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# Subsidiary's Network Competence: Finnish Multinational Companies in Russia

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## ABSTRACT

Multinational companies tend to have resources and be capable of establishing subsidiaries across national borders, yet successful foreign operations also require that the established subsidiaries are able to become locally embedded in host-country networks. This study contributes to the international business research by investigating how and when the subsidiary's ability to develop and manage their local network relationships develops as subsidiaries are established abroad. The empirical part is based on interviews from two Finnish companies operating internationally and in Russia. The findings provide insight into the network competence's development process in the Russian business environment and in international business.

**Keywords:** emerging market, dynamic capabilities, network competence, multinational company, parent-subsidiary relationships, Russia.

## INTRODUCTION

The aim of this study is to explore the development of network competence in a cross-border headquarter-subsidiary context, specifically on the competence development of foreign multinational corporation (MNC) subsidiaries established in Russia. Understanding these dynamics is important in explaining successful MNC operations in foreign markets in general, as capability development and subsidiary-specific advantages are directly interlinked (Rugman and Verbeke 2001).

By network competence, we are referring to the ability of a firm to develop and manage their business network relationships (Ritter, Wilkinson and Johnston 2002). It is a dynamic capability

(see Teece, Pisano, and Shuen 1997), and its application in research on MNCs and subsidiary capabilities is called for due to three main reasons: First, dynamic capabilities are essential in explaining the behavior of multinationals (Teece 2014). Second, subsidiary capabilities are also central explanatory factors of successful foreign operations (see Chen, Chen and Ku 2012; Furu 2001; Phene and Almeida 2008), and illustrating the development of such capabilities is also crucial for understanding the role and evolution of subsidiaries in an MNC (Birkinshaw and Hood 1998; Phene and Almeida 2008). Third, network theory of MNCs (Andersson, Forsgren and Holm 2001, 2015; Forsgren 2008) postulates that the embeddedness of subsidiaries in local networks is particularly critical for the success of the MNC as a whole. However, as noted there is still a distinct lack of empirical studies analyzing network capabilities in the MNC context.

An additional contribution to such investigation can come from investigating the role of network competence in MNC subsidiaries in the Finnish-Russian context specifically. For one, Russia provides an interesting and empirically distinct venue in which to conduct and study MNC operations (see e.g., Fey and Björkman 2001; Minbaeva et al. 2003; Panibratov 2016). Second, the context of Finnish MNCs in Russia provides a fruitful arena in which to investigate a multitude of business phenomena, as noted by extant research in the context of these countries on topics such as human resource management, knowledge flow, and absorptive capacity (see Minbaeva et al. 2003), corruption and relations with public officials (see Karhunen and Kosonen 2013a, 2013b; Salmi and Heikkilä 2015), and internationalization (see Zimin and Rautio 2012). Still, most of the studies in the Finnish-Russian research setting have concentrated on the internationalization of small and medium enterprises (SMEs) instead (see Ivanova and Torkkeli 2013). Much less is known of MNC-subsidary relationships in this context, as the research on competence development of subsidiaries has traditionally been limited to developed Western economies (Filippov and Duysters 2011), though with a recent rise of research concerning, particularly, Western MNC's subsidiaries' practices in Russia (see

Gurkov 2015; Gurkov and Saidov 2017, Novitskaya and Brewster 2016). Thus, our focus in this study is on the capability development in MNC subsidiaries (see Andersson, Forsgren, and Holm 2015; Holm, Holmström, and Sharma 2015).

Particularly, we investigate how the network competence of a subsidiary manifests, and the ways in which it develops in MNC subsidiaries established in Russia. This is achieved by analyzing the internationalization of two Finnish MNCs, and especially their subsidiaries' internationalization process in Russia. Namely, through an empirical case study setting, we illustrate how network competence as a subsidiary capability develops, and the ways in which it is linked to increasing local embeddedness of an MNC subsidiary, thus interlinking the discussions on MNC networks, subsidiary capabilities, and local embeddedness. In doing so, this study contributes both to international business literature on subsidiary capabilities (Chen et al. 2012; Phene and Almeida 2008; Lee, Bao and White 2016), network competence (Ezuma and Ismail 2017; Chiu, 2008; Yu et al. 2014; Ritter et al. 2002; Shiri et al. 2015) and on local embeddedness (Andersson, Björkman, and Forsgren 2005; Andersson, Forsgren, and Holm 2001). Besides the theoretical contribution, being, to our knowledge, the first study to test this theoretical interlink empirically, this study employs the qualitative research method as opposed to the majority of abovementioned studies.

We continue as follows: Next, we present and discuss the theoretical background underlying the network theory of the MNCs, subsidiary capabilities and network competence as a concept and potential type of subsidiary capability. Following that, we introduce the chosen research methodology, describe the Russian-Finnish business context in more detail and describe the case companies chosen for the empirical part of this study. We subsequently outline the empirical results and discuss their implications in more detail. The study concludes by assessing the contribution of the study on theory and practice, the accompanying limitations and potential avenues for future research.

## **THEORETICAL BACKGROUND**

### **Business Networks and Network Theory in MNC**

Networks of interconnected firms and other related actors of the business network are seen to be replacing traditional markets (Håkansson and Snehota 2006) due to increasing globalization of competition (Möller and Halinen 1999). Companies are increasingly embedded into business networks spanning national and regional borders (Johanson and Mattsson 1988). Constantly developing, network relationships require companies to invest in them and accrue relationship portfolios consisting of close and arm-length relations. Close interaction between network actors may result in either a negative or positive influence on the business performance (Håkansson and Ford 2002; Forsgren 2008).

MNCs are characterized by their tendency to enter the foreign markets through the establishment of subsidiaries; their tendency to perform control functions over the said subsidiaries and; their tendency to develop and implement corporate strategies in marketing, production, finance and other functions that are transferred through country borders (Root 1994). Hence they, in comparison to SMEs, are relatively powerful international players armed with financial and other vital resources (Knight and Kim 2009), such as personnel, good infrastructure, technological competences or managerial capabilities (Fabry and Zeghni 2002).

Network theory discusses the relationships between MNC and its environment. In the macro view, MNC can be considered as one company, yet in practice, its operational structure tends to consist of a number of firms under one organizational form. Thus, MNC subsidiaries are often embedded in several networks both internal and external ones. Each subsidiary is locally embedded into the network of the host market and therefore, is to some extent autonomous from the networks of the other MNC units. If this is a case, the external business networks affect the most of their operations, resulting in the MNC's internal network has to compete with the external networks for the control over the subsidiaries with the headquarters (Andersson et al.

2001, Andersson, Forsgren, and Holm 2002). This results in a lack of the needed knowledge on external subsidiary activities in order to exert control over it.

Subsidiary's embeddedness in the external business networks describes the extent of mutual adaptations with the local partners on product and production technologies, standard operating procedures, and business practices in its close relationships. According to Andersson et al. (2005), factors leading to higher local embeddedness are (a) headquarters' emphasis on knowledge development, (b) bigger size of the subsidiary and (c) performance of the wide range of functions. These factors are influential because broad resources are needed for the development of close partnerships, while the larger number of the functions performed by the subsidiary often leads to the greater number of interactions with the partners. In addition to these interactions, being locally embedded means that the strong relationships exist between the subsidiary and local educational institutions, public research laboratories, training firms, and investors – the strategically important players for the growth of small new firms such as technologically intensive small-scale MNC subsidiaries. Therefore, the local embeddedness brings the subsidiary such intangible benefits as access to innovative ideas, new technologies and scientific competencies, opportunities for formal and informal networking (Keeble et al. 1998). Conversely, even though there are studies on the subsidiary local embeddedness and its consequences (Andersson et al. 2001, 2002, 2015), little is known about the capabilities that subsidiaries need to possess in order to facilitate their own local embeddedness.

Capabilities can be defined as the firm's efficiency to use the input and transform them to the needed outputs making the capability an intermediary between the available resources and firm's objectives (Dutta, Narasimhan, and Rajiv 2005). If internationalization process is seen as a transfer of firm-specific advantages to the new geographical location and to the new setting (see Teece 2014), the transfer facilitation, may be executed by a combination of internal and external company capabilities (Forsgren 2008). Indeed, an MNC internationalization through

the subsidiaries cannot be limited only to the transfer and application of the parent company's competencies and capabilities in its foreign subsidiaries (Goerzen and Beamish 2003). Thus, subsidiaries should be able to develop their own subsidiary-specific capabilities that can be exploited globally (Rugman and Verbeke 2001). Subsidiary capabilities have a high level of specificity and determined by the corporate headquarters assignment, subsidiary autonomous decisions, and environmental factors of the host country (Birkinshaw and Hood 1998). The development of subsidiary capability occurs through the subsidiary capability building process enhanced by the informal business ties (Lee et al. 2016), and by taking into account the local environment (Kim, Rhee, and Oh 2011). Thus, among the drivers for the subsidiary's capabilities possession are a desire to use the opportunities of host market's local environment, or the headquarters' task to access host country knowledge clusters (Birkinshaw and Hood 1998). According to Möller and Svahn (2003), companies, which are strong in learning and at the same time possess network capability, will gain knowledge faster and from the wider range of experienced and competent partnerships they involved in. Thus, the network capability in the form of network competence is discussed next.

### **Network competence**

Möller and Halinen (1999) conceptualize the company's network management through the four levels: (1) industries as networks, (2) firms in networks, (3) relationship portfolios and (4) exchange relationships. An effective management of business network has been repeatedly found to require the organization-specific skills and capabilities (e.g., Mu 2013; Ziggers and Henseler 2009). Indeed, extant literature has introduced various types of capabilities and competencies related to network competence. Möller and Halinen (1999) refer to "network management capabilities", with Mort and Weerawardena (2006) develop a conceptual model of networking capabilities for the born global companies. Walter, Auer and Ritter (2006) define "network capability" in the context of university spin-offs as the ability to initiate, maintain and



utilize the relationships with various external partners. In entrepreneurial companies, the wider their external contacts, the more information they gain from the external source and as a result perform better (Walter et al. 2006). Table 1 provides a summary of the extant conceptualizations of network-related competencies and capabilities most often discussed, with both “competence” and “capability” used interchangeably (Ritter 2006).

*-Insert Table 1 about here-*

In line with these extant studies (Mort and Weerawardena 2006; Möller and Svahn 2003; Ritter et al. 2002; Torkkeli et al. 2012, 2016), the network competence (or network capability) constitutes a dynamic capability. It is defined as the *“firm’s ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments”* (Teece et al. 1997:516). In this study, we apply the concept and construct of network competence (thereafter NC) as the *ability of an organization 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). It is divided into dyadic (relationship-specific) and network-level (cross-relational) competence and includes the individual network-related qualifications of the employees involved in the business relationships the company is embedded in (see Ritter et al. 2002), see Figure 1.

*-Figure 1 about here-*

Relationship-specific tasks refer to managing the single relationship or the dyad and include the initiation phase. The interconnectedness of the relationships requires from the organization an execution of cross-relational tasks: planning, organizing, staffing and controlling aimed at a better coordination of its position within the network. For successful management 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; Ritter and Gemünden 2003).

Network competence has a positive impact on the product and process innovation (Ritter et al. 2002, Shiri et al. 2015), firm's central position in the network and innovation performance (Chiu 2008), new product development (Yu et al. 2014) and SME's internationalization (Torkkeli et al. 2012, 2016) and entrepreneurial growth (Ezuma and Ismail 2017). For small firms, it may serve as a mechanism to gain the crucial resources through the networking leading to the competitive advantage (Tehseen and Sajilan 2016). However, in empirical literature overall it has received little attention, with the existing studies addressing the network competence primarily with the quantitative methods, with a few exceptions (Taipale-Erävala et al. 2014; Canning and Szmigin 2016). The studies of network competence in the contexts of emerging markets located in Asia are few (e.g. Chiu 2008, Yu et al. 2014), and the extant body of literature has mainly concentrated on small- and medium-sized enterprises (SMEs), small technology-intensive firms and spin-offs (e.g. Mort and Weerawardena 2006; Torkkeli, Saarenketo, and Nummela 2013; Torkkeli et al., 2016, Walter, Auer, and Ritter 2006). To our knowledge, no empirical literature is available on *the dynamics* of network competence in MNC-subsidiary relationships, neither in a Finnish-Russian business context nor in any other international business. Therefore, an empirical study such as this one, investigating the development of network competence in MNC subsidiaries, is called for. Aiming to respond to the lack of knowledge on these topics in extant literature, we aim to reach a better understanding and answer to two research questions: 1) *How and when does the formation of network competence in MNC subsidiaries occur?* 2) *Which aspects might influence the development process of subsidiary's network competence?* We continue next by describing the empirical context chosen for the present study.

## **EMPIRICAL CONTEXT: THE FINNISH-RUSSIAN BUSINESS**

The Eastern, Asian firms are different from the Western, Nordic firms in regard to management strategy, decision-making, business operations and organizational culture. However, a scarce amount of research is capturing an interplay of home-developed and host-emergent market contexts in regard to subsidiary capability development. A study of Kim et al. (2011) demonstrates how subsidiary's capability development in China may lead to the change of the subsidiary's strategic role. Driven by the insufficiency of institutional mechanisms in such emergent market as the Philippines, the informal business ties contribute to the capability building for the subsidiaries originating from "Western" MNCs (Lee et al. 2016). Indeed, an issue of local country contexts for MNC internationalization is topical and calls for further research, particularly, in regard of specific institutional context and *"large and resource-endowed countries such as China and Russia"*, as outlined in the recent literature review (Ahworegba 2017:91).

We gathered the empirical data for the study in the Finnish-Russian international business context, namely by investigating the phenomena in Finnish MNCs with the headquarters (HQ) located in Finland and their subsidiaries operations worldwide and in Russia. This empirical setting is suitable for the present study due to several reasons. First, one of the main underlying reasons international business contributes to business literature is by providing *"opportunities to test the validity of theories beyond the social context in which many of them have been originally developed – Western market economies"* (Kostova and Hult 2015:24). Russia as a transition economy provides such an arena, while Finland as a developed Western market and economy provides a natural counterpart to base the investigation on. Moreover, a definition of dynamic capabilities suggests that this type of capabilities are increasingly required in changing and uncertain environments such as a Russian business environment, requiring companies at the Russian markets to develop dynamic capabilities (Volchek, Jantunen, and Saarenketo 2013).

Second, despite their geographical proximity, the Finnish and Russian business environments exhibit substantial dissimilarities, as the business culture of BRIC countries (Brazil, Russia, India, and China) is notably distinct (Ardichvili et al. 2012). According to the World Economic Forum (WEF 2016) competitiveness report, Finnish and Russian economy profiles are drastically distinct on the several dimensions. For instance, Finland is scored the first among the 140 countries in the *institutions* dimension indicating the transparent and efficient public institutions in the country, while Russia is scored 88 in this dimension. However, Russia has one of the biggest markets in the world and thus, as noted by WEF (2016), 2015 economic downturn influenced Finland as the drop of exports to Russia occurred. Moreover, the differences between the two countries are reflected in, for instance, the different leadership and human resource management practices, characterized by a management hierarchy and control systems where senior positions hold the power and responsibility (Suutari 1998; Novitskaya and Brewster 2016).

Third, a business adaptation of Finnish companies in Russia is highly affected by the relationships with the Russian authorities (Karhunen and Kosonen 2013a). These relationships are often needed in order to overcome the institutional barriers that are prevalent in the Russian business environment: legislation instability that affects e.g. the registration process of a company, bureaucracy slowing down the processes of acceptance decisions, uncertainty in the interpretation of the law by authorities, and corruption. Corruption is found to be present in the various aspects of Russian business environment including, but not limited to, customs, tenders, certifications and licensing, with the small companies being more vulnerable to such practices due to the lack of financial resources (Kouznetsov and Dass 2010). However, the foreign direct investment flows and presence of MNCs in the Russian market, partially contribute to the corruption level decrease (Smith and Thomas 2015).

Fourth, investigating businesses operating in Russia is timely both economically and politically. By the volume of foreign direct investment (FDI) inflows, in 2012, Russia with \$94 billion US dollars of FDI was the third after the United States and China, but since then, due to relatively complex situation in the Russian economy, the volume of FDI has decreased to \$31 billion US dollars (UNCTAD 2017). The drastic decrease in the oil price started in 2014, combined with the economic sanctions against and geopolitical uncertainty within the country, has constricted the Russian economy and devaluated the national currency (The World Bank 2015).

Lastly, the willingness of companies to enter the specific foreign markets is affected by the different factors including cultural aspects that are critical to take into account when operating in Russia (see Ardichvili et al. 2012). For these reasons, we chose this particular context in which to conduct the empirical part of this study. In doing so, we opted for a qualitative approach through cases of Finnish MNCs with their subsidiaries in Russia, the reasoning of which we discuss next.

## **RESEARCH DESIGN**

### **Research Method**

We utilized qualitative methods in research design, data collection and data analysis. Qualitative approach is beneficial when aiming to illustrate the personal behavior and experience (Ghauri 2004), and when searching for explanations of the phenomenon under the investigation (Ghauri and Grønhaug 2010) – both of which are among our goals. The research approach in this study is abductive and it includes elements from both inductive and deductive approaches. Such systematic combining relies more on theory than inductive approach, and, at the same time, is distinctly remote from the deductive logic (Dubois and Gadde 2002).

We chose to conduct the empirical part of our research as a case study, which allows understanding the interaction between the context and phenomenon – it has an explanatory nature and provides the answers to “how” and “what” questions, which is in line with the

research questions asked in this study (Dubois and Gadde 2002; Yin 2009). Results acquired by a single case study perceived as narrow and are difficult to generalize to the wide scope. Even though the generalization is not a priority in the qualitative study (Siggelkow 2007), the replication in the form of several case studies will contribute to the deep understanding of the phenomenon (Yin 2009). To achieve this, we first conducted a pilot study with two Finnish MNCs with the subsidiaries in Kaluga region, Russia, and then, the main study reported here was conducted with two other Finnish MNCs. With the “*more detailed case studies involving qualitative interviews*” are called upon to study the local country context for MNCs (Ahworegba 2017, 91), we consider the method described applicable for studying the dynamics of network competence in such context-rich environment as Russian business environment.

### **Data collection**

We chose the two case companies by the criteria preset by the research context, specifically, we were looking for Finnish MNCs with the subsidiaries located in Russia, and with the ongoing product sales on the Russian territory, thus following the theoretical sampling (Eisenhardt 1989). In our main study, we subsequently collected the data for the two cases - Finnish MNCs with the subsidiaries in the Saint-Petersburg region (StPb) - the second most attractive destination in Russia for FDI after the Moscow region (Ernst and Young 2013). These cases share the common characteristics: both are business-to-business (B2B) MNCs, headquartered in Finland, have operations spanning several countries, and have established subsidiaries with the commercialized product and the production plants in Russia. Moreover, both companies represent a construction industry – one among several Russian industry sectors which have been named by Finnish Funding Agency for Innovations TEKES (2016) to be in need for new technologies and expertise from abroad. Hence, the construction industry context fits the research setting in terms of it being a major Russian industry where the foreign

companies are well presented including the Finnish ones (see Panibratov 2009). In order to preserve confidentiality, the names of the case companies were altered (to Alpha and Beta).

To ensure reliability and validity, besides using several sources of information, a data triangulation was achieved by asking for the perceptions of respondents from the various organizational types viewing the issue from different perspectives (Guion et al. 2012). The data were collected from the HQ, which lead a strategic planning, decision-making about the market entry and executes the control; from the established subsidiary, which operates in the host market environment; and from the subsidiary's local partner – they all observe processes and changes from their own perspectives, see Figure 2. In doing so, we “balance” the subsidiary perspective with those from the internal MNC network (HQ) and external business network (partner) as suggested by Ahworegba (2017).

*-Figure 2 about here-*

Both structured questionnaire and semi-structured interview were used as the instruments for data collection, complemented with the analysis of secondary data sources (news and documents) related to the case companies. Prior conducting the face-to-face interviews, subsidiary informants were asked to fill in the online structured questionnaire data from which were re-checked with the respondent and clarified during the interview, thus, ensuring the consistency of information. The informants for these cases were selected in accordance with the informants' selection process applied in the pilot study – the top management of the companies – CEO or finance director. We first contacted the Russian subsidiaries via e-mail, in order to obtain the contact information of the company's top management. Next, we contacted and arranged the interviews with the management, and subsequently obtained the contact information of the partner's representative and the informant from HQ during the interviews. We then contacted partner and HQ representatives of both cases via phone and

arranged the phone interviews with them. Overall, six interviews were conducted in March-April 2015: three face-to-face interviews and three phone interviews, see Table 2.

*-Table 2 about here-*

### **Data analysis**

All interviews were audio recorded with the permission of the informants, which resulted in the six hours of primary data material, and the interviewer took notes during the interviews. The set of questions for the interviews varied depending on the features of the studied organizational form (HQ, subsidiary or partner). Then, we transcribed and translated non-English primary and secondary data, with both being processed with the help of Computer-Aided Qualitative Data Analysis Software (CAQDAS). Usage of the computer-assisted methods for handling of qualitative data processing and analysis increases the trustworthiness through the transparency of the procedures (Ghauri and Grønhaug 2010) and contributes to the reliability of the results (Sinkovics et al. 2008). In line with that, a manual text mining with the following coding process for the data analysis was performed using NVivo 10 software by the researcher who was interviewing all six parties and collected the secondary data.

The two coding strategies were utilized in the different stages of our study aiming at codifying the data according to the existing theory but not omitting the topics emergent from the data. The “a priori” codes based on the theory part and the results of the pilot study were developed prior the data collection coding schema and followed the structure of interview guide. After the data collection, the new codes were added if the additional themes emerged from the data reforming the “a priori” into “a posteriori” coding scheme. The coding process was iterated until no more themes could be retrieved from the data, in line with the technique by Sinkovics et al. (2005).

### **Case Companies**



Multinational Alpha was established in late 1980's in Finland as a window renovating company. Today, company's business consists of frameless balconies and terrace glazing, aluminum production, and installation services. Total number of employees worldwide was ca. 600 in 2015, with ca. 100 engaged in export activities or employed in subsidiaries. In 2015, company's turnover was ca. 48 million Euros with the profits of 1.2 million Euros. The parent company in Finland has its own production in Kouvola, as well as a department responsible for the export activities. Multinational's subsidiary network extends to Norway, Sweden, Switzerland, France, Spain, Canada, Germany, and Russia with significant sales in Netherlands, England, Iceland, and Denmark. In Russia, the company has its own registered legal entity in the form of Close Joint-Stock Company. It operates through the head Russian subsidiary opened in Moscow in 2008, and a small-scale subsidiary in StPb, which is a unit of analysis in this research. The interviewed subsidiary's partner company is a reseller of the Alpha's products, located in StPb, an SME established in 2011 in the form of Limited Liability Company. The partnership experience between the companies is 8 years.

Multinational Beta is a group of companies founded in late 1960's after the merger of several Finnish interior construction services. The business focus of this MNC is in ceiling and wall contracting and an interior construction. The subsidiaries in Finland offer a painting shop, the sheet metal services, decorating and interior constructions. In 2015, the MNC employed 250 people and had an annual turnover of ca. 40 million Euros with the profits of 225 thousand Euros. The foreign subsidiaries of the company operating in Russia, Lithuania, and Estonia. In Russia, the company is represented by the only one StPb subsidiary which operates as a Limited Liability Company. The subsidiary has its own paint shop on the premises, which is specializing in powder coating of aluminum products for use in the rough conditions. Most of these aluminum products are used in the manufacture of building facades, windows, and doors. The interviewed subsidiary's partner company is a client of the BetaS. It is a subsidiary of German

MNC, which entered the Russian market in 1990's through the Moscow subsidiary, with a StPb unit established later on. The length of the partnership experience between the case and the partner companies is 13 years. The general information on the case subsidiaries is summarized in Table 3.

*-Table 3 about here-*

## **RESULTS**

### **Subsidiary establishment**

Each of the case subsidiaries has its own motives for choosing the particular location. However, among the reasons for entering Russian market the main one for both case companies was serving their existing long-term partners and customers locally. Cases Beta entered the Russian market by following the main customers which entered the Russian market earlier, established the production, and was in need of the supply from the trusted partner.

AlphaHQ has decided to enter Russia due to the long-lasting company's interest in being present in the country's market in addition to the existing resellers' network in the Russian market, and promising market opportunities. AlphaS was established in StPb as a support branch for the Moscow subsidiary which serves the individual customers, responsible for the company's operations in financial and operational terms and where is also located a Russian production plant. Nevertheless, StPb branch's primary function is managing the projects and serving the corporate customers while also supporting the Moscow operations in terms of communication with the resellers. Once entered the market, Alpha and was utilizing an existing network of contacts they had back to the time the operations were handled by the Finnish office for establishing the new Russian partnerships.

AlphaHQ has agreed on the business plan of the Russian subsidiary prior taking the decision to enter the market. However, the personal commitment of the future director of the newborn Russian subsidiary appeared to be important for the end result. For example, the need to agree

on how to communicate with the local authorities may be challenging and become a certain constraint from the strategic point of view as in Beta:

We had an option to move to Moscow and we were considering it but it was **too big corruption** to go there in terms of electricity connection. And we **didn't like to do it**, so we remained in Saint-Petersburg. – *BetaS*

The informant from HQ opens further about the corporate values consistent with the Russian business environment:

We have corporate values, some part of them is in small conflict with Russian **way of doing things**. That is not a big problem, but it is something that is leading us that we **do not do certain things, bribing**, for example. We have Finnish values in all places to keep them untouched-  
*BetaHQ*

Even though the Russian business environment caused the concerns among the top management in the BetaHQ, the subsidiary establishing process was smooth for both cases mostly because of the Russian trusted experts, who assisted with the documentation and regulations. Thus, the decisions taken at the corporate level are guiding the subsidiary's operations and have the priority over the own decision-making in the complex questions.

### **Dimensions of Network Competence in the Subsidiaries**

#### ***Initiation dimension***

Initiation encompasses the relationship-specific tasks aimed at *starting* the relationships between the company and its partners. According to Ritter (1999), it is reflected in the knowledge of the next partnerships and ability to demonstrate the competitive technological advantage to them. According to AlphaHQ, AlphaS rarely has the detailed information about the future potential partners due to the lack of employees' competence in this area. However, it continues to perform a search for new partners on a constant basis through the various open channels. These activities are mostly performed by the AlphaHQ, suggesting that the AlphaS possesses a relatively low level of initiation activities. One explanation for this may be a previously established strong network of resellers. The instrument for network creation is the

participation in the exhibitions right after entering Russia with a Moscow subsidiary, which may indicate a greater level of initiation dimension in AlphaS in the past.

Conversely, BetaS has claimed to be often aware of the potential partners, and exhibitions have been for a while and remain for the subsidiary as the places for the new contacts establishment. Moreover, the new clients and partners obtained as the result of personal visits to the potential customers' sites by the BetaS top management indicate subsidiary's active interest towards widening the company's partnership portfolio.

### ***Exchange dimension***

The volume and nature of *knowledge transfer* between the company and its partners constitute an exchange dimension of network competence. According to Ritter (1999), for the technologically rich companies, these transfers could relate to the technology, person or another company. AlphaS has a wide range of transferred information between the company and partners, which contains knowledge about the company's technology and operations, with the inclusion of a certain amount of confidential information. According to AlphaS, a transfer of confidential information has started as a result of long-term collaboration and established trustworthy relationships between the partners. AlphaP is more cautious in saying that there is an exchange of confidential information, though underlining that "*in order to participate in certain tenders at the construction sites, we, each having own sources of information, exchange it for a clear picture of our interaction, in order to get the "right decisions" from the other partners or construction companies*". BetaS, on the other hand, exchanges different types of information with their partners excluding the confidential one, and this behavioral pattern has remained stable over the time. The company also carefully collects the information from the market players in order to further utilize it. For both subsidiaries, even exchanging somewhat sensitive information with the partners, the main technology and production secrets are kept from being transferred.

### ***Coordination dimension***

Coordination dimension entails the *synchronization* of a company's activities with its network partners (Ritter 1999). Both case companies work "*hand in hand*" with their partners: AlphaS do it through the regular events for their resellers' representatives. In addition, a cross-communication between subsidiary's and partners' employees occurs through the mutual visits. BetaS, too, has a practice of visiting the representative of their main partner in Moscow. This practice is especially efficient in the conflict situations, which, if arise, are resolved during these visits directly with the management. Moreover, the partners' employees often visit BetaS's production site.

### ***Planning dimension***

Planning is a cross-relational task aimed at the future position of the company, and it consists of internal, network and environmental analyses (Ritter, 1999). According to AlphaHQ, Russian subsidiaries have certain values and expectations regarding what partners should be able to deliver for the progress in their business relationships. These values have remained stable throughout the operational time in Russia, however, no evaluation practices, measures or scales were developed to account for the outcomes of relationships. Although the StPb subsidiary claims that with the partners they are "*mutually oriented on the result and share the same goals*", AlphaHQ skeptically assesses subsidiary's ability to meet the partner expectations due to the lack of decision-making power. In turn, BetaS does not have a systematic approach to planning but aims at the opportunities' utilization and undertakes several attempts to approach the right partner. Due to the rapidly changing business environment and individual nature of orders, the risk of unloaded production makes the subsidiary to collaborate, regardless of profitability in order to avoid the production downtimes.

### ***Organizing dimension***

Organizing ensures the execution of the planned actions. Particularly, it may include adaptation towards the partner's needs and requirements (Ritter and Gemunden 2003). In AlphaS, the product modifications have been implemented in order to answer the Russian market specifics in terms of the production and installation technologies with no specific adjustments made because of the individual client's wish. Conversely, BetaS has a strong focus on adaptation for the clients' needs mostly due to the specifics of Russian business environment and a project nature of their business, where the product is tailored for the client.

### ***Staffing dimension***

Staffing entails the employees' allocation to the individual partner relationships and delegating them the responsibilities (Ritter et al. 2002). The five managers of AlphaS are allocated for handling the partnerships depending on the type of the relationships and according to their primary responsibilities. For example, one manager may only register the incoming orders and delegate the handling of the order to another manager making all managers, depending on the nature of the issue, to communicate with the partners. This system is reported by AlphaHQ to result in managers being helpless in what to do next, causing the prolongation of the communication process between the subsidiary and its partners. The small size of the subsidiary results in an unobstructed communication flows within the employees in the Moscow subsidiary and AlphaHQ. Both informal and formal communication possibilities are in use, leading to awareness of employees of the existing agreements with the partners. The lack of time resources and an overall low knowledge level rooted in the subsidiary "youth" set the constraints for a smooth partnership management in a branch, as perceived by the AlphaHQ.

BetaS has three key persons to handle the relationships with Russian clients and partners. Besides the BetaS CEO who is partially involved, it is Sales Director who has a broad experience in the Russian market, production director, and a support services employee. Thus,

no dedicated employees are allocated to only one relationship; instead, the managers handle them collectively. Moreover, Beta MNC as a whole has a division for its partners' network depending on the partners' type (clients, suppliers), with each type assigned to the individual subsidiary in different countries. This makes Beta's Russian subsidiary also has a deep connection to the Austrian suppliers of the whole multinational. The communication flow between the employees is facilitated by the training sessions and the informal activities, that all contribute to the efficient internal information exchange on the daily basis.

### ***Controlling dimension***

Controlling of both parties: employees and partners, and planned actions are incorporated in the networking process. AlphaS does not perform an overall evaluation of the partners' contribution, with the overall sales and profitability figures being the only instruments in use. The feedback from partners is collected in Finland, Sweden, and Norway only in the form of the survey, while in Russia no such practice is implemented. The main feedback is acquired through closing project meetings. Conversely, BetaS had applied the ISO 9001 standard in 2014, which serves as one of the criteria for partners' evaluations and supplement a control of partners' orders and price levels.

A summary of NC dimensions in the case subsidiaries is presented in Table 4.

*-Insert Table 4 here-*

### **Development of Network Competence**

With the state of the network competence in both case companies having been illustrated above, we now discuss its development process in more detail. Since the beginning of the operations of Russian subsidiaries in both case companies, the relations of the partners towards the subsidiary had grown stronger with one subsidiary had managed to extend their partner network in Russia. For instance, the case subsidiaries did not struggle with the difficulties in establishing their own new contacts and to widen the reseller net AlphaS took part in big exhibitions and “it

*was not that difficult to find"* the new resellers. Overall, the partner networks of the subsidiaries have not changed a lot over the time. In line with that, a procedure of the network partners' selection has remained mostly intact throughout the time of the subsidiaries' operations, and the data suggest that this is driven by the pre-existing knowledge of the market and an NC possessed by the subsidiaries.

While AlphaS interviewee points that there are no changes occur from the MNCs side, the respondent from BetaS notices the change happened in their network in relation to the reputation the subsidiary has obtained on the Russian market. Interestingly, the quotation of BetaS addresses the differences in the time perceptions in European and Russian business environments – the twelve years of the subsidiary on the Russian market is accounted to be a long-term for a young Russian market economy system. Another comparison of business environment highlights its dynamic nature and the size of the market. The related quotations are presented in Table 5.

*-Insert Table 5 about here-*

### **Partners' perspective on subsidiary's NC**

Continuing on the cultural differences noticed by the interviewees from the outside-in perspective, the Finnish way of organizing the business has received a positive assessment:

A serious cultural difference is that Finns are in **no hurry and have enough time** for everything, while we, [Russians], work ourselves into a lather. Furthermore, their attitude to employees is also very important, and how in general the work process is built. There is a clean production with the neatly dressed employees, who are **not in a hurry**, there are **determined deadlines**, so even if they have a work to do, they can easily go on vacation, unlike us, [Russians], who are **always late**, and nevertheless, do not have **enough time** in many areas. – *AlphaP*

Russian partners of case subsidiaries highlight the high level of trust towards the Finnish counterparts due to latter always keep their financial commitments and follow the rules. Furthermore, the high quality of the products contributes to the reliable image that Finnish subsidiaries have with no differences in the level trust towards the case subsidiaries of a different age which also contributes to their productive relationships:



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 in addition to the **Finnish quality**. The reputation of **brand** tells itself. Finnish quality tells itself. - *AlphaP*

[BetaS] is a quite reliable partner. Accordingly, it means [it is associated with] a [**high**] **quality**, a **brand** name, a **reputation**, which is also a quite compelling reason [to work with BetaS]. - *BetaP*

Russian and Finnish case companies mutually underline stability, reliability, and commitment to the fulfillment of all the contractual terms towards each other, with AlphaS noticing that their mutual level of trust “*has grown since the opening of the branch*”. However, the overall level of trust exposed by subsidiaries is less optimistic, and highlights more features of Russian business environment such as lack of long-term orientation and importance of pricing:

[A level of trust with the Russian companies] 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. – *BetaS*

### **Headquarter perspective on subsidiary’s network competence**

AlphaS has mutual activities with the partners, especially in terms of marketing, which is mostly performed in the collaboration with the resellers, which is confirmed by AlphaP interviewee: “*they invite us, we invite them, we hold all kinds of seminars for architects, we participate in exhibitions together for enhancing the image, for the advertising, for obtaining the new partners*”. AlphaHQ assessed the subsidiary’s integration into the local environment as beneficial stating: “*the better you connected, the better your performance*”. The quantitative indicators such as sales figures and amount of open project quotations support these benefits. Strategic location and a high degree of local embeddedness through employees and tight relationships with the partners allow the branch to provide the sufficient level of sales and orders and thus, benefit the company. Particularly, branch has a significant importance in the periods of the low workload at the Finnish production plant in the certain months or weeks. The scales of the orders differ between the host and home markets with the number of Russian projects obtained due to the presence in StPb is measured in hundreds, compared to the volumes

in Finland which are ten times less. Hence, subsidiary provides a production workload preventing the production downtimes and associated losses of Alpha.

According to BetaHQ, the most notable benefits derived from the BetaS's network competence is the full access to Russian market and markets of Commonwealth of Independent States (CIS) countries. Company's presence in Russia in the form of full ownership gives a robust base for future development in the local market by growing the existing subsidiary or by establishing a new one. A solid knowledge base accumulated by the subsidiary during the years of operations provide the Beta with an opportunity to deepen its presence in the Russian market and consider the CIS markets entry. According to BetaHQ, having BetaS "*well-connected to the surrounded world and to the place*" the MNC results are noticeable in an increase of both sales and the number of customers that the Russian subsidiary has obtained. BetaS is considered to be well connected to other business network players mostly due to the ability of Finnish local CEO speak Russian:

In the past, with the former general manager we had practically **only the necessary contacts** with the authorities and local suppliers and so on, but now we can **play much more active**. – *BetaHQ*

This is very important [that country director speaks Russian], it's great. It affects [the business relationships] when **he can communicate without an interpreter**. - *BetaP*

In fact, in both subsidiaries, all employees except CEO are Russians with about third of them having an international experience either in terms of studying abroad or working in the other foreign companies. That means that even being a company with the Finnish roots, the subsidiary benefits from the Russian employees as they mostly manage a smooth communication on the daily basis with the partners' counterparts.

Taken together, the empirical analysis of the case companies indicates that they possessed an extent of network competence prior their market entry and that this prevalence of network competence has enabled the subsidiaries to become more locally embedded during their time of operations (cf. Andersson et al. 2001; 2002) as the relationships have deepened and the

network has grown. The subsidiaries support the finding that reliability and trust built between the companies in the Russian business environment are secured through either long-lasting relationships with the partner or through the brand image (Taipale-Eräväla et al. 2014), which may partially come only from the Finnish origin. Local embeddedness expressed e.g. in the form of mutual marketing, sales and distribution practices with the partners (Najafi-Tavani, Giroud, and Andersson 2014) mostly resulted from the developed competence. We now discuss the results further.

### **Antecedents of network competence**

The findings discussed above suggest that both AlphaS and BetaS exhibited relationship-specific network competence, particularly exchange- and coordination-related task execution types, whereas BetaS was overall more competent with the cross-relational activities (i.e., planning, organizing, staffing and controlling-related competence). AlphaS, having had a wider partnership base prior its entry to Russia, currently has less developed procedures for acquiring and renewing the most important networks. Their focus has been more on building the secondary networks, known as having a primary target in answering to the market conditions (Mort and Weerwardena 2006). In the search for an explanation, a closer look at the NC antecedents, which, as suggested by Ritter (1999), might drive the differences in the exposure of network competence between the cases, should be discussed. The first antecedent - *availability of internal resources* including physical, financial, informational resources and employees might be an issue: Both companies have sufficient access to the resources, but AlphaS lacks the personnel resources such as the assigned managers for handling the relationships with the key accounts, due to the small subsidiary size. Instead, all of the employees are together responsible for handling the communication with the partners.

Another antecedent is a *human resource management (HRM)* and, particularly, a recruiting policy aimed at people with networking abilities and experience. HRM of AlphaS is primarily

aiming at employees' motivation and does not have enough orientation on networking abilities and personnel assessment related to the networking activity. A third antecedent, the *integration of communication structure*, is not applicable when the case subsidiaries are small-scale, and all of the employees naturally collaborate and work altogether, however, in the MNC scale the communication is not a constraint. The last antecedent - *corporate culture openness* enhances the NC through entrepreneurial spirit of employees, responsibility taking, and decision-making. To discuss this antecedent, we further note that the two case subsidiaries perform two different roles in the hierarchies of their respective MNCs: BetaS is the only subsidiary in Russia while AlphaS is a small-scale branch of the main Russian subsidiary in Moscow. Both studied MNCs adopt the most of the elements from the geographical organizational design, which is based on worldwide decentralization of decision-making, coordination, and control at the subsidiary level (Lasserre 2012). There, national managers or regional executives are the holders of the intermediary executive power and conduct reporting to the international manager in HQ. Regional executives are the decision-makers concerning the product range on the local market and responsible for developing strategies and adaptation of the product. Countries are seen as the profit and investment centers where policies, careers, pricing, and promotion are local. This is accompanied by the autonomy of subsidiary's practices from the HQ. Thus, StPb branch is highly dependent on the Moscow subsidiary, accompanied by the limited number of functions performed by the branch turn into the lack of responsibility given to the branch and poor decision-making ability. High dependence on the main subsidiary influences the business operations and relationships with the partners in a negative way while branch experiences difficulties with the independent and entrepreneurial behavior. In addition to the above-mentioned antecedents, the lack of responsibility delegation and decision-making in AlphaS may explain the differences in the manifestation and development of network competence between them. These NC antecedents are also in line with the factors leading to higher local

embeddedness such as the bigger size of the subsidiary, and performance of the wide range of functions (Andersson et al. 2005), of which AlphaS is possessing less compared to BetaS.

## **DISCUSSION**

Our results indicate that the Russian subsidiaries tend to develop specific types of network competence: the competence to foster confidential information sharing; the competence to coordinate communication with the partners; and the competence to systematically organize bilateral interaction with the partners. In our analysis, the two cases share the similarities, however, with most of the NC related features being different. To answer the research questions, a development process of network competence in the subsidiaries over the time, based on the findings of this study is presented in Figure 3.

*-Figure 3 about here-*

The results suggest that the process of partnership network establishment often precedes the foreign market entry. Moreover, accumulated knowledge acquired prior the subsidiary is crucial for facilitation of partnership network development in the host country post-entry period. Thus, answering the first research question (*How and when does the formation of NC in subsidiaries occur?*), the competence development occurs prior to the start of the subsidiary operations in the host country and *initiation, exchange, planning* and *staffing* dimensions of the network competence are of the greatest importance during this period. During the competence development phase, the *coordination, exchange, organizing, staffing* and *controlling* dimensions become the most important in the day-to-day operations, with the rest of the dimensions requiring continuous updating. The network competence possession leads to the subsidiary's local embeddedness in the form of mutual activities with the partners, and an integration in the local business environment as perceived by HQ.

For the second research question (*Which aspects might influence the development process of subsidiary's NC?*), we found that the extent of network competence was dependent on the

internal practices of the MNCs and of their available resources, which is also reflected in Figure 3. Lack of human resource management orientation on hiring people with networking capabilities, the absence of employee assessment practices based on networking performance and overall low level of decision-making power led to the differences in network competence between the studied subsidiaries. Low level of delegated responsibility and thus, limited functionality together with the resource constraints may be caused by short-term of operations, size and the position in the overall MNC structure. Case subsidiary operating for a long time has a flexible and decentralized control management with the high level of responsibility and autonomy.

Network competence then facilitates increasing local embeddedness of the Russian subsidiaries into the host country environment. Moreover, the results demonstrate that in the small-scale subsidiaries, having a CEO who fluently speaks the local language is a beneficial asset: it contributes to the unimpeded interaction with the local business environment that, in turn, is beneficial for MNC if consider the local CEO as a brand representative. In addition, if a local CEO is accompanied with the employees with the local knowledge, and is complying with the corporate strategy in the complex questions driven by the specifics of host country environment, the local embeddedness enhances. Thus, the results imply that the network competence is a prerequisite of a firm's local embeddedness for a subsidiary because the possession of such a dynamic capability facilitates a better integration of the subsidiary into the local business environment. Subsidiary's local embeddedness is beneficial for the whole MNC in terms of knowledge accumulation about the local business environment, as well as obtaining and strengthening the control over the local country's market niche.

## **CONCLUSIONS**

Our aim in this study was to find out how the development of network competence occurs in the small-scale MNC subsidiaries, which in terms of size resemble the SMEs, but in terms of

business practices are a part of the large company and are obliged to comply with the internal management. In doing so, we sought to find empirical support for integrating several streams of research in international business – the role of dynamic capabilities in international business (Teece 2014), network theory of MNCs in terms of subsidiary local embeddedness (Andersson et al. 2001; 2015; Forsgren 2008), subsidiary capabilities (Birkinshaw and Hood 1998; Phene and Almeida 2008; Holm et al. 2015), and international business literature on MNCs in Russia (e.g., Fey and Björkman 2001; Salmi and Heikkilä 2015). As a result, this study contributes to the international business literature on headquarter-subsidary relations, local embeddedness, and subsidiary capabilities, and does so in several ways. First, it adds to the knowledge on the role of dynamic capabilities in international business, a role that is crucial for an understanding of the field (Cantwell 2014; Teece 2014), through an empirical study, specifically it is adding to the knowledge on internationalization of MNCs from developed economies entering Russia. Second, it extends the extant studies on network competence in the industrial network context (Ritter 1999; Ritter et al. 2002) as well as in international entrepreneurship (Ivanova and Torkkeli 2013; Torkkeli et al. 2013) to the literature on international business in general. In doing so, it helps describe how the development of network capabilities occurs in different international business context, by providing the view on MNC-subsidary activities abroad to support those of SMEs. Specifically, our results point towards MNC developing network competence prior to the subsidiary establishment, whereas in the SME context the development of such competencies can occur later in the internationalization process (Torkkeli et al. 2013). Third, the existing network competence studies (Ezuma and Ismail 2017; Chiu 2008; Yu et al. 2014; Shiri et al. 2015, Torkkeli et al. 2016) addressed the phenomenon through the quantitative inquiry lacking the dynamics of the network competence development process. Our study complements this, and further demonstrate the dynamics of capability development in MNCs and their subsidiaries (see Andersson et al. 2015; Holm et al. 2015) by employing the qualitative

approach. Through the collecting data from three perspectives, we provide a semi-dyadic view into the subsidiary capability development, as opposed to the study of Lee et al. (2016), which considers the subsidiary capability building only from the subsidiary perspective. Furthermore, by exploring the context in an empirical setting covering both developed and developing markets, this study helps in further describing how foreign MNCs operate in Russia and how and when their subsidiaries can develop the needed embeddedness and capabilities for successful operations. This is especially topical with the recent focus on the “contextualization” of the headquarter-subsidiary relationships by enriching the discussion with the local country context (Ahworegba 2017).

For MNC top management it is advisable for the HQ to stimulate the subsidiary network competence and through that the local embeddedness of their foreign subsidiaries in Russia by hiring expatriates with experience in local business and, ideally, with the accompanying language skills. A close attention should be paid to the degree of responsibility delegation to the subsidiary, which influences the majority of aspects needed for network competence possession. Moreover, a network competence has a different degree of importance on the different stages of Russian market entry, and thus, the thorough preparation should be undertaken. The HQ is advised to monitor the efforts of Russian subsidiaries in developing the competence: once a sufficient level of MNC strategy implementation is reached, HQ should aim to increase networking orientation of the processes. This is achieved by focusing on the employees’ individual networking abilities and accompanied with the performance assessment that incorporates networking-oriented incentives in order to ensure that the developed competence does not erode.

We note the limitations of this study with the chosen research method imposes boundaries on the generalizability of the results, constrained by the number of cases utilized and the Finnish-Russian context. However, we simultaneously note that the objectives of case studies are not to



achieve maximal generalizability across empirical context, but rather to achieve a deeper understanding of the phenomenon in question (Yin 2009). Thus, this study also indicates several potential areas for further research: extending the reach of the empirical study beyond the St. Petersburg region might provide an additional contribution to international business literature, particularly on MNC studies in the Russian context. Future studies could examine the MNC financial performance and the ways in which the dynamics of network competence and local embeddedness determine it. A longitudinal investigation into these dynamics would both provide further clarification on the development of competencies over time, and enable assessing the impact of the flow of financial, economic and political forces in a specific business environment. In sum, the setting and results of this study help to provide additional insight on the optimal strategies and ways to operate for foreign firms aiming to conduct successful international business in Russia. Some key messages are the illustration of the importance of developing subsidiary-specific capabilities, instead of MNC-wide ones, when operating in the country. In doing so, we suggest that the subsidiaries, through knowledge acquisition and becoming embedded in the local networks, can help the MNC accrue learning and competitive advantages in Russia, thus helping to mitigate their liabilities of foreignness. A proper next step would be to extend this investigation into the transfer of knowledge and its subsequent exploitation between the MNC HQ and subsidiaries in Russia: the transfer of such subsidiary-specific competence provides the potential for further elaboration in future studies.

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## Tables

Authors	Concept	Theoretical Background	Level
Möller and Halinen, (1999)	Network management capabilities	Industrial networks, relationship marketing, supply chain management, strategic alliance literature	A firm
Ritter (1999); Ritter, Wilkinson and Johnston (2002, 2004); Ritter and Gemünden, (2003)	Network competence	Industrial networks, relationship marketing, small firms' internationalization	A firm and an individual
Möller and Svahn, (2003); Möller, Rajala and Svahn (2005)	Net management capabilities	Industrial networks approach, strategic management, dynamic capabilities view	A firm
Mort and Weerawardena, (2006)	Networking capability	Dynamic capability literature, international entrepreneurship	A firm
Walter, Auer and Ritter, (2006)	Network capabilities	Dynamic capability perspective	A firm

Table 1. Summary of network competence and network capability literature

Case MNC	Name of the unit	Type of the unit	Location	Respondent position	Nationality	Interview duration	Collected data
<b>ALPHA</b>	<b>AlphaS</b>	Subsidiary	Saint-Petersburg, Russia	Head of Russian subsidiaries	FIN	1 hour 40 min	Questionnaire, semi-structured face-to-face interview
	<b>AlphaHQ</b>	Headquarters	Helsinki, Finland	Export director	FIN	40 min	Semi-structured face-to-face interview
	<b>AlphaP</b>	Subsidiary's partner	Saint-Petersburg, Russia	Director	RUS	25 min	Semi-structured phone interview
<b>BETA</b>	<b>BetaS</b>	Subsidiary	Saint-Petersburg, Russia	Country director	FIN	1 hour 30 min	Questionnaire, semi-structured face-to-face interview
	<b>BetaHQ</b>	Headquarters	Helsinki, Finland	CEO	FIN	40 min	Semi-structured phone interview
	<b>BetaP</b>	Subsidiary's partner	Saint-Petersburg, Russia	Senior manager	RUS	15 min	Semi-structured phone interview

Table 2. Summary of interviews

Subsidiary					
Name	Year of establishment	Employees	Entry Mode	Corporate language	Company's organizational form in Russia
<b>Alpha</b>	2013	5	Green field	Russian	Close joint-stock (ZAO)
<b>Beta</b>	2003	25	Green field	Russian	Limited liability (OOO)

Table 3. Summary of the case subsidiaries

Dimension	AlphaS	BetaS
Initiation	Not active in starting new partnerships as previously established resellers' network needs deepening.	Widening of partnerships through exhibitions, personal visits.
Exchange	Wide information transfer with the partners, including the confidential one.	Information transfer with the partners, excluding the confidential one.
Coordination	Mutual visits at the production sites.	Mutual visits to the production sites, strategic planning, and conflicts resolved in the personal meetings.
Planning	Expressed in the monitoring of the partner's compliance with the company's targets.	Opportunities to obtain the new partners are used, strong emphasis on reaching the needed client.
Organizing	No adaptation to the specific needs, the product is universal.	Tailor-made orders for each partner.
Staffing	All 5 employees depending on their area of expertise.	Sales director, production director and support service employee.
Controlling	No partner evaluation, only closing project meetings.	ISO 9001 standard.

Table 4. Summary of the network competence dimensions in the case subsidiaries.

AlphaS	BetaS
Change of the partner network	
"It is getting deeper and deeper, more productive...one reseller has faded away <...> One or two have emerged. So it is leaving, but in fact, we have very old reseller relationships. They were there before we opened the branch."	"The main [partner] stayed, and one of the suppliers has been changed in the end of the last year...We do it once in 15 years, so it is not often, so we have same suppliers for 15 years here in Russia."
Change of the procedure of partner choice	
"We haven't changed a lot, we know what we are looking for, but do we get that afterwards? We really don't know. It hasn't changed...we know what the company should look like, and what the company search for. So no dramatically change, we have been doing that kind of work for 20 years."	"Not much [has changed]. Ok, at first we had to tell who we are, why we are in Russia, but as we have been here so many years, in Russian terms, not in European terms, many years, people know who we are...They know basically what we have been doing, our reputation, what is the price level."
Dynamics and size of the market	
"The open Russian projects, they are many times bigger than the Finnish ones. They can be 300 units, they can be 500 units compared to 50 or 100 units [in Finland]."	"We are offering more and try to fulfill most of the needs of client. 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. In Finland, somebody would do that kind of buildings smaller once, it would be 1/10 of the size [of Russian] <...> Here is one project and its really fast and you have to make the package every single time."

Table 5. Exemplary quotes for the network competence development

## Figures

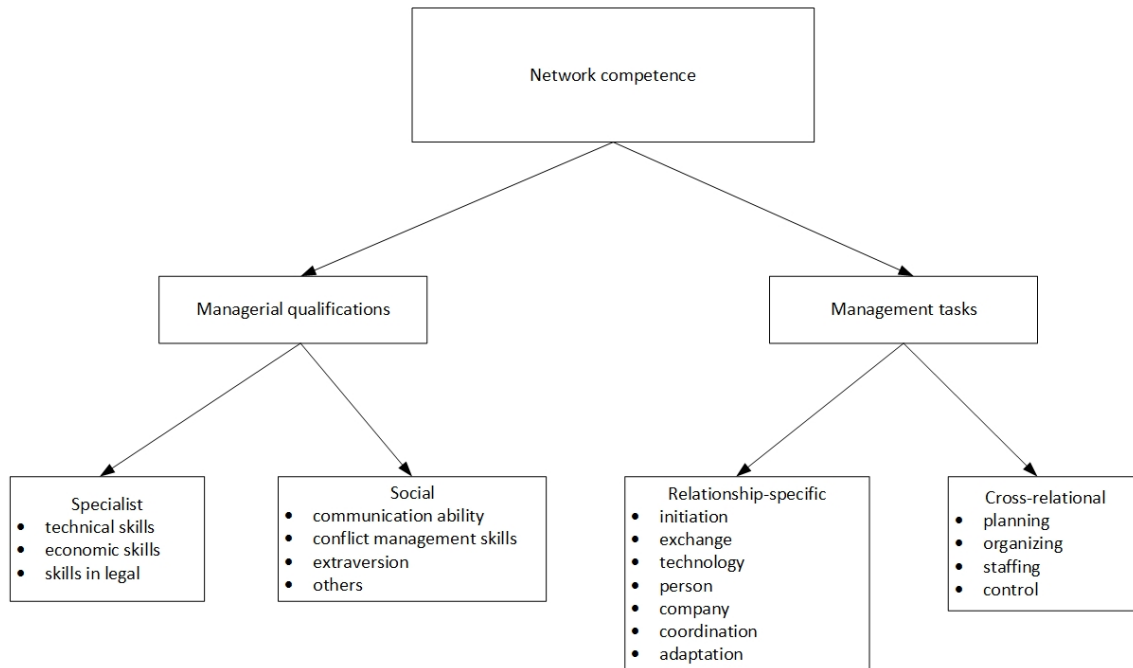


Figure 1. The network competence constructs

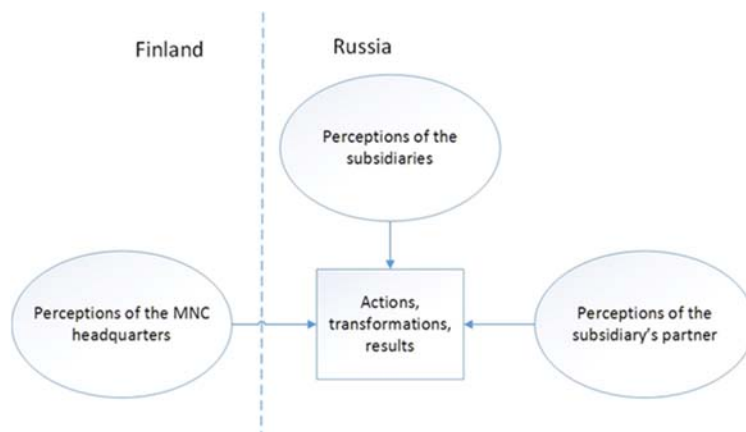


Figure 2. Triangulation through the different perspectives



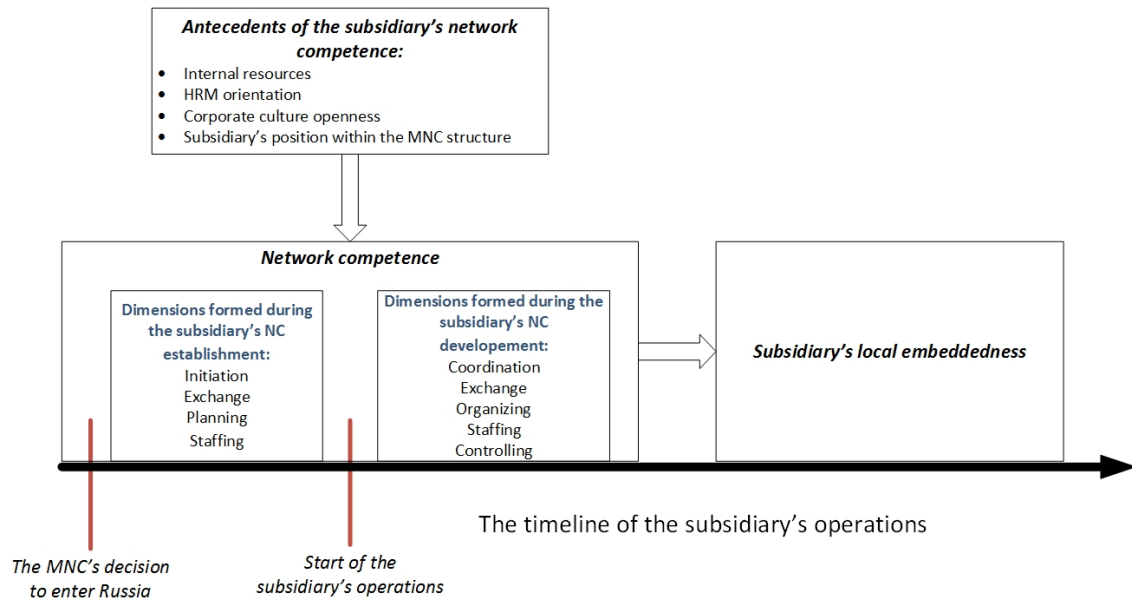


Figure 3. The dynamics of the network competence in the MNC subsidiaries.