expatriate with the ability to speak local language contributes to the company’s adaptation to the local environment which then leads to further local embeddedness. Moreover, CEO’s fluent speech, may lead to the better subsidiary’s network competence. While CEO is not on the side from the direct contacts with the business partners and authorities, he could be fully involved in subsidiary’s business operations.

The employees with international background exist in all of the subsidiaries to the different extent. Company A has the only few people in their subsidiary who have been previously studying, but not working abroad. The interviewee, who stated that the international background is not the priority in the recruiting process while motivation is more important, explained this fact.

Representatives of other companies have mentioned the working experience of their Russian employees in international or even Finnish companies. All of the subsidiaries agreed that international background has its positive effect on the business operations. For instance, fresh knowledge and modern views, which are gained due to the international education, are applied in subsidiary operations. In company C, the internationally experienced Russian person understands the way of CEO’s thinking and may explain to him the Russian reality and “how things are made here”.

Company A agrees that having more international knowledge in the future is favorable for their operations. Subsidiary would use it in order to understand the international players, their management systems and decision-making process but for now, the local knowledge has a higher priority:

“I would say that without local knowledge of the market, local knowledge of the culture, language, you can’t do any business in Russia. <…> Mainly, we are doing business in local construction business, you have to know the rules, the players, the culture and so on.” – Company A
Company B confirms – “Without local expertise you cannot run the business”.

Another half of the companies state that both – international expertise and local expertise are crucial for success on the Russian market. This combination secures the company’s understanding of culture, smooth business operations flow and person’s concordance with the company’s values. Here the opinions are presented:

“We have to have people who know how to talk to foreigners and how to get money going from abroad to us or vice versa, and trucks [which] are sent here and there. You need a good mix.” – Company C

“[Employees with international background] understand the high quality of work demanded. It is demanded by all international clients. But they can also understand the speed of Russian business because one of the biggest stereotypes in the West that Russian business is slow.”- Company D

The issue of time has been arisen in several interviews during the research process. The speed of business in Russia is seen by the most of the respondents as high. Moreover, this probably can be named as the biggest difference between Russian and Finnish ways of doing business. Mostly this question was mentioned by the subsidiaries’ partners and bigger part of them agree that the decision-making process takes longer in Finnish company than in Russian one. It could be illustrated by the following quotation from one of the partners:

“In terms of cultural differences, there is a bit of differences in mentality. If the Russian needs already yesterday, then the Finn thinks very long and considering everything.”

Another partner opens up further:

“[Finns] are thinking for very long, weighting the options, [deciding] if they need something or not. In Finland they maybe have time, but we do not have that time. Some things happen by chance. <…> Thinking for a long time will lead to further arguing and philosophizing. So we are more oriented on action than on a very long weighting. <…> Finns weight every time. <…> Different speed, we have it much faster.”

Particularly, only 2 out of 5 partners have experienced this phenomenon with the case companies while others have only the common knowledge of this phenomenon. One partner, who has noticed the trend of “slowness” in his cooperation with Finnish company, explains it by the “European way of doing business” which, in his opinion, is built on the
delaying the decision until the last moment. In the opinion of two other partners, this problem is originated in the “high level of management” meaning a lot of coordination within the parties inside the company for every decision and that is what slows down the pace.

Interviewee from headquarters of Company D has showed the understanding of pace of doing business in Russia. He metaphorically mentioned that the Russian speed of business makes company to feel that it is “always late, the customer asks to do things yesterday”.

Other issues that may indicate the actual understanding of local environment by companies could be a specific customer knowledge or market insights. Companies A and D mentioned the knowledge or market insights which are commonly not revealed for everyone but for only may be known by the internal players of the market. Company B has provided the example of understanding the Russian customer and adjusting the company's operations because of that:

“I have learnt that Russians are quite individualistic and they have this Soviet past when everything was standardized and was made on standard solutions, especially in living houses, so that everywhere they had the same kind of buildings. And then I think that Russians are more fed-up and everyone wants to have their own type of building, which is different than the other ones have. This is one example was noticed, where we should focus our resources. It is more concept type of buildings or individual type of buildings.” – Company B

Case companies have an understanding that the Finnish way of operating cannot be fully copied in Russia and see they doing business in a right way without any big problems. The pace of business leads to the high speed of changes meaning that market realities differ much from those in Finland. This situation allows companies to set up only the development direction rather than perform the long-term detailed planning which they keep doing in Finland. One of the indicators of rapidly changing Russian environment is found in an observation made by the Company D. Interviewee told that company’s presence on Russian market for 13 years is a very long period but only “in Russian terms, not in European terms”. In company’s opinion, changes may occur very rapidly so that the previous beliefs are needed the constant revision. Nevertheless, this has been assessed as a “good thing” because it keeps business “alive”.
In the study of managerial sensemaking in Finnish and Russian SMEs (Ivanova & Torkkeli 2013) Russian culture schema of hurrying and seeking for the profit have been called “Need to act quickly” and “Profit orientation”. The roots for common managerial behavior are seen in the historical events for instance, economical change in 1990s which has switched the group thinking to the individualistic one. On contrary, Finnish managers apply long-term planning which has supported by the results in this study. Apparently, the expatriates on the managerial positions of subsidiaries have demonstrated the full understanding of Russian cultural issues and flexibility in adapting to the “rules of the game”.

Table 7 below provides a summary of the chapter.

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<tr>
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<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
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<tbody>
<tr>
<td>Adaptation level to the Russian environment</td>
<td>High level of adaptation: country director speaks fluent Russian and has wide rich experience, the whole subsidiary consists of Russian employees</td>
<td>Quite high level of adaptation due to the presence of Russian employees. Subsidiary as a source of knowledge about Russia for HQ.</td>
<td>Quite high level of adaptation, large share of Russian employees, subsidiary has difficulties with understanding some legal procedures, CEO doesn’t speak Russian</td>
<td>High level of adaptation: country director speaks fluent Russian, the whole subsidiary consists of Russian employees, long time of operations</td>
</tr>
<tr>
<td>Problems in collaboration with local partners</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Employees with international competence</td>
<td>2 who has been studying and working in Finland</td>
<td>10 Russians and 5 expatriates</td>
<td>3 Russian employees with international background and CEO</td>
<td>10% of Russian employees and CEO expatriate</td>
</tr>
<tr>
<td>Importance of either local or international knowledge</td>
<td>Local is more important, international is favorable</td>
<td>Local</td>
<td>Both</td>
<td>Both</td>
</tr>
</tbody>
</table>

Table 7 Embeddedness chapter summary

7.6. Local partnerships of companies A and D

Company A

Multinational A has established the biggest part of its partners’ network prior entering the Russian market, which means there was a small need in the new network creation.
Nowadays it has a local production in Moscow which utilizes the local raw materials together with the Finnish know-how. Main function of Saint-Petersburg subsidiary is to deal with the Moscow regional headquarter, project customers and retailers or resellers through which the brand is presented in Russian regions. This explains the partnership portfolio which consists only from the local partners. It also indicates a significant importance of resellers for the company’s business success. The close partnerships constitutes about 50% from all partnership agreements which Company A has. According to Yli-Renko (2002), the closer are partnerships the company has – the more chances for learning from them. Particularly, the customer involvement showed the positive relation with the foreign knowledge of the company.

Company A seeks for retailers as well as project customers for the network expansion. There is an action plan aimed at the acquisition of new resellers developed for the Moscow subsidiary. According to it, assigned manager with the support of local Head search for the new resellers in the big cities all around the Russia except Moscow and Saint-Petersburg. In spite of action plan, the establishing of new relationships with the resellers happens naturally by the partners’ inquiries rather than systematically.

Company A considered the exhibitions as a powerful instrument for establishing new contacts in the past but this has changed a few years ago. Company A has finished the participation in the exhibitions on its own because they have not brought the valuable results. Instead, products of the company are presented at the exhibitions by the resellers and on their stands.

In addition to the mutual participation in the exhibitions, Company A has a practice to organize events for their resellers at head Russian subsidiary in Moscow once a year. Company plans include organization of this so-called “Company Day” for resellers at Saint-Petersburg subsidiary locally. Among other events, head subsidiary in Moscow organizes the forum for architects and designers. This competition provided the winners with the company’s factory visit to Finland and other prizes. However the event itself was not aiming at strong company’s promotion, obtained results stimulated Company’s top management to arrange this event again with stronger orientation on company’s product.

The procedures of selecting the partners impose the special requirements for Company A’s future partners, particularly resellers. Reseller’s choice is based on the three requirements or “values” which reseller must fulfill. These are: to be close to the client,
keeps the word and be oriented at building the future together with Company A. Consequently, reseller is not allowed to deal with other production which may compete with the production of Company A. The interviewee opened up further about the reseller’s selecting procedure:

“We know what a good partner should look like, but you will never know… only within 6 months or in a year you can tell if they are succeeding or not. We know that the [reseller’s company] owner should be in favor of that, we know that there should be capable sales persons, capable installing engineers, capable marketing and they should be active and it doesn’t play any bigger role if it is a small one in size or is it big one if all these requirements would be fulfilled.” – Company A

This confidence in what does company is looking for, regardless, if the partner was found by the company or company received the inquiry from the potential partner, remains the selecting procedure unchanged for almost 20 years. Moreover, this aligns with the company's business operation strategy which is based on three main aims. The first one is called quantitative – the increasing number of the resellers and project customers. Second one is “qualitative” – to work more qualitatively. The last one relates to the change of partner selecting procedure in the future – “to work in “right direction”” meaning not to work with each inquiry from the partners.

Overall monitoring of sales figures and profitability of the company therefore does not include instruments for systematic evaluation of the partners, their performance, marketing spending or other actions.

Clients

In terms of individual customer segment, Company A makes a division between the economy, comfort and business class customers. Comfort and business class are the primary targets while for the economy class company’s products are too expensive.

Company A’s brand is well known among the Finnish companies which operate in Russia and Russian companies in the same field. In contrast, potential individual end customers are nearly totally unfamiliar with the brand, even though some of them may have seen company’s products in Finland while traveling. The company resellers’ sales are highly dependent on the end customers’ brand awareness and their willingness to buy it for the set price, thus, the resellers’ responsibility is to promote the Company A’s production.
Company A’s head subsidiary tries to strengthen its marketing efforts because according to interviewee it is “not doing enough of that”. The range of marketing tools includes exhibitions, seminars, leaflets, stands on supermarkets and company’s webpage. Fully localized, it stays the main marketing channel for the company in Russia. Interviewee also underlined the importance of having a good technical documentation and brochures for the successful B2B marketing.

Even though the production and brand have appeared in the TV shows for the couple of times, the product specific and name of Company A is still totally unknown in Russia. In contrast, company’s market share in Finland is equal to 75%. Interviewee comments:

“We are working in the totally different conditions. Our market share…we do not know that in Russia, but maybe we are the biggest, but it is still so small.” - Company A.

In the after sales period Company A’s parent company collects customer feedback in Finland, Norway and Sweden on the regular basis. In Russia, company gets the resellers’ opinions, facilitates the discussions on mutual events, particularly, at closing meetings after the projects. Staying critical, interviewee does not see the barrier for not acquiring the feedback systematically another than “laziness”. If the practice of feedback will be implemented, the questionnaire may include opinion about the overall satisfaction (delivery time, installation) and customer’s recommendation of the company to others.

Company D

Key partners who worked with the company in the beginning of subsidiary’s operations remained the same after 13 years. However, interviewee claims that it is not enough because the subsidiary “grows together with the clients” and expanding its network. Out of the company’s portfolio which consists of 60 different actors there are 10% of close partners.

Acquiring of the new business contacts in Russia was not problematic for Company D “because representative people are interested to hear foreigners’ ideas”. The contacts are also easy to establish with the help of sales director who have about 15 years of market knowledge. Moreover, the market itself tends to be very limited and players of the market know each other.
Nowadays, Company D is considering the expansion to the market of Kazakhstan. This decision is tightly entailed with the huge investments into the opening of new production there. Additionally, the local CEO is looking for the Finnish or Swedish companies interested in subsidiary’ services. Ideal candidates aim at opening the metal production nearby or on the same territory in Saint-Petersburg. This kind of cooperation will ensure the constant production loading and complete the product offering even more. Unfortunately, due to the economic situation there are less Western companies which are willing to invest in Russia.

While establishing and holding the business contacts is not problematic for the company, turning these leads into the deals is named to be the main challenge. The solution is seen in trying to reach the contacts as many times as possible and do not ignore small companies rather than targeting only at most promising. Moreover, according to the own experience of Company D, paying attention to the small clients or clients which have problems at the moment may turn into the big deals in the close future.

Company D participates in the exhibitions about 3 times a year. Based on the experience, exhibitions are helpful in contact establishing, starting the discussion which may lead to further cooperation either immediately, after the months or even years. In the opinion of interviewee, exhibitions have changed their format from the places to represent the production to the places for meeting the people. With the development of electronic tools, there is no need to have leaflets at the stand while video will reveal more about the product. Nevertheless, there is still a need to present the production so people can touch it and evaluate. Exhibitions have the aim to raise people’s interest and invite them to visit the production.

Company D was a first company in its field on the market in Saint-Petersburg meaning that brand building has started 15 years ago. The features of B2B market force the subsidiary to work hard for marketing and brand building. Whereas no commercials are needed, the high degree of rumors spreading, and clients who, as opposed to B2C market, are professionals in their fields, make every mistake known for all the players on the market. On the other hand, offering of high quality product and long-term presence on the market provide the robust base for further building of brand name.

The procedure of selecting the partner has not changed much for the past 13 years. However, some changes in positioning have occurred leading to the change of company’s
perception by partners. In the first years, there was a need to tell to the potential partners “who we are and why we are in Russia” but nowadays the established reputation plays its role. Interviewee adds that nowadays prospect partners “know basically what we have been doing, our reputation, what is the price level”. At the same time, the positive changes in the overall quality of raw material available on the Russian market have occurred in the past 5-10 years and led to the opportunities expansion. The interviewee provided a metaphorical comparison for the process of the client search:

“We go fishing and most times we don’t get fish at all, we don’t have catch but we are trying to do, because big fish don’t come to you, you have to go fishing.”- Company D

Besides the exhibitions, Company D takes part in the events with other companies from the same industry once a year. Last year event’s official part included the visit to Company D’s production for all the event participants. In addition, there are events hold together with the partners. Company D has a practice of inviting their international raw material suppliers once or twice a year to educate the clients of the company about the raw material properties and features. This leads to the clients’ understanding of the right way of exploitation of company’s products and therefore, further sales for Company D.

No system has been developed purposefully for partner evaluation; only amounts of orders and price level are tracked. Additionally, ISO 9001 standard is used which, according to the interviewee, helps in partner’s evaluation. Customer feedback receiveing from the clients is not conducted systematically but rather it happens when any problems arise. Company D acquires the feedback by the phone calls and through listening to the opinions and ideas. Subsidiary doesn’t employ the survey forms as it is believed to be inefficient in Russia due to the common low response rate or dishonesty in answers.

7.7. Partner relationships

Partnership portfolio

This part of preliminary questionnaire and interview had its aim to obtain the data concerning the subsidiaries’ relationships with the partners. Particularly, with the local market players and dynamics of these relationships. First, the partnership portfolio has been identified (see Figure 10).
The partnership portfolio and the most critical type of local partnerships which significantly affects and supports the success of company are highly affected by the industry and type of business the company has.

As discussed in the previous chapter, the Company A has only the local partner companies. The most critical types of partnerships for the success are retailers and distributors. While Company A’s main focus is project customers, the comparison with Finland has been provided. In Finland the partnerships with construction companies are mostly long-lasting. As oppose to that, in Russia, the share of regular partners is small. Some of the companies have ordered only once from the Company A while others have ordered 5-6 times in the cases they need that special product. The last type does not market the partnership with case company at all but reserves the possibility to use Company A’s services.

Another type of customers – resellers are the local companies. In the beginning, the opening of subsidiary in Saint-Petersburg was understood in a wrong way by the partners. Subsidiary’s importance for the partners may be demonstrated by the following quotation which reflects the starting phase of subsidiary’s operations in Saint-Petersburg:

“First reaction from their side was “Oh, please, now you are coming here and taking all the customers from us”. So it was quite important when it was Grand opening in Saint-Petersburg, we invited all the resellers and tried to argument and tell them why we came here, why we open this – to be closer to you, to bring
you better service and so on. And there were chaos among our resellers. And now they are more or less like a big family.” – Company A

The change has happened and nowadays, the presence in Saint-Petersburg is considered by the partners as beneficial. This may indicate the high level of embeddedness of the subsidiary in the local networks.

Company B opened as an acquisition has the most diverse partnership portfolio and the only one doesn’t have local partners as a primary type. On contrary, Finnish companies are half of the all company’s partners, and it is the only company which has the partnerships with big Russian companies. For Company B the most critical type of the local partnership is companies in the same business field.

Company C which is relatively small and young, has emphasized the delivery companies and suppliers as the most critical type of local partnerships.

Company D has a significant share of local customers and partners with the most critical type – retailers. Multinational D has a partnership management in the way that each subsidiary has an access to the certain part of the network and serves as a primary connection in that case. For instance, some subsidiaries may handle quality organizations, suppliers from Finland or Scandinavian clients. Russian subsidiary particularly, has a connection to the transport units, Russian clients and the suppliers from Austria which are reflected in 10% of international partners. Subsidiary has a practice of joint procurement with other units of the company. This leads to the larger size of orders and results in the discounts for the subsidiary.

The importance of subsidiary to their international partners is higher in the case of the suppliers from Central Europe which are not aiming to come to Russian market because of the high risks. Then, the Western company on Russian market becomes the “easy solution” in terms of reliability and low investment entry to the market. For example, without this partnership, an Austrian supplier would not have an access to the Russian market.

Changes in portfolio

Naturally, certain changes in the partnership portfolio have occurred during the subsidiaries’ operation time. Even though operation time varies in different cases and equals to 2, 3, 7 and 13 years (at the moment of data collection), according to the
preliminary questionnaire, all of the case companies noted that the relationships became stronger while two companies additionally claimed that the network has expanded.

As a support for this fact, the Company A has said that the relationships with the partners are “getting deeper and deeper, more productive” all the time. The reason for such organic development is seen in the length of the relationships with the resellers, which were established before the company’s entry to Russia. Moreover, previously, the multinational corporation has a practice of licensing the resellers’ manufacturing right from Finland. This has ended with the Russian legal entity registration, thus, the know-how is now kept inside the company.

Company D confirmed the above-mentioned reasoning by saying that the main partners are working with the subsidiary from the beginning of operations. The biggest change has occurred recently with one of the main suppliers from Switzerland. This has happened due to the price rising from supplier’s side and significant Swiss franc’s appreciation in the beginning of 2015. Company D switched from the Swiss supplier to Austrian one and that allowed using of EUR currency in the payments. All together, only three global changes of suppliers have been made for about 35 years of parent’s company history.

Trust and commitment

The question of trust and commitment of partners to each other was asked from both parties – subsidiaries and their partners. While one company noticed that the level of trust is quite high and even has grown from the moment of opening the local subsidiary, others cannot estimate it that clearly. Moreover, they assumed that the level of trust is not 100% high because of the Russian business environment. It is reinforced with the following example:

“[Level of trust to Russians] is lower because Russian companies are not trusting in any long-term cooperation. The Germans understand that if they are giving us average or good price <...> they can survive and they will be on the market for next 15 years, for example. But Russian companies... When they demanding the lowest possible price they will be on the point that we say we are not offering it anymore.” – Company D

The two case companies which are estimating the level of trust at the middle level, have agreed that in Finland it would possibly be higher. Meanwhile, all the partners accentuated the especial trust that they have to their Finnish partners:
“Good, sturdy, trustful relationship, we all work all together.”

“Regards financial aspects, they always keep their commitments”

“It is quite reliable customer.” “Let’s estimate of 95% [of trust].”

“Quite high level of trust, and fulfillment of commitments, let’s say, at about 95%.”

This was confirmed and opened up a bit more when partner companies provided the comparison between the Russian and Finnish partner companies. The most often named feature that Finnish companies perform, is following the rules which results in such high level trust from the Russian side. This Finnish cultural feature is discussed by Hofstede (2015) in country’s dimensions and related to the dimension called Uncertainty Avoidance. High score in this dimension indicates the willingness of Finns to prevent the undetermined situations which leads to the personal need for setting the rules and following them.

Beside above mentioned trustfulness and reliability of Finnish companies the openness and honest way of management have been highlighted. Transparency and hierarchy which is unusual for Russian companies were highly appreciated by the partners of Finnish companies. Top management of Finnish companies was positively assessed for its availability for answering the different questions and inquiries from the partners. At the same time, the big Russian companies’ top management as a whole was criticized for its unwillingness to know what happens in day-to-day operations in their companies and little respect to other small companies. Thus, Finnish companies become a preferable business partner to work with for all partners in this study.

The roots for positive difference in management style of Finnish firms emphasized by partners is partially explained by Hofstede country’s dimension called Power Distance. Russia has the high score in this dimension meaning that inequality of power distribution among people, influences all the spheres of life. In the business environment the top-down hierarchy is adopted which underlines the status of more powerful people in the company – the top management. On contrary, Finland has low score which reflects the high level of equality and accessibility of top management of the company. (Hofstede 2015)

References
Usage of references in B2B business environment is named to be very important by the case companies. Company A emphasizes that word-of-mouth, personal recommendations and reference list are highly applicable and often required during their operations. Company B sees the reference list of successful projects as the main success factor for the company. The feedback and guarantee letters are placed on the website of the Company D which confirms that reference list is the crucial instrument for demonstrating the reliability. Interestingly, all three above mentioned companies are to some extent connected with the construction business which may indicate the industry’s specific feature.

*Mutual benefits*

Questions concerning the benefits that partner companies obtain from the relationships with Finnish companies were asked. The predefined answers were provided: discovering the new practices of how to do business in Russia, constant obtaining specific expertise about the market, borrowing technology solutions, obtaining new clients, entering international market. The results are presented in Figure 11.

![Figure 11 Results of the partnerships with case Finnish companies](image)

According to the phone interview, the most of the partners have obtained the new clients and borrowed the technology solution out of partnership with the case companies. New practices of how to do business in Russia have not been explored, but one partner mentioned that he has learned how to conduct business with the Finnish companies. Enter to the international market option gained the biggest disagreement mostly for two
reasons: companies either stayed local or already have been presented on the international market regardless the local Russian partnerships.

For partner of Company B their long-term established relations resulted in the time advantage which stimulates further collaboration between the parties. The partner of Company C emphasized the technical support and the quality of materials which appeared to be on a higher level than what was offered by Russian companies. They also acquired new production-related knowledge and competences after starting to use the material which not existed on the Russian market 9 years ago.

The partner of Company A in addition, emphasized the quality of product and underlined the quality of services which company provide. The interviewee had the previous experience with the companies where the qualified product was diminished the services which he called “a weak point” of these companies. Moreover, the reputation of the brands originated from Finland plays its role in consumer choice because the Finnish quality has its highly positive reputation in Russia. It could be illustrated by the following quotation from the partner of Company A:

“I like the product, the brand is very good, I am not ashamed to sell such a product, and it is a very strong advantage besides the Finnish quality. Reputation of brand tells itself. Finnish quality tells itself.”

The partner of Company D adds that besides the overall high reliability of its Finnish partner, “it is quality, brand name, which is also quite important”.

For the subsidiaries, the Finnish origin of the brand has sometimes its influence, for instance, while working with other Finnish companies in Russia. Company D which has a German-owned local partner indicated that their partners relied on the Finnish quality and long-term relationships.

Subsidiaries’ evaluation of the effect of local partnerships on their business has been measured in the preliminary questionnaire (see Figure 12).
Particularly, the new clients, an expertise about the market and the new practices of doing business in Russia have been acquired due to the interaction with local companies. The disagreement was expressed for the option “have entered the international market”. This is explained by the fact that for all of the subsidiaries the Russian market was not the only one market to operate and they already were presented on the international market to the moment they have entered the Russian one.

**Communication with the partners**

The effectiveness of different communication tools has been assessed both by the subsidiaries and by the partners (Appendix 8). All five partners agreed that the best communication tools, in terms of efficiency, are a telephone and an e-mail. These two were called the essential parts of their business communication. The subsidiaries mostly assess the telephone and e-mail as high efficient tools while other tools were left behind. For example, several subsidiaries said that they do not have any extranet systems. Business meetings are the most favorable and productive communication tools for the partners which allow solving the problems face-to-face, exchange the information and close the deals. Such meetings may occur in the form of company visits. For instance, one partner has a practice of holding a business meeting with clients, together with the employees from the Finnish company or vice versa, when the Finnish company invites partner to have a meeting with the client all together. According to him, "mutual initiation helps in internal communication and helps the work".
According to the partners, during the communication process, the following types of information have been exchanged between them and the case subsidiaries (see Figure 13).

![Figure 13 Types of information exchange between the partners and case subsidiaries](image)

The least exchanged type of information is confidential one, which has been exchanged only by two partners out of five. Interestingly, these two partners are the partners of Company B which is the only one has entered the market through the acquisition. This may indicate the extremely high level of openness between the parties which, probably, has constituted with the former Russian owner.

For the market information exchange, the participation in different projects or seminars which bring more publicity for both parties, have been named. Business information related to the future tenders, when combined from different sources, may help to build the clearer picture of situation. Technical information may include information about the competitors’ products transmitted to subsidiary ensures the competitiveness of the company’s product. Product information exchange occurs at the seminars and includes the fresh information about new products on the market. Production information exchange, according to experience of four partners, occurs through the Finnish company’s factory visits by partners or partners’ clients.

The whole subsidiary of Company A communicates with the partners about the different questions. Each employee is responsible for a certain field. For instance, for questions related to marketing, logistics or orders there are separate people to ask. However, if
there is no competent person was found to answer the question, partners may contact Head or Vice-Head of Russian legal entity in Moscow.

Established close relationships with the partners are beneficial in terms of obtaining the information. Partners’ office visits bring detailed and, what is even more important, direct information about their business and local market situation.

Company B has the only one manager who is responsible for the relationships with the partners. He is named to be “quite experienced in this field”. However, the interviewee has not named any acquired knowledge.

In Company C, the local CEO is the one who always collaborates with the partners together with function manager, responsible for his own field. Additionally, the logistic manager is available for daily communication. For Company C, the product requirements became the knowledge that company was acquiring from their partners and this led to the collaboration between the R&D department in Finland, local subsidiary and subsidiary’s partners.

At Company D there are three key persons handling the communication. These are sales director who has the broad experience in Russian market, production director and a person from administration. Local CEO is partly involved in communication. Interviewee from the headquarters stated that the acquisition of new knowledge from clients, partners and suppliers leads to the exploration of new production methods to produce faster and cheaper.

**Usage of business management software.**

Company A’s parent company has an experience of providing the calculating program for their partners all over the world except Russia. Until 2014, the calculations were handled in Excel-base program but nowadays the certain key resellers in Russia are using the specially developed company software to handle the orders and calculations. It unifies the procedures in cooperation within resellers and company.

Company B and C use the SAP software which is the enterprise and customer management software. The partner of one of these companies reveals that usage of SAP software lefts no room for the flexible adjustments of urgent extra orders which may occur occasionally. That means that on the one side, the long-term planning is easier and an
order placed in the software will be executed at certain time. On the other hand, in the informant’s opinion, this leads to the losses of profitable orders from the clients who ask for the order’s complexion as fast as possible and ready to pay more.

Company D uses the Excel-based programs. However, for the accounting purposes it uses the widely spread Russian software package for enterprises – “1C”. Interviewee has mentioned the long-term plans for implementation of the Enterprise Resource Planning (ERP) system. He commented that there is no strong need to use the ERP systems for all of the companies in Russia yet. Nevertheless, due to the rapidly changing environment, the value of usage the ERP system will increase, most likely, for the clients who will demand the automatic process of interaction between the partners.

**Partnership relations**

Different aspects of partnership relations have been measured in the preliminary questionnaire from the subsidiaries and in the phone interview from the partners for further analysis as the part of subsidiary network competence. The results for subsidiaries are presented in Figure 14. The related partner results are presented in Appendix 10.

![Figure 14 Case companies relations with local companies](image)

All of the case companies exchange general information with the partners. The disagreement with the statement is explained by the phrase “only general information”,

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which means that subsidiaries also exchange confidential information. Among the partners the exchange of confidential information is practiced by only two companies out of five which supports the earlier data.

While only half of the subsidiaries assess how beneficial for them the business relationships with partners, all of the partners conduct such assessment. The same situation is related to the assignment of employees to the relationships with the partners. 75% of subsidiaries and 60% of partners have meetings and discussions inside the company concerning the relationships with their partners. Among the partner companies which don’t employ such practice, the local CEO serves as the main contact person for such a relationships so no more employees are involved in that.

Other answers have demonstrated partners agreement with the statements. One subsidiary showed the disagreement with borrowing a new knowledge from the partners and sharing the same goals with partner each.

*Other important partnerships*

Company D has mentioned that the price war is strong in Russia due to the tight competition among the companies. The competitors of Company D are mostly Russian companies – daughters of the Russian construction companies. Competitors from the outside of the Russia are not relevant for the subsidiary because of the low efficiency of supplies from the European Union due to the costs. On contrary, a locally located Company D has bigger opportunities than the third-party company to get the promising orders. Moreover, company’s experience has showed that there is a phenomenon of coopetition among the companies exists on the constant basis. The level of trust on the Russian B2B market makes the competing companies to cooperate in order to get the same support in future. An example:

“I know that the main client or one of the most important clients of my competitor wants to come to work with me. And of course, I see it suspicious, because if it the long term partner, what has happened? [...] Usually is a thing that the client doesn’t pay their debts to my main competitor and they want to come to work with me that they could get even double their debt. And it’s rare, in Europe it’s not common fact, but in Russia… It’s my benefit and a benefit of the competitor that if they are loose somebody they call me and say “Hey, they are most likely coming to you” because we don’t want the situation that same client double his debt. In this system nobody gets the money at all” – Company D
The interviewee has metaphorically described this kind of situation as a “game” where everybody is lying. Another company mentioned the practice of “cold calls” to the competitors. During these calls, the subsidiary representative is pretending to be a client in order to get the valuable information for the further internal benchmarking.

Company C has highlighted the significance for its business success of the relations with the government of the region. Interviewee has a positive vision of region’s administration and their activities towards the FDI attraction. The following quotation opens up further:

“Administration is interested in what we are doing. I go by bike 25 km every day and if I see vice-governor on the street, so he is talking to me. He remembers me, a small company representative and is asking how is biking and telling how he has been biking. And the governor is always interested. You look at ministers of this region, young, hungry, extremely talented guys. And governor and administration know that they need to run fast and work hard that they get investors here and this area. <…> The environment is good. They [government] have meetings for investors two-three times a year. They take us all together and talk to us and ask “What can we do?”” – Company C

Only companies from the Kaluga region have highlighted the relationships with the local authorities. This may indicate that in the scale of a big city, such as Saint-Petersburg, the effect of the relationships with the authorities is not that straightforward. While companies which entered the Russian market in Saint-Petersburg or Moscow mostly rely on their own activities towards the new business building, the companies from the Kaluga region have underlined the significant support they got from the region’s authorities. This has resulted in the good investment climate in the region and foreign companies’ willingness to come there. It is seen that authorities of the Kaluga region are heavily oriented on the attraction of FDI into the region and international companies value their efforts.

Kaluga region’s investment attractiveness noticed by the foreign case companies in 2013 resulted in the 2nd place out of 76 in the Russian Regional Investment Climate Index 2015. The region receives the highest scores in the 3 out of 4 following indicators: regulatory environment, business oriented institutes and support of small business. To compare with, neither Leningrad region nor Saint-Petersburg receive the highest score and thus, located at the 20th and 26th places consequently.

Table 8 summarizes the results of this chapter.
<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in partnership relationships</td>
<td>Stronger and extended</td>
<td>Stronger</td>
<td>Stronger and extended</td>
<td>Stronger</td>
</tr>
<tr>
<td>Trust and commitment to local partners</td>
<td>High and growing</td>
<td>Medium</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>Communication with partners</td>
<td>All 5 employees</td>
<td>1 manager</td>
<td>Special function manager and CEO</td>
<td>Sales manager, production manager, administrative person and CEO</td>
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<tr>
<td>New knowledge acquisition from local partners</td>
<td>Info about market</td>
<td>No</td>
<td>Product requirements</td>
<td>Production methods</td>
</tr>
</tbody>
</table>

Table 8 Partnerships chapter summary

7.8. Control management

Company A

The business operations are set in a way that Head Russian Moscow subsidiary performs the general management and all supportive functions including financial control, wages calculation and logistics. Saint-Petersburg subsidiary has its local manager, but the strategic planning, budgeting and other long-term decisions are taken together with the Moscow subsidiary and Finnish headquarters. Furthermore, the decision-making process in Saint-Petersburg branch is mentioned by the interviewee to be a significant problem which affects all the subsidiary’s operations. Interviewee emphasizes that Saint-Petersburg subsidiary needs more power to make their own decisions because “they have too often ask Moscow or Finland in order to make decisions, quite urgent decisions”.

Saint-Petersburg branch employs five people where the only one – local manager, can be named an expatriate. Being Russian, he is a holder of both citizenships, and has worked in the parent company in Finland. Russian CEO who is in charge of both subsidiaries is Finnish and speaks fluent Russian.

The communication with the Finnish HQ occurs daily by the phone and is conducted by three persons. Saint-Petersburg branch communicates with Moscow regarding the projects on all levels and only some certain questions are going purposefully through the
local manager. No communication between the Russian subsidiaries and subsidiaries in other countries occur.

Company B

The division of the company is done by the units which are responsible for own results. The decision-making is done on place and measured in monetary value. There are five expatriates – key managers, who communicate with headquarters regarding the questions related to their fields. Besides CEO, those are Supply Chain Management Director, Business Controller, HR Director and Financial Director. The communication with headquarter occurs mostly with the help of electronic solutions in order to reduce the volumes of travelling. The cross-communication with other subsidiaries happens on the constant base as well as communication with the production units outside the Russia.

Company C

Russian CEO is the only one expatriate and he is the person who communicates nearly daily with headquarters and particularly, with the owner of the company. The decision-making process is called flexible. It happens on place by the local CEO individually with the further reporting to the parent company according to the mutually developed guidelines.

Company D

Company has a division into soft and hard data. To the category of hard data, the balance sheet and financial reports are related and it is controlled by headquarters. The responsible person in headquarter controls the performance through the reports from the local CEO and particularly, production line efficiency, raw material consumption efficiency, deliveries and customer claims.

The decision-making authority is delegated to the local subsidiary’s CEO which means that he takes 90-95% of the decisions individually. Company D’s interviewee mentions that sometimes the decisions are taken collectively in the subsidiary when “there is a point to listen others”.

However, when strategic planning takes place, the local CEO is eager to listen to the ideas from headquarters which is considered as an external and internal party at the same
time in the relation to subsidiary. Normally, the communication with headquarter is performed by the local CEO himself and a person from the administrative department through the phone calls about “every second day to hear ideas, thoughts”. Communication with peer-subsidiaries in other countries happens on the regular basis.

Interviewee from headquarter party agreed saying that he gives to the local CEO “the full set of tools to operate in Russia and backing up him, the company, the organization over there and it is not working in the way that it would be centralized decision-making”. According to him, the cooperation of subsidiary with HQ happens when it is vital for the benefit of the whole company. Provided example showed, that recent ISO certification process of all subsidiaries required the mutual work of subsidiaries and the parent company “but otherwise they are working rather independently”.

Headquarters as a control center commonly performs the most control to the fully owned subsidiaries comparing to the less control in joint ventures and independent contractors. Centralization of control and planning aims at holding the complete global enterprise as a solid system. This, however, does not detract the need of finding the balance between the operational flexibility and following the shared direction (Roots 1994, 204-205).

Headquarters control over the subsidiaries may have direct nature through using the expatriates at the top management positions. These expatriates in the subsidiaries are considered as a factor which lowers the subsidiary’s local embeddedness (Andersson & Forsgren 1996). Among other factors which disturb building the relationships with the local partners the lack of decision-making authority and close cooperation with headquarters may be named. All of the case companies have expatriates at their top management but their share is relatively low in the overall number of employees, thus the local embeddedness is not interfered by this.

Table 9 summarizes the information from this chapter.

<table>
<thead>
<tr>
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<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expatriates</td>
<td>1 out of 5 employees</td>
<td>5 out of 1500 employees</td>
<td>1 out of 33 employees</td>
<td>1 out of 25 employees</td>
</tr>
<tr>
<td>Decision-making</td>
<td>Weak, mostly by Moscow (supportive functions in Moscow subsidiary)</td>
<td>On place, in monetary value</td>
<td>Flexible, on place, by local CEO individually</td>
<td>On place, individually by Local CEO</td>
</tr>
</tbody>
</table>

Table 9
## 7.9. HR management

Case companies have emphasized that the reliable employees with the proficiency in making business in Russia are the vital factor for the company’s organic growth and development. Company A has a motivational orientation during the recruiting, aiming at forming the loyalty and inspiration among the employees who will stay in the company for a long period. Company D emphasizes the importance of hiring the employees with the different background which will stimulate the internal diversity in knowledge and ideas.

Flexibility and open-mindedness are applied in the employee management practices of case companies. This can be implemented due to the relatively small sizes of subsidiaries where the employees could be “as family” and that will make them stay for longer period. In the Company D interviewee’s opinion, the big companies are harder to control and the internal competition, if appeared there, may be harmful for the company operations. Bigger companies need more people with controlling functions who will be able to combine control with the freedom given to the employees. Orientation on the result without strict control from the top-management has been named a Western practice which is successfully applied and brings the results.

This kind of HR management is common for the Finnish “feminine” society according to the Hofstede’s cultural dimension (Hofstede 2015). It is characterized with flexibility, equality among the employees, mutual decision-making and top management’s supportive nature. High score of Finland in Individualism dimension is reflected in the managerial style which imposed relying on the person’s individual responsibility in achieving the sufficient result.

The corporate cultures of both companies A and D are the same for subsidiaries in other countries without the special distinction in Russia. Company A transfers the corporate culture and “spirit” of the company to the employees through the “start trainings”. Company D has transferred the corporate culture through the local CEO who follows the

### Table 9 Control management chapter summary

<table>
<thead>
<tr>
<th>Communication with HQ</th>
<th>Daily via phone by 3 managers</th>
<th>Via electronic tools by 5 key managers</th>
<th>Nearly daily by phone by local CEO</th>
<th>CEO and administrative manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication with peer subsidiaries</td>
<td>Only with local units.</td>
<td>With local and international units.</td>
<td>-</td>
<td>With international units.</td>
</tr>
</tbody>
</table>
Finnish values and mission of the company. Interviewee from headquarters points out that some issues of company’s corporate culture are contradictory to the practices of doing business in Russia. One of them is bribery, which is not acceptable in the company. Aside the ethical principles it also possess the risk of brand name contamination.

Bribery in Russia has its roots in history and state authorities were always willing to demolish it. The reasons for the corruption which takes place to this day is seen in the societal uncertainty after the turbulence in 1990s. It has caused the shortages in the salary payments and thus, other ways to gain money were used. (Kosonen et al. 2008)

According to the Corruption Perception Index (CPI), Russia is located on the 136 place out of 175 countries. It has the score 27 on the scale from 0 to 100, where 0 is highly corrupt country and 100 is very clean. Finland is placed on the third place with the score 89 meaning that there is a low level of corruption in the country (Transparency International 2014). Origin from a low-corrup country applies the additional responsibility for the companies while acting in high-corrup countries. The financial or legal consequences may arise in case of taking corrupt actions in these countries. Thus, the case subsidiaries could be classified to one of the two categories – the “idealist” or “selective conformist” types according to their strategic responses to the Russian corruption. These types are doing business in Russia without the corruption or sometimes with the help of tight personal contacts with the authorities. This is mostly dictated by the non-corruption policies of MNCs which is strictly followed by all of the subsidiaries. (Karhunen & Kosonen 2013)

Trainings

Knowledge transfer between headquarters and subsidiaries occurs in a different ways. According to headquarters, employees’ education is the most effective way to transfer the knowledge whereas seminars and written documents were claimed to be average or low efficient (see Figure 15).
None of the case has companies applied the transfer of employees between Russia and Finland with working purposes mostly due to the language differences and costs. Instead, each company applies employee education in the form of trainings. Trainings have been found to raise the subsidiary employees’ overall ability - a part of the absorptive capacity of subsidiary (Minbaeva 2003).

Company A has a regular trainings and visits for the employees to Finland and “start training” for new employees or resellers. It also uses trainings as a mean for fulfilling the lack of knowledge in the subsidiary if occurs.

Company B has a certain focused training period in order to educate employees a particular topic, for instance, special machinery. Company C applies separate training programs for the different level of employees from Russia, and arranges the visits of Finnish employees to the subsidiary for teaching. The fulfilling of Company C’s knowledge gap happens through the recruitment process which aims on bringing the missing skill or knowledge to the company.

Company D applies the consultancy from the suppliers or producers to teach the employees to utilize their products better or production adjustment methods. Recruitment process in the company aims to bring people with the useful external knowledge to the company. In the interviewee’s opinion, hiring the people with the mindset similar to the top management may be harmful for the new ideas development.
Informal communication of the employees occurs in the non-working time and has a positive effect in tightening the relationships inside the company.

“The way one person influence on personal level to another, it is not on seminars, it is not on trainings - it is called management. But what comes to the leadership it is on coffee breaks, it is on corridors, it is at informal events outside office where one has the possibility to influence more.” – Company A

Get-together events sometimes occur in Company A in the form of after work informal meetings out of the office. Organized corporate events for the employees take place rarely, “maybe even too seldom” – interviewee regrets. The local CEO of Company C has started taking the employees to the unofficial dinners regularly from the beginning of subsidiaries operations. It aims to get people together informally and this, in the CEO’s point of view, relates to the teambuilding activities.

Company D has the corporate events for the whole subsidiary related to the holiday celebrations. Besides that, the local CEO participates in the teambuilding events held once a year in different locations, together with the CEOs from other peer-subsidiaries and a top management.
8. FINDINGS AND ANALYSIS

Chapter 8 provides a reader with the analysis of empirical findings of this study and its structure is in the consequence with the theoretical framework presented in the beginning. This chapter is started with the discussion of subsidiary’s role and knowledge transfer followed by the analysis of competences and benefits for MNC. Chapter 8 is finalized with the summary for each of the cases.

Collection of primary data which fully suits the purposes of this study has been executed only for Saint-Petersburg cases. Due to this fact findings and analysis are drawn only from the results obtained from two cases.

8.1. Subsidiary role and knowledge flows

Role of the subsidiary is considered from headquarters’ point of view. First, role of the subsidiary in MNC structure is presented in Figure 16. Movement from right to left on the scale, indicates the increase in the site competencies and level of subsidiary’s responsibility in MNC.

![Subsidiary’s functions](image)

While Company A in Saint-Petersburg has one more major function – distribution, Company D is the only one which performs the production process development. It is also named to be the global hub in this function. As it has been studied from the previous chapters, such a development is forced by the individual nature of the orders and need for the constant updating the product offering. On the other hand, it performs distribution and logistics through the partners, and hence, escapes the pattern of rising responsibility from
the right to the left of the scale. All except Company A have their production know-how which secures the competitiveness of the subsidiary on the market. The reason, why subsidiary A has small number of responsibilities compared to other units, is the fact that this division is originally developed by Ferdows (1997) to identify the strategic roles of the production plants. However, no production is executed in the Saint-Petersburg branch.

Knowledge flows within the MNC are considered according to Gupta’s et al. (1991) knowledge flow-based framework. The subsidiaries have been assessed depending on the volumes and directions of knowledge transfer both: by subsidiaries themselves and by headquarters to ensure the validity of the results (see Figure 17).

Company A has little knowledge creation followed by the absence of knowledge transfer from the subsidiary. Even though the Company A representatives have selected the role of a Local Innovator, the resultant data indicates that subsidiary heavily relies on the knowledge inflow from regional headquarters in Moscow and parent company in Finland. According to the roles description (Gupta et al. 1991), Company A has a role of Implementator. This result is more suitable for the 2 years old subsidiary which had a zero level of knowledge in the beginning of operations. Intensive “teaching” from regional headquarters provides the sufficient level of knowledge nowadays but subsidiary remains highly dependent on it.

In the study of Chinese subsidiaries, the similar pattern has been identified: the younger subsidiaries had more inflow of knowledge from parent companies than outflow to them. It has been explained by the weak knowledge base of new subsidiary, especially in the context of the emerging economies. However, this misbalance is considered by headquarters as a temporary issue and the potential of particular subsidiary in terms of knowledge outflow seen to be higher in the future. (Qin et al. 2008)
Imbalance of the inflow from parent company and the outflow to it may also be explained by the level of country’s economic development (Gupta et al. 2000). Finland has a higher level of economic development than the transitional economy of Russia. This leads to more intensive knowledge outflows and technology transfer from corporate level to subsidiaries.

Global Innovator not only utilizes the created knowledge but also provides knowledge for other units in MNC. Company D not only produces and utilizes enough knowledge but also shares this knowledge with the peer-subsidiaries and parent company. Particularly, technical knowledge, business practices, information about clients and project information are shared by subsidiary with the rest of MNC.

However, knowledge transferred to peer-subsidiaries is not utilized further in other units. Transfer of best practices is the dyadic exchange of the organizational knowledge between the units and in this case, the characteristics of the recipient unit are important. The factors that disturb the transfer of best practices have been identified by Szulanski (1996). These factors lead to the internal stickiness and called knowledge barriers. Eight origins of the internal stickiness concerning the characteristics of knowledge, source, recipient and context have been explored. Out of them, three most important origins have been identified: casual ambiguity, absorptive capacity of the recipient side, and an arduous relationship between the source and the recipient. All these barriers are closely related to the degree of transferred knowledge tacitness. Tacit knowledge produced by one of the subsidiary units is highly dependent on the business context (Pesalj 2011).

The barrier for the application of transferred knowledge in case of Company D is seen mostly in the unique features of Russian business environment or country factors which differ among subsidiaries of MNC (Forsgren et al. 1999). These factors are market size, production factors, level of competition, organization of industrial environment and customer preferences, differentiate Russian market from markets of Baltic countries. Thus, business practices, particularly value added product offering performed by Company D in Russia, remained inapplicable for small-scale markets and less demanding customers in each of two Baltic countries. The fact that the reason of knowledge inapplicability is environmental mismatching between the different types of markets is supported, when inquiry of advice is initiated by the peer-subsidiaries when the specific knowledge is needed. For instance, due to the volumes of Russian subsidiary production, the proficiency in executing the large orders is at the high level. When one of the Baltic
subsidiaries receives the large-scale order, the consultancy is requested from Russia and the knowledge then applies.

8.2. Network competence

Network competence of each of the subsidiaries in this study will be discussed according to the network competence concept framework showed in Figure 5 which includes 7 dimensions based on the 7 activities under managements tasks, specified by Ritter (1999).

Initiation dimension

Initiation is the activity aimed at starting the relationships between the company and its partners. According to Ritter (1999) it is reflected in the knowledge of the next potential partner of the company and ability to demonstrate it the competitive technological advantage. In this research, questions related to the exhibition participation and overall knowledge of potential partner have been stated.

Company A rarely has detailed information about the future potential partners due to the lack of employees’ competence in this area which is seen as the main constrain. Still, company searches for the new partners who should strictly fit the strategy. It happens on the constant basis through various open channels according to the strategic plan. Company does not consider the exhibitions as the source of new partners anymore and the participation there has been ended. These activities are mostly performed in the Head office rather than in Company A and this indicates the low level of initiation dimension of the subsidiary under the study. This could be explained company’s recent orientation on project customers and existence of strong and established long-time ago net of partners. This net nowadays requires the deepening, not widening. Initial net establishing has been performed through the exhibitions which may indicate the greater level of initiation dimension in the past.

In contrast, Company D is often aware about the potential partner and exhibitions are seen as the place for acquiring the new contacts. Moreover, the clients obtained by the personal visiting of potential customers indicates active interest towards widening company’s net. However, it is neither performed on the systematical basis nor it happens according to the strategic plan. Such an approach may indicate the certain degree of adhocracy of the partnership management.
Exchange dimension

The volumes and nature of the transfer between the companies and their partners define this dimension. According to Ritter (1999) for technology rich companies, these transfers could relate to technology, person or company. In this research, questions concerning the information exchange have been asked.

Company A has a wide range of transferred information between the company and partners which includes transfers about the technology and company together with the confidential information. Such close relationships with the partners are again explained by the long-term collaboration and the fact that Russian legal entity employs few former partner’s employees.

Company D exchanges the most types of information except the confidential one, with their partners who remained the same for a long time. Moreover, company carefully collects the information from market players for further internal utilization.

Such active positions and established trustful relationships indicate the high level of the exchange dimension of both companies. However, even during the exchange of quite confidential information with the partners, the main technology and production secrets are kept inside the companies. All three types of transfers are performed in both companies.

Coordination dimension

Coordination states for synchronization of company’s activities with the partners from its network. Both companies perform working “hand in hand” with their partners. Company A performs it through the organization of events for the representatives of the reseller companies regularly. Besides, cross-communication between the company and partner employees occurs by visiting each other.

Company D has a practice of visiting the employees of main partners in Moscow. In case of conflict situations, these are resolved on place personally between the companies management in Russia. Moreover, the partner’s representative is present at the Company D’s production.

Planning dimension
Planning activities are connected with the future position of the company and consist of internal, network and environmental analyzing activities. Company A as a whole has the certain values towards the partners and expectations of what does partners should bring to the company. These values were applied in the beginning of the business operations in Russia and have not changed yet. However, even with fully suitable partner, the exact results can be observed after some period. Studied subsidiary applies the common values for the partner’s choice but as a whole company, subsidiary doesn’t have any evaluation practices, measures or scales to measure the results of the relationships.

Company A critically asses the meeting of partners’ expectations by the studied subsidiary due to the lack of independency in decision-making. Nevertheless, subsidiary together with the partners is mutually oriented at the result and share the same goals.

Company D does not have the systematic approach but rather utilizes the maximum opportunities and number of tries to approach the suitable partner. Due to the rapidly changing business environment and individual nature of orders, the risk of unloaded production makes the company to collaborate aside the issues of profitability to avoid the production downtimes.

Organizing dimension

Organizing ensures the execution of the planned activities, and particularly, allocation of the resources to each of the partnerships and involved employees’ communication.

Company A’s responsibilities division allows equal resource distribution for handling the relationships. Due to the small size of the subsidiary, the employees’ cross-communication inside the unit and with regional headquarter is not limited. Both informal and formal communication possibilities are in use, which lead to the employees’ awareness on the existing agreements with the partners. The constraints are mostly set by the lack of time and overall low knowledge base of the subsidiary.

Company D has claimed the setting of goals for each of the relationships. There are existence of the experienced staff who handle the relationships and communication among them is enhanced by the organized trainings and informal activities. Hence, it is seen that Company A has relatively lower level of this dimension than Company D has.

Staffing dimension
Staffing activities include employees’ allocation to the unique relationships and delegating them the responsibilities.

Company A has a division between the types of the relationships and managers for them, but not for each of the relationships. Nowadays, such a workload distribution is enough. However, sometimes staff is not proficient in what to do next which causes the prolongation of the communication process between the subsidiary and partners. All the staff, depending on the nature of question, perform communication with the partners.

Company D’s structure employs a division of all of the MNC’s partnerships depending on their type (clients, suppliers) and thus, each of the groups is assigned to one of the particular subsidiary. No staff is allocated to only one relationship rather than managers are handling the specific type. About 12% of staff who is handling all the relationships is experienced enough and does not have problems with the decision-making.

Both of the companies possess the sufficient level of staffing dimension even though the partnership management is established differently. However, for the further growth and development of Company A, allocation of the partnership manager could be crucial.

Controlling dimension

Controlling activities stay at the end of the network management process. Final stage of the process employs control of two parties – employees and partners involved in the networking process.

Company A does not perform an overall evaluation of the partners’ contribution. The overall sales and profitability figures are the only tools in use. This indicates the low level of control dimension. In Company D recently applied certification for the standard ISO 9001 serves as one of the criteria for partners’ evaluations which supplements the standard procedure of monitoring the orders and price levels.

The levels of performance of network competence activities shown in the Table 10.

<table>
<thead>
<tr>
<th>Dimension</th>
<th>A</th>
<th>D</th>
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<tbody>
<tr>
<td>Initiation</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>Exchange</td>
<td>High</td>
<td>High</td>
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</table>
Table 10 Network competence level

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coordination</td>
<td>High</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning</td>
<td>Medium</td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>Organizing</td>
<td>Medium</td>
<td>High</td>
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<tr>
<td>Staffing</td>
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<td>Controlling</td>
<td>Low</td>
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</table>

Table 10 demonstrates the level of network competence for both subsidiaries. The overall degree of network competence is appeared to be higher for Company D compared to Company A. Even with a wide base of partnerships prior company’s entry in Russia, so-called fundamental networks, their renewing and acquiring the new ones – secondary networks is still underdeveloped. Secondary networks are built during the company’s operations and have the primary target in answering the market conditions (Weerwardena 2006).

Among the reasons why Company A has lower level of network competence, the antecedents for network competence suggested by Ritter (1999) must be discussed. First, the availability of internal resources including physical, financial, informational resources and personnel is considered. Both companies have the sufficient access to the resources but Company A lacks the personnel resources in the form of assigned managers for handling the relationships with key accounts. Instead, all of the employees handle the communication with the partners.

Then, HR management and, particularly, recruiting policy aimed at people with networking abilities and experience, is the second ascendant. Company A in its human resource management is primarily aiming at personnel motivation and does not have enough orientation on the networking abilities and personnel assessment according to the networking activity.

Third antecedent – integration of communication structure is not fully applicable in such a small-scale subsidiary where all of the employees naturally collaborate and work all together. In terms of cross-unit communication, all of the employees have the possibility to contact either Moscow or Finland which indicates the integration of communication system. The last antecedent, corporate culture openness, is enhancing the network competence through the entrepreneurial spirit of employees, responsibility taking and
decision-making. Clearly, the discussed lack of decision-making authority and control possessed by regional headquarters are against the corporate culture’s adhocracy and thus downgrade the network competence.

Subsidiary’s position in MNC

MNC consists of a set of the transactions between the corporate level and subsidiaries in different countries. These flows are related to one of three types according to the object of transfer – money, knowledge or products. Then, the control possessed by the parent company aims at subordinating these flows.

The differences between two cases may be possessed by the function and location of the studied subsidiary in the MNC. First of all, MNCs in both cases adopt the most of the elements from the geographical organizational design. Such design is based on the worldwide decentralization of decision-making, coordination and control at the subsidiary level (Lasserre 2012, 80). There, national managers or regional executives are holders of the intermediary executive power, and conduct reporting to the international manager in parent companies. Regional executives are the decision-makers concerning the product range on the local market (Company A is selling the product type which has stopped being sold in Finland a decade ago) and responsible for developing strategies and adaptation of the product (Company D develops the unique offering every time). Countries are seen as the profit and investment centers where policies, careers, pricing and promotion are local. This is accompanied with the autonomy of subsidiary’s practices from the parent companies.

In this research, two case subsidiaries perform two different roles in the MNCs hierarchy. Company D is a regional headquarter and the only one subsidiary in Russia while Company A is a small-scale branch of the regional headquarter. Regional headquarter differs from other subsidiary units and thus, the number of differences are possessed by this role.

Establishing of the regional headquarters (RHQ) is beneficial for MNCs when the regional differences and features make parent company control from present location too complicated in terms of the resources, costs or other factors. It is the intermediary element between the headquarters and every single subsidiary in the country. RHQ aims to execute the entrepreneurial and integrating roles locally. Entrepreneurial role includes
proactive actions from the company’s name towards the local environment expressed in the strategic development and overall business development. Integrating role includes corporate coordination of the activities and distribution of the best practices within the subsidiaries and across the borders. Lasserre (2012, 94) suggests that on the crosses of different levels of above-mentioned roles, four types of RHQs exist (see Figure 18).

Company D as a regional headquarters may be categorized as Initiator because it has active entrepreneurial position towards strategic development, acquiring new clients and information acquisition. Its integrating role is relatively small yet as it does not manage and coordinate any other subsidiaries around the country and, in fact, does not fully perform the administrative function.

In the MNC of Company A, the Moscow subsidiary has a role of RHQ which, in fact, perform the full range of activities leaving Saint-Petersburg branch with limited functionality. Saint-Petersburg branch is highly dependent on the Moscow RHQ in the decision-making power and thus, experiences the difficulties with independent and entrepreneurial behavior. Greater degree of subsidiary’s autonomy stimulates the knowledge outflow from subsidiary both to headquarters and peer-subsidiaries (Qin et al. 2008).
Summing up, the differences in the degree of network competence are facilitated not only by the company’s differences in size and time of operations but to the bigger extent by the role of the subsidiary within the MNC structure.

8.3. International business competence

Among the indicators of international business competence suggested by Knight & Kim (2009) only three are the strongest ones. Even though these results were obtained in the context of small and medium internationalizing enterprises, this research tries to apply the indicators to the small-scale subsidiaries of multinational corporations. Moreover, what is called “international” in terms of SME which is planning to internationalize, in the setting of already functioning subsidiary may be turned into “local”. This can be explained by the fact that after establishing the subsidiary in the particular country, its market becomes domestic for the subsidiary while for the parent company it remains international.

*International market orientation*

International market orientation in original setting was aiming at SMEs orientation on the foreign markets, customer needs and preferences there. In this research, the modification of the product, customer feedbacks and R&D activities towards the market adaptation are considered. In MNC context, Qu & Zhang (2015) and Kirca (2011) have found the positive relationship between the market orientation of subsidiary and subsidiary’s performance. Market orientation is constructed from the combination of the customer and competitor orientations is believed to improve the subsidiary’s competitive advantage. This is achieved by focusing both on adaptation, to serve the customer’s needs and differentiation, to stay competitive. Market intelligence serves as the vital source of knowledge for the future internal developments and also leads to the better performance (Kwon 2010, Knight & Kim 2009).

Company A has performed a number of activities which this research classifies as the indicators of local market orientation. First, it is the product localization according to the technical specifications and market needs. Then, the feedback, which is collected during the project closing meetings from the reseller partners and project customers, but not from the final individual users. Finally, close cooperation with the partners ensures receiving the direct market information that contributes to the company’s knowledge base. The
information about the future project opportunities, customer’s needs and competitors is constantly updated.

Company D adapts its offering for each customer due to the order’s individual nature. These adaptations fulfill the customer’s needs at their best. Unique know-how as a base of unique customer offering secures the competitive advantage of the company and allows setting the competitive market price. The information that provides valuable business insights, particularly about the competitors, is acquired from the local network. However, feedback is not collected systematically but customer complaints are considered if appear.

**International orientation**

In the original setting, the proactive and entrepreneurial behavior (which sometimes is close to aggressive) of the SME managers on the international markets constitutes the international orientation. In MNC setting of this research, local leaders may express the international orientation of subsidiary, as well as their attitudes towards the business environment and their willingness to accept the challenge of the local environment.

Company A as a branch of regional headquarters has the local leader with the lack of decision-making authority and thus – minor influence at subsidiary’s operations. In fact, the Country Director is the actual decision-maker who leads the subsidiary together with a local manager. His international orientation and valuable experience make possible both – the smooth subsidiary operations according to Russian business environment and consistent following the corporate strategy. Moreover, his desire to work “hand in hand” with the partners and openness towards mutual aims may serve as a demonstration of his personal strong Russian orientation. Company D has a Country Director who is combining the eager to undertake the local challenges while abiding the principles stated by the corporate culture.

Speaking Russian language on the fluent level contributes to the understanding of Russian culture, makes both Country Directors professionally oriented at Russia and allows being involved in all subsidiaries’ business activities avoiding language barriers.

Lassiere (2012, 341-342) has developed a division of expatriates’ types according to their ability for acculturation or the adaptation to the local culture. The four attitudes which the expatriate may express towards the new culture are ranged from the highly preserving
own culture and neglecting the new one (flight) to the high assimilation into the new culture and losing the connection with the own culture (follow). In between, there are two other attitudes either closer to the first one (fight) or second one (fit) without the strong imbalance.

The case companies have expatriates with the “fit” attitude who may also be called cosmopolitans. Such expatriates are interested in adapting to new culture, able to obtain new contacts and as a result, have a number of balanced local and global competences.

*International marketing skills*

For the managers of internationalizing SMEs, international marketing skills mean the ability to bring value for the international customers through successful marketing activities implementation. Inhere, the ability to attract new customers either through the marketing or active networking is considered. While for SMEs reaching the customers from abroad in advance may be challenging without the sufficient level of local knowledge, subsidiaries operating in the local market are more likely to perform marketing by themselves.

Company A has the final user segmentation into three groups, target market division and knowledge about individual customer on the local market within B2C context. Nevertheless, no active marketing activities, except full range of information on the localized website, are performed for the product promotion on the Russian market. This responsibility is outsourced to the resellers who use their own marketing channels. Thus, mutual marketing activities aim at the acquiring more partners and customers. In B2B context, there are two main groups of customers – project customers and resellers. These both types do not require any special marketing activities. Reference marketing and direct communication are the most suitable tools in this case.

Company D does not utilize any marketing techniques that are common for B2C context because there are no final individual users exist. Competitive B2B environment makes the company to put the effort to the same common B2B promotion techniques as Company A has. Hence, brand reputation development and utilizing “word of mouth” are always in focus throughout the business operations.

Indicators of international business competence revised for this research appeared to be on a high level for the both companies. MNC subsidiaries have the advantages given by
the local presence and local employees which possess the main differences compared to
the internationalizing SMEs. These differences facilitate the high level of subsidiary’s
international business competence.

8.4. Benefits for multinational corporations

Company A

Saint-Petersburg subsidiary plays an important role valued by the MNC, primarily in the
context of Russian legal entity. No surprise that young and small-scale branch is less
noticeable in the whole MNC scale yet. Nevertheless, the future role and the share of the
subsidiary’s turnover in the overall company’s performance is planned to be “much bigger
than it has now”. Parent company sees the potential for the subsidiary’s development in
the future and believes that it will become “wider, bigger, and more effective”.

In the scale of Russian legal entity, comparing to Moscow, Saint-Petersburg subsidiary
has high financial performance mostly because all of the supportive functions are taken
regional headquarter. Company A’s turnover and competitive advantage are on a higher
level than number of international subsidiaries have.

Saint-Petersburg branch has main strategic importance for the Russian legal entity’s
business and the main purpose in handling the project customer relationships. Here is the
first benefit in the form of access to the local market and to the local business players is
identified. This is supported by the fact that opening of Saint-Petersburg branch called by
parent company management, “the most important decision” for the Russian company.
The proximity to the project customers, who are mostly concentrated in Saint-Petersburg
area, makes the project acquirement process easier. Interviewee from the parent
company reveals:

“If there wouldn’t be Saint-Petersburg branch, we would have more resources
somewhere else in order to take care of those projects on condition if ever have
won them without Saint-Petersburg branch.” – Company A

Company A`s proximity to the other partners allows company to serve better for the
number of local Saint-Petersburg partners. Headquarters sees the branch has been well
connected to the such local business network actors as resellers, customers and
architects.
Local embeddedness of subsidiary towards the external local environment could be considered as the degree of activities adaptation between the subsidiaries and external local partners such as customers, suppliers, universities and research institutes. Activities which may be mutually adapted are sales, marketing or distribution practices as well as management systems and practices (Najafi-Tavani et al. 2014). Hence, the mutual activities with the partners, especially in terms of marketing, which is mostly performed in the collaboration with the resellers, reflect the high degree of local embeddedness that the company has.

Together with that, the top management of Company A’s Russian legal entity assessed the subsidiary’s integration in the local environment as beneficial stating that “the better you connected, the better your performance”. These benefits are measured by the quantitative indicators such as sales figures and amount of open project quotations.

Strategic location and high degree of local embeddedness through the employees and tight relationships with the partners allows the branch provide the sufficient level of sales and orders and thus, contribute to the benefit of the company. Particularly, branch has the significant role in the periods of the low workload at the Finnish production plant on certain months or production weeks. The volumes of Russian projects obtained due to the presence in Saint-Petersburg are measured in hundreds. Orders out of these projects are times bigger than those in Finland which are measured in tens. Hence, subsidiary provides the production workload which ensures the absence of the production down time and losses.

Company D

Parent company sees the subsidiary is well connected to other business network players mostly due to the ability of Finnish local CEO speak Russian. Interviewee from headquarters shares the insight:

“In the past, with the former general manager we had practically only obligatory contacts with the authorities and local suppliers and so on, but now we can play much more active.” – Company D

Headquarters sees that by having their subsidiary “well-connected to the surrounded world and to the place”, the end results are better not only directly in terms of sales but also in the number of customers which Russian subsidiary has obtained.
This provides a support for the fact that elements of both, international business competence by ability to speak local language fluently and network competence by ability to establish the new contacts and partnerships, are important for business and they lead to the better level of local embeddedness. Thus, there are several ways of MNC to get the benefits from the Russian subsidiary.

First of all, it is access to the market. Subsidiary in Russia is important for headquarters mostly due to its presence in Russia. Headquarters considers the main role of the subsidiary in serving the same key accounts not only in Russia but also in the other countries and provide the company’s growth on the big Russian market. Interviewee from headquarters site reveals:

“The greatest potential is in Russia, we have the biggest market of Europe in our hands and we won’t have competition from the West. Let’s say, if somebody starts production in the European Union tries to supply Russia it’s not effective. We have a factory, we are at this market, and we have a possibility get those orders.” – Company D

Without opening the subsidiary in Russia, huge undeveloped market would not be reached. This factor is still critically important for the company’s top management it considers the possibility to open the new subsidiary. There are plans to extend the business to Kazakhstan which is now “in the same position as Baltic region was 10 years ago, or Russia was some years ago – a great growing market, migration building activities, building construction activities and therefore, good market price”. The main reason for considering the undeveloped markets for MNC of Company D is a possibility to duplicate the existing practices from the Baltic countries and Russia to the new setting.

Top management of the Finnish company supposes that there is the potential for further developments, especially with the greater country knowledge which company has accumulated for the 12 years of operations. Company’s presence in Russia in the form of full ownership gives a robust base for the future company’s development in the local market by widening the existing subsidiary or by opening a new subsidiary.

Parent company of Company D considers each unit as an R&D unit and encourages them to share the ideas, practices and methods with the rest of MNC. In practice, the knowledge exchange within the units occurs mostly when Saint-Petersburg subsidiary shares the generated ideas or best practices of production which have been explored by subsidiary. The transferred knowledge is highly detailed due to the high potential
usefulness of the relatively small issue, which may lead to the big positive changes. Secondly, MNC benefits in terms of the acquired long-term knowledge and best practices which strongly contribute to the corporation’s knowledge base.

Another benefit is expressed in the monetary value. Even though Russian subsidiary has hard times and nowadays “the value (of subsidiary) is bigger than turnover”, staying on the market in the previous crisis years has proved to be paid off later. Before the Russian’s financial instability, the turnover of the subsidiary constituted about 6% of the overall turnover and it brought about 10% of profit. Besides that, the parent company receives the management fee from the Russian subsidiary. Comparing to the other international subsidiaries, turnover of the Russian one is only slightly bigger because of the former economic crisis in 2008, which has significantly dropped the prices. Nevertheless, the Saint-Petersburg subsidiary’s production volumes are two times bigger compared to the subsidiaries in Baltic region.

Summing up, benefits for the multinational corporation are equally formed from network competence and local knowledge in the form of international business competence. These both lead to the subsidiary’s local embeddedness expressed in the form of shared values and trust among the parties. This all is accompanied with the knowledge transfer mechanism where local embeddedness is the vital factor for tacit knowledge transfer (Lam 2000). Three main benefits which have been identified during the research are (1) access to the local market in the form of unobstructed operations with the key accounts, (2) local knowledge and unique expertise accumulation for the further usage by the rest of MNC and (3) monetary value in the form of royalty, management fees and financial performance.

8.5. Summary

Figure 19 and Figure 20 reflect the hierarchy and transfers within the multinational corporation A and D consequently. The structure of both figures is following: the violet arrows depict the inflow and orange – the outflow of knowledge, people, money or executing the actions. The object of transfer is described on the arrow or on its right side. Each of the rectangles depicts one of the units where the red one is the subsidiary in Saint-Petersburg under the study. Sizes of the rectangles and width of arrows do not reflect the size of the units or volume of the knowledge flow.
Figure 19 Hierarchy and transfers of Company A

Figure 19 demonstrates the hierarchy of the whole Company A. On the top of the figure is the parent company based in Finland which executes the control over the whole
multinational corporation. It is the only one unit connected with the subsidiaries in other countries. Green framework below depicts the borders of Russian legal entity – ZAO Company A. It consists of regional headquarters (RHQ) in Moscow which has the resellers and individuals as the main customers, and Saint-Petersburg branch. The last one is the limited functionality office supporting Moscow operations in communication with the resellers. However, its primary purpose is in serving the project customers. Arrows depict the inflows and outflows as well as visits of employees from one unit to others and to the partners.

Establishing the business in Russia has happened due to the long-lasting company's interest in being present on country’s market, existed resellers’ network and promising opportunities. Professionals with the local knowledge helped to establish business operations in Russia.

Nowadays, young small branch is heavily relying on the knowledge inflow from the other MNC’s units – parent company and regional headquarters. These units are standing higher in the hierarchy and perform not only education but also control over the branch. Limited number of functions performed by the branch turns into the lack of responsibility given to the branch and poor decision-making ability. High dependence on main subsidiary involvement influences the business operations and relationships with the partners in a negative way.

Subsidiary has a wide net of partners and clients for whom it performs the partner management. This net has been formed prior company’s opening and branch nowadays aiming to contribute in its expansion. Branch has built trustful relationships with its partners and is constantly working on their tightening. Through these relationships, it acquires market knowledge and executes collaborations in marketing and project participation. Branch specializes on the project customers and that constitutes the biggest part of the branch’s financial result. Regional headquarters which is parent Russian company emphasizes the importance of the branch for the company. Another benefit brought by the subsidiary is the presence on the Saint-Petersburg market. In addition to the acquiring the project customers, the branch helps to handle the relationships with the resellers who want the company to be closer to them.

*Company D*
Figure 20 demonstrates the hierarchy of the whole Company D. On the top is the parent company located in Finland which executes the control over the whole multinational corporation. This subsidiary is tightly connected to all three subsidiaries and allows the subsidiaries communicating with each other. Company in Russia consists only from regional headquarter with the production plant located in Saint-Petersburg. Arrows reflect the transfers inside the MNC and outside the MNC with subsidiary partners.

Head country subsidiary which operates for more than a decade, has entered the Russian market by following the key account – German company. Company provides an outflow of
knowledge to headquarters and peer-subsidiaries. Peer-subsidiaries are asking for an advice when they get the big orders, because Russian subsidiary is competent in those and ready to share the experience. However, due to the Russian market specifics, the most of transferred knowledge is difficult to apply in Baltic countries.

This subsidiary is strong in decision-making and has high degree of responsibility for the taken actions. It performs wide range of functions including R&D and production process development. Company is tightly connected with the several key accounts but is constantly searching for the new clients.

Both subsidiaries are well integrated into the local business networks through the relationships with the suppliers, resellers and clients. Product adaptation and performing of mutual activities with the partners also contribute to the local embeddedness. The understanding of Russian business culture is mostly gained with the help of the big share of Russian personnel in the company who are the sources of local knowledge. In one of two cases, there was a new phenomenon identified. One Western company brings another Western company on the Russian market or seeks for such partners even if these companies are not collaborating yet. Moreover, Russia is considered as a first step in continuing the expansion to the CIS market.

Companies were given the roles of Implementator, which produce the knowledge for internal use and relies on the inflow from the corporate level, and Global innovator, which produces and shares the knowledge with peer-subsidiaries. Yet, this knowledge is rarely utilized further by peer-subsidiaries due to the unique market features of the Russian market.

However, cultural differences between Finnish and Russian cultures have been identified in the areas of business ethics (corruption), business environment (understanding of “time”) and buyer demand (price consciousness). These cultural differences affect the trust level between the company and partners. For Finnish company, the trust level towards the Russian partners is lower comparing to other international partners. At the same time, Russian partner companies perceive their Finnish partners as highly reliable and trustful collaborators. Network competence of both companies is at the good level, but younger company has relatively lower level due to the several factors discussed in this chapter.
9. DISCUSSIONS AND CONCLUSIONS

This final chapter concludes the thesis. After presenting the revised theoretical framework this chapter answers research questions and then discusses the theoretical and managerial implications. This chapter is finalized with the limitations of this study and suggestions for the future research.

9.1. Research framework

Figure 21 presents the revised theoretical framework as a result of the study.

Figure 21 consists of two sides. On the subsidiary side, there are network competence which consists of seven dimensions, and international business competence which consists of three main indicators. The network competence is proposed to be affected by the subsidiary’s position in the multinational corporation. Both competences lead to the subsidiary’s embeddedness into external local business environment. The loop is proposed to be between the network competence and local embeddedness because the local embeddedness has also an impact on the network competence and thus, two-sided arrow depicts the simultaneous and constant process.

Local embeddedness is beneficial for the whole MNC located on the headquarters’ side in terms of market access, knowledge or money. The bilateral internal knowledge transfer
within the subsidiary and headquarters supplements this process. Next, the answers on
the questions stated in Chapter 1 are provided.

**Sub-question: What is the knowledge transfer mechanism?**

Intra-organizational knowledge flow occurs from Finland to Russia with relatively small
share of knowledge in the reverse direction. The reason for that in one of the cases was
primarily the early stage of subsidiary’s development which requires strong knowledge
inflow or “teaching” from the corporate level. Another reason is caused by the differences
in economic development stage of two countries. Russian subsidiary utilizes Finnish
 technological know-how which needs to be transferred from the corporate level to the
local Russian subsidiary.

Employees’ trainings are found to be widely applied and effective tool for teaching of
personnel, knowledge transfer, and establishing the corporate culture. Such instrument of
knowledge transfer as employee mobility for working periods within the MNC is not
applied in the case companies. The reasons for that are the local nature of careers in the
MNCs which adopt geographical model and, particularly, language differences.

In knowledge transfer process from the local unit to peer-subsidiaries in other countries
were indicated several problems in the final stage of transfer – knowledge application.
Due to the country-specific market differences, the best practices become idiosyncratic
which limits their applicability in other settings. However, under the similar conditions,
peer-subsidiaries facilitate the knowledge transfer from Russian subsidiary.

Subsidiaries’ inter-organizational knowledge flow occurs through the interaction with the
partners, customers and suppliers. The most effective way of communication is personal
face-to-face meetings which are also valid for conflict situations resolution. This feature is
derived from the Russian business culture which widely relies on the inter-personal
relationships. In addition to the information exchange about daily operations and
depending on the partnerships type, local partner companies accumulate the practices of
doing business with foreign owned companies. For partner companies, a sustainable
partnership with highly reliable Finnish subsidiary is a source for the competitive
advantage increase.

**Sub-question: Which factors affect the degree of network competence and international
business competence?**
The degree of network competence is dependent on the internal practices applied in the MNC and available resources. The lack of human resource management orientation on hiring people with networking capabilities, absence of employee assessment practices based on networking performance and overall low level of decision-making power, downgrade the network competence. Low level of the delegated responsibility and thus, limited functionality together with the resource constraints, are influenced by the short term of operations, size and the position of subsidiary in the overall MNC structure. Regional headquarters have a role of intermediary between the parent company and subsidiaries in the countries and hence, they perform the wider range of functions than common subsidiary unit does. Case subsidiary operating for a longer time period has a flexible and decentralized control management with high level of responsibility and autonomy.

International business competence of the subsidiary is dependent on the degree of local knowledge accumulated by the subsidiary. Commonly, country and region specific information acquirement is hold by the parent company and/or local CEO, prior the business establishment. International business competence includes understanding of cultural differences and their impact on the business operations together with the ability to manage them. However, adjusting the corporate culture to the local environment may bring difficulties in culturally distant countries.

Moreover, CEO who fluently speaks local language is a beneficial asset, especially in the small-scale subsidiaries. It affects the network competence by an unimpeded interaction with local business environment. Such interaction is beneficial for the MNC if consider the local CEO as a brand representative.

Factors, which affect both competences, are the proportion between the local and international employees. Prevalence of the local employees serves as a valuable source of local business operations knowledge.

Research question: How does multinational corporation benefits from the network competence and international business competence of the locally embedded subsidiary?

Network competence and international business competence lead to the subsidiary’s local embeddedness. This happens through the close relationships with local business environment in terms of the activities adaptations between the local subsidiaries and
partners. Local embeddedness expressed in the form of mutual marketing, sales and distribution practices with the partners is mostly resulted from the network competence of the subsidiaries. Local embeddedness in the form of product adaptation to the technical or customer preferences, results from both interaction with partners, and high quality of local knowledge derived from the international business competence. Then, the knowledge of local market, consumer preferences and the ways of bringing value to the customers facilitates the choice of the suitable marketing strategies. Finally, the international business competence secures an unobstructed interaction with the local business environment and concordance of the business operation to the local practices.

The advantages for the MNCs of having locally embedded subsidiaries in Saint-Petersburg are described below. The first benefit is the access to the Russian market which is secured by the physical presence there. Moreover, subsidiaries location in the second biggest Russian city is strategically attractive due to the investment attractiveness of the city and particularly, proximity of Saint-Petersburg to both Finland and capital of Russia – Moscow. High potential of the whole Russian market can be characterized in access to the profitable customers and low logistics costs if the local production is established.

In addition to these tangible benefits, ability to apply the company know-how, which is originating from technically and economically advanced Finland, results in the leading positions of subsidiary on the local market. Another intangible benefit is an accumulated knowledge about the Russian market and established operations as a robust basis for the further business development either in Russia or on another CIS market.

The last benefit is expressed in monetary value which subsidiary brings to the corporation either in the form of periodic payments such as management fee or royalty or as a result of operations in the form of sales profit and contribution to the company’s turnover.

9.2. Theoretical contribution

The present research contributes to the international business studies in the field of headquarter-subsidiary relations and subsidiary’s business operations. First of all, it complements the pilot study of Ilnitskaya (2013) by including two more case companies from another region and widening the questionnaire with the questions related to the network competence and international business competence. Study is also expending the
frames of the research by exploring the subsidiary’s competences that lead to the local embeddedness discussed in the pilot study. Moreover, discussed in the pilot study importance of the local authorities for subsidiaries’ embeddedness in the business environment has not receive the support in this research in the setting of another geographical region of the same country. Probably, an active position in the development of the region’s attractiveness towards the FDI investments, expressed in the significant support for the foreign companies’ business operations, is the feature of the Kaluga region.

This study contributes to the existing knowledge on the network competence by focusing on the MNC and subsidiaries. It extends the context of the existing studies which consider the network competence only in the context of internationalizing firms and SMEs (Ritter et al. 1999, 2002, Torkkeli et al. 2011, 2012, 2013). Particularly, it has been found that the network competence of MNC’s subsidiary has several similar antecedents to those for small and medium enterprises. However, the unique features of MNC, as an organizational form, employ subsidiary's position in the organizational structure as one of the factors which influence the degree of the subsidiary’s network competence.

The present research contributes to the topic of knowledge transfer in MNC studies by Gupta et al. (1991, 2000) by exploring the context of the countries which are different in their economic development. Knowledge transfer is studied both within MNC and between the subsidiary and its external partners involving the term of local embeddedness. Information exchange between the subsidiary and its partners is affected by the level of trust between the parties, and reflects the differences explained by the business environments of two countries.

Hofstede’s cultural dimensions (2015) of Finland and Russia are reflected in cultural differences which affect business operations of subsidiary and relationships with the partners. Due to cultural differences, the higher degree of international business competence of the subsidiary is crucial for its local embeddedness when the cultural distance between home and host countries is large. This finding also expands the research of Knight & Kim (2009) who consider the international business competence only in the relation to SMEs internationalization.

Following the key accounts as a reason to entry the country is one of the widespread practices. However, revised literature has not widely considered the phenomenon when
the subsidiary after entering the local market and obtaining the steady position there is looking for the new partnerships with foreign companies. This search is dedicated for the attracting lasts into the country and further establishing of mutual operations. The emerging process of one Western country’s company bringing another Western country’s company on the local market is a new and unexpected finding of this research. These results contributes into the research on local external embeddedness in MNC of Andersson et al. (1996, 2002, 2005) which only consider the relationships with local partners but not such a process of partner relocation for further localization.

Moreover, the access to the market is strategically important asset not only for the parent company of subsidiary. It may also be beneficial for the subsidiary’s international suppliers which consider the subsidiary as a low-risk and reliable entrance to the local market. Thus, subsidiary’s local embeddedness may be beneficial not only internally in MNC but also for the external to the MNC and local environment parties.

9.3. Managerial implications

This study contributes to the field of multinational corporation expansion through the exploring the competences of subsidiary which bring the benefits to the MNC. Expansion of MNC and opening of the new affiliate companies are tightly connected with the potential value which brings these actions. To increase the value of subsidiaries in each particular country this research suggests paying the attention to the development of such subsidiaries’ organizational competences as network competence and international business competence.

This research provides the insights about the Russian cultural issues that may constrain or influence the smooth operations of the foreign multinational corporation’s subsidiary. Managers of the parent companies and local managers of subsidiary should consider the following significant cultural differences between Finnish and Russian cultures identified in this study. First, there should be developed a concrete policy towards the Russian corruption, which is always a phenomenon opposite to the corporate culture of every multinational corporation. Secondly, the pace of business environment and decision-making process is quite high in Russia and this is accepted by most of the players. This possesses additional pressure on the subsidiary’s business operations and even causes Russian partners dissatisfaction when the time for the decision approval from the foreign
top-management is long. However, some partners of case companies are ready to cope with that because the advantages of partnerships with Finnish companies are bigger.

The last important difference is the Russian consumer’s behavior philosophy. Customer often appreciates the minimal price and, consequently, the lower quality rather than the sustainable investment into the high-quality but more expensive product. There is no universal recipe for coping with these difficulties imposed by the cultural differences but some examples of the successful business operations presented in this have proved that there is always a unique solution exists which each company has to identify.

To avoid the challenges associated with the differences in the operational business environment in the culturally distant countries from the home country of MNC, the consultancy with knowledgeable locals must be performed before and during the early stages of the country entry. Even though there is an administrative structure such as Finnish-Russian Chamber of Commerce, which is specially created to help in business development, none of the case companies named the consultations with it as a primary source of knowledge while entering the market.

Different locations in the same country may be different in terms of the investment climate, especially, in such big country as Russia. Moreover, there are a number of stereotypes which has not been confirmed by the case companies after a start of operations. Hence, beside the active information allocation and research towards the future business operation, parent company is advised to browse for the actual experience of the similar companies in the area of interest.

If a gradual market entry takes place, establishing the network of partners in the destination country prior entering has showed the positive effect on the local embeddedness of newly opened subsidiaries. This happens because before the opening time the essential connections to the local environment are already established.

It is advised for the headquarters of MNCs to stimulate the local embeddedness of the subsidiaries by hiring the expatriates with the experience in local business and, ideally, with local language skills, especially in those countries where the business is conducted in local language. However, the number of the expatriates in the subsidiary and the extent of the possessed control management must be balanced. Such a balance ensures the transferability of corporate culture and its abidance, without harming the networking ability
and thus, local embeddedness of the subsidiary. The research has shown that the local subsidiary consisted primarily from the local employees performs at the good level of both competences. Furthermore, local employees with international and local expertise are the unique assets which will benefit for the subsidiary in two ways. First, local expertise provides the throughout understanding of the local issues and cultural patterns which are often inaccessible for the expatriates. Then, international expertise ensures the conformity of the employee to the corporate culture, which in this research, originates from the country with the Western business culture and principles.

Headquarters should pay more attention to the network competence of the subsidiary and when the sufficient level of network competence is reached, more networking orientation should be implemented into the following two processes in order to ensure the sustainability of the developed network competence. First, more focusing on the networking abilities of the employees in human resource management and then, implementing the performance assessment which incorporates the networking-oriented incentives. The level of network competence may be tightly connected to the position of the subsidiary in the overall MNC hierarchy and range of functions which are allocated to the subsidiary. Thus, parent companies may expect higher degree of network competence from the regional headquarters and subsidiaries with the wider range of the performed functionality.

Broad usage of quotations in this thesis delivers the valuable practical examples, useful for the managers of Finnish and other international MNCs, planning to enter the Russian market. The dual point of view is provided by the experience of interviewees from the case companies, which presents their own experience of the country operations and from the partner companies which share the common views of Russian business on the Finnish companies in Russia.

For the managers of Russian companies this research shows the examples of successful collaboration between the Russian and Finnish businesses and reveals the lasts as trustful and reliable partners with high standards of business operations and high-quality products. Finnish subsidiaries can be considered by Russian companies as the sources of the technological know-how from the economically developed country. Appliance of which may ensure the competitive advantage for Russian companies on the local market. This could be caused by holding the unique technologies or by offering the product of Finnish
partners which are associated with the robust positive reputation of Finland as a trustworthy manufacturer.

Proven by this research, need of Finnish subsidiaries to be integrated into the local business environment may push Russian companies to actively search and to initiate the relationships with the Finnish companies already entered the market. No significant challenges have been identified for the Russian parties in such type of collaboration and smooth procedures of operation adoptions have been demonstrated. Thus, higher number of closer relationships between the Russian and Finnish companies will be beneficial for the both sides.

9.4. Limitations and recommendations

This research has certain limitations which should be considered during the results interpretation. First of all, the selected research method imposes boundaries on the validity of the results. Generalizability is constrained by the number of cases utilized in this study. This constrain was set by the time frames together with the availability and willingness of the interviewees to participate in the study.

Secondly, the Finnish-Russian context appoints the limitations associated with the country-specific character. Moreover, research from Saint-Petersburg context cannot be scaled to the whole Russia due to the drastically different environments of other regions all over the country.

Finally, the results could be biased by the researcher-interviewee relations. Issues of trust may constrain top-management informants from revealing the sensitive or confidential information about the company. This may affect the completeness of the provided information. Furthermore, in the interviews where English language was used, it has not been mother tongue of any of the parties. Possibly, part of the information may remain untold in order not to face the language difficulties.

Recommendation for further research could be an enlargement of the sample size and proper categorization. While in the research the subsidiaries in Russia were taken from the certain region and all of them perform B2B operations, exploring the influences of different factors might be a valuable contribution to the research and will ensure the homogeneity. It could be proposed to additionally differentiate the sample subsidiaries by the position in the MNC – regional headquarters or common unit, time of operations –
young or experienced, entry mode – greenfield or acquisition, type of business - B2B or B2C or specific industry. Addition to the generalizability may be done through selecting the MNCs with the certain number of subsidiaries which is more than one.

In addition, the quantitative approach can be applied, as it is suitable for this type of research, because it is utilized in most of the reviewed literature on network competence and local embeddedness.

Question of influence of local authorities on the subsidiaries operations remains open as it has not found the support in another region, thus, that might be important to consider it in the future studies. Furthermore, it could be also interesting to consider the financial performances of the MNC and subsidiaries. Taking into account a recent Russian economic instability, the focus on the effect of competences discussed in this study in terms of financial crises may be considered. Studies may also include longitudinal aspect and will provide the overview on the development of the competences over the time.
REFERENCES


Ilnitskaya P. 2013. Local Embeddedness and Knowledge Acquisition and How They Affect Finnish Business Operations in Russia. Master Thesis. Lappeenranta University of Technology, Department of Business Administration.


APPENDICIES

Appendix 1 Subsidiary’s preliminary structured questionnaire

Your name

1. What is the function of Saint-Petersburg subsidiary?
   - [ ] Production
   - [ ] Sales
   - [ ] Regional (Russian) headquarter
   - [ ] Distribution
   - [ ] Other: 

2. Where does your company have a regional headquarters in Russia if it is not a headquarters itself?

3. What is the form of business operations in Saint-Petersburg subsidiary?
   - [ ] B2B
   - [ ] B2C
   - [ ] Both

4. What is the number of employees in Saint-Petersburg subsidiary?

5. When was Saint-Petersburg subsidiary established/has started its operations?

6. What was the type of entry mode for Saint-Petersburg subsidiary?
   - [ ] Green field
   - [ ] Joint Venture
   - [ ] Acquisition
   - [ ] Other: 

7. English is the corporate language in Saint-Petersburg subsidiary?

☐ Yes
☐ No (please, specify in "Other")
☐ Other: 

8. How many employees are able to speak English in Saint-Petersburg subsidiary? (%) 

☐

9. How would you define the level of the financial performance of Saint-Petersburg subsidiary for the last 3 years?

☐ It is strong and successful
☐ It is stable but could be better
☐ There are certain problems that we are coping with currently
☐ It is weak, we are far behind our competitors

10. Please, estimate the efficiency of communication tools that are used in Saint-Petersburg subsidiary while it is communicating with the Finnish headquarter?

<table>
<thead>
<tr>
<th></th>
<th>1 (Low efficiency)</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 (High efficiency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate e-mail</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Forums</td>
<td>☐</td>
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<td>☐</td>
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<tr>
<td>Intranet</td>
<td>☐</td>
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<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Corporate conferences</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Face-to-face meetings</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
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<tr>
<td>Telephone</td>
<td>☐</td>
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<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
<tr>
<td>Tools for video conferences (i.e. Skype)</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
</tr>
</tbody>
</table>
11. Could you estimate how important the following factors were to the success of your company in Saint-Petersburg region?
*extended number of partners due to the loyal partners’ recommendations; or knowledge gained due to close cooperation with the partners

<table>
<thead>
<tr>
<th>Factor</th>
<th>1 (LOW importance)</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 (High importance)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliable partners (distributors/suppliers marketing partners/media partners)</td>
<td>○</td>
<td></td>
<td></td>
<td></td>
<td>○</td>
</tr>
<tr>
<td>Valuable knowledge about your customers’ needs and preferences</td>
<td>○</td>
<td></td>
<td></td>
<td></td>
<td>○</td>
</tr>
<tr>
<td>Loyal customers relationship (a group of regular customers)</td>
<td>○</td>
<td></td>
<td></td>
<td></td>
<td>○</td>
</tr>
<tr>
<td>Competitor intelligence</td>
<td>○</td>
<td></td>
<td></td>
<td></td>
<td>○</td>
</tr>
<tr>
<td>Partnership network benefits*</td>
<td>○</td>
<td></td>
<td></td>
<td></td>
<td>○</td>
</tr>
<tr>
<td>Close relationships with the local companies</td>
<td>○</td>
<td></td>
<td></td>
<td></td>
<td>○</td>
</tr>
<tr>
<td>Close relationships with the local political/administrative organizations</td>
<td>○</td>
<td></td>
<td></td>
<td></td>
<td>○</td>
</tr>
</tbody>
</table>

12. How many of Saint-Petersburg subsidiary’s partner companies are located in Russia:

Please, estimate in %

How many of those partners located in Russia are large Russian companies:

Please, estimate in %

13. How many of Saint-Petersburg subsidiary’s partner companies are located in Finland:

Please, estimate in %
14. How many of Saint-Petersburg subsidiary’s partner companies are international companies (located outside the Russia and Finland):

Please, estimate in %

15. Please, identify the most critical type of the LOCAL partnership of Saint-Petersburg subsidiary that significantly affects its success

- Retailers
- Distributors
- Product/technology development partners (R&D cooperation)
- Partner companies that operate in the same field of business
- Delivery companies
- Suppliers
- Other: ____________________________

16. How has the network of the partners/suppliers changed since the beginning of Saint-Petersburg subsidiary operations as a part of the Finnish company?

- Partners’ relations with the subsidiary has become stronger
- Partners’ relations with subsidiary has become weaker
- Partnership network has extended
- Subsidiary stopped any cooperation with some of the local partners

17. Due to partnership with the LOCAL companies, Saint-Petersburg subsidiary...

To what extent you would agree with the following statements

<table>
<thead>
<tr>
<th>Statement</th>
<th>1 (totally disagree)</th>
<th>2 (disagree)</th>
<th>3 (neither agree or disagree)</th>
<th>4 (agree)</th>
<th>5 (totally agree)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Has entered the local market with low level of risks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has entered the international market</td>
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</tr>
<tr>
<td>Has obtained new clients</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Has developed new product/technology solutions</td>
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<tr>
<td>Constantly obtains specific expertise about the market/business operations/information about the customers</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Has discovered new practices how to do business in Russia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
18. Saint-Petersburg subsidiary...
To what extent you would agree with the following statements

<table>
<thead>
<tr>
<th>Statement</th>
<th>1 (totally disagree)</th>
<th>2 (disagree)</th>
<th>3 (neither agree or disagree)</th>
<th>4 (agree)</th>
<th>5 (totally agree)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares the same goals with partners</td>
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<tr>
<td>Evaluates the partners in terms of their experience and knowledge</td>
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<tr>
<td>Borrows new practices and knowledge from its partners</td>
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<tr>
<td>Initiates meetings and discussions among those in subsidiary who involved in relationship with its partners</td>
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<tr>
<td>Assigns people to each relationship with partner</td>
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<tr>
<td>Monitors the extent to which relationship with its partners benefit the business</td>
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<tr>
<td>Exchanges only general information with its partners</td>
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<tr>
<td>Exchanges confidential information with its partners</td>
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</tbody>
</table>

19. Please, estimate the efficiency of communication tools that are used in Saint-Petersburg subsidiary while communicating with the partners?

<table>
<thead>
<tr>
<th>Communication Tool</th>
<th>1 (low efficiency)</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 (high efficiency)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate e-mail</td>
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<td>Extranet</td>
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<tr>
<td>Face-to-face meetings</td>
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<tr>
<td>Telephone</td>
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</tbody>
</table>
20. Please, estimate how often is the following applicable to your Saint-Petersburg subsidiary’s operations?

(in) Saint-Petersburg subsidiary...

<table>
<thead>
<tr>
<th></th>
<th>1 (never)</th>
<th>2 (rarely)</th>
<th>3 (sometimes)</th>
<th>4 (often)</th>
<th>5 (always)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific goals in each relationship are defined</td>
<td></td>
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<tr>
<td>Members of staff are surprised by what other members of staff had agreed on with a partner</td>
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<tr>
<td>Members of staff are helpless in what to do next</td>
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<tr>
<td>Next potential partner is known</td>
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<tr>
<td>Participates in exhibition and fairs</td>
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<tr>
<td>Partners complain about the lack of information given by the subsidiary</td>
<td></td>
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<tr>
<td>Members of staff are surprised by what partners are doing</td>
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<tr>
<td>Is working with its partners &quot;hand in hand&quot;</td>
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<tr>
<td>Employees have enough technical expertise to answer partners' questions</td>
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<tr>
<td>Members of staff experienced in handling the relationships</td>
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</table>
Appendix 2 Semi-structured interview

General information

Why this location has been chosen from your point of view? What are the advantages and disadvantages of this location? (Ilnitskaya 2013)

What would appear to be critical for the success of your subsidiary? (1-2 main points) (Ilnitskaya 2013)

Level of HQ control

1. How many expatriates are working in this subsidiary in this subsidiary? (Andersson et. al. 1996, 2005)

2. Could you briefly describe the process of making decisions? (Gupta 1991)
   • Does all of the decisions negotiated with headquarters beforehand or some of them are independently taken here?
   • Is decision-making authority delegated to the general manager of a subsidiary by corporate superiors (high-level of environmental uncertainty)?

3. Who is the key person or how many contact persons who mostly collaborate with the headquarters in Finland are there? How often do they collaborate? Which departments are involved? (Ilnitskaya 2013)

4. How cross-communication does occurs, i.e. between different departments or countries? (own)

5. Were any of your colleagues transferred to Finland for any period of work there? What was the reason? (Gupta 2008)

International competences

1. How well do you think your company understands Russian culture and the way of doing business in Russia? (Ilnitskaya 2013)

2. What was your or company method of acquiring the information about Saint-Petersburg before coming to work here? When did you start doing it? (own)
3. How did the information about business in Russia obtained in advance affect your expectations? How well was you prepared to what you have met? (own)

4. Have you or company acquired some contacts of partners prior coming to Russia? if yes, are you still working with those partners? (own)

5. Was it hard to establish new contacts? (own)

6. What makes collaboration between your company and your local partners problematic from your point of view? Have any cultural misunderstandings occurred? (Ilnitskaya 2013)

7. Does your company have managers with the international background/competences? In which way having those people in company affects business operations? How many of those people are Russian? (Ilnitskaya 2013)

8. What would be more significant in your opinion? To have the international or local expertise to run a successful business in Russia from your point of view? Why? (Ilnitskaya 2013)

9. What do you think could be done differently when thinking of how Finnish companies have adapted their business operations in Russia? (Ilnitskaya 2013)

10. What do you think could be done differently comparing to the Finnish way of adaptation their business in this region particularly? (Ilnitskaya 2013)

**Local partnership**

1. How many partnership agreements does Saint-Petersburg subsidiary has related to sales, marketing, production, and delivery approximately? (Ruokonen Mika, 2008)
   - Could you identify a proportion of close loyal customers of the total number of customers? (Yli-Renko et.al., 2002)
   - Could you identify a proportion of close partners of the total number of partners? (Yli-Renko et.al., 2002)
   - Could you estimate the number of close vs arm-length? (Forsgren, 2008) In how many formal networks the subsidiary is involved? (Kuivalainen Olli)

2. How has the network of the partners/suppliers changed since the beginning of subsidiary operations as a part of the Finnish company? (Ilnitskaya 2013)
3. How would you describe the level of trust and commitment to your local partners? (Ilnitskaya 2013)

4. Who does collaborate with the local partners, customers? Which departments are involved? (Ritter 1999)

5. Have you acquired new knowledge from the local partners? If yes, what type of knowledge (operation practices, product requirement, competences of doing business in Russia or other) Can you give an example? (Ilnitskaya 2013)

**Network competence**

1. Do you have informal communication within the company in the form of teambuilding or collaborative activities? Are those occurring systematically or naturally? How does it affect the business operations? (own)

2. If such a need arises, how is the lack of knowledge fulfilled? (Recruitment process, consultancy, education) (own)

3. Do you feel the need for growing subsidiary’s network? What types of new relationships are you searching for? (Ritter 1999)

4. Do you acquire new partners according to some plan or it happens naturally? (Torkkeli, 2013)

5. Have any of your partnerships started at the exhibition, trade show? In what other professional-oriented events does the subsidiary participate? (own)

6. Do you arrange events for the partners or with them? (Ritter 1999)

7. Have you established your network with local partners from the beginning of operations, before it or you have built it during the development of the company (Weerwardena 2006)

8. How has the procedure of choosing the partner changed along the time of company development? If different, how does it differ from that existing in Finland? (Ritter 1999)

9. Do you use tools such as ERP, SCM, CRM (Moller, Svahn 2003, 220) Do you have an evaluation practice or other system of managing the partners? (Ritter 1999)
10. How does, in your opinion, the rest of MNC is benefiting from your subsidiary? (own)

11. Do you feel that involvement of Saint-Petersburg subsidiary in local networks is beneficial for the MNC as a whole? How? (market knowledge, new opportunities, technology, information) (own)

12. How (strategically) important is your subsidiary for your partners? (own)

**Product development**

1. Were any product modifications done that would better answer to the Russian market? If yes, were those product modifications developed in Russia/Finland/other? (Andersson, et. al. 2002) Have new processes, additional services been developed? (Knight and Kim 2008)

2. If product modifications were developed in Russia, were those new competences transferred to HQ in Finland or to any other subsidiaries? (Andersson et. al. 2002) How was it done? (Gupta et. al. 2008)

3. Is it possible to introduce the product produced in Russia to any other market with no change? Is it not possible to adapt it anywhere except Russian market? (Ilnitskaya 2013)

4. How do you acquire feedback from customers or partners? How do you acquire information about the competitors? (own)

5. Has someone from your networks started to offer similar to yours products or services? (own)

6. Have you developed any new marketing strategies or has the brand already had it's reputation? (Knight and Kim 2008)

7. What types of knowledge do you exchange between your company and your most relevant partners? Have you get the info which then help to generate the ideas for product development? (Ritter 1999, Ilnitskaya 2013)

<table>
<thead>
<tr>
<th>Info concerning the market</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic business info</td>
<td></td>
</tr>
<tr>
<td>Technical specific info</td>
<td></td>
</tr>
<tr>
<td>Confidential data</td>
<td></td>
</tr>
</tbody>
</table>
8. With accordance to the knowledge creation or its acquisition and transfer, what would better describe the role of your subsidiary in the MNC you belong to? Why? (Gupta et al. 1991)

<table>
<thead>
<tr>
<th>This focal Russian Subsidiary is</th>
</tr>
</thead>
<tbody>
<tr>
<td>The source of knowledge for other units and the central self-sufficient unit that is capable to fulfill its own knowledge requirements</td>
</tr>
<tr>
<td>The knowledge creator for other units, but it is not enough self-sufficient and capable to fulfill its own knowledge needs</td>
</tr>
<tr>
<td>The unit that has a little knowledge creation only for its own operational needs, heavily relying on knowledge inflow from the parent company and from the peer subsidiaries</td>
</tr>
<tr>
<td>The unit that has created know-how for its key functional areas, but this knowledge is too contextual (idiosyncratic) and cannot be applied for the benefits of any other subsidiary outside Russia (or other region)</td>
</tr>
</tbody>
</table>
Appendix 3 Questionnaire for the MNC’s headquarter

1. What is the type of control management applied to the subsidiary in here? Please, support your answer with a short explanation. In how many countries your company is operating beside Russia and Finland?

2. What was the main reasons to enter the Russian market in this area:

<table>
<thead>
<tr>
<th>Reason</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>To access low-cost production</td>
<td></td>
</tr>
<tr>
<td>To access local skills and know-how; how to work in Russian market</td>
<td></td>
</tr>
<tr>
<td>To access markets</td>
<td></td>
</tr>
<tr>
<td>Others:</td>
<td></td>
</tr>
<tr>
<td>Custom procedures, logistics</td>
<td></td>
</tr>
<tr>
<td>Following the key international customers</td>
<td></td>
</tr>
</tbody>
</table>

3. How many subsidiaries do you have in Russia? What role does the subsidiary located in here plays with regards to the whole company development? Please, support your answer with a short explanation. * *It is a head subsidiary among others in a particular function (production or procurement, etc.) with a large number of dependent subsidiaries located in other countries worldwide.

<table>
<thead>
<tr>
<th>Role</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Global hub*</td>
<td></td>
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<tr>
<td>Supply global markets</td>
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</tr>
<tr>
<td>Product development</td>
<td></td>
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<tr>
<td>Multi-product improvements</td>
<td></td>
</tr>
<tr>
<td>Production process development and sophistication</td>
<td></td>
</tr>
<tr>
<td>Procurement</td>
<td></td>
</tr>
<tr>
<td>Logistics</td>
<td></td>
</tr>
<tr>
<td>Production and maintenance of technical norms and requirements</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td>Distribution</td>
<td></td>
</tr>
<tr>
<td>Other (please, specify)</td>
<td></td>
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</tbody>
</table>
4. Could you identify the level of effectiveness of the knowledge/competence transfer mechanisms from the corporate level to the Russian subsidiary?

<table>
<thead>
<tr>
<th>Low effectiveness high</th>
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</thead>
<tbody>
<tr>
<td>1  2  3  4  5</td>
</tr>
<tr>
<td>In the format of written documents</td>
</tr>
<tr>
<td>Seminars/meetings</td>
</tr>
<tr>
<td>Employees Trainings</td>
</tr>
<tr>
<td>Employees transfer (both directions)</td>
</tr>
</tbody>
</table>

Does transfer of the knowledge from subsidiary to headquarters occurs? For example, about how the Russian markets are functioning? Does it happens constantly and how many percent is transferred?

5. What mechanisms were used to establish corporate culture inside the subsidiary in Russia? And then could you describe is it a standard procedure or it distinguished for the Russian culture? Please, support your answer with a short explanation.

6. With accordance to the knowledge creation or its acquisition and transfer, what would better describe the role of the focal subsidiary in comparison to the entire MNC? Please, support your answer with a short explanation.

<table>
<thead>
<tr>
<th>This focal Russian Subsidiary is</th>
</tr>
</thead>
<tbody>
<tr>
<td>The source of knowledge for other units and the central self-sufficient unit that is capable to fulfill its own knowledge requirements</td>
</tr>
<tr>
<td>The knowledge creator for other units, but it is not enough self-sufficient and capable to fulfill its own knowledge needs</td>
</tr>
<tr>
<td>The unit that has a little knowledge creation only for its own operational needs, heavily relying on knowledge inflow from the parent company and from the peer subsidiaries</td>
</tr>
<tr>
<td>The unit that has created know-how for its key functional areas, but this knowledge is too contextual (idiosyncratic) and cannot be applied for the benefits of any other subsidiary outside Russia (or other region)</td>
</tr>
</tbody>
</table>
7. How important is the role that plays this subsidiary and how big is contribution into the process of creating the competitive advantage of the whole MNC? What is relative financial performance of this subsidiary comparing to other Russian subsidiaries/international subsidiaries?

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<thead>
<tr>
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<th>Low</th>
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<th></th>
<th>High</th>
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</thead>
<tbody>
<tr>
<td><strong>Compare to other Russia subsidiaries</strong></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Sales and profit performance</td>
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<tr>
<td>Sustainable competitive advantage</td>
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<table>
<thead>
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<th>Low</th>
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<th></th>
<th></th>
<th>High</th>
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</thead>
<tbody>
<tr>
<td><strong>Compare to other international subsidiaries</strong></td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Sales and profit performance</td>
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<tr>
<td>Sustainable competitive advantage</td>
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</tbody>
</table>

8. Could you provide any short example of subsidiary contribution?
9. If you wouldn’t take this strategic decision to come to this location, what would be then?
10. Do you think that this subsidiary is well connected to the other actors in the local environment it operates in?
11. Does the fact, that this subsidiary is well-connected in the local networks or not well connected affect the level of importance it plays to the success of the whole multinational?
Appendix 4 Questionnaire for the subsidiary's partner (Ilitskaya 2013)

1) How long have you had partnership relations with this Finnish company? (own)

2) Would you consider your partnership relation with the Finnish company as a close cooperative relationship? Why? (Yli-Renko H., et.al., 2002)

3) How would you describe the level of trust and commitment to your Finnish partner company? (own)

4) How does the partnership with this Finnish company affect your business? Did you learn anything new from your partner company or way of doing business? Please, support your answer with a short explanation (own)

5) How would you differentiate having cooperation with the Finnish company as a partner comparing to any Russian partner company? (own)

6) If it matters, who would you prefer to work with? (in terms of trust and commitment)? (own)

7) What does appear to be challenging when you are dealing with the Finnish company if any? Please, support your answer with a short explanation (own)

8) What are the benefits of having a Finnish partner? (own)

7) To what extent you would agree with the following statements? (Yli-Renko; Olli Kuivalainen and own addition)

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>We share the same goals with our Finnish partner</td>
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<tr>
<td>We positively evaluate our partner in terms of their experience and knowledge</td>
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<tr>
<td>We borrow new practices and knowledge from our partner</td>
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<tr>
<td>We initiate meetings and discussions among those in our firm who involved in relationship with our partner</td>
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<tr>
<td>We assign people to each relationship with our partner</td>
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<tr>
<td>We monitor the extent to which relationship with our partner benefit to our business</td>
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<tr>
<td>We exchange only general information with our partner</td>
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<tr>
<td>We exchange confidential information with our partner</td>
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</table>
9) To what extent you would agree with the following statements? (Olli Kuivalainen and own addition)

Due to partnership with the Finnish companies:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Disagree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>We have entered the international market</td>
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<td>We have obtained new clients</td>
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<tr>
<td>We developed new product/technology solutions</td>
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<tr>
<td>We constantly obtain specific expertise about the market/business operations/information about the customers</td>
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<tr>
<td>We discovered new practices how to do business in Russia</td>
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</tbody>
</table>

10) Please, estimate the efficiency of communication tools that are used in your company while communicating with the Finnish firm? (own)

<table>
<thead>
<tr>
<th>Communication Tool</th>
<th>Low</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<td>Corporate e-mail</td>
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<td>Intranet</td>
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<td></td>
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<tr>
<td>Face-to-face meetings</td>
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<td></td>
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<tr>
<td>Telephone</td>
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<tr>
<td>Other, specify please</td>
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</tbody>
</table>

11) How well do you think Finnish companies understand Russian culture and the way of doing business in Russia? Please, support your answer with a short explanation (own)

12) How could you characterize the type of knowledge and competences that you exchange between your company and your Finnish partner? What is the knowledge transfer mechanism? (own)
13) Please, estimate the efficiency of communication tools that are used in your company while communicating with the Finnish partner? (own)

<table>
<thead>
<tr>
<th></th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate e-mail</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Extranet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Face-to-face meetings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other, specify please</td>
<td></td>
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</tbody>
</table>

14) Does your company pay extra attention to the partnership management? Is it important for your business? (own)

- Managers with partnership management competences
- Software that supports partnership management
# Appendix 5 Preliminary codes

<table>
<thead>
<tr>
<th>Code group</th>
<th>Question</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>General intro</td>
<td>Why this location has been chosen from your point of view?</td>
<td>Location</td>
</tr>
<tr>
<td></td>
<td>What are the advantages and disadvantages of this location?</td>
<td>Advantages</td>
</tr>
<tr>
<td></td>
<td>What would appear to be critical for the success of your subsidiary? (1-2 main points)</td>
<td>SuccessFactors</td>
</tr>
<tr>
<td>Level of HQ control</td>
<td>How many expatriates are working in this subsidiary in Saint Petersburg? Compare to total employees</td>
<td>Employees</td>
</tr>
<tr>
<td></td>
<td>Could you briefly describe the process of making decisions? Does all of the decisions negotiated with head office/Decision-making process?</td>
<td>Employees</td>
</tr>
<tr>
<td></td>
<td>Who is the key person or how many contact persons who mostly collaborate with the headquarters in Finland/Communication HQ?</td>
<td>Employees</td>
</tr>
<tr>
<td></td>
<td>How cross-communication does occur?</td>
<td>Communication</td>
</tr>
<tr>
<td></td>
<td>Were any of your colleagues transferred to Fineland for any period of work there?</td>
<td>Employees</td>
</tr>
<tr>
<td>International competence</td>
<td>How well do you think your company understands Russian culture and the way of doing business in Russia?</td>
<td>CulturalUnderstanding</td>
</tr>
<tr>
<td></td>
<td>What was your method of acquiring the information about Saint Petersburg before coming to work here? Who Russia/InfoCollection/Expectations?</td>
<td>Russia</td>
</tr>
<tr>
<td></td>
<td>Have you acquired some contacts of partners prior coming to Russia? If yes, are you still working with those contacts?</td>
<td>EarlyContacts</td>
</tr>
<tr>
<td></td>
<td>What makes collaboration between your company and your local partner problematic from your point of view? Russia/CulturalUnderstanding</td>
<td>Networks</td>
</tr>
<tr>
<td></td>
<td>Does your company have managers with the international background/competences? in which way have you acquired them?</td>
<td>Employees</td>
</tr>
<tr>
<td></td>
<td>What would be more significant in your opinion? To have the international or local expertise to run a success in Russia/InternationalCompetence</td>
<td>Employees</td>
</tr>
<tr>
<td></td>
<td>What do you think could be done differently when thinking of how Finnish companies have adapted their local partnerships/Influenza</td>
<td>Employees</td>
</tr>
<tr>
<td></td>
<td>What do you think could be done differently comparing to the Finnish way of adaptation their business in Russian companies/Inflation</td>
<td>Employees</td>
</tr>
<tr>
<td>Local Partnership</td>
<td>How many partnership agreements does this subsidiary has related to sales, marketing, production, and distribution? Partners</td>
<td>Networks</td>
</tr>
<tr>
<td></td>
<td>Could you identify a proportion of close partners of the total number of partners? Partners ClosePartners</td>
<td>Partners</td>
</tr>
<tr>
<td></td>
<td>How many formal networks the subsidiary is involved in?</td>
<td>Networks</td>
</tr>
<tr>
<td></td>
<td>How has the network of the partners/suppliers changed since the beginning of subsidiary operations as a go?</td>
<td>Networks</td>
</tr>
<tr>
<td></td>
<td>How would you describe the level of trust and commitment to your local partner? Trust</td>
<td>Partners</td>
</tr>
<tr>
<td></td>
<td>Who does collaborate with the local partners, customers? (number of people per department) Which department/Communication</td>
<td>Partners</td>
</tr>
<tr>
<td></td>
<td>Have you acquired new knowledge from the local partners? If yes, what type of knowledge operation practical knowledge Transfer from Partners</td>
<td>KnowledgeTransfer</td>
</tr>
<tr>
<td>Network Competence</td>
<td>Do you have informal communication within the company in the form of teambuilding or collaborative activity? Employees</td>
<td>InformalCommunication</td>
</tr>
<tr>
<td></td>
<td>Do you feel the need for growing Saint-Petersburg subsidiary’s network? What types of new relationships are needed? Network Growing</td>
<td>Growing</td>
</tr>
<tr>
<td></td>
<td>How many of your partnerships started at the exhibition, trade shows? In what other professional-oriented own Network Growing</td>
<td>Growing</td>
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<td></td>
<td>Do you arrange events for the partners or with them? Network Events</td>
<td>Events</td>
</tr>
<tr>
<td></td>
<td>How has the procedure of choosing the partner changed along the time of company development? If different Network Establishment</td>
<td>Establishment</td>
</tr>
<tr>
<td></td>
<td>Do you use tools such as ERP, CRM, ERP, DO, or do you have an evaluation practice or other system of managing the Network Management</td>
<td>Management</td>
</tr>
<tr>
<td></td>
<td>How does, in your opinion, the rest of NMC is benefiting from your subsidiary? Benefits</td>
<td>Benefits</td>
</tr>
<tr>
<td></td>
<td>Do you feel that involvement of this subsidiary in local networks is beneficial for the NMC as a whole? How Benefits</td>
<td>Benefits</td>
</tr>
<tr>
<td></td>
<td>How strategically important is your subsidiary for your partners? Network ImportantToPartners</td>
<td>ImportantToPartners</td>
</tr>
<tr>
<td>Product development</td>
<td>Were any product modifications done that would better assist the Russian market? If yes, were those products modifications done? ProductModification</td>
<td>ProductModification</td>
</tr>
<tr>
<td></td>
<td>If product modifications were developed in Russia, were those new competences transferred or not to HQ in Finnish knowledge Transfer to HQ</td>
<td>KnowledgeTransfer</td>
</tr>
<tr>
<td></td>
<td>Is it possible to introduce the product produced in Russia into any other market with no change? Is it not possible ProductAdaptation</td>
<td>Adaptation</td>
</tr>
<tr>
<td></td>
<td>How do you acquire feedback from customers or partners? How do you acquire information about the competitor Network Information</td>
<td>Information</td>
</tr>
<tr>
<td></td>
<td>Has someone from your network started to offer similar to yours products or services? Network Coping</td>
<td>Coping</td>
</tr>
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<td></td>
<td>Have you developed any new marketing strategies or has the brand already its hard reputation? Branding</td>
<td>Branding</td>
</tr>
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<td></td>
<td>What types of knowledge do you exchange between your company and your most relevant partners? Have you knowledge Transfer to knowledge Transfer</td>
<td>ExchangeWithPartners</td>
</tr>
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<td></td>
<td>With accordance to the knowledge creation or its acquisition and transfer, what would better describe the role knowledge Transfer</td>
<td>KnowledgeTransfer</td>
</tr>
</tbody>
</table>
Appendix 6 Coding process in NVivo
Appendix 7 Intermediate list of codes for subsidiary level interviews (part)

<table>
<thead>
<tr>
<th>Company's characteristics</th>
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<tbody>
<tr>
<td>Company's power hierarchy</td>
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<tr>
<td>Company's structure</td>
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<tr>
<td>Negotiations about electricity</td>
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<tr>
<td>Position of company</td>
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<td>Premises</td>
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<tr>
<td>Recruiting process</td>
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<tr>
<td>Risks</td>
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<tr>
<td>Usage of software</td>
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<tr>
<td>Values</td>
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<tr>
<td>Decision to come to Russia</td>
</tr>
<tr>
<td>Advantages of location</td>
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<tr>
<td>Assessment of coming to location</td>
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<tr>
<td>Disadvantages of location</td>
</tr>
<tr>
<td>Location reason</td>
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<tr>
<td>Decision-making</td>
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<tr>
<td>Lack of power in DM process</td>
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<tr>
<td>Process</td>
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<tr>
<td>Differences with West</td>
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<tr>
<td>Differences between Rus and Fin</td>
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<tr>
<td>Position on market</td>
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<tr>
<td>Procedure of choosing the partner</td>
</tr>
<tr>
<td>Relationships with partners</td>
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<tr>
<td>Employees</td>
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<tr>
<td>Characteristics</td>
</tr>
<tr>
<td>Employee trainings</td>
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<tr>
<td>EmployeeTransfer to FIN</td>
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<tr>
<td>Expatriates</td>
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<tr>
<td>HR management</td>
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<tr>
<td>Influence of informal activities</td>
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<tr>
<td>Informal communication of employees</td>
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<tr>
<td>Speaking english</td>
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<tr>
<td>Finnish brand reputation</td>
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<tr>
<td>Information exchange</td>
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<tr>
<td>Business info</td>
</tr>
<tr>
<td>Confidential data</td>
</tr>
<tr>
<td>Market information</td>
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<tr>
<td>Other dept info</td>
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<tr>
<td>Product and production info</td>
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<tr>
<td>Technical info</td>
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<tr>
<td>Information gathering</td>
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<tr>
<td>Competitors</td>
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<tr>
<td>Feedback</td>
</tr>
<tr>
<td>Information handling</td>
</tr>
<tr>
<td>Internal innovation</td>
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</tbody>
</table>
Appendix 8 Final list of codes for subsidiary level interviews
Appendix 9 Autocoded and arrange by question data from HQ level

Does transfer of the knowledge from subsidiary to headquarters happens?

Interviewee: HQ Engineer - 1 reference coded (20% Coverage)

A: We are trying to learn from each other so it should would find a best solution, the best way of doing something, might be related to marketing, might be related to construction or to supply contexts, when why not? We are trying to be B2B so to say. HQ centers all of us and it sometimes invents something, this is way to do coating or maintenance for example, then we are trying to distribute that to others, so I would say yes, in theory it exists, in practical life, in everyday life also, but rarely. He just come up with some ideas and so I would say yes, it exists and how we are then coming up with new things, yes it is.

Interviewee: HQ Engineer - 1 reference coded (20% Coverage)

J: Of course, what is happened on the market is taken place, all the time, on daily basis I have to say. I contact them - 5 times per day. Approximating daily. Now when are projects going on, especially the Andrew (project manager). I contact with him mostly, already twice today.

How constantly does it happens?

Interviewee: HQ Engineer - 1 reference coded (30% Coverage)

A: Not that often.

Interviewee: HQ Engineer - 1 reference coded (25% Coverage)

J: Many many times.

How many percent is transferred?

Interviewee: HQ Engineer - 1 reference coded (20% Coverage)

A: It can be very small thing something minor, minor cases, but might lead to a much better end result quality wise, technically speaking or functionally speaking, because we are not developing any new product, we are just coating, we are developing new services, so this much more of the internal logistics. We are working using the material on issue, what are the settings be of the powder coating units, powders for example. Those things we consider as small but the output can be rather big, saving of 10% in consumption of powder will mean in the whole group 100,000 of euros on yearly basis. So if repeated, repeated, you cannot say it exactly certain percentage or important, it is valid.

Interviewee: HQ Engineer - 1 reference coded (20% Coverage)

J: It is most question detailed information. Of course, there are summary reports as well, but in practical questions on daily basis.
Appendix 10 Results in figures

Partners companies relations with Finnish case companies

- Exchange confidential information with our Finnish partner
- Exchange only general information with our Finnish partner
- Monitor the extent to which relationship with our Finnish partner benefit to our business
- Assign people to each relationship with our Finnish partner
- Initiate meetings and discussions among those in our firm who involved in relationship with our Finnish partner
- Borrow new practices and knowledge from our Finnish partner
- Positively evaluate our Finnish partner in terms of their experience and knowledge
- Share the same goals with our Finnish partner

Efficiency of communication tools that are used in subsidiary to communicate with its partners
Appendix 10 Results in figures (continue)

Efficiency of communication tools used by partner while communicating with the subsidiary

Efficiency of communication tools used in the subsidiary to communicate with the headquarters