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FOREIGN OPERATION MODE STRATEGIES OF SMES IN EMERGING MARKETS: THE CASE OF FINNISH SAWMILL EQUIPMENT PROVIDERS IN RUSSIA

Examiners: Professor Juha Väätänen

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ABSTRACT

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The purpose of this study was to examine foreign operation mode strategies utilized by SMEs in emerging markets. More specifically, it was also essential to understand the factors affecting foreign operations mode strategies, as well as how SMEs switched, stretched, and combined these modes. These issues were empirically addressed in the context of Finnish sawmill equipment providers entering the Russian market was considered. The research was based on a qualitative multiple case study approach in order to get a sufficient understanding of the strategic decision of Finnish sawmill equipment providers related to their foreign operation mode strategies, as well as to outline the critical aspects of the Russian business environment they were entering. Three Finnish sawmill equipment companies and the Finnish-Russian Chamber of Commerce was considered.

The key findings of the research indicated that SMEs utilized exporting as initial foreign operation mode which did not switch, stretch, or combine with other types of foreign operation modes. The key factors affecting SMEs' strategies were resources, the potential of an industry, political & legal factors, business environment, geographical location, cultural context, and controllability over the selected foreign operation mode strategy.

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Lappeenranta 4th September 2020

Vladislav Zakatov

LIST OF ABBREVIATIONS

CEO	Chief Executive Officer
EMC	Export Management Company
ETC	Export Trade Company
EU	European Union
FDI	Foreign Direct Investment
FOM	Foreign Operation Mode
FRCC	Finnish-Russian Chamber of Commerce
GDP	Gross Domestic Product
HR	Human Resources
IJV	International Joint Venture
IMF	International Monetary Fund
JV	Joint Venture
LSE	Large-Scale Enterprise
MNC	Multinational Corporation
MNE	Multinational Enterprise
RBV	Resource-Based View
SME	Small and Medium-sized Enterprise
TCA	Transaction Cost Analysis
UNCTAD	United Nations Conference on Trade and Development
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

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1 INTRODUCTION

The current chapter starts with the study background discussion. Later, it is followed by the explication of the research objective and questions. Then it proceeds with the description of the theoretical framework of this research. Next, definitions and delimitations are introduced. Further, the chapter outlines the methodology utilized and depicts how the study was conducted. Finally, the structure of the research is presented.

1.1 Background

The purpose of this study is to examine foreign operation mode strategies utilized by small and medium-sized enterprises (SMEs) in emerging markets. Empirically, Finnish sawmill equipment providers in the Russian market are considered.

Foreign operation modes (FOMs) are still among the principal questions for international scholars. (Razor 2013, 23). Thus, conducting research on foreign operation modes is valuable because the selection of an appropriate mode is a very significant strategic issue for any internationalizing company (Pedersen et al. 2002). At first, the choice of operation mode is essential as the forces of globalization are forcing companies to expand outside their home market with the goal of establishing efficient boundaries of a firm (Brouthers et al. 2007). Secondly, the operation mode selection has a significant impact on the internationalizing company's performance (Brouthers 2002). Finally, overinvestment being made into foreign markets, partners utilizing the firm's knowledge, as well as coordination difficulties triggered by the lack of control, all imply ineffective foreign operation mode decisions that could considerably damage the internationalizing company's performance (Petrou 2009, Brouthers et al. 2007).

While researches focusing on foreign operation modes were primarily conducted for multinational enterprises (MNEs), studies have progressively recognized particular characteristics of small and medium-sized enterprises (SMEs) that have an impact not only on FOM but also FOM's change, switch, stretch, combination, management, and results (Bruneel & De Cock 2016, 135-136). When being compared with MNEs, SMEs have limited resources that, in turn, harden the long-term influence of FOM strategic

decisions. (Burgel & Murray 2000; George et al. 2005). Such a lack of SMEs' internal resources might limit a firm's FOM selection and induce it to utilize inexpensive modes such as agents or exporting (Agndal & Chetty 2007). In addition, SMEs have specific managerial structures and processes that are less sophisticated, rigid, and complex (Bruneel & De Cock 2016, 136).

Moreover, theories related to the FOM selection and utilization are mainly focused on transnational and multinational companies from developed countries and their experience in countries with developed market economies, while the specific context of emerging markets' countries is presented in only a few studies (Harustakova 2012). The emerging markets environment as host countries influence companies' FOM selection procedures and make it more challenging compared to developed countries providing stable market conditions. Firms are forced to operate in an unpredictable environment in which uncontrollable forces may constantly arise. (Sugandh 2018, 57). Thus, any internationalizing firm must react to such forces at the right time and with the efficient strategic decisions. Due to the prompt globalization pace and emerging markets' rapid growth, FOM strategic choices must be conducted without delay, and a company should analyze numerous factors before applying the optimal FOM strategy. (Ulrich et al., 2014).

The Russian economy is one of the leading ones among emerging countries, representing the seventh biggest in the world (Amadeo 2019). Moreover, due to its close geographic location, Russia has always been an interesting market for Finnish SMEs. However, conducting business operations in Russia is not that stress-free as it might seem at first glance, as despite the fact that Finland and Russia are neighboring countries, Finnish SMEs local operations are significantly affected by large cultural differences, legal system, regulatory values, as well as by other factors (Russian Exporters 2020; Rosslund 2013).. However, over the past 15 years, Russian legislation related to foreign investments has developed significantly and continues to evolve, even though some restrictions and boundaries still exist (Thomson Reuters 2020).

Russia ranks first in the world in terms of forest supply, possessing about 1/5 of the world's timber reserves (Priroda Rossii 2020). However, nowadays, there is a crisis in

the timber industry taking place in Russia due to irrational raw material use by the local sawmills (Wood-Prom 2016). Despite the fact that there are many sawmills in Russia, the current sawmill equipment used for wood processing is old and less efficient than, for instance, in Finnish and Swedish sawmills, which does not allow obtaining the final product in the most optimized and rational way without significant raw materials losses. (Lesprominform 2017). At the same time, Finnish companies design and produce sawmill equipment are considered among the most efficient and quality in Europe; they have a lot of market potential in Russia. Consequently, when taking into account the excessive development of high technology solutions by Finnish sawmill equipment companies, as well as the fact that there is a lack of literature research on how Finnish SMEs conduct their business operations in Russia today, once having made a strategic decision to develop their business in the Russian market, clear evidence for further research need occurs. (Sutyrin & Vorobyova 2018, 126).

All in all, when taking into consideration the above-described issues, they formulate clear evidence for the need for the research. In the view of the described importance of the FOM selection and their strategic implementation for SMEs in emerging markets environments, the study's empirical focus will be conducted using Finnish SMEs sawmill equipment providers entering the Russian market.

1.2 Research Objectives & Research Questions

As previously indicated, the core objective of this research is to examine foreign operation mode strategies utilized by SMEs in emerging markets. The empirical context of the study will be focused on Finnish sawmill equipment providers in the Russian market. Consequently, it would be essential for the research to understand how Finnish SMEs utilized foreign operation modes and determine which Russian business environment's circumstances affected their foreign operation mode strategies' choice.

The common theoretical and empirical studies focus on various companies' foreign operation mode choice when entering a specific market, as well internationalization activities stick to singular mode attitude representing "single country, single operation

mode" drawn by Petersen & Welch (2002, 2). However, fairly often, such an approach does not represent the common actions of companies' strategic intentions and might not be practically used.

Research question:

- *How SMEs utilize foreign operation mode strategies in emerging markets?*

Sub-questions:

- *Which factors influence foreign operation mode strategies of SMEs in emerging markets?*
- *How SMEs utilize foreign operation modes when entering emerging markets?*

1.3 Theoretical Framework

The theoretical framework developed for this research is shown in the figure below. It represents the factors influencing decisions related to foreign operation mode when entering an emerging market (Welch et al. 2007, 438). Designed framework defines three diverse aspects – the background of a company, its mode concerns, as well as the emerging market influences. It represents three separate aspects influencing a company's foreign operation mode strategy in a certain market. The model's internationalization aspect refers to the internationalization process of a company entering an emerging market.

Furthermore, the mode action contains matters of a mode entry. Experience of a mode points to the accumulated experience of using a foreign operation mode or multiple modes. Thus, based on a company's experience, a firm evaluates whether the foreign operation mode being used is appropriate and conducts adjustments or changes if necessary, i.e., mode switch, stretch, removal, or supplement.

The key factor having the most influence on the foreign operation mode strategy is the firm's background, as it refers to aspects like firm size, main product/ service, its resources, the level of its global spread, previous international experience, and market entry specific knowledge. All of the described factors are correspondingly related to a firm's strategy. For instance, misjudgement by the company's management may ultimately induce a firm to switch modes. Specific company mode concerns are associated with establishing a high level of control and flexibility, managing risk and uncertainty, discovering suitable and reliable partners, revenue & profitability, as well as the speed of entering a foreign market. Emerging market influences are connected with aspects such as unstable and unpredictable market conditions, physical distance, specific business culture & environment, and various government elements (Hollensen 2016, 219-220; 245-246). The described factors may also induce a firm to switch, stretch, remove, supplement, or combine modes to encounter more efficiently the challenges and obstacles of the foreign market.

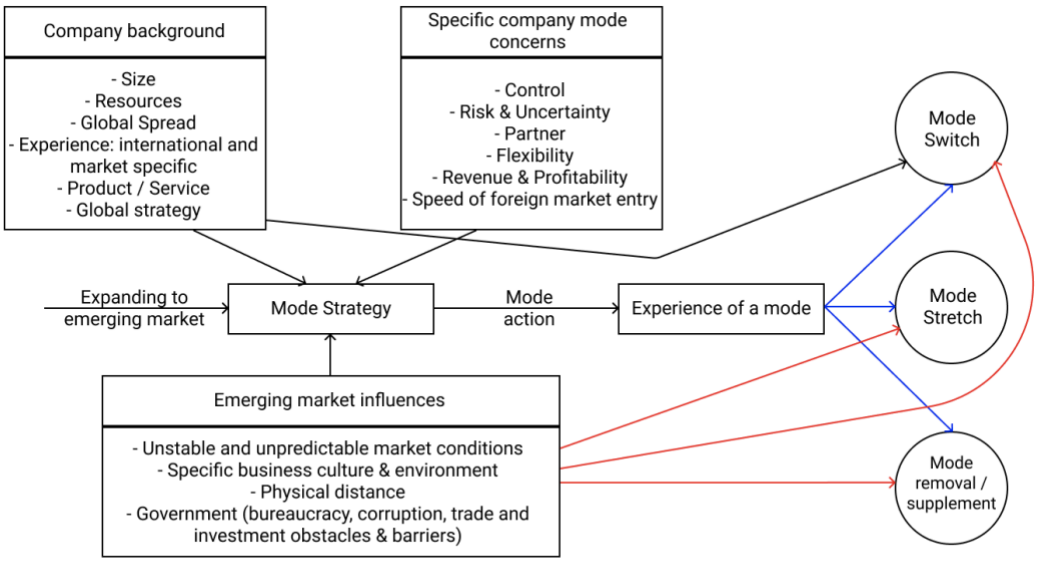


Figure 1. Theoretical framework of the research (adapted from Welch et al. 2007, 438; Hollensen 2016, 219-220; 245-246).

1.4 Delimitations

Theoretically, the following study is concentrated on the models that are mainly applicable for the emerging markets, while not being suitable for advanced economies. Empirically, the research is focused on Finnish sawmill equipment providers. Moreover, the geographical focus is constricted to the Russian market. Furthermore, only SME companies were considered in the scope of the study. Consequently, the research findings and conclusions are not generable and appropriate for all sized companies and diverse business context; however, the outcomes and findings can be utilized and elaborated for further research in a similar context and case companies.

In the view of the thesis author's study program's emphasis and direction, the research discussed FOMs & strategies predominantly from business opportunity prospects, with having less focus on legal or taxation aspects. Lastly, the research's statistical generalizability is limited in the view of the qualitative nature of the research.

1.5 Definitions of the Key Definitions

Internationalization

Internationalization may be described as the process in which a firm is increasing its international involvement in foreign markets (Johanson & Vahlne, 1977; Welch & Luostarinen, 1988); as well as a set of activities increasing external value, changing shareholder structure, and interfering in the companies' management (Dörrenbächer, 2000). Internationalization occurs when a company expands its R&D (research and development), production, sales, and other business practices into foreign markets (Hollensen 2016, 56).

Foreign operation mode

Foreign operation modes represent an institutional arrangement for bringing the firm's products and/or services into a new international market (Hollensen 2016, 350). They can also be described as the organizational or institutional mechanisms being utilized to conduct international business activities, for example, goods manufacturing, serving customers, searching for various resources - in fact, performing any business function (Welch et al. 2007, 18).

Small and medium-sized enterprise

Small and medium-sized enterprises (SMEs) represent non-subsidiary, independent companies with an established number of employees. Such number varies according to a specific country; however, the most common upper limit to defining SMEs is 250 used in the European Union. At the same time, financial assets are also utilized to designate SMEs, given that medium-sized enterprises' (50–249 employees) turnover should not surpass EUR 50 million, while small enterprises (10-49 employees) should not surpass EUR 10 million. (OECD 2005).

Emerging market

An emerging market can be characterized as a market where its economy is in the transition phase from developing to developed and can be described by fast growth and industrialization (Cavusgil et al. 2013). Moreover, another definition suggested by Pelle (2007) is that it represents a country that used to belong to a semi-industrialized or less-developed category, but throughout the time, was recognized as a trade partner, a more respected political player and established a positive environment for direct investments. The four largest emerging and developing countries' markets are BRIC countries, where each letter stands for the first letter of the country: Brazil, Russia, India, and China (Subhash 2006).

1.6 Research Methodology

The nature of this research is qualitative since it aims to answer the questions of "why?" and "how?". Qualitative researches are conducted with the motivation to understand how people interpret their experiences, how they build up their worlds, as well as how they assign importance to their experiences. (Merriam 2009, 13). Moreover, qualitative data represent all non-numerical data or nor-quantified data that might be an outcome of all research strategies. (Saunders et al. 2019, 637). The following research is performed using a multiple case study approach since it is possible to analyze the collected empirical data across cases and eventually get broader insights into

theoretical evolution and research questions (Baxter & Jack 2008, 547; Eisenhardt & Graebner 2007, 29).

The core data collection method utilized was semi-structured interviews conducted with four different case companies to get a sufficient understanding of the strategic decision of Finnish sawmill equipment providers related to their FOM strategies, as well as to outline the critical aspects of the foreign business environment (Russia) they are entering. All of the interviews were conducted by phone and recorded once having approval from the respondent.

Since every considered case is unique in its nature, in within-case analysis, every case company was examined independently as an individual case in order to recognize exceptional patterns within the data for that specific firm. This research provides both within-case analysis and a comprehensive case company analysis for each firm (can be seen in Chapter 5). The within-case analysis is followed by a cross-case one. In a cross-case analysis, the goal was to classify the resemblances among the case companies in order to outline certain patterns; and dissimilarities among them to interpret them within the research theoretical and empirical context (Saunders et al. 2019, 197). All of the methodological aspects of this research are discussed in detail in Chapter 3.

1.7 Structure of the Thesis

This research starts with the introduction. It is then followed by a literature review divided into three core sections: foreign operation modes, foreign operation mode strategies, and most common internationalization theories. In the latter chapter, the research methodology is being explained (research design, empirical context & case companies' selection, data collection, data analysis, and reliability with validity). The study is then followed with a contextual part of the research, i.e., the key specifics about the Russian market are explained. Consequently, Chapter 5 represents the results of the analyzed case companies. Finally, Chapter 6 summarizes the key research and empirical findings and provides answers to the research question and sub-questions;

managerial implications together with suggestions and limitations for further research are being discussed in that chapter as well.

2 THEORETICAL FRAMEWORK

This chapter will be focused on considering foreign operation modes, foreign operation mode strategies, and internationalization into emerging markets. All of the theories to be investigated here are considered within the scope of emerging markets and specifically, Russian ones with a priority.

2.1 Foreign Operation Modes

According to Welch et al. (2007, 3), foreign operation modes choice, use, management, and change constitute a desperate component when organizing international business activities. At one time, Reid and Rosson (1987, 7) determined that the relationship between entry mode and foreign operations is close. Moreover, it is also argued that the entry mode choice practically determines how operations will be accompanied on a foreign market. Different perspectives and approaches, when considering those modes, would be explained and discussed in this subchapter more deeply.

There are various operation modes classifications being studied by different researchers. Earlier authors, such as Root (1994, 1-22) divided international market FOMs (foreign operation modes) into three different categories:

- Export. Not similar to the described above, as a physical product there is not being produced in the target country, and at the same time it is not exported there.
- Contractual. These modes include franchising, licensing, and further contractual agreements.
- Investment. Such modes are represented by acquisitions, Greenfield investments, as well as equity joint ventures. There are significant changes compared to others when considering that type of the modes, as they often involve ownership and control to be perceived at a high level

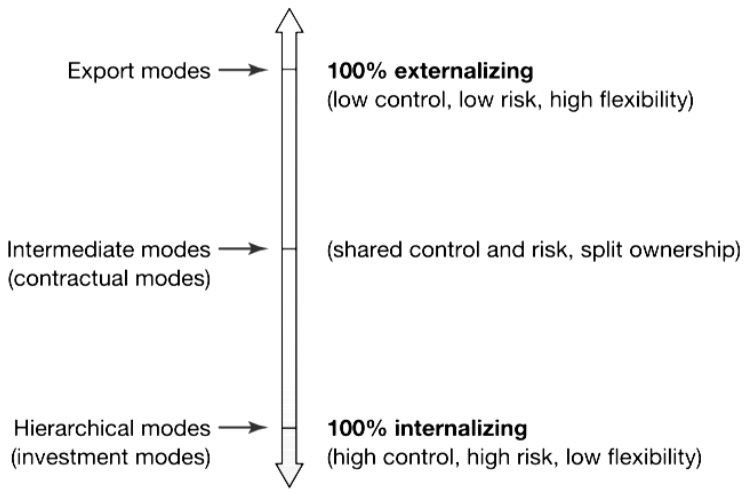
Welch et al. (2007, 4) described in a broader and more relevant perspective on how FOMs are divided and provided more solid explanations compared to Root. The author also divided them into three main categories:

Table 1. Key FOM options (adapted from Welch et. al 2007, 4)

Contractual Modes	*Exporting*	*Investment Modes*
• Franchising • Licensing • Management contracts • Subcontracting • Project operations • Alliances	• Indirect • Direct: agent/distributor • Own sales office/ subsidiary	• Minority share (alliance) • 50/50 • Majority share • 100% owned

On the other hand, Hollensen (2016, 345) classified FOMs into three other categories: export modes, intermediate modes, and hierarchical modes, as can be seen in Table 3 below:

Table 2. Broader groupings of FOMs (adapted from Hollensen 2016, 317)



Hollensen (2016, 345) considers that wide groupings arise when someone looks at the assortment of modes available to a firm when entering international markets. He points out that there are varying extents of control, flexibility & risk respectively related to these different FOMs. For example, hierarchical modes provide the company with ownership and consequently with high control; however, investing heavy resources at the same time represents a larger potential risk. Moreover, such a heavy resource commitment causes exit barriers, which in turn, reduce a firm's possibilities to change the selected mode in quick and comfortable way. Thus, an enterprise simply is not able to have both high flexibility and high control. (Hollensen 2016, 345).

As Hollensen bases his classification when having used Welch's literature as a fundament, it would be more objective to use Welch classification as the core one when discussing FOMs more in detail. At the same time, whilst Root's divisions are similar to Welch's ones, they are less relevant and concise.

2.1.1 Contractual Modes

If speaking generally, contractual modes take occur in situations when companies possess some competitive advantage, and they are unable to use this advantage in the view of resource constraints, however, being able to pass that advantage to another party. Such settlements often involve long-term oriented relationships among partner companies and are commonly created to pass transitional goods (knowledge and/or skills) between companies in various countries. (Hollensen 2016, 388)

Franchising, as one of the core contractual modes, during the last three decades made its way from being considered as an "exotic" form of international business operations up to the one being significantly used and spread among industries and countries, while being utilized as a considerable means of internationalization by a large variety of companies. However, franchising was able to reach a high level of use (mostly in the retail industry), primarily in advanced countries. (Welch et al. 2007, 51). Franchising is described by the condition when a franchisor provides an option for the franchisee against a certain payment, for instance, an option to utilize an entire business concept

or system, comprising trademarks (brands) utilization, for a settled royalty. (Hollensen 2016, 392)

Welch et al. (2007, 52) classified franchising under two main types:

- Product and trade name franchising (also referred to as “simple franchising” or “first-generation franchising”). It represents an independent dealer and supplier sales relationships, where the dealer purchases part of the supplier’s identity. Franchised dealers concentrate on the product line of one firm and, somewhat, recognize their business with the selected firm.
- Business format franchising (also referred to as “system franchising” or “second-generation franchising”). That type is characterized by permanent relationships between franchisee and franchisor, which includes not only the product, service, and trademark themselves, however, the entire business arrangement is being represented in the form of a marketing plan and strategy, quality control, standards and operating manuals, and constant two-way communication.

Since the franchisor transfers a comprehensive business system allowing the franchisee to start an independent business after the training, but under the management of the general business model and structure of the franchisor, as a rule, with a strong marketing emphasis in the framework of active, ongoing relationships. Thus, the franchisor is still actively engaged in the persistent activities of the specific franchisees. (Welch et al. 2007, 52).

It should be noted that franchising is very well suited for servicing and people-intensive economic activities, especially in cases where they require a lot of geographically distributed outlets serving domestic markets (Hollensen 2016, 392-393). However, consumer services require more cultural adaptation compared to business-to-business services. Consequently, food and restaurant industries typically utilize franchising to indirectly enter a foreign market. (Hollensen 2016, 397)

The second type, licencing, can be described as a mode embracing a comprehensive range of processes, utilizers and dissimilar roles (Welch et al. 2007, 94). However, a considerable confusion exists related to differences between franchising and licensing, and it can be occasionally challenging to distinguish between these two foreign operations forms. The core difference, especially concerning business format franchising, is the extent of control: it depends more on the licensee in licensing, while individual franchisees are very limited in business format franchising, particularly from marketing strategy & promotion point of view. Franchisees represent a part of the overall system and are aimed work in it and be guided by it, while licensees, as a rule, are able to set many operation parameters: frequently licensing occur for an existing business, which arrays numerous boundaries for using what is licensed. Nonetheless, licensing as a form of foreign activity is moving towards franchising, and licensing packages tend to become more rounded, enclosing stronger marketing components. (Welch et al. 2007, 53)

Thus, licensing agreements are represented as contractual agreements by which a firm (licensor) transmits to another firm (licensee) its product/service and/or process technology with a right to utilize it in a commercial manner (Lasserre 2017, 215). Licensing encompasses the right to use specific property rights (intellectual property) sale in a certain way. Intellectual property can be registered in public, for instance, in the form of a trademark or patent, as a means of organizing property rights. Otherwise, it can be stored internally within a company: in the form of know-how, which usually has an operational experience ground. Know-how for licensing reasons might include administrative and commercial and technical knowledge. (Welch et al. 2007, 97) Another but close definition of a licensing agreement is that it is a legal agreement that establishes the conditions specifying what should be transferred from the licensor to the licensee specifying the conditions for it (Luostarinen et al. 1990, 32). It is also important to consider that licensing does not imply the intellectual property sale in any form, but only the right to use it.

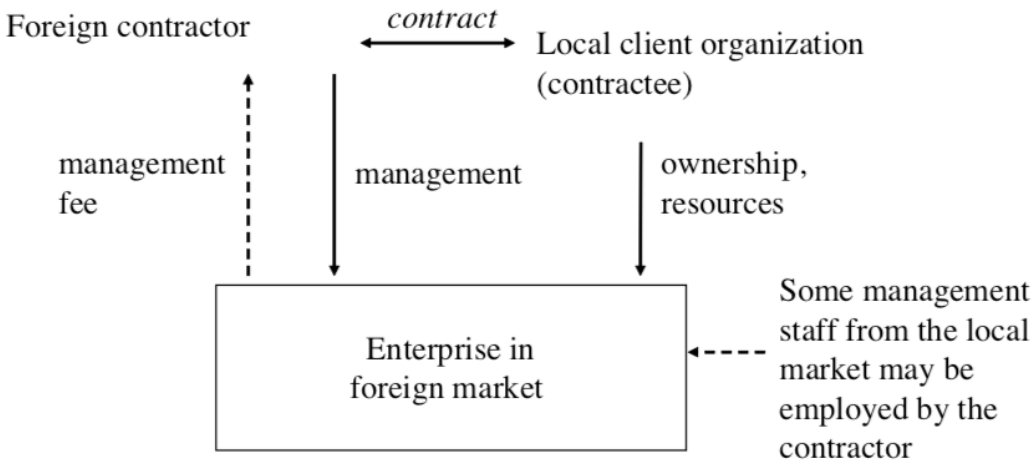
Among the benefits, such agreements bring low commitment in relation to capital and personnel involved, as well as it represents an economical way when entering a market. Moreover, licensing is considered as a faster market expansion and penetration form

than investment and joint ventures, for instance (Kotabe et al. 1996, 74). Among the core disadvantages are a specific technological appropriation risk from the licensee side, which eventually might grow into a future competitor. The further risk is quality control, which occurs predominantly in case the license contains the licensor's brand name, and in case of the licensee's non-quality conscious, it might "ruin" the licensee's brand name. (Lasserre 2017, 215). As explained above, there is a definite confusion between licensing and franchising; the advantages and disadvantages are similar to each other (Lasserre 2017, 216).

Management contracts are the next form of contractual mode. Such types of contracts occur when there is an arrangement under which firm's operational control (or a part of a firm) which would be otherwise, managers or the board of directors, designated or appointed by their owners, are transferred under the contract to a separate company, which performs the required managerial function in exchange for remuneration (Pugh 1969, 49). When being compared to other FOMs used by firms, management contracts are the least investigated and thus less significantly used by the companies, except in a certain number of industries with an extensive history of utilizing them, i.e., hotel sector and airline industry (Welch et al. 2007, 139).

Although with many options, in simple terms, this contractual mode includes managing an international firm (or part of it) upon contractual basis. It is sometimes called a "pure" management contract in the sense that there is no equity relationship or other mode relationship between the contracting parties, i.e., there is a clear division between management and ownership. As shown in Table 4, this often refers to a tripartite agreement in which a foreign contractor performs a management function for a contractual fee for an enterprise belonging to the client organization, the party to the contract (the contractee). A client firm (the contractee) provides ownership and required resources so that the company is able to operate. The contracted enterprise pays the related costs associated with its activities and management abroad. Sometimes a management contract is a simpler bilateral arrangement in which a contractor is hired to manage the contractee. (Welch et al. 2007, 142).

Table 3. General management contract (adapted from Welch et. al 2007, 142)



Management contracts commonly occur in circumstances when one firm is looking for another firm's management know-how with recognized experience and knowledge in that area. Lack of managerial capacity is mostly obvious for the emerging countries (Hollensen 2016, 409-412). Luostarinen and Welch (1990) claim that usually, financial compensation for the management services supplied to the contractor is a management fee that may be constant regardless of the financial performance or might be a profit percentage.

Among the core advantages that management contracts mode is the low capital commitment, lower risk compared to the other FOMs, possibilities for domestic managers to gain experience and knowledge on the overseas market(s), and that it may be considered as a substitute FOM form. The key disadvantage outlined is comparatively low profitability when being compared to other FOMs. (Daszkiewicz et al. 2012, 57) A management contract might be considered as an effective mode solution for a specific foreign market when being compared to other modes; however, as a separate, isolated step in the overall foreign activities of the company, it may be unjustified due to the high initial training costs and difficulties in fulfilling the contract terms related to managerial personnel provision. (Welch et al. 2007, 158).

The next contractual mode is subcontracting (or outsourcing). According to UNECE (1995) subcontracting relationship takes place whenever a business (subcontractor)

operates at the expense of another (main contractor) enterprise in the process of working and developing a certain product for plans and technical specifications provided by the main contractor, which bears the ultimate economic responsibility. In case the major contractor and subcontractor and are not represented in the same country, it represents international subcontracting, which, apparently, is a frequent means of technology transfer, production relocation, an adaptation of product design, and managerial skills improvement to the world market (like FDI), while this saves moderately on corporate governance costs and capital expenditures (Andreff 2008, 10). The key issue related to international subcontracting is that its essence is related to the use by a firm facilities of another entity, or capacities of a provision of service, rather than own, for the basis for serving overseas or domestic markets as a form of inward activities (Welch et al. 2007, 164).

Such mode generally has the advantages of low capital commitment & low risk, while the disadvantages' part looks more solid by being represented in the form of comparatively low profitability and an exporter's weak position in negotiations with the consignee (Daszkiewicz et al. 2012, 57).

Outsourcing, which is grounded on international subcontracting and outward processing trade, is globally popular across industries such as electrical machines, high-tech household equipment, electronic components, textiles, leather, iron, and metallurgy (Andreff 2008, 10). It can be explained in the way that it is a form not related to foreign direct investment implying a comparatively moderate commitment to creating an effective production base in the overseas market, as well as it can provide significant cost savings although maintaining elasticity in terms of market service and production levels due to the ability to add or remove subcontractors without investment.

The next mode to be described is project operations. Projects can be defined as a multifaceted transaction comprising a set of services, products, and work particularly developed for establishing capital assets benefiting the buyer throughout a long time period (Cova et al. 2002, 3). An important goal in most of the projects is the establishment of human assets, i.e., knowledge and skills. Cova et al. (2002, 3) stressed

four core characteristics distinguishing projects from other business operation forms: discontinuity, uniqueness, complexity, risk & uncertainty.

When being considered in relation to other foreign operation modes, Welch et al. (2007, 233) indicate that project operations are sometimes 'awkward and messy'. It can be explained because they, as a rule, are not allowed be considered as a direct alternative to other modes' forms: the presented option is usually intended only for a project or for a set of projects; therefore, direct alternative methods, such as FDI, are not considered by interested companies. Although project operations have distinguishing features, they do not lend themselves to simple classification. They correspond to the idea of modes in the sense of a package or combination. All the main modes groups are usually represented in the project activity (exporting, contractual & investment), but there may be significant differences in the degree and methods of their use in time, beforehand, throughout, as well as after construction. Both home and host governments, on apart with other external factors, as a rule, have a significant impact on the contents of the package of the project-related mode, the project cycle's nature and structure, and the final project form. Moreover, since project companies are not only companies concentrating on this business area, but also companies from those areas that are important for certain types of projects, for example, main equipment suppliers. Consequently, certain firms move in and out of project involvement as opportunities, since opportunities appear and dissolve from time to time. The variability of the international project market, especially in specific countries, prevents project companies from maintaining consistent forms of participation in the foreign market, but at the same time creates an urgent need for these companies and their staff to be responsive and flexible to changing market conditions. (Welch et al. 2007, 233-234)

The last, but not least contractual mode is represented by alliances. Alliances can be explained as long-term relationships established on trust, largely involving relationship-specific investments in ventures that cannot be fully identified in beforehand of the implementation (Phan 2000, 204). Petersen & Welch (2002, 160) also defined that alliances often integrate or expand wider packages of mode combinations, which may include the use of different modes, and at the same time, they

may performs as a supporting function for the major mode in the package, like marketing alliance supporting export activities.

Some of the varied alliance links to other modes are shown in Figure 2 below. An example is a term of 'strategic alliance' that usually evolves between companies (partners) with the aim to reach objectives of common interest (Isoraite 2009, 40). The relationships develop over time to involve, for example, exports, equity swap, cooperation on technical development, cross-licensing, sourcing, and marketing. Nevertheless, in any form, alliances represent another way in which companies might function in overseas markets using different contributions from partners or partnering firms, rather than trying to organize an enterprise on their own. (Welch et al. 2007, 273-274).

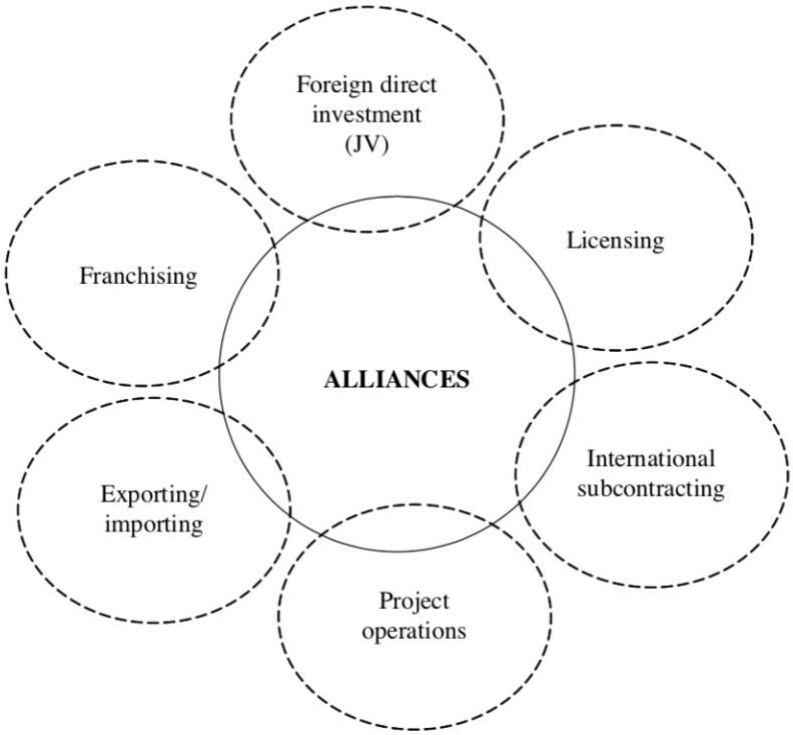


Figure 2. Potential alliance mode links (adapted from Welch et al. 2007, 274)

Welch et al. (2007, 308) affirm that a variety of types of alliances and their coincidence with other operations' forms make it hard to generalize their nature and impacts. However, this can be considered as one of their major strengths: the diversity of

alliances forms means that there is an alliance that can satisfy almost any situation on the foreign market that internationalizing companies face. Therefore, it is not surprising that a high level of global interest of companies in utilizing alliances, as well as governments, in supporting some forms of promoting internationalization is observed. Alliances provide an opportunity to link and gain access to the resources of a partner firm, such as contacts, knowledge, trust, technology, and finance, in operations on the foreign market. These elements can facilitate market penetration, speed up the process, and strengthen the prospects for a successful result (Hagedoorn et al. 2002, 167-168). Alliances can help companies to overcome many of the barriers and requirements that they typically face when operating in the foreign market, including culture, language, government regulations, and laws, as well as regional business practices. Such a possible contribution from local partner firms is often significantly valued by foreign entrant companies. That is why so many companies are certainly considering an alliance option, as they are presently examining whether and how to operate in emerging countries. The potential of the alliance as a foreign mode of operation can be further strengthened through establishing the links with other forms of the modes, for example, through licensing agreements for the use of technologies and other intellectual property types. (Welch et al. 2007, 308-310)

However, although alliances offer many appealing aspects that create a strong argument for their utilization when performing foreign operations, they involve a number of potential problems and costs and possess some basic characteristics that often cause dissatisfaction and a significant drop-out rate (Welch 2007, 310). Inevitably, given the different parties participated, conflicting interests, and their intercultural nature in most situations, they are simply hard to be managed. Relations at various levels should be built between parties, as well as between partners and alliances, as the basis for cooperation and efficient coordination of activities and strategies. Thus, it is constantly being confirmed that any form of relationship preceding the alliance, for example, in market interactions between the buyer and the seller, contributes to a larger probability of success of the alliance. (Welch et al. 2007, 310; Isoraite 2009, 40-41) However, the termination of the alliance is not always a sign of the alliance's inability to achieve what one or both partners (or more) expected from it but might be a useful testing ground for a full-scale takeover by one partner. In

practice, whether intentionally or not, the reality of alliances is that they usually have a comparatively short "shelf life," and firms are increasingly considering alliances as a preparatory step for something else in terms of operation, partly due to the type of advice coming from various consultants. Thus, treating alliances in a stepped and instrumental way tends to ensure that they do not survive in the long run. (Welch 2007, 308-310).

2.1.2 Exporting

According to Welch et al. (2007, 237), exporting can be considered as the major mode option utilized by firms in order to perform international market expansion, as it is considered as a relatively easy way to enter the market while having financial risks minimized. Moreover, internationalizing companies use exporting as their initial transition to international operations, while frequently other entry mode alternatives might not even be recognized (Welch et al. 2007, 269). Exporting itself can be explained as a strategy of producing services or products in one country, frequently in the country of origin, and selling and distributing them to consumers based in other countries. (Cavusgil, Knight & Riesenberger 2017, 376). However, it should be pointed out that there are different types of terms and activities that can be defined under the concept, as it used to be initially associated with the physical goods' sales, and nowadays it is broadly applied to services as well (Welch et al. 2007, 237-238).

Since internationalization ways used to be generally described as starting from inward activities (i.e., imports) with further continuing using outward activities (i.e., exporting). The majority of Finnish companies, while starting their international operations, decide to start with inward activities instead of utilizing outward first (Korhonen, Luostarinen & Welch 1996, 316). In this way, internal activities are a significant "springboard" for Finnish small and medium enterprises towards building up and executing their external activities (Welch et al. 2007, 40).

As it was mentioned in the beginning, exporting is usually utilized for initial entry practices and moderately develops in the direction of foreign-based activities. It may

be established in different means, depending on the type and the number of intermediaries being involved. When building up export channels, a company decides what kind of functions and roles will be external agents' responsibilities and which ones will be on the company's behalf. As there can be various forms of export channels, they all can be classified under three main types: indirect export, direct export, and own sales office. (Hollensen 2016, 366; Welch et al. 2007, 247-249)

An indirect export is classified by the actions when a manufacturing company is not involved into exporting activities itself, but, instead, another domestic intermediary (export trading firm or export management company) performs such activities and frequently with no involvement from the manufacturing company into foreign sales of its services or products (Hollensen 2016, 366). The export management company (EMC) acts as an export agent on behalf of the manufacturing firm and focusses in specific product groups as well as markets, while an export trade company (ETC, quite similar to EMC) is usually represented as an independent distributor who obtains ownership of the product before the actual export. The usual responsibilities of such intermediaries are to discover foreign distributors and suppliers, carry out promotional activities, conduct market research to identify and analyze potential markets, and to control export regulation compliances. Core EMC or ETC utilization advantage is the fast and cost-efficient process of entering overseas markets. (Cavusgil, et al. 2017, 386)

Direct export occurs in the case when a manufacturing company takes care of the exporting practices and is being involved in the immediate communication with the first intermediary in the international target market. Company is usually responsible for managing documentation flows, physical delivery, as well as pricing strategies, while a product or service is sold to distributors and agents. (Hollensen 2016, 366). Direct exporting demands a more dynamic role since the company is more directly connected with foreign clients. Usually, a direct export strategy is to use overseas distributors with agents or to build the company's own facilities to straightforwardly contact end-users in the international market. In case a direct export is performed by utilizing domestic intermediaries, the exporting company controls own pricing strategy and associated activities for the distribution of exported products. Choosing the right reseller might be a sophisticated task, however, it should be borne in mind that

distributors run self-sufficiently, which means that they take out credit for the product and are solely engaged in their business activities. In contrast, agents act on behalf of the exporting firm through governing the sales operations in the importing country and then collect a commission from the exporter. In view of this, agents can act more versatile when examining the level of control from the point of view of the elements of the marketing mix. Generally, direct exports with distributors or agents may ensure efficient approach for overseas markets as the distribution chain shortens when being compared to indirect export mode, enabling more efficient changes to acquire market knowledge locally. Negative consequences can be caused by the influence of tariffs on the market prices, with a lack of control over the downstream elements, as well as cultural dissimilarities between international and local markets. (Hollensen 2016, 372-380, Cullen et al. 2010, 246-247).

Own sales office, often called a representative office, is another popular type of exporting mode. According to Lassere (2007, 207), in Russia and other emerging countries, such entry type comprises sending an expatriate manager, and occasionally utilizing a domestically based worker, in order to gather information, run direct sales, establish contacts, discuss the terms for JV or distribution agreements, as well as organize domestic recruitment of staff. Such mode of entry utilizes resources in an economical way and valuable when building competences, however, its limit is being reached while considering actual business management. The mode is suitable for companies selling large projects in the preliminary proposal phase. In such cases, sales offices supplement and manage domestic agents lobbing for information and approaching decision-makers.

In addition to the described factors, especially in Finnish SMEs' sense, Terpstra & Sarathy (1994, 261) also explain that exporting mode is frequently utilized as the entry mode to operate in situations where the company is small, thus lacking resources required for sophisticated control modes, like JVs (joint ventures) or FDI (foreign direct investment). Bradly (2002, 237) also adds that companies tend to stick to exporting mode when there is neither economic nor political reason to manufacture overseas in case of government risk likelihood in the country or target markets might appear to be unattractive and unreliable. At the same time, exporting is generally

utilized by large, medium, and small enterprises predominantly in service or manufacturing areas, and at every internationalization step, however, sometimes in conjunction together with the other FOMs (Welch et al. 2007, 268). Moreover, in the view of a minimal cost advantage of the mode, the target market(s) can be tested in order to understand beforehand when and in which way larger volume investments via FDI would be more efficient, thus reducing financial risk and providing with greater flexibility when compared with other entry modes (Cavusgil et al. 2017, 377).

2.1.3 Investment Modes

The final group of entry modes is the investment (hierarchical) modes, in which the company fully holds and regulates the FOM. The significant question in this case is where the control in the company lies. The extent of control the head office may grant a subsidiary will hang on how much and what kind of operations may be transmitted to the operating market. It again hinges on the responsibility distribution and competence amongst the subsidiary and head office and how the company wants to develop this internationally. (Hollensen 2016, 421).

Generally, hierarchical modes are referred to foreign direct investments (later – FDI) as well as alliances. FDI can be described by the situation when the multinational corporation (MNC) owns, either only partly or fully, a business unit located in another country. Even though international joint ventures (later – IJV) involve ownership as well, IJV is an individual company. In contrast, in the FDI case, the international unit is represented as an internal part of the MNC. (Cullen et al. 2010, 257-258). Generally, broad distinctions are established amongst investments made by wholly-owned (or almost) foreign subsidiaries and JVs with a majority, 50:50, or minority (huge to minor) capital levels. (Welch et al. 2007, 321)

FDI is inextricably linked to the growth of MNCs in global business activities and their far-reaching effect on all levels of the economic, political, and social life of countries. While other modes are usually used at different stages and in different places of international development and the day-to-day activities of companies, MNCs are

essentially generated and driven by FDI activities (Welch et al. 2007, 315). Moreover, FDI is commonly preceded by other types of international transactions, both in general and in separate countries of interest. Consequently, it makes sense to view FDI in the context of the overall internationalization process of a firm, as it is shown in Figure 3 below. A lot of multinational Finnish-based companies (for example, Kone) have grown to become major (or one of) global players in their markets, mainly through the acquisition route. As a result from it can be ultimately considered that in most cases, the joint venture method was used. It is also significant to underline that firms seem to have become more proficient in leveraging experience and knowledge from different countries and applying this in new markets to expand through FDI. (Welch et al. 2007, 320; Kone News and Views, 28-31).

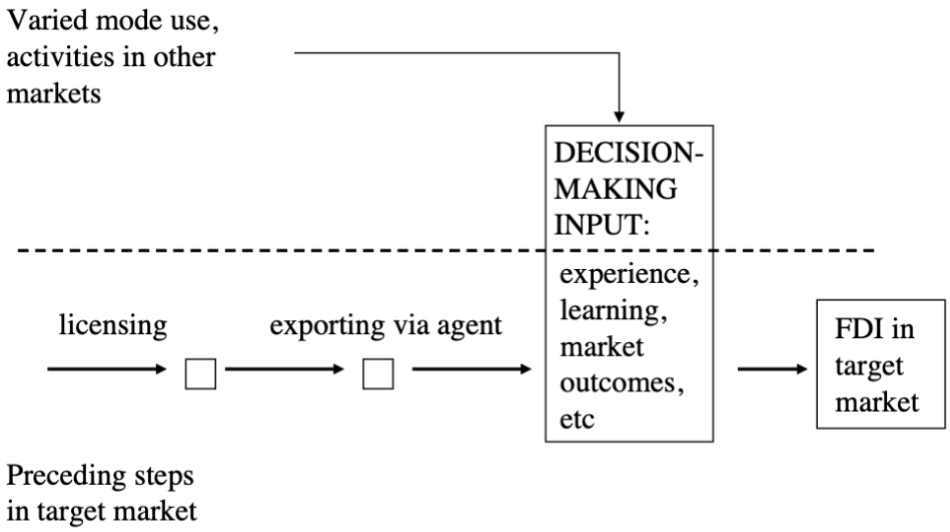


Figure 3. Precursors of FDI (Adapted from Welch et al. 2007, 320)

Cavusgil et al. (2017, 419-421) indicate that investment mode activity can be carried out in two major ways:

1. Equity stake purchase, either partly or full, in an operating firm in the targeted market.
2. Creation of a new firm with or without partners, as well as from the ground up – greenfield investment. In this case, the company has a larger control to

manage the formation of its own subsidiary entities since it will allow it to create an organizational culture and operating practices from scratch.

However, there is an intermediate form between the two described above, which is called brownfield investment being found primarily but not exclusively, in emerging markets, such as those in Eastern Europe and Russia. In brownfield situations, a domestic company with properties in a targeted overseas market are purchased; nevertheless, subsequently, the investing firm handles a wholesale restructuring together with new investments in the purchased company to the certain extent where it looks like a greenfield process. (Welch et al. 2007, 321).

To arrange an equity international joint venture (IJV), it is obligatory for two or more companies representing diverse countries to have an equity (or ownership) post in a new distinct firm (Cullen et al. 2010, 254). According to Lassere (2007, 195-196), JVs are the major form of FDI in emerging markets. Local governments want their citizens to benefit from industrialization, thus pushing overseas investors for allying themselves with the local companies before letting them approach markets and valuable resources economically. As mentioned before, such a concern is very common for emerging countries with import substitution policies, which are highly expressed in Russia. Moreover, the necessity for a overseas company to approach important resources, competencies, and assets correspondingly encouraged JVs. Foreign partners are frequently looking for a local company with distribution capabilities, local manufacturing, local market know-how, sales experience, connections with decision-makers as well as various business networks (Chan & Hwang 1992, 35-36). Managerial and HR are frequently the most important resources supplied by a domestic JV partner. Flourishing MNCs with experience and resources will be persuaded to a lesser extent to contact a domestic partner since companies suppose the market will adapt to them, so the companies do not require to adapt themselves to the domestic market. Solid global firms entering new emerging countries might require less domestic assistance compared to those late entrants having little brand awareness. (Lassere 2007, 195-196).

In order to understand equity JVs more in a nutshell, as they are a significant alliance form, FIGURE 4 is being represented (Welch et al. 2007, 279). In the *first case* being

investigated, the JV between firms A and B is established in the country of origin X as a preface to the creation of a wholly-owned firm in foreign country Y.

The *second case* (generally a variation of the first one) represents the situation where two or more firms (A and B, from the same country) create a new JV in the overseas country Y. It may happen as a result of B's effort when penetrating the target market, seeking to leverage the accessible operational experience, networks, and knowledge of A firm in the market formed by previous direct investments by A firm. Welch et al. (2007, 279-281).

In the *third case*, an alliance is created between firms from dissimilar countries for the key objective of operating in a third country by setting up a jointly owned foreign company. Such agreements inevitably bring at least three cultures to the functioning of the JV in country Y: two foreign allies and local personnel. Such form is occasionally utilized in project bidding as well as in implementation circumstances. A JV is created for a specific goal in terms of the project, in a given market and dispersed upon completion. Welch et al. (2007, 279-281).

The *fourth case* involves setting up a JV in country Y between a foreign partner (or partners) and a local company. Such type of JV is often privileged by the host governments in circumstances when required transfer of technology and important funding are required, as well as because it does not include full foreign ownership. Welch et al. (2007, 279-281).

Finally, the *fifth case* is identical to the previous one in terms of the ultimate result, except the fact that it involves foreign partner acquirement of an equity share in an existing domestic firm. As a result, the overseas partner is not required to contribute to creating a new operation from the ground up, even though it is able to initiate and implement restructuring and other modifications as it makes a number of transfers and implements them in the existing organization. The fifth case occurs when a foreign party acquires a local operation that is already operating as a JV having another overseas stakeholder. Welch et al. (2007, 279-281).

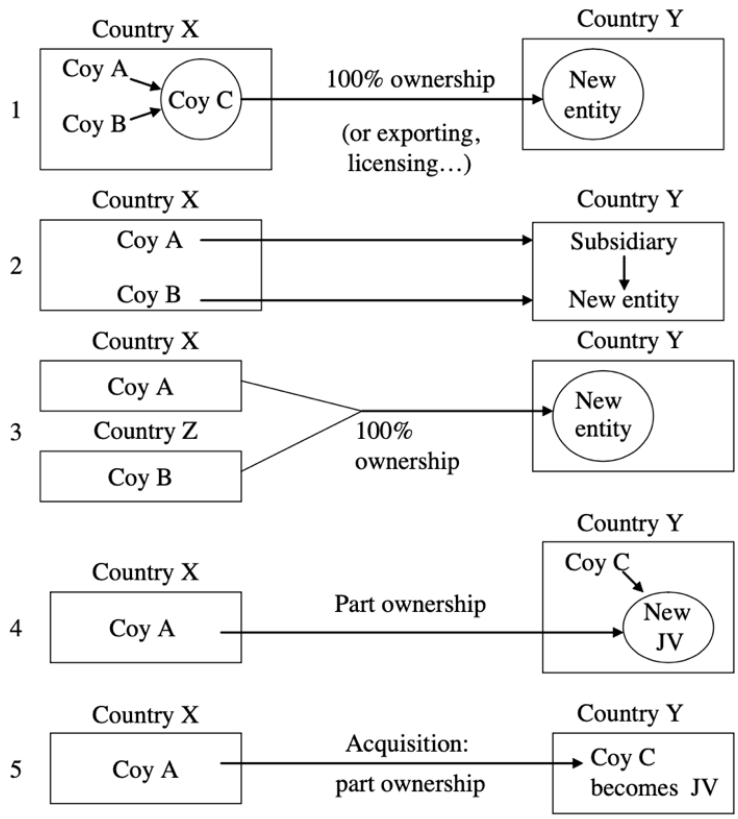


Figure 4. Various alliance arrangements examples in overseas operations (Adapted from Welch et al. 2007, 279).

In every situation involving equity JVs, a critical issue is the equity level hold by the various participants. This is usually considered as a decisive factor in who gets control over the core JV's operations. For many investors, 51 % capital means to control, while neither of 50:50 situation nor minority does. However, equity level is not constantly such primary care when participating in a JV. A lot of firms are being compensated for the lack of equity controls in the minority JV cases via utilizing other modes, such as management contracts and licensing agreements, which can provide additional legal, marketing, intellectual property, as well as management leadership. (Welch et al. 2007, 281-282).

As was indicated earlier in this part, MNCs utilize exporting, alliances, or licensing prior to FDI option. However, regardless of the company's international experience and knowledge, the advantages and disadvantages of FDI must be studied, making the entry decision. (Cullen et al. 2010, 261-262). When considering the main advantages, it must be indicated that typically FDI is more profitable, makes it simpler to adjust

products or services to the local countries' markets and to provide after-sales and market services, provides more control over marketing & local strategy, enhances local brand product or service image, decreases the local selling costs in host market, and finally prompts to refrain from import quotas or tariffs related to the end-product. When considering core disadvantages, the most obvious one is the increased capital investment costs and costs to manage entities based in various countries, as well as it may demand high-priced managers to recruit personnel FDI or/and to train local administration, and finally enhanced exposure to both local political and financial risks. (Root 1994, 20-21; Cullen et al. 2010, 261-262).

2.2 Foreign operation mode strategies

In the previous chapter, the key foreign operation modes were considered and explained in detail. The selection of the suitable options is always both a big responsibility and risk for any company's management, especially when considering companies operating in developed countries' economies attempting to expand to the emerging countries' markets while having different objectives, resources, and motives.

The discussion of the foreign operation mode selection, switching, stretching as well as their combination' use is to be explained in the further subchapters.

2.2.1 Foreign Operation Mode Selection

Selecting the best FOM discussed before is almost impossible, since each of them has its own advantages and disadvantages, also being discussed in the previous chapter. However, in order to combine it and add more perspectives, the author decided to consider Lassere's and Cullen et al. summarized tables of each FOM mode's pros and cons when comparing them within different criteria.

Table 4 shows that wholly-owned approaches and acquisitions are most substantial influencing the market and, therefore, on the present investment value. The return on

investment is large to temperate, being comparable to the capital cost. Key motive behind that it takes time to establish a market presence at wholly-owned investments case, while initial investment requires a preliminary premium at acquisition case. Hence, the residual value in those two situations expresses most of the return in the view that it points out that acquisition and wholly-owned FOMs are suitable for a long-time and are suggested be utilized exceptionally in the situation when country's risks are reduced. In addition, licensing is very beneficial in terms of returns. This happens due to minimal preliminary investment and constant royalties' stream; however, the absolute cost is insignificant. This corresponds to a high risk and moderate commitment situation. Long-term impact of the licensing agreement is debilitated, while JVs being in the middle of the way. At the same time, JV does not have excellent performance results, showing that the theoretical value of this entry method is frequently obstructed by unprofessional execution. (Lassere 2007, 208)

Table 4. Comparison over different entry modes (Adapted from Lassere 2007, 209)

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

At the same time, Cullen et al. (2010, 263-266) has considered different criteria for managers to consider when selecting to stick to some of the FOMs shown in Table 5

below. Cullen et al. outlined six major components and measured them by means of the number of checkboxes (where one is a good situation for entry strategy and three of them show the best situations for those):

1. The strategic intention of the company in relation to short- and long-term goals such as profit vs. learning.
2. Firm's international opportunities to do business in the target markets. Basically, it represents the same picture explained above in the previous table.
3. Local government regulations related to the firm's products or services in target markets.
4. Core product & market institutional and cultural peculiarities.
5. Geographic and cultural distance between the home country and target country or region.
6. The trade-off between control and risk.

The table results are very similar to those provided by Lassere, meaning that JVs, strategic alliances, and FDI are the most influential over the foreign market with bringing most of the learning market outcomes, however, requiring more resources. However, it must be underlined that, for instance, both types of exporting are dominant when speaking about strategic intent in the short-term perspective, as they are relatively fast ways to enter the foreign market and get the profit, whilst JVs and FDI are frequently considered to seek for longer-term benefits in the view of its complicatedness and larger investments required. (Cullen et al. 2010, 263-266; Lassere 2007, 209)

Table 5. Differentiation among different entry modes (Adapted from Cullen et al. 2010, 263-266)

	MNC's Situation									
	Strategic Intent		Need for Control	Company Resources		Product		Local Government	Geography	Culture
Participation Strategies	Immediate Profit	Learn the Market	High	International Expertise	Strong Financial Position	Easy to Adapt	Difficult to Transport	Favorable Regulatory Environment	Long Distance between Markets	Large Cultural Distance
Indirect Export	✓✓✓						✓✓			✓✓
Direct Export	✓✓✓			✓		✓✓		✓		✓
Licensing	✓✓	✓				✓✓	✓✓	✓	✓✓	✓✓
IJVs/ Alliances	✓	✓✓	✓✓	✓✓✓	✓✓	✓	✓✓	✓✓	✓✓	✓✓✓
FDI	✓	✓✓✓	✓✓✓	✓✓✓	✓✓✓	✓✓	✓✓	✓✓✓	✓✓	✓

Decisions and selections of an appropriate operation mode are to be based on certain characteristics: an analysis of the marketing potential, an assessment of the company's resources, as well as the commitment level and marketing engagement the company eagers to accept. FOM choices can be whatever from occasional exporting up to large management and capital investments in an effort to seize and sustain a defined and consistent international markets' share (Terpstra et al. 1994, 260). Terpstra et al. (1994, 60) argue that the most suitable model may be uncovered by investigating the company's weaknesses and strengths, as well as the level of the commitment degree the company is willing or able to take on, and the target market peculiarities. The choice of FOM, according to Ghauri & Cateora (2014, 194), is influenced by the following issues: company's goals and objectives, the firm's size in terms of its assets and sales, range of products and their type, as well as the competition level abroad. In addition, they emphasize that there are other challenges associated with entering overseas markets that are generally autonomous from the firm and the market. Thus, taken all factors together, it cannot be unconditionally specified which alternative FOM can be considered as the best one. There are numerous internal and external circumstances influencing and affecting such choice, and it must be highlighted that a manufacturing company willing to be engaged in the global marketing can simultaneously utilize more than one of the described methods. They can be represented by various product ranges, individually demanding an independent mode. This will be explained thoroughly in the later chapter. (Ghauri et al. 2014, 194; Hollensen 2016, 358).

Moreover, and finally, the incentive to use FOM can occur in different forms, such as being exposed to both opportunities or threats in the foreign market, as well as through

different avenues (external approaches), or consequently as an internal assessment of current foreign operations. There also might be not solid and certain mode incentives, especially in mode change circumstances. Calof (1993, 110) discovered that the approach to mode change for many companies in his study was rooted in the management requirements of prior operations and sales results in foreign markets, as well as in the process of mode learning they generated. In a sense, for many, a model solution had already been created and put in place, as management realized that changes in the external market require transformations. (Welch et al. 2007, 440-442; Ghauri et al. 2014, 195)

2.2.2 Foreign Operation Mode Switching and Stretching

Most firms with established international operations will ultimately undergo switches of FOMs, and in some cases, firms develop systematic procedures for such practices. FOM switching allows developing more concentrated operations in the respective markets while accompanying a deeper market penetration strategy. Luostarinen et al. (1990, 253) claim that it is generally complicated and frequently unobtainable to magnificently enhance internationalization by utilizing only one FOM. FOM switching can be utilized to retrieve a challenging situation in the overseas market related to the use of existing modes. Therefore, it is important that firm management team members are conscious of the potential pitfalls associated with mode switching and take steps to prevent them. In order to avoid potentially immeasurable switching costs, it is usually required that managers organize the mode switch in advance of the actual event; thus, formulating and following a mode switching strategy. (Welch et al. 2007, 361).

Generally, internationalization is a common outcome of switching the modes meaning the shift from facilitating a foreign market via an outside agent to an in-house process in the market, frequently by way of FDI. For example, internalization processes can be represented in the forms of moves from independent distributors to sales offices, from franchised to firm-owned outlets, as well as from licensing agreements to manufacturing subsidiaries. (Welch et al. 2007, 361-362).

At the same time, mode switches occur in the opposite way to internationalization, i.e., externalization. Usually, the switches here are less obvious, but common and happen in the form of conversions into franchised shops, as well as foreign subsidiary manufacture outsourcing to local contract producers. Externalization happens if the entrant company (one of the parents of the JV) sells off share to the other parents; however, it keeps collaboration on a contractual base. (Welch et al. 2007, 363).

A perfect mode switching strategy not only points to eliminate switching costs: it also guarantees that switching (or rather switch anticipation) does not make the local operator unwilling to seize the market opportunities. Thus, the entrant company should ensure that the local operators take into consideration the mode switching process as a normal and tolerable procedure or even as a part of their collaboration and as an event that is transparently discussed among the parties. (Welch et al. 2007, 373).

Welch et al. (2007, 363) define two major reasons why companies tend to switch their FOMs: either as an adjustment of management's misjudgements; or as an adaptation to new conditions as foreign operations develop. The first reason occurs in situations when managers may come up with the idea that the initial FOM was established based on deceptive propositions, thus seeing a mode shift process as a necessary one. Calof (1993, 115) states that managers frequently rush into mode choices that eventually lead to negative outcomes. Occasionally managers (or successors) identify their FOM misjudgements and arrange practices to fix them. For example, an entrant company founds a production subsidiary based on assessments of local demand and supply environments that later on are acknowledged as being excessively optimistic. When realizing that the real unit costs are significantly higher than expected, the entrant company eventually decides to serve the foreign market through exporting (Benito et al., 2009, 1460). Moreover, there might be factors affecting the entry mode in a negative manner from the very beginning. For example, struggles when assessing an outside agent, such as a local, independent distributor, and such type of struggles are likely to continue over time. (Welch et al. 2007, 363-364).

The second and probably more significant reason that relates to an adaptation to new conditions as foreign operations development may be considered in the way that both

internal and external factors may transform significantly after the initial market entry, eventually making the entry mode less appropriate. In case that the benefits of implementing a new FOM more than balance out the expected switching costs, rational managers will perform a mode change. Changes in the drivers of mode shifts are numerous and very different. However, according to Petersen et al. (2000, 394-396), in most cases, the changes either referred to a local market and operator, or entrant firm itself. (Welch et al. 2007, 364-369).

Figure 5 shows the framework developed by Benito et al. (2009, 1465) in order to demonstrate mode selection and change process. The authors claim that whilst earlier researches and studies were mostly focused on various factors affecting assessment and selection, their framework draws on the behavioural theory of the company and recognizes that decision factors themselves are affected by past experience and existing activities. Because there is a broad range of potential operation modes, managers incline to fall back on their experience and utilize FOMs that have been effective in other circumstances or limit the range of options. Mode experience can be gained primarily via international inward operations if a firm, for instance, gains access to foreign technology through a licensing agreement and utilizes this knowledge for outward foreign licensing deals. The negative knowledge related to a specific mode certainly leads to a bias against its further employment. At the same time, positive experience may lead to mode inertia, meaning a tendency to utilize the current mode instead of seeking for alternatives. (Benito et al. 2009, 1464-1466).

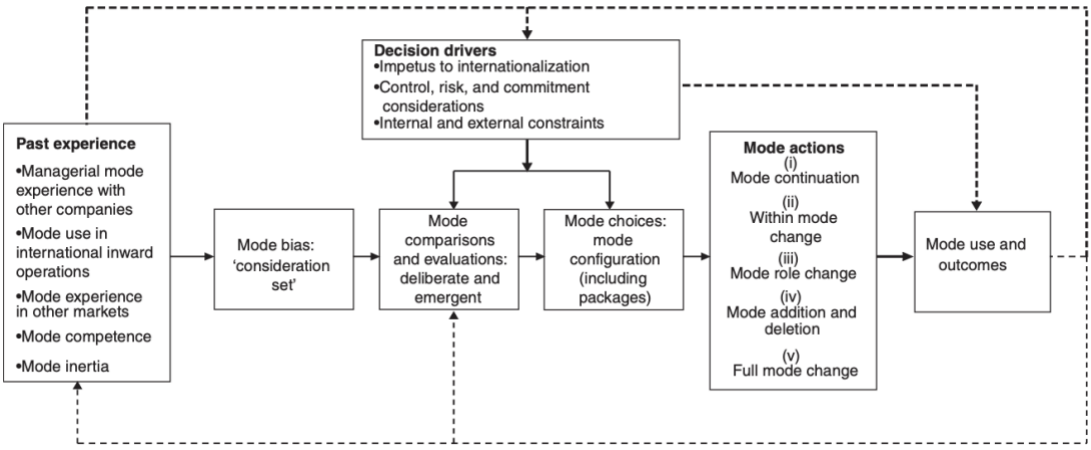


Figure 5. Mode choice and change (Adapted from Benito et al. 2009, 1465)

However, it must be considered that FOMs change does not always represents a clear-cut change. Thus, FOM stretching arises as an escalating procedure in which one operation mode, in fact, grows into another one. (Welch et al. 2007, 387). First of all, the operation methods that a new entrant company utilizes in a particular market over the time are not necessarily consistent; however, often, market participants supplement new FOMs to the current ones, thus, applying a combination of modes (to be discussed in the next chapter). Secondly, mode switching can be incremental in the way that within-mode changes come before and also follow official shifts in organizational form and ownership.

In general, there are many paths to facilitate the mode switching path that are not evident in the general form of the FOM. Sometimes companies hire employees from their former or existing agents in order to ease the transition to utilize a sales office. Cooperation with the agent can be utilized after the creation of a subsidiary, that represents is a type of a natural extension of an existing agreement, as a way to mitigate the requirements and risks related to FOM switching. (Welch et al. 2007, 388).

Such an approach can be introduced for other FOMs as well: the changing activities set, resource commitments and administrative adjustments over time are expressive of any mode form of scale and category of change within a mode, providing a ground for understanding the nature and meaning of mode switching and eventually the nature of internationalization. (Welch et al. 2007, 388-389).

2.2.3 Foreign Operation Mode Combinations

Various studies related to changes in FOMs inclined to view them as a choice among separate alternatives, like transferring from direct exporting to intermediaries, from intermediaries to local sales subsidiaries, and from JVs to WOS. Though the statement of discrete alternatives would have obviously simplified the job for scientists, real business practices are still more complicated. (Benito, Petersen & Welch 2009, 1460). However, it is far not exceptional to see companies utilizing more than only one FOM

at the same time in a foreign country's market, and mode combinations in their nature can be utilized as a firm's foreign entry market platform, or, alternatively, progress throughout the time frame and within and across various markets (Petersen et al. 2002, 158).

Moreover, according to Hollensen (2016, 344), there is no perfect market entry strategy, as various market entry methods may be implemented by diverse companies entering the identical market or/by the same company in various markets. Thus, companies often decide to combine modes when entering or developing a certain overseas market (Petersen et al. 2002, 160). Such kind of "mode packages" can take the form of the coordinated employment of multiple operation modes in a cohesive and complementary manner (Freeman, Edwards & Schroder 2006, 53). Sometimes the company utilizes a combination of modes that may even "contend" with each other. Such a situation happens when a firm attempts to seize an export market in a hostile and aggressive manner. (Hollensen 2016, 344).

Welch et al. (2007, 393) also claim that instead of swapping one FOM with another, enterprises can supplement a different FOM to an existing one. However, at the same time, the chance to combine various FOMs promotes various curious issues for the management, including coordination challenge as one of the major ones. Petersen et al. (2002, 158-160) affirm that the company may combine modes of entering or developing a particular foreign market in four different forms: unrelated, segmented, complementary, and competing. Based on that, the analytical framework was developed by Welch et al. (2007, 395-404) and is being shown in figure 6, making it feasible to determine the key five reasons for the observed modes' combination in an overseas market. At the same time, companies' management can also use the framework in a proactive way (like a decision tree) in order to recognize potential opportunities and needs to combine operation modes in a foreign country. (Welch et al. 2007, 395-396).

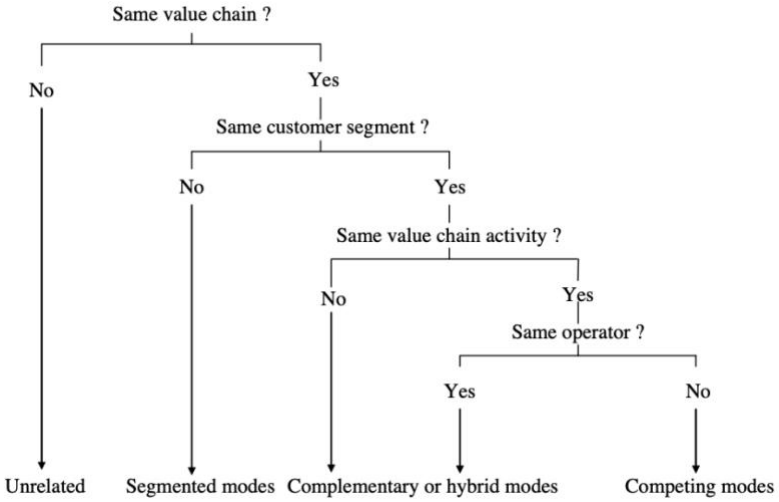


Figure 6. Various types of multiple mode operations (Adapted from Welch et al. 2007, 396)

Unrelated modes arise when a firm utilizes more than one mode in a foreign market, however, there is no relationship amid its use in that market (Welch et al. 2007, 396). This may represent the activities of a company doing business in various industries or in different markets. Consequently, the MNCs' operations of in another country are predominantly managed by diverse business units of the same company. (Petersen et al. 2002, 159).

A company may also combine modes related to the same product category or value chain in order to be able to service various customer segments (Welch et al. 2007, 397). Consequently, an entrant firm may find it beneficial to approach a foreign country as a segment collection that must be treated contrarily in relation to FOMs. Thus, the biggest clients may be operated directly, whilst the rest of them via their own subsidiaries or distributors. In addition, smaller companies may utilize multiple FOMs in a large overseas market in order to reach successful national-wide expansion. (Petersen et al. 2002, 160).

At the same time, complementary modes are referred to as the situation where MNC is able to transfer production in the overseas country to the licensee, however, still, conduct marketing and sales via own sales office (Welch et al. 2007, 398-399). Consequently, there is a well-defined labor division between two FOMs: production and sale are performed by different units. Both sales office and domestic franchisees

may operate at the same customer segment, however, the franchisee is engaged in retail sales, while the sales subsidiary is engaged in wholesale activities, including logistics. (Petersen et al. 2002, 161).

Lastly, competing modes arise in case a firm attempts to take over an export market in a hostile manner. An existing local distributor may resist leaving the market; however, it depends on the nature of the current contractual obligation, but the exporter still creates a wholly-owned local sales party. (Welch et al. 2007, 403). Moreover, foreign business entities in foreign countries target a similar group of customers and carry out similar commercial activities, but with different forms of location and ownership. For instance, two modes, sales through representatives, as well as direct sales, are able to guide similar actions for equal segment and, therefore, be engaged in the direct competition. (Petersen et al. 2002, 161).

Petersen et al. (2002, 160) claim that mode employment is an active and dynamic procedure subject to change and adjustments, such as adding or removing modes over the time. The authors also argue that adjustments in mode combinations may arise in a way being not reflected in researches of a specific mode establishment chains, as well as several combinations may be intentionally temporary as companies search to better position themselves in order to transfer to their desired form of overseas activities. (Petersen and Welch 2002, 160).

2.3 Internationalization into Emerging Markets

Typically, the major reason for internationalization for most companies is to make money. However, as with the prevailing number of business activities, a single factor hardly explains such a complicated decision. Usually, there is a combination of factors causing companies to perform steps in a certain direction. (Hollensen 2016, 56). Dunning & Sarianna (2008, 67-68) distinguished four key internationalization motives:

1. Market seeking: Firms go abroad with the goal of finding new potential customers.

2. Efficiency seeking: Companies are entering foreign markets in order to decrease the costs related to economic activities and/or to rationalize current operations in different areas.
3. Natural resource seeking: Firms go overseas in order to gain access to resources being not readily obtainable at the local market, or that may be accessed at a lower cost abroad.
4. Strategic asset or capability seeking: Firms enter foreign markets to get strategic assets (either intangible or tangible) that might be essential for their long-term strategy; however, those are not available on the local market of operation.

However, it must be underlined that it is common that large MNEs pursue several objectives, and most of them engage in FDI, which in turn is combining the features of two or more of the above-listed ones. Additionally, each MNE activity type may be aggressive in the way that the investment firm seeks to take the proactive operation to advance its own strategic goals, or, conversely, defensive in the way that its behavior is in reaction to actions performed by its competitors or by foreign governments, which force it to keep and protect its market position. (Dunning et al. 2008, 65). Hollensen (2016, 57) also supports such an approach, however, divides the motives in a more specific manner into two key categories: proactive (incentives of trying to modify the firm's strategy based on the firm's interest in utilizing exclusive competencies (like technological experience) or market opportunities; and reactive ones (the company is responding to threats or pressures in internal or overseas markets and impassively adapting to them, modifying its operations over the time).

The reasons for establishing overseas production can also vary, like when a company turns into a solid and practiced foreign investor. Primarily, most businesses invest outside their local market with the purpose to obtain natural resources or to get (or maintain) access to new markets (Hollensen 2016, 83). However, as their multinationality degree increases, they might utilize their overseas operations by means of which they would be able to advance their position in the global market by enhancing their efficiency or gaining access to new competitive advantage sources (Dunning et al. 2008, 65).

When referring to emerging countries, it becomes obvious that globalization forces are constantly pushing companies to internationalize also to emerging countries' markets, but not only to the developed ones (Raghunath & Rose 2017, 35). Emerging markets formerly represented the countries with "closed" economies that eventually began to open their markets to the global economy. Key four largest developing and emerging countries' markets are BRIC countries, where each letter stands for the first letter of the country: Brazil, Russia, India, and China. Definitely, there is no exact countries' list having settled to become emerging markets, as it is challenging to compose some list in the view that such countries are having dissimilar historical paths and have reached dissimilar process steps at some given time. (Subhash 2006, 3).

Moreover, emerging markets are heterogeneous, even within one a certain geographic area. Latin America, Africa / Middle East, East Asia, Eastern, and Central Europe all have diverse initial status and various markets within the stated regions. For instance, in Eastern and Central Europe, noticeable distinctions exist within the collapsed Soviet Union nations. In addition, while those countries shared a common initial status, they went through specific transformation paths and made varying progress' degrees. (Hoskisson, Eden, Law & Wright 2000, 259). Moreover, there might be significant distinctions among discrete emerging markets; nevertheless, they still have resemblances. Such countries lay at the step of transitioning towards a market economy; consequently, nations share the privatization and market liberalization processes. Additionally, these countries experience significant internal instability due to privatization & restructuring practices. Furthermore, institutional transformation is common in environments of emerging markets as their governments continually develop, review, and apply new policies. Generally, economic and political circumstances in emerging markets are more volatile when compared to developed markets (Modey 2004, 662).

Consequently, when organizing emerging markets' business activities, it is essential to understand the exclusive emerging markets' institutional specifics, the natural institutions' diversity, as well as the risks and opportunities for the firm. (Motohashi 2015, 14-15). Since the workforce in emerging markets is typically highly educated, it provides opportunities for internationalizing companies to get access to cheaper

production. At the same time, emerging countries' markets have various institutional restrictions in terms of lack of property rights protection, weak commercial law and political instability enforcement, absence of transparency of judicial systems, significant and constant regulatory changes, as well as the high level of public sector corruption. (Subhash 2006, 3-4).

Welch et al. (2007, 3) indicate that correct FOM choice, utilization, managing, and adjustment are a crucial element for international businesses' performance. It directly affects the extent to which a firm engages in overseas activities and the extent to which it is successful in overseas countries' markets. The topic is relevant nowadays, as researchers recognize this question as to the main one in any discussion related to various international business strategies and companies' activities. In order to investigate various entry strategies in terms of their use, applicability for different SMEs and MNCs, core advantages, and disadvantages, this chapter will put its focus on the following theories: institutional theory, transaction cost analysis, resource-based view, Uppsala model, as well as network approach.

2.3.1 Institutional Theory

Institutional theory studies suggest that a country's institutional environment influences the choice of a company's boundaries since the environment reflects the rules of the game by which companies take part in each market. There exist five categories of uncertainty risks: product-market, macroeconomics, government policies, material, as well as competition. (Brouthers et al. 2002, 504). The authors also explored that such risks represented an essential factor when choosing an entry mode because they affected the manufacturing, service industry, or both types of industry. (Brouthers et al. 2002, 504).

Institutionalization may be described as the procedure through which activities are replicated and provided equal meaning by themselves and other. Consequently, institutions represent repeating activities and a shared reality comprehension. Practices are sometimes replicated in the view that certain laws or rules existing for support

reiteration due to political and legal influence. Performance models are correspondingly sometimes reinforced by values, standards, as well as expectations due to cultural impacts, occasionally by a desire to act or be as an alternative institution in the view of the social impacts. (Hatch & Cunliffe 2006, 85). Hatch & Cunliffe (2006, 86) divided such institutional pressures into three categories:

- Forced institutional pressures - it means that compliance pressures arise from government laws and regulations.
- Normative institutional pressures – it arises in case the pressures arise from cultural anticipations.
- Mimetic institutional pressures – it refers to a business wishing to act or be like other companies to react against uncertainty, which includes mimicking specific organizational structures, activities, and outcomes for meeting anticipations.

The revised institutional theory indicates that a country's institutional environment consists of three dimensions: regulatory, cognitive, and normative. Brouthers (2002, 213) found out that regulatory aspect represent a significant function in explaining the mode choice when companies entering markets with high legal restrictions favored utilizing JVs instead of wholly-owned subsidiaries. It is also important to underline that corruption, especially in emerging countries' markets, had a substantial impact on the choice of entry mode, as one of the companies capable to deal with corruption issues is their entry mode strategy adaptation (Uhlenbrook, Rodriguez, Do & Eden 2006, 410). Cognitive dimension was examined by Davis, Desai, & Francis (2000, 251-252), and researchers came up with the conclusion that in general, companies are inclined to correspond to isomorphic pressures when selecting a mode, i.e., the tendency of recognized strategies spreading over the time, prompts industries to adopt analogous activities that were effective for other. Lastly, it is suggested that cultural distance and ethnocentrism might reveal dissimilarities in normative belief systems between countries of origin and the host country (Yiu & Makino 2002, 680). However, Brouthers et al. (2001, 185) argue that though the cultural distance is a significant institutional environment, and its influence on the decision to a mode choice is apparently mitigated by investment risk.

Furthermore, when discussing emerging markets, firms typically face unbalanced and inconsistent institutions in the transition from central planning to a market economy. These emerging market economies' institutions influence the choice of entry modes. For example, in the past, acquisitions were only achievable to be performed through a privatization process requiring tremendously complicated negotiations with government authorities, management, as well as the work councils. (Carlin, Reenen & Wolfe 1995, 430).

Greenfield investment might be too slow in emerging countries to be able to achieve anticipated strategic objectives, particularly if the firm desires to utilize first-mover advantage. Investing from scratch comes with high set-up costs as local bureaucracy, for example, is in no hurry to accept real estate acquisitions. Moreover, Greenfield investment projects might face more challenges than modes involving local partner while assimilating into local business networks. (Meyer 2001, 359). This is especially important for business success in Russia, since Russian management representatives severely trusted personal networks and informal institutions in order to carry out business in the view of low country's formal institutions competence (Puffer & McCarthy 2011, 23).

SMEs from higher-income countries operating in emerging markets are more likely to face obstacles arising from institutional restrictions compared to greater income and greater high-end institutions. Uncertainties with risks connected with functioning in emerging countries might also pressure the firm's internal resources and, therefore, may lead to higher levels of perceived internal obstacles. (Hessels & Kemna 2008, 5). In addition, the firms' internal development in developing countries' markets is limited by institutional restrictions. Thus, network based expansion strategic path is perceived as a possible strategy in emerging markets. Furthermore, governmental institutions and influences have had a negative impact on the reform of Russian enterprises. (Hoskinsson et al. 2000, 253).

2.3.2 Transaction Cost Analysis (TCA)

Transaction Cost Analysis model (later – TCA) basis was laid by Coase in 1937. The theory founder argued that the company would seek to grow until the value of establishing an additional transaction cost inside the firm equals the of conduction of the identical transaction cost through exchange in the open market. This model expects a firm to perform these actions internally that it may commence at a minor cost, by creating internal management control as well as implementation systems, trusting market for actions, where autonomous third parties (i.e., agents, exports intermediaries, or distributors) take a cost advantage. (Hollensen 2016, 89-90).

Transaction costs arise when markets do not function in accordance with the perfect competition requirements; thus, the cost of functioning in such markets (i.e., transaction costs) would be equal to zero, so there would be minor / no stimulus to create any obstacles to free-market exchange. Nevertheless, in the actual business circumstances, there always exists some kind of "friction" between the seller and the buyer, which leads to transaction costs. (Hollensen 2016, 90). A core principle of the Transaction Cost Analysis is that firms choose governance structures for facilitating assets use while safeguarding in contradiction of hazards (Williamson 1985, 51). When considering the theory closer in the international business context, the key TCA's premise is that MNCs develop in response to market shortcomings in the view of different sorts of transactions within cross-border focus. The preliminary point is that markets, through a price mechanism, deliver efficient results when there is stiff competition. (Welch et al. 2007, 24).

Brouthers & Hennart (2007, 400) indicate that TCA is one of the most commonly used theoretical approaches in the study of international entry modes. They indicate that managers undergo bounded rationality, while potential partners are able to act in an opportunistic manner if being provided with the opportunity. Bounded rationality represents a supposition where decision-makers possess limitations on their cognitive abilities and rationality limitations. The TCA assumes that are three factors influencing the decisions: asset specificity, uncertainty, as well as frequency. (Brouthers et al. 2007, 400).

Asset specificity is the key interpretative variable among TCA researches. It arises when suppliers or buyers have to accomplish buyer-specific investments. Such investments force another party to change the product price – thus stimulating a holdup situation. In order to avoid holdups, both parties usually draw up an agreement indicating product price for the useful life of the investment associated with the transaction. (Brouthers et al. 2007, 400).

Uncertainty, the second major TCA variable, is further subdivided into external and internal. External uncertainty makes it challenging to tentatively identify all possible contingencies in the contract, while internal uncertainty makes it problematic to examine performance later. Under the TCA concept, uncertainty renders contracts ineffective and exposes parties to the risk of holdups. At the same time, in case of presence of numerous potential sellers and buyers, the switching costs are moderate, and aforementioned types of uncertainty foster the market. (Brouthers et al. 2007, 403). External uncertainty is determined by factors of the market, for instance, a country risk and cultural distance and is measured utilizing the country risk index and culture parameters originally identified by Hofstede. (Williamson 1985, 56-60).

The last variable, frequency, is viewed as influencing a company's boundary decisions. It suggests the choice between the utilization of market contracts and the integration of transactions inside company; while contracts employ pre-existing reinforcement instruments (i.e., courts), an integration demands companies establishing individual enforcement instruments. (Brouthers et al. 2007, 404).

Turning to the business strategies in emerging countries' markets, this is essential to carefully examine investment decisions in different institutional contexts, particularly institutions' role and influence in minimizing transaction costs (Hoskisson et al. 2000, 262). Essence of the plan-to-market economic transition indicates replacing one coordinating mechanism with another. Socialist administrations had strong vertical coordination between society and the economy, but this system was ineffective because of horizontal ties fragility. All this leads to an excessive transaction costs' level

between organizations in the supply chain. Thus, the aim of the transition was to provide more efficient coordination mechanisms. (Meyer 2001, 358-359).

Institutions attempt to reduce both transactional and informational costs by reducing unpredictability and creating a stable structure to facilitate communication (Williamson 1985, 61). At the time of socialist system collapse, institutions canceled the strategy, and administrators turned out to be independent economic agents who were urged to work in the markets that did not exist yet. With no experience in the market context, agents were supposed to recognize diverse businesses' and potential business partners' types. Furthermore, agents had to discover how to assess the supply structure and demand, specifically to be able to predict the elasticity of demand. Consequently, they participated in extensive search processes in order to set up transactions and determine the correct prices. All of these increased transaction costs when creating new business relationships and limited many potential transactions. Rapid development in building market-based institutions in emerging markets has decreased but did not eliminate these excessive transaction costs. (Meyer 2001, 358-359, 365).

When summing the theory outcomes up, the researches performed in TCA field clearly indicate that despite a large number of studies based on transaction costs, there is still a big room for improvement in knowledge and TCA application when selecting such entry mode, especially in emerging countries context (Brouthers et al. 2007, 404; Meyer 2001, 365).

2.3.3 Resource-Based View (RBV)

The resource-based view (later – RBV) theory suggests that companies might use cross-border procurements to utilize their exceptional resources in foreign markets, or then exploit foreign countries' markets as a mean to purchase or develop new resources that may potentially lead to company-specific benefits. The key essence of the model is to consider internal resources as the determining factors of the success and competitive advantage of the company. (Sharma & Erramilli 2004, 6-7). Firms create advantages based on resources by acquiring or developing a set of company-specific

resources and capabilities that are essential, extraordinary, and hardly patternable, and for which well-known working alternatives do not exist. If having developed or acquired, firms are able to generate an advantage; it can be classified as a sustainable competitive advantage; in other words, it determines a situation where it is impossible to bypass a central firm simply by duplicating strategy, and the advantage stays over time. (Barney 1991, 116).

RBV is an inside-out perspective (while market orientation view is outside-in, and value chain-based view is in between those) emphasizing the importance of company-specific assets and knowledge and in order to create value for consumers, the firm requires resources, capabilities, and competences. RBV brings together the internal capabilities of the company with the external environment of the industry. (Hollensen 2015, 58). According to Hollensen (2015, 31-32), RBV resources are divided into two categories:

- Tangible – resources that can be seen, touched, or measured. They include assets like equipment and plant, finance and raw materials access, a skilled and qualified workforce, as well as a company's organizational structure.
- Intangible – resources that belong to intellectual property rights. They include, for instance, patents, trademarks, and copyrights, on personnel know-how, informal networks, as well as the company's reputation for its products and own organizational culture.

According to RBV, the purpose is not only in adapting to the forces of the environment, but also to select a strategy making the most efficient resources' and competencies' utilization, when considering external opportunities. Consequently, initial access to raw materials might become a competitive advantage source. (Collis & Montgomery 2008, 149).

Moreover, the experience is one of the initial resources explored concerning the choice of entry mode. Johansson & Walne (1977, 31) in their internationalization theory suggested that companies obtain expertise in foreign markets over the time, and, therefore, transfer from simple exporting activities towards organizational structures

that are complex in nature(like JVs, wholly-owned subsidiaries, and others), that, in turn, means that international experience provides a valuable company-specific advantage. (Johansson et al. 1997, 31-32).

RBV is among most attractive models when investigating entrance into emerging countries' markets. Especially in emerging markets, immaterial funds are those that generate a competitive advantage for a company. While some capabilities are similar across all markets, such as advantage of first move, some of them are even more efficient when considering the scope of emerging markets. MNCs tend to focus on the emerging markets revenue potential, and, consequently, MNCs have focused on creating and exploiting the huge hidden value associated with large developing countries such as China, India, and Russia. Entities that are being able to survive and operate in conditions volatile emerging market environments benefit first-mover advantage, including being the first to market new products, impact on reputation, and the economic benefits of sales volume and proactive distribution controls and channels of communication. (Hoskinsson et al. 2000, 256).

Nevertheless, in emerging markets, such benefits are difficult to obtain without having close relationships with the governmental parties of the countries of origin. Such early relationships provide the company with tangible benefits, such as an approach to licenses, as the government frequently limits them. Domestic competitors may develop relationship management skills in their environment that replace the lack of institutional infrastructure in such volatile conditions. Moreover, it is also possible that a local company may develop distribution instruments protecting the firm from penetration by foreign firms. In general, a firm's management should realize the relationship between the assets of their entity and the volatile terms of the institutional infrastructure, and the characteristics of its industry. (Hoskinsson et al., 2000, p. 256).

All in all, Brouthers et al. (2007, 405) argue that RBV entry mode happens to be rather limited, and these suppose that knowledge about how resources affect mode selection can be augmented by researches developing other resource advantages measures that combine RBV with other models, such as institutional theory (chapter 2.3.1) or transaction cost (chapter 2.3.2).

2.3.4 The Uppsala Internationalization Model

The Uppsala Internationalization model was formulated by Swedish researchers Johanson and Widersheim-Paul from Uppsala University during the 1970s, as they focused their interest on the internationalization processes of Swedish manufacturing firms. By studying the process of domestic companies expanding abroad, they established a model for the company's market choice and market entry form when expanding abroad. (Hollensen 2016, 86).

First of all, the authors noted that firms appear to have started overseas in markets that were quite close to domestic one, and only steadily increased its presence more distant markets. Secondly, it turned out that firms entered new markets through exporting activities. Enterprises very rarely entered new foreign markets having personal sales entities or with their own manufacturing subsidiaries. When a company obtained enough market knowledge and experience through the years, they started to establish wholly-owned or majority-owned operations. (Hollensen 2016, 86).

Johanson & Wiedersheim-Paul (1975, 307) differentiate four ways of entering the foreign market, where the successive steps characterize a higher degree of international participation or market commitment, and the stages are as follows:

- Stage 1: No regular export activities (irregular exporting actions, more specifically explained in Chapter 2.1.2)
- Stage 2: Export through independent representatives (for example, through agents, more specifically explained in Chapter 2.1.2)
- Stage 3: Foreign sales subsidiary establishment (more specifically explained in Chapter 2.1.3)
- Stage 4: Overseas production/manufacturing units (more specifically explained in Chapter 2.1.3)

All of the sequences of the described stages are characterized by the establishment chain. However, there is no need to specifically undergo the whole chain path, as the stages can be skipped if the company has extensive familiarity of international arena in other foreign markets, or in case the markets are not large enough for the latter resource to commit parts. (Johanson et al. 1975, 307). The first two stages represent indirect modes of entrance increase the entity's awareness and experience of the target country's market, which allows it to interact in a more profound way with the customers of this country. Direct entry modes operations, presented by two further stages, might only be created when the company is better acquainted with the foreign country's specifics and market circumstances. The firm might begin its operations abroad by setting up a subsidiary, meaning more commitment and knowledge is required when being to first and second stages. At the fourth stage, the firm may establish own foreign manufacturing or producing goods on the market. (Ojala 2008, 136).

When referring to the emerging countries' markets context, the growth in these markets takes their structure of economy towards Western analogues (Hoskinsson et al. 2000, 260). Psychic distance might be considered as a practical concept when studying the causes why decisions about FOM are made. Psychic distance is explained by factors preventing or disrupting the information flows between an entity and the market. (Johanson et al. 1975, 307-308). The structure of the economy, regarding to market scope, competition, and institutions, is an important aspect of psychic distance. While functioning in countries' markets with high psychical distance, firms are required to realize how to overcome the so-called liability of foreignness. Consequently, companies are aimed to gather relevant market information, train domestic personnel, and fit managerial issues to the local environment circumstances. In addition, risk assessment is a challenging aspect in the view that the firm is not familiar with the nature of the various risk sources, as well as because of the political impact on cross-border operations. Psychic distance also increases the costs of all kinds of business to varying extents. Furthermore, psychic distance reduces trustworthiness and therefore limits the hierarchy's structure. At the same time, organizational learning costs tend to increase, which especially affects JVs & acquisitions. (Meyer 2000, 5).

When the psychic distance is excessive in emerging countries' markets, firms tend to choose external modes. Psychic distance influence amplifies impact of transition progress, as less restructured economies' markets require additional regional adjustment practices to be initialized and performed. Conclusively, the psychic distance is moderate for countries of origin closer to the region. Furthermore, bordering countries frequently have previously both established private and business contacts, and in the case of Russia, CIS countries are the most similar in terms of psychic distance and correspond to the aforementioned conditions and circumstances. (Meyer 2000, 5).

However, the model is criticized for various reasons. First of all, companies have seemed to be tending to jump through the phases in the chain of establishments at an early stage, by approaching distant markets in terms of psychic distance, and the internationalization pace, in general, appears to have accelerated. It was also explained that the theory is not adequately replicating small software companies' internationalization arrangements, as there is little reason to believe that they thoroughly begin with exports to different market modes to enter. In addition, encourage gained by the fact company is internationalizing in certain stages, as the outcomes show that the linear stage model is limited in clarifying difficult, dynamic, and often non-linear behavior. Lastly, the constant global trade growth of and FDI led to growth over time in the total number of people with experience of conducting business in foreign markets' circumstances. Consequently, it became simpler to hire personnel with the necessary experience and knowledge than to establish it in-house. (Hollensen 2016, 89).

Nonetheless, in a later paper, Johansson & Vahlne (2009, 1414) made some updates to the model they developed as well as new discoveries related to the internationalization processes of various companies. In their revised theory, they put more importance on networking and recognition of opportunities in the process of internationalization. The authors believe that both challenges and opportunities of the company are nowadays less relevant in terms of becoming acquainted with specific export countries' markets but are directly related to relationships and network building up. Networking is to be discussed more into detail during the next chapter. They also acknowledge that new

and relevant knowledge is predominantly established in relationships but not in certain international markets. (Johansson et al. 2009, 1414; Hollensen 2016, 89).

2.3.5 The Network Model

The network model is based on interrelations happening in the local market, that establish connections to other networks outside the local market where a company operates. Thus, business networks are made up of different autonomous entities being interdependent via technical, legal, economic, and private connections. In a business network, mutually dependent participants interact with one another to arbitrate expertise and common requirements. Due to the business network participants autonomy and their relationship-oriented interactions, the network model is missing the peculiarities of a market model that strives to build hierarchy. Thus, the network model structure becomes more elastic throughout quick fluctuations in a chaotic business environment circumstances, since it is not controlled by some controlled hierarchical participant. On the contrary, participants that interact in this model have the right to change the prevailing business network structure, which increases the capability to cope with potential changes in the foreign market. (Hollensen 2016, 92-93).

Consequently, the network model is appropriate when the business ecosystem is distinguished by promptly changing circumstances, and participants are focused on interaction with opposite party to achieve effective business outcomes. From such point of view, the significance of the particular firm and their approach based on transactions is shifting towards a relationship approach that is exchange oriented. (Richard & Heather 2003, 699-700).

Business networks are distinguished by dynamic and temporal characteristics because companies might have various perspectives in terms of the timing of the relationships. Consequently, the establishment, development, and termination of relationships are all important factors being determined by the time perspective and business participants' rationales. (Jansson, Johanson & Ramström 2007, 956) Furthermore, networks are

described by a structural aspect referring to the form of the network or its spatial dimension. The structure of the network is shaped by the relationships' strength and the commitment level, such as participants' investments and adaptations. The network's commitment level influences the entrance obstacles and ease of getting out of this network. (Richard et al. 2003, 700; Jansson et al. 2007, 957).

Consequently, it is essential to take into account the investment in the company's resources that determine its particular position in the specific network. In addition, due to networks' intersected relationships, participants are influenced in different ways. From such a perspective, the company and the part of a company in the matter of how much benefits it offers to the network is an important aspect when contemplating either this would be the network's part. (Che Senik, Scott-Ladd, Entrekin & Adham 2011, 261-262). In a specific case with a new company to enter a business network, it is required for other members would be motivated to interact with a new member, since any entity depends on other companies' resources. Ultimately, the company's uniqueness and significance within network are to be defined and established by its particular role; however, it will take time for the new company to develop its position. (Jansson et al. 2007, 957; Hollensen 2016, 93).

The additional essential property of business networks is in which ways the companies' strategic planning activities related to influence the local networking actions. The fact of dependence on trustworthiness and closeness of other companies with reference to other companies, strategic planning is correspondingly connected with the necessity to monitor and control the local network. (Richard et al. 2003, 702). Finally, in business networks, personal and social relationships might have a specific degree of significance. It happens since business exchanges are furthermore correlated with economic rationales amongst the social part. (Jansson et al. 2007, 957).

Despite the growing importance of SMEs in developing economies, focus of the study on SMEs and internationalization in terms of networking as applied to emerging markets remains limited. In general, the researchers expressed strong concerns related to networks in emerging markets. They indicate that challenges may occur when establishing, elaborating and maintaining relationships with the emerging countries'

government organizations and some more participants, whether domestic or overseas, insignificant or huge, colleagues, friends, or family members. Host country's contact persons should possess not only such qualities as being knowledgeable and trustworthy to support them dealing with overseas strategies and processes, but these contacts should correspondingly be reliable and credible (Che Senik 2011, 260, 277-278). All in all, development and maintenance of social relationships is a core of business networking to become successful on the foreign market. (Jansson et al. 2007, 957).

3 METHODOLOGY

In this chapter, the research methodologic approach and its selection is being discussed. Later, empirical context & case companies' selection, data collection, and analysis methods are presented, with further reliability and validly being explained.

3.1 Research Design

The following research is based on a multiple case study approach in order to understand the strategic decision of Finnish sawmill equipment providers related to their foreign operation mode strategies, as well as to outline the critical aspects of the foreign business environment they are entering. Qualitative research is a very comprehensive term having various definitions. Traditionally, qualitative researchers are driven by the motivation to understand people experiences' interpretation, the ways how they build up their worlds, as well as how they assign importance to their experiences. (Merriam 2009, 13). Moreover, qualitative data represent all non-numerical data or nor-quantified data that might be an outcome of all research strategies. (Saunders et al. 2019, 637) Hence, qualitative approaches are related to interpreting and understanding, while quantitative methods designed to provide statistical and explanation analyses and studies (Merriam 2009, 13).

The qualitative research data might include anything from short online survey responses up to interview transcripts or policy papers. The process of analyzing qualitative data begins already during the preparation phase. Decrypting the data facilitates the further analysis process, especially in the case of audio-recorded interviews. Depending on the methods utilized for a specific analysis, data categorizing, summarizing, and structuring may be employed to draw conclusions from recognized relationships and established propositions. (Saunders et al. 2019, 637-643, 695). Moreover, qualitative work is established on the idea of purposefully selecting a minor cases' amount out of population. Consequently, statistical generalizations does not represent the qualitative research purpose. (Lee et al. 2008, 209).

As it was described above, the following research is performed using multiple case study. The difference between single vs. multiple case studies is that in the latter one, the researcher examines several cases in order to recognize the differences and similarities between the examined cases. Another difference is that the author has the ability to analyze the gathered data both within the individual case, as well as across them. Moreover, multiple case studies can be used to either predict the opposite results for expected reasons or to get similar results in studies. (Baxter & Jack 2008, 547). In addition, according to Eisenhardt & Graebner (2007, 29), multiple case studies provide broader insights into theoretical evolution and research questions. When assumptions are more intensely based on different empirical data, such type of case study correspondingly creates a more convincing theoretical base. Moreover, the rationale for utilizing multiple cases is focusing on whether the results can be reproduced across cases. Cases being cautiously selected on the ground suggesting that similar results will be obtained from each of them, so it is called literal replication. A different cases' set can be selected, where the contextual factor is intentionally dissimilar. In such a case, the researcher predicts the effect of this difference on expected findings. If this predicted variation comes true, it is called theoretical replication. (Saunders et al. 2019, 198).

Qualitative, multiple case research is suitable for this research since in order to get a sufficient understanding of the strategic decision of Finnish sawmill equipment providers related to their foreign operation mode strategies, as well as to outline the critical aspects of the foreign business environment (Russia) they are entering, it is important to consider a sample of several case companies having relevant international experience, so it would allow the researcher to analyze the cases both individually and across each other, that would eventually provide a deeper understanding of the research problem, as well as it would build up a more convincing theoretical base. In order to understand the motives for expanding activities, reasons for making strategic decisions, and basically realize Finnish SMEs' behavior in an emerging country market; it is essential to use a qualitative research approach.

3.2 Empirical Context & Case Companies Selection

The sawmill industry was selected as the main area of the investigation for Finnish companies entering the Russian market.

First of all, the Russian economy is one of the leading ones among emerging countries. The four largest emerging & developing countries' markets are BRIC countries, where each letter stands for the first letter of the country: Brazil, Russia, India, and China (Subhash 2006, 3). The Russian economy is the seventh biggest in the world (Amadeo 2019). Due to its close geographic location, Russia has always been an attractive market area for different Finnish small and medium enterprises. Nevertheless, conducting business operations in Russia is not that stress-free as it might seem at first glance. Despite the fact that Finland and Russia are neighboring countries, Finnish SMEs local operations are significantly affected by large cultural differences, legal system, regulatory values , as well as by other factors. However, over the past 15 years, Russian legislation related to foreign investments has developed significantly and continues to evolve, even though some restrictions and boundaries still exist (more thoroughly explained in Chapter 4).

Speaking generally, forests occupy about 45% of the area of Russia, and Russia ranks first in the world in terms of forest supply, possessing about 1/5 of the world's timber reserves (Priroda Rossii 2020). The area of forests in Russia is about 809 million hectares, of which production forests occupy about 598 million hectares. According to Russian WWF (The World Wide Fund for Nature) experts, the area of economically accessible forests in which it is possible to make a profit from forest use is much smaller; moreover, all these forests are already actively exploited. The indicator of commercial timber harvesting per 1 hectare of exploitable forest area in Russia is 0.3 m3, while, for instance, in Finland - 2.3 m3, and in Sweden - 2.5 m3. (Lesprominform 2017).

In turn, the industrial sector, whose enterprises are engaged in the harvesting and processing of wood, is called the forest industry. It is one of the oldest industrial sectors and has a complex structure. Each part of this structure is responsible for one of the

stages in the processing of raw materials from the wood. According to Wood-Prom (2016), the structure of the timber industry is as follows:

1. Logging industry - includes timber harvesting, lumberjacking, log rafting, wood transfer activities from one type of transport to another, the use of non-valuable timber species, and waste.
2. Woodworking industry - using various timber as raw materials, it carries out mechanical and chemical-mechanical processing and wood processing.
3. Pulp and paper industry - mechanically and chemically processes wood raw materials.
4. Timber industry - processes raw materials from wood in a dry way, engages in charcoal, the creation of rosin and turpentine.

The most important condition for the location of industrial enterprises for wood processing is the availability of raw materials from the wood. Therefore, all processes for the harvesting and subsequent processing of wood are carried out in those regions of Russia, where there are many natural forests. The northern, Siberian, Ural, and Far Eastern territories of the country provide 80% of all industrial timber. Sawmills and other wood processing (production of parts for construction needs, plywood, matches, pieces of furniture) can be located both in those places where timber is harvested and in places where there are no forests (already cut trees are brought there). Most of the enterprises for sawing wood and its processing are located near rivers (lower reaches and estuaries) and places where rivers, along which logs are floated, cross railways. Most sawn timber is produced in Siberia (its eastern and western parts, namely: in the Krasnoyarsk Territory, Irkutsk Region, Tomsk Region, and Tyumen Region), the North (in the Komi Republic and the Arkhangelsk Region), the Urals (in the Udmurt Republic, Sverdlovsk Region, Perm region), the Far East (Primorsky Territory, Khabarovsk Territory), in the Kirov region, in the Nizhny Novgorod region. (Wood-Prom 2016).

There is a crisis in the timber industry taking place nowadays. Although Russia is the first in the world in terms of forest resources, the woodworking, forestry and pulp and paper industries account for only slightly more than 3% of the total production. This is

due to a decrease in demand for this type of product in the domestic market of Russia. This industry in Russia has become dependent on the external market; about 71% of forest products are exported. Another current challenge is to reduce the loss of raw materials during the harvesting and processing of wood. Wood raw materials should be used rationally (reduce wood waste and losses due to untimely or improper transportation, effectively use wood waste). (Wood-Prom 2016). Despite the fact that there are many sawmills in Russia, the current sawmill equipment used for wood processing is old and less efficient, than, for instance, in Finnish and Swedish sawmills, which does not allow obtaining the final product in the most optimized and rational way without significant raw materials losses. (Lesprominform 2017).

Finnish companies designing and producing sawmill equipment are considered among the most efficient and quality in Europe and even in the world. At the same time, Finnish sawmilling companies are among the biggest ones in terms of capacity in Europe; for instance, Stora Enso takes the 1st place, UPM is 10th, and MetsäWood is 12th. All of them are utilizing the most modern Finnish equipment solutions, which makes their production efficient and productive (Sawmill Database 2020).

Thus, when taking into account the excessive development of high technology solutions by Finnish sawmill equipment providers, as well as the fact that there is a lack of literature research on how Finnish SMEs conduct their business operations in Russia today, once having made a strategic decision to develop their business in the Russian market, clear evidence for further research need occurs. (Sutyrin & Vorobyova 2018, 126). It is also strongly supported by the current crisis in the Russian timber industry due to significant raw material losses described above, as well as the researcher's personal interest in the field and his relevant accumulated experience in the subject due to working experience of more than 1,5 years.

Consequently, applicable case companies' selection for multiple case study is essential for the value and the relevance of the research. The main strength of the case study data collection is the ability to utilize numerous different sources of evidence. Moreover, case studies utilizing multiple sources of evidence are evaluated higher in terms of their overall quality compared to studies based on the single information source. (Yin 2018,

170-171). Triangulation is referred to the use of multiple data sources methods in qualitative research with the aim of developing a complete understanding of the phenomena (Patton 1999). Triangulation is also seen as a qualitative research strategy for validation through the convergence of information from different sources. The type of triangulation used in this study is investigator triangulation, which involves the participation of two or more researchers in the same study providing several observations & conclusions. Such type of triangulation allows to bring both confirmation of the results and different points of view, consequently adding breadth to the phenomenon of interest (Denzin 2012, 83).

There are four case companies being selected for this study. The selection was made with the idea that it would provide the researcher with the ability to understand Finnish SMEs' FOM strategy utilization in the Russian sawmill industry from different perspectives since companies are driven by various motives and conduct different market practices. Case Company A, the provider of the sawmill equipment, was selected as the company that is now willing to expand to the Russian market using a strategical approach and seeks for the most relevant and efficient FOMs and strategies to enter it. Since the company is Finnish-based, and it aims to expand to the emerging country market, it corresponds to the selected theoretical framework and methodological methods, as well as it provides a relevant view on the Russian business environment at the moment, since the company actively starts to seek market opportunities, meaning that they assess the current level of risk. Moreover, the case Companies B & C were selected with by the criteria that they had to have established operations in the Russian sawmill industry that initially were established in Finland and design and produce various sawmill equipment, so they also suit the research objectives and corresponds to the selected theoretical framework and methodological methods as well. Moreover, all of these three companies are SMEs, which provide valuable insights for the research, since, as it was described above, there is a lack of literature research on how Finnish SMEs conduct their business operations in Russia today. Moreover, since the sawmill industry has a lot of specifics that cannot be seen when considering general market practices, it was important to gather relevant information about the Russian sawmill industry and specifically about Finnish equipment providers either operating there or willing to operate in the market. Finally, the Finnish-Russian

Chamber of Commerce (FRCC) was selected to get an understanding of the generalized practices of Finnish companies entering the Russian market. Various types of case companies were selected to establish data triangulation, i.e., to use multiple data sources in this research with the aim of developing a complete understanding of the Finnish companies' FOM strategies utilization in the Russian market. Moreover, the selection of FRCC made it possible to generalize conclusions of the study, and, consequently, the variety of the selected case companies made the research not one-sided, but versatile in terms of data sources analyzed.

3.3 Data Collection

Appropriate data collection methods are essential for the reliability and validity of any research since the methods should provide outcomes that would provide a clear answer to the set research questions. Traditionally, in a qualitative researches, data may be gathered by utilizing semi-structured and structured interviews. The interview structure may be either moderately unstructured, having open-ended questions, focused on in-depth interviews, either comparatively structured, having closed-ended questions. (Lee et al. 2008, 218). The selected method was semi-structured interviews since it was impossible to predict the interviewees' answers and it was aimed for exploratory research purpose, as well it was essential to leave enough space for the respondents to speak more openly about the relevant topics of the research interest.

All interviews were conducted during summer 2020 with the purpose of obtaining primary data related to the foreign operation modes choice, strategies, and Russian business environment specifics, especially in the sawmill industry context. At the same time, it was essential to be able to reach the companies' management representatives, as frequently only they have the necessary full understanding of the nuances of the firm's organizational structure and its international activities. Once the case companies were selected, their management's representatives were contacted by email asking to participate in the interview for the thesis research. The tables with the interviews' information are shown in the table below.

Table 6. Key information about the conducted interviews.

Company's name	Date	Duration	Position of the respondent
Company A	28.08.2020	25 minutes	CEO
Company B	17.08.2020	33 minutes	Vice-President
Company C	19.08.2020	27 minutes	CEO
FRCC	18.08.2020	55 minutes	Country's Director

As it was described below, semi-structured interviews were designed, and the questions were discussed in the same order as shown in the interview structure (can be seen from Appendix 2). The interviews were focused on the core four topics: firm's background information, specifics of the Russian business environment, FOM use & strategy, as well as changes in the foreign operation modes utilization & combination. The specific questions were different for the FRCC, as they were more relevant on the basis that the company itself did not enter the Russian market, but, in turn, helped other Finnish SMEs to expand there. Moreover, the questions were also slightly various for Company A as well, as it has no operations established in Russia yet. (see Appendix 1 & Appendix 3).

All of the interviews were conducted by phone and recorded once having approval from the respondent. Each interviewee was informed about further information utilization and that it would be treated confidentially. Consequently, all interviewees & company names (except FRCC) are not mentioned in the research. All of the data collected was further analyzed and interpreted.

3.4 Data Analysis

The data analysis is aimed at revealing the motives and factors affecting SMEs' FOM choice & strategies, as well as outlining the key Russian business environments nuances associated with it. Interpretation is grounded on the described topics, represented from a literature review and specifics of an environment. Furthermore, new topics articulated from empirical evidence are especially valuable for this case study.

The case study approach represents empirical research examining a contemporary phenomenon in its actual circumstances when the borders between phenomenon and context are not apparent, and in which numerous origins of evidence are utilized. Consequently, the case study method suits well to improve understanding of a complicated object or problem. A case study may also enrich the experience of what is already recognized from the preceding researches and studies, as well as highlight the comprehensive contextual investigation concerning number of restricted events as well as their interconnections. (Saunders et al. 2019, 196-197).

Empirical data analysis is an ongoing development among theoretical literature & empirical findings and secondary data. Thus, various cases examine theoretical understanding and contribute to developing theoretical ideas. (Flyvbjerg 2011, 303). Cases represent the way to realize either how theoretical literature is utilized in practice, either to outline the necessity for further theoretical insights. Cases provide material on how actual processes are arranged in various environments, how systems and organizations operate. Such an approach assists in coping with new and complicated circumstances since, especially in the scope of current business environments, managers are required to be able to adapt to continuously changing conditions. (Leenders, Mauffette-Leenders & Erskine 2001, 6-7).

Since every case is unique in its nature, in within-case analysis, every case firm is examined independently individually in order to recognize exceptional patterns within the data for that specific firm. This research provides both within-case analysis together with a comprehensive individual case company analysis (can be seen in the next chapter). The within-case analysis is followed by a cross-case one. In a cross-case analysis, the goal was to classify the resemblances among the case companies in order to outline certain patterns; and dissimilarities among them to interpret them within the research theoretical and empirical context (Saunders et al. 2019, 197).

3.5 Reliability and Validity

Reliability in scientific studies represents consistency and replication. In case a researcher is able to if a researcher can reproduce earlier research, design, and obtain similar findings, the study will be considered reliable. At the same time, validity is seen as the suitability of the measures utilized, the analysis results' accuracy, as well as the generalizability of the outcomes. (Saunders et al. 2019, 213-214).

Reliability and validity are essential to judgments related to quantitative and natural sciences types of researches. However, while measurement reliability and validity types are suitable for evaluating quantitative research founded on positivist assumptions, they are frequently examined technically and philosophically irrelevant to qualitative research based on the interpretive suppositions, when the reality is supposed to be socially multifaceted and constructed. If qualitative research is assessed against the reliability and validity measures, but these theories are employed strictly, which is not consistent for the qualitative type of research, it makes the situation challenging for qualitative researchers to prove that their study has enough credibility and high quality. (Buchanan 2012, 354-355).

Since the research design is assumed to be a logical statement' set, its quality may be judged by specific logical tests. It is also suggested that research can be evaluated against some principal criteria, comprising construct validity, internal validity, as well as external validity, and reliability. Furthermore, core case study informers should be able to read the interview transcriptions and the research report. (Yin 2018, 78). In this research, interview transcriptions are introduced to the respondent preliminary to the actual data analysis.

Construct validity represents constructing the right procedures intended to learning (Yin 2918, 79). Yin indicates there are three certain tactics increasing the study's construct validity, comprising utilizing multiple data sources, creating an evidence chain, as well as reviewing the research report by the respondents. Thus, multiple data sources are used to achieve construct validity in this research. Data collection methods are discussed previously (see Chapter 3.3). By creating an evidence chain, researchers are able to follow evidence derivation, coming from research question through the whole research up to the research conclusion (Yin 2018, 79). In this study, research

questions, methodology, as well as empirical evidence are interconnected to create an evidence chain.

Internal validity is described as demonstrating relationships among conditions and outcomes within a study. It is also argued that in data analysis, internal validity may be obtained through approaches like pattern matching. (Yin 2018, 80-81). Consequently, this study uses a pattern matching method to accomplish internal validity.

External validity is referred to as the generalization of study outcomes. However, it is also argued that a researcher is dependent on the analytical generalization of outcomes for specific theories. (Yin 2018, 81-82). The outcomes of this research are principally generalized back to the conceptual framework, interviews with other case companies, as well as the theories described earlier.

Reliability seeks minimizing errors & biases in the research, and the research requires both cautious and comprehensive processes' being documented. Research can utilize two key tactics to improve reliability, including a case study protocol and a database. Furthermore, database of the case study lets an investigator establish evidence at the time of the exploration. Finally, well-established interview guidance enhances study reliability as well (Yin 2018, 82-83). All of the mentioned factors are implemented in this research. All of the interviews are conducted in a comfortable environment and recorded, which, in turn, reduces the risk of losing essential empirical data. Ultimately, this research comprises all of the reproducible aspects required to achieve reliability.

Taking all of the described circumstances of the qualitative nature of the research, the study can still be considered both as a reliable, construct and internally, and externally valid.

4 RUSSIAN MARKET SPECIFICS

In this chapter, the author will focus on identifying the core characteristics of the Russian market in terms of its economic, political, legal, cultural (in a business context) and investment peculiarities. All of that is required in order to more specifically examine foreign operation mode strategies utilization in the country and to get acquainted with the nature of the market.

Russian Federation territory extends over the vast expanses of Eastern Europe and North Asia. Formerly a known republic of the Union of Soviet Socialist Republics (USSR) Russian Federation became independent following the collapse of the USSR in December 1991. Russia is the largest country in the world; it is almost twice the size of Canada. It stretches across northern Asia, and the eastern third of Europe spans 11 time zones and encompasses a wide range of environments and landforms, from deserts to semi-arid steppes, dense forests, as well as Arctic tundra, as shown on the Figure 7. (Taruskin & Vodovozov 2020).

Figure 7. Russian map with regions (StMA 2013)

The country's population is 144,5 million people as for 2019, making it the most populous nation in Europe and the ninth-largest nation in the world (The World Bank, 2020; Worldometer 2020). Most of the Russian population is undistracted in the European part of the country, particularly in the area around the country's capital Moscow. Moscow and St. Petersburg are the main cultural and financial centers in Russia. (Taruskin et al. 2020).

4.1 Insights into the Russian economic & political environment

The Russian republic, due to its enormous size and rich natural resources, played a dominant role in the Soviet Union's economy. During the Soviet times, these resources allowed the country to experience great economic gains, comprising rapid mining development, metallurgy, as well as heavy engineering, and others. Moreover, further development was indicated in the following industries: especially gas, oil, and electricity, together with the chemical industry. However, in the years before the Soviet

Union collapsed, the Russian economy and the entire country were in a declining state, and official statistics hid the inefficiency of the industries. (Taruskin et al. 2020)

Following the collapse of the Soviet Union in 1991, the Russian government undertook a series of fundamental reforms aimed at transforming the economy from centrally planned and controlled to an economy based on capitalist ideologies. The main components of the reforms included the creation of private industrial and commercial enterprises through utilizing both foreign and Russian investments and the privatization of state-owned enterprises. (Taruskin et al. 2020).

At present, the country's economic foundation remains the same as in the latter times of the Soviet period and represents a mixed type of economy. A mixed economy is a combination of components of a market economy with elements of a planned economy, a free market with state interventionism, or private enterprise with a state enterprise. (Stilwell 2006, 37).

Nowadays, Russia's economy contributes $ 4.2 trillion in terms of its 2018 GDP (gross domestic product), with GDP per capita in Russia being at the level of $ 29,032. The Russian economy is the seventh biggest in the world. In terms of living standards, the IMF ranks 56th in the world. Currently, only the oil and gas industries belong to the government. Gazprom is the Russian state-owned gas organization with the world's largest gas reserves. Intertwining and mutually aggravating political and social crises are characteristic of the period of formation of a market-type economy in Russia, which slows down the transition to a mature system of market relations. Most experts agree that the Russian economy is controlled and managed by a narrow circle of influential oligarchs. These wealthy insiders hold or operate major Russian businesses. Contrary to popular belief, Russian President, Vladimir Putin, does not control the oligarchy, however, instead, mediates their competing interests. (Amadeo 2019).

When studying Russian economic freedom, it is considered as 94th freest economy in the 2020 Index. Its overall score slightly improved compared to 2019, primarily due to a greater financial condition. Russia ranks 43rd among 45 countries in the European area, and its overall score is significantly below the regional average and is roughly

equivalent to the world average. For the first time this year, the Russian economy has been rated as moderately free after more than ten years of being ranked as largely unfree. GDP development has been low during the last five years, encumbered by structural weaknesses, low investment level, and scarce demographic outlook; however, enhanced in 2018. A low level of economic freedom is also enhanced by the argument that as long as the government conduct national, nationalist, and protectionist economic policies, and continues to maintain a cautious attitude to FDI, economic freedom expansion in Russia will be embarrassing. All in all, a subordinate judiciary, unrestrainable corruption, as well as the links between bureaucrats and organized crime groups menace the integrity of government. (Heritage 2020).

Finally, the COVID-19 pandemic has caused a substantial global economic recession. World industrial production has experienced the sharpest decline since the global financial crisis. Crude oil prices, Russia's largest export commodity, have plummeted since the beginning of the year, and oil demand is projected to fall by an exceptional 8% in 2020. Moreover, the pandemic has resulted in diminished fiscal revenues and a weakened rouble (Russian domestic currency). During the first five months of 2020, the federal budget recorded a deficit of approximately $ 5.5 billion compared to a surplus of $ 94,465 billion during the same period in 2019. An increased global risk aversion on financial markets, further aggravated by oil prices slump, has weakened the rouble by 11 % since the start of 2020. Moreover, unemployment increased to 6.1 % in May 2020, up from 4.5 % compared to the previous – a growth of around 1.1 million people. The amount of registered unemployed people enlarged even more by 1.4 million people and achieved a level of 2.3 million people in May 2020. (WBG 2020).

Short-term impacts may be accompanied by greater medium-long-term effects. Sectors not initially affected, such as agriculture, may be affected at the following stage if disruptions in internal logistics, international trade, or financial conditions make it difficult to resume full capacity production. (WBG 2020).

Any company’s management is required to actively monitor the government, its policies, and constancy, in order to define the potential for political change that could

unfavorably influence the company's performance. Political risk exists in every country; however, the range of risks widely varies from one country to another. The political risk might be the outcome of government action; however, it might also be outside the government's control. Generally, political risk is minimal in countries having a history of stability and consistency. (Erevelles, Horton & Marinova 2005, 2). There are three main types of political risk, as according to Hollensen (2016, 223):

1. Ownership risk - puts property and life at risk;
2. Operational risk - refers to interference with the day-to-day operations of the company;
3. Transfer risk - predominantly occurs when companies desire to transfer capital between countries.

At the same time, there are other types of actions the government may implement, and their effects can be classified under different circumstances. For instance, selective import restrictions of raw materials, machinery, and spare parts are legitimately relevant strategies forcing the foreign industry to buy more materials from the host country and thus establish markets for local industry. Another type is market control, where the country's government occasionally imposes controls in order to hinder foreign firms from competing in specific markets. Nationalization or expropriation is another type, is defined as the formal seizure of foreign property; it is the primary government tool for regulating foreign companies. Fortunately, these most drastic measures against foreign companies are less common as developing and emerging countries begin to view FDI as desirable. The final type, domestication, can be seen as creeping expropriation (practices being utilized for the control and restrictions to be imposed on the overseas firm by degrees diminish the owners' controlling forces. (Hollensen 2016, 223-224).

Nevertheless, an importing country will take measures in order to hinder the import of goods and services by introducing trade barriers. Tariffs have traditionally been utilized as a barrier to international trade. The liberalization of international trade during the last decade of the twentieth century has brought a significant decline in tariff barriers. Consequently, governments are increasingly utilizing non-tariff barriers to keep those

industries in their countries that, in their opinion, are incapable of maintaining free international competition. The government can also support or restrain international business through its investment policy, that is, general rules governing legislation regarding local as well as foreign participation in the capital or property of enterprises and other companies in the country. (Hollensen 2016, 245-246).

A lot from the political aspects and practices described above can be applied to the Russian political system. Russian Federation president, Vladimir Putin, being in power already for 17 years, began a new six-year presidential term in May 2018. By continuing his preceding term, he focuses on conservative values, anti-Westernism, and great power nationalization. Putin's popularity, bolstered by the annexation of Crimea, counter-sanctions, and robust international activism, plummeted after the pension reform adoption in October 2018. (Export Enterprises 2020).

Nowadays, the western part of the world considers the Russian Federation as a robust superpower and a state having misplaced the support from own residents. In case Russia is unable to maintain order within the country, it might produce a trouble for Finland as well (Skyten 2019). Nevertheless, Russia offers Finland sufficient opportunities, requiring expanding mutual countries' interaction and reducing customs limitations. Russia considers Finland as a comfortable neighboring country. Conversely, relations deteriorate if the Russian government supposes that Finland at some point generates problems for Russia, and the relationships immediately become more complex. (Piskulov 2017, 29).

Current Russian political circumstances lead to a deterioration in the investment environment, which does not meliorate the foreign companies outlook on the development. Furthermore, too large state capitalism in Russia hinders development, as firms do not get sufficient support from the state. However, the Russian Federation's entry for the World Trade Organization profited Finland's timber sales. Nevertheless, Russia's foreign policy conflicts, especially in Ukraine case, as well the problem with the insurance of transports international routes traffic are examples of the fact that the world trade agreement does not work properly. (Drobot & Ilyina 2017, 1147-1459).

The dynamic and unstable context of Russia requires a lot of patience from a foreign company. The devaluation of the local currency rouble is especially harmful to Finnish enterprises. Moreover, the devaluation of the local currency indicates higher prices for imported goods and faster inflation for the Russian customer. Due to the deteriorating economic situation in Russian economy & trade, protective goals are already visible in country's foreign policy, overseas trade, and in communication between the countries. It used to be that Russia was very strongly integrated into Europe, but now Russian government leaders began strongly emphasizing their Eurasian connection. (Piskulov 2017, 28-29).

4.2 Legal System

When speaking about the legal system in Russia, it should be noticed that opinions on this matter differ. Some scientists identify the concepts of "legal system" and "system of law". Other researchers believe that the legal system should be distinguished from the system of law since the system of law is a hierarchical connection between the norms of law, institutions of law, branches of law, and smaller components. However, the definition for the legal system can be summarized in a way that it represents a complex of phenomena related to law, which is determined by the objective laws of the development of society, which are consciously and constantly reproduced by people and the state to achieve their goals. (Skakun 2000, 704-705).

There are several aspects influencing the formation of the Russian legal system: 1) State ideology; 2) the principle of federalism, which determines the formation of a complex legal system; 3) objectification, which finds its expression in the entire set of regulations issued by state authorities; 4) the regulation of the relations between the federal and regional levels of the government. (Skorobogatov 2014, 1573-1574).

When considering the question of the nature of the legal system of the Russian Federation, it is also worth noting the fact that there is no unequivocal opinion about its independence and originality (Talyanin & Talyanina 2006, 173-174).

One of the points of view is that the legal system of the Russian Federation is unique and does not belong to any of the existing legal families. This is due to the fact that, according to scientists, Russian law has some peculiarities in comparison with the classical models of legal systems that relate to the Romano-Germanic and Anglo-Saxon legal families and others. It is believed that the Russian legal system is separate, despite the fact that it has never been integral and has combined various subsystems. Another point of view is expressed in comparing the Russian legal system with a part of the Romano-Germanic legal system. Russia, in terms of legal aspects, borrowed a lot from Byzantine law, Roman law, and the law of continental Europe, which belongs to the Romano-Germanic legal family. However, despite this, there were special, original legal aspects in Russia. It is noted that in Russia, there was practically no casual law or "the law made by judges." The rule of law in Russia is a mandatory act of behavior intended for individual subjects of law, which can only be created by the legislation. The third option provides for the synthesis of common features and features of other legal systems, but it is noted that the Russian legal system gravitates more towards the Romano-Germanic legal family. Some scientists are inclined to the point of view that the Russian legal system is one of the most powerful and influential systems of the socialist type, and at present, it is open for the exchange of ideas, experience, and interaction with any legal system, which is facilitated by the process of convergence of legal systems. (Talyanin & Talyanina 2006, 173-174).

Generally, over the past 15 years, Russian legislation related to foreign investments has developed significantly and continues to evolve. However, some boundaries still exist, for example, in media, national defense and security, agricultural land, mineral resources, banking, and insurance segments. In accordance with the Federal Law on foreign investments in Russia, the legal mode for foreign investors and the profit usage from their investments cannot be less favorable compared to the mode set for Russian investors. Any benefits, i.e., restriction or stimulation of foreign investment, can be provided only by federal laws. (Thomson Reuters 2020).

4.3 Corruption and Bureaucracy

The political environment in the home country of a company can restrict its international operations as well as domestic ones. It may limit the countries that an international SME may expand to. Even in case the home country and the host country do not signify substantial challenges, they can experience threats in the third market. Some governments, especially in emerging countries, may regulate bribery and corruption. In many developing countries, favors or payments represent a way of life, and "greasing of the wheels" is anticipated in return for the local government "services." Back in years, many SMEs conducting business internationally were used to pay bribes or do favors for foreign officers with the purpose of getting the desired contracts. (Hollensen 2016, 219-220).

It is argued if SMEs should not apply their moral principles to other societies and cultures where bribery and corruption are common. It is also discussed that in order to compete globally, companies must be able to utilize the most common approaches of competition in a foreign country. Such fierce competition, especially in industries that operate in limited or shrinking markets, compel companies to seek any possible advantage to get the desired contract. On the other hand, it is difficult to imagine applying dissimilar standards to companies depending if they conduct commercial operations overseas/locally. In addition, bribes might open the way for low-quality performance and losing moral standards among the company's employees and may eventually lead to a focus on how best to give bribes rather than how best to manufacture and sell products or services. (Hollensen 2016, 219-220).

Bureaucracy represents a specific form of organization defined by its complexity, labor division, consistency, hierarchical coordination, professional management and control, exact command chain, as well as legal authorities. The ideal form of bureaucracy is rational and impersonal and is centered on rules rather than friendship, ancestral or charismatic power. (Rockman 2020). Bureaucracy may prevent internationalizing firms from performing suitable actions to accomplish organizational objectives or to adapt to the changing market circumstances, but it is deeply ingrained into various emerging countries as a way to ensure equality. The way things are done in that country may eventually induce frustration and failure, spread stereotypes, and indisputably

make it difficult to build trust and improve interpersonal relationships. (Maclachlan 2013).

Modern Russia is categorized not only by a high corruption level but also by an inability to pursue an efficient anti-corruption policy. The legislature is incapable of pursuing any efficient policies and may be viewed as generally counterproductive. Corruption has become one of the core pillars supporting the entire "vertical of power" in modern Russia. Economic procedures are controlled by the state; however, behind them are the interests of a people group utilizing state apparatus to fulfill their personal needs. Tribal capitalism, with an obvious stratification in Russia, makes it possible to identify the country as a hierarchical society in which the social status and privileges of people rely on their proximity to the power center. (Kazyrytski 2020, 434).

Moreover, Russian society itself considers corruption to be one of the main obstacles to the sustainable economic development of the country. Practically everyone in Russia is talking about this, and this problem is seen by almost. Some polls show that Russian citizens see it as the main problem of the Russian economy, and with a multiple - more than threefold - gap in importance from the next problem in Russia - the bureaucracy (62% and 18%, respectively). (Konoplyannik & Zhigulina 2017).

It can be understood that in the issue of combating corruption with a lack of resources, the state focuses on protecting its property or the property of its image, while the protection of legal entities remains outside the state's attention. Acting on the principle of "if you're drowning, you are on your own," the state gives the fight against business corruption to business, which clearly does not want to be active in this activity. At the same time, it is overlooked that this type of offense causes irreparable damage to the entire economy of the Russian Federation. At the moment, as Evsikov (2016, 107) suggests, there is not a single scientist and science, in general, has proposed a highly effective method of combating corruption in Russia, but if at least some kind of struggle is going on in the state level, then there is absolute stagnation in the business sector. (Evsikov 2016, 105-107).

During the post-Soviet development of the country, the Russian bureaucracy has learned to determine the level of profit that is the minimum necessary for a business to maintain it. Through corrupt payments, the bureaucracy takes away from the business such a part of the profit that it does not have its own development resources. The real strategy of modern Russian business, firstly, is its presence in the official economy - with officially paid taxes, and in the shadow economy - with unofficial corruption payments. Secondly, the strategy for conducting modern private business in Russia has become the constant coordination or even subordination of its activities to the interests of individual state or municipal employees, in some cases, subordination to the interests of the relevant authorities. Formally, private business in Russia acts independently in its own interests, but informally it has the ability to act only when all significant aspects of its activities are coordinated with state or municipal officials or with federal, regional, or municipal authorities. (Rimsky 2014, 179-180)

The Russian bureaucracy, being corrupt, turned out to be unable to offer society, business, and the real state solutions to the country's strategic problems, in particular, ways of real countering corruption. In particular, the creation of specialized state or municipal bodies with powers to counter negative phenomena has become an informal norm, a kind of standard for decision-making in the system of state and municipal administration to counteract negative phenomena in any spheres. But corruption affects the entire state administration; therefore, neither such new bodies, nor the state and municipal authorities themselves, are able to get rid of corruption in their system, both in the economy and society. (Rimsky 2014, 180).

4.4 Business culture & differences

This chapter is continuously connected with the previous one, since the business culture, especially in Russia, is also highly affected by the corruption and bureaucracy issues being described previously.

In the context of the lack of elaboration of formal legal norms governing business in Russia, the substitution of informal relations occurs, and these latter are often not legal

in nature. Informal relations as a social phenomenon are closely related to illegal actions, since informal relations are simply necessary for the conditions of the shadow economy, the widespread use of "gray" and "black" business schemes. In Russia, the majority of business procedures and any collective activity processes are based on an agreement. A huge number of agreements permeate business relations, both vertically and horizontally, oral agreements are common, that is, transactions that are not formalized by contracts. Such deals are an example of informal connections, and often leading to criminal consequences—informal relationships in Russia shape codes of business conduct. The principles on which informal relationships are built represent trust, honor, decency, commitment, the constancy of connections. Entrepreneurs themselves tend to make demands on their partners related to their decency and commitment. They recognize that the violation of business agreements is a serious contributor to business uncertainty and impacts on their reputation in the business world. (Uzun-Belova 2012).

At the same time, numerous studies clearly show that modern entrepreneurship in Russia is facing a number of obstacles that relate to both financial security and bureaucratic delays. Among the key external factors that threaten the success of entrepreneurial activity are high tax rates, high cost of insurance, general negative state of the economy, as well as a vast amount of the paperwork. Other external problems in the development of businesses in Russia represent difficulties with transport, competition, a shortage of employees, and their extremely low professional training. When considering the other reasons that hinder the development of SMEs in Russia, one cannot fail to note the frequent absence of a clear, well-thought-out plan. Most SMEs simply do not know how it is composed. Consequently, the absence of a verified development & strategic plan provokes the emergence of difficulties with financing, solving current problems, the ability to correctly and competently adjust to the current market changes, as well as recession. (IP Inform 2018).

A survey conducted by WCIOM and "Platforma" in 2019 (more than 500 SMEs were interviewed) aimed to assess the current business sentiment and how it sees the state of the investment climate in Russia. As a result, 71% of entrepreneurs surveyed stated that they consider the conditions for doing business in Russia as unfavorable, 59% reported

that these conditions have worsened over the past year, and 51% said they believe that business conditions will only get worse in the future. They consider that the state is responsible for most of the manageable risks, the study authors note. Entrepreneurs do not see it as an enemy that deliberately harms business, but the state is not an interested partner either. Business today encounters the state in different guises and reads conflicting signals. On the one hand, the state is a helper, reducing administrative barriers and supporting entrepreneurship. On the other hand, unpredictable strength, as in the system of government bodies, the respondents see separate uncontrollable shadow elements operating in their own logic, from which risks arise. (WCIOM 2019).

The problems of the business environment existed before; however, the specificity of this moment is that they were more clearly identified in the field weakened by the sanctions. External pressure on the economy and weakening demand have increased the demand for and exactingness to internal, institutional factors. It is also noteworthy that only 20% of the respondents expect the situation to improve over the next five years, and the overwhelming majority expect a deterioration, as mentioned above. The development of private legal initiatives can compensate for the losses from changes in the conjuncture of the main commodity markets, but the development of the current trend leads to a further decrease in the country's competitiveness. (Kornya 2019; WCIOM 2019).

When comparing the Russian business environment to the Finnish one, the differences are substantial. If generally speaking, in contrast to Russia, Finland has a very clear division of functions between business and government. The role of the state in conducting business is minimal, and a minimum of time is spent on the necessary bureaucratic procedures. Finland is known all over the world as a country of high technology and excellent organization. A competitive environment has been created and maintained there; the starting opportunities are the same for every company. This forms up a comfortable and efficient business climate being relevant for the implementation of new business ideas and business management in general. (Russian Exporters 2020).

Unlike Russia, Finland's business style is conservative, based on well thought out and consistent actions. Finnish SMEs pay greater attention to schedules, various kinds of plans, and demand such attitude from their partners. Objectives, processes, authority, and responsibilities should always be clearly defined. At the same time, the absence of a verified development & strategic in Russia makes it controversial compared to the Finnish environment, while, additionally, Finnish SMEs regularly avoid taking risks, but Russian ones perceive risks as opportunities for conducting business. (Russian Exporters 2020).

Furthermore, the common paths for conducting business in the circumstances of country’s business a different, since in Finland, there are clearer "game rules", whilst in Russian Federation that rules are complicated, considering all particularities described above. Part of the informal networks in Russia is crucial. While there are many factors distorting competition in Russia, such as corruption and bureaucracy, they do not represent the whole truth. Many Finnish companies have adapted to the Russian business circumstances and have achieved success there. It is important to obtain maximum information available in order to investigate the corresponding potential market risks and opportunities. (Rosslund 2013, 10).

4.5 Foreign direct investment projects in Russia

In the post-Soviet years, FDI was encouraged; however, it was still constrained by unfavorable conditions, including government interference in various industries, corruption, and a weak law rule. Violence by organized crime syndicates has discouraged Western investment, and while the activities of such factions were limited in the early 21st century, it continued to pose significant challenges for both Western and Russian businesses. FDI has also been hampered by steps taken by the Russian government by increasing state ownership in a variety of industries, including oil and gas, aviation, and the automotive market. (Taruskin et al. 2020).

Moreover, despite the opinions that the business climate in Russia is improving, as a number of reforms have been implemented recently, and the tax system is becoming

fairer, and Russia is seemed to become more integrated into global markets, foreign investors are still deterred by weak legal guarantees, high levels of bureaucracy and corruption. However, in Russia, there is still low transparency of transactions; there is a shortage of experts among the top management of companies. (Piskulov 2017, 29).

Foreign investment is an important element in the development of the economy, its transition to innovative development, but Russia is currently one of the less attractive countries in terms of investing foreign capital for a number of reasons. The anti-Russian sanctions imposed by Western countries provoked the withdrawal of foreign capital from the country. The sanctions also affected the inflow of foreign investment as follows: the general unfavorable economic situation of the country affected the attractiveness of the state for attracting investment; bans on the implementation of FDI in some industries exclude the possibility of investing in them; there was a decline in the image of Russian companies in general. (Gorbunova 2018, 2195).

According to the UNCTAD World Investment Report (2020, 241-245), FDI inflows to Russia improved sharply in 2019, amounting to USD 31.7 billion, up from USD 13 billion in 2018 (an increase of 139.9). During the same year, FDI amounted to approximately USD 463 billion, which remained unchanged from the level of 2010. The total value of cross-border mergers and acquisitions has risen due to a large number of transactions in mineral resources and Internet industries (UNCTAD 2019, 2; 5). The core investing countries into Russia are Cyprus, the Netherlands, the Bahamas, Luxembourg, Bermuda, Ireland, and the United Kingdom. The key sectors receiving FDI are mining, metallurgy, insurance, and financial activities, service and administrative activities, vehicle and transport equipment manufacturing, real estate, and energy. (UNCTAD 2020, 241-245).

The share of foreign direct investment in Russian GDP remains comparatively low, given Russia's growth and its economic potential and investments in working capital accounts for a significant share of total FDI volume. According to the Institute of International Finance, Russia took the last place among 23 emerging markets' economies in terms of its "real" FDI (not including a phantom one), with the net flows averaging 0.2% of its GDP from 2015 to 2018. (Rodschinson 2020, 3)

Most of the FDI volume into Russia comes from the European Union: European investors own 55% to 75% of the Russian FDI volume. This indicates Russia's general dependence on the European investment, which makes the EU a critical driver of Russia's medium-term growth. Even in case the "phantom" FDI transiting through Europe is considered, the EU is still considered as the main investor in Russia. Most of the phantom FDI coming into Russia is believed to originate from Russia itself and, therefore, by its construction, is not reviewed as a foreign one. (Domínguez-Jiménez & Poitiers 2020).

Over the past decade, the inflow of FDI into Russia has been driven by three main factors. The first one represents the energy sector (gas and oil) playing a principal role in the Russian economy and prevails in export activities. It has become the main focus of investment flows, comprising investments in related energy-dependent practices. The high FDI concentration in natural resource-rich regions underscores the importance of the energy industry for foreign investments. The second factor represents the high uncertainty degree caused by the volatile exchange rate that discountenanced FDI, while the change in oil prices had a strong impact on the rouble. The last third factor states that FDI into the Russian Federation is influenced by the broader trade and investment context, which in turn is influenced by institutional structures or, in contrast, lack of them. As was discussed earlier, in recent years, sanctions have been the main obstacle for investments. The EU's commitment to decarbonizing puts Russia in a difficult position as oil and gas have long been the backbone of its economy, especially when external relations are taken into consideration. (Domínguez-Jiménez & Poitiers 2020).

4.6 Finnish companies operating on the Russian market

The importance of economic relations between Russia and Finland determines the attention to their study on the part of Russian and foreign scientists. Russian-Finnish cooperation is developing in various fields, and despite the problems faced by Finnish firms in Russia, most of the large companies enter the Russian market with long-term

intentions. Russia is the second-biggest export country for Finland, representing EUR 8,965 million and 13,7% out of total import volume (Statistics Finland 2019).

Both large Finnish enterprises and SMEs today are represented in almost all regions of Russia. At the same time, the largest number of companies operate in St. Petersburg and the Leningrad Region, Moscow and the Moscow Region, as well as in the North-West and Central Federal Districts in general. This is due, in part, to geographic proximity, a favorable investment climate, and higher consumer demand. Many large enterprises start their business in St. Petersburg and then expanded their activities to other regions of the Russian Federation. (Sutyrin & Vorobyova 2018, 126).

Nowadays, there are over 900 Finnish companies operating in the Russian market. However, the number is generalized, as some Finnish SMEs sometimes register several legal entities. (Fontanka 2018; Huuhtanen 2020). At the same time, as indicated by Ria Novosti (2019), approximately 7,000 Finnish companies are either directly or indirectly involved in trade with Russia. The majority of the large Finnish enterprises and SMEs in Russia operate in the energy, service, and forest industries. However, there is a lack of literature research on how Finnish SMEs conduct their business operations in Russia today, once having made a strategic decision to develop their business in the Russian market. Which of them manages to function successfully, and how? Which firms had to leave the Russian market, and what factors had the main influence on this? It is important to answer these and similar questions from both a theoretical and a practical point of view. (Sutyrin & Vorobyova 2018, 126).

For instance, in the survey conducted by Fontanka (2019), the revenue of only TOP-30 Finnish companies in Russia was represented, and in 2018 it reached 288.6 billion roubles, which is 4.5% more than in 2017. Despite the constant exiting of a number of major Finnish companies operating in Russia, the growth did not stop, although its pace slowed down. For comparison, in 2017, 30 largest enterprises increased sales by 7%. The total investments of the leading 30 Finnish companies since entering the market amounted to 9.5 billion euros. In 2018 alone, Finnish companies invested EUR 205.6 million. However, in 2019, the size of investments, according to preliminary data, might decrease by a third. (Fontanka 2019). Among the biggest Finnish companies

operating in the Russian market are Fortum (production), Nokian Tyres (production), YIT (real estate), Stora Enso (production), Neste (retail, last year on the market), UPM (production), Fazer (production), Tikkurila (production), and others (Fontanka 2018).

At the same time, the recent survey conducted by FRCC during March 2020 (300 Finnish companies established in Russia) indicated that Finnish companies are rapidly losing “faith” in the development of the Russian market in general, and about 72% of respondents have abandoned their investment plans in the near future. The share of entrepreneurs expecting a reduction in Russian business in the coming year has more than doubled compared to the previous barometer (24% versus 11%). The same indicators are for the export forecast as well, where the share of companies that have invested in Russia has decreased from 27 to 26% and those who are going to invest in the next half of the year - from 17% to 11%. This happens due to the rouble being weakened by the coronavirus crisis and the oil price war, once again becomes the most acute problem for Finnish exporters and companies doing business in Russia. Economic instability and the political situation continue to be at the forefront of concerns for Finnish respondents. (FRCC 2020).

5 RESULTS

In this chapter case, companies' (A, B, C & FRCC) interviews and analyses are represented. Each case company's interview is followed by a summary. As it was previously mentioned, it was essential to be able to reach the companies' management representatives, as frequently only they have the necessary full understanding of the nuances of the firm's organizational structure and its international activities, and it was succeeded.

5.1 Within-case analysis

As it was described before, case companies were selected with the purpose to provide the researcher with the ability to understand Finnish companies FOM strategy utilization in the Russian sawmill industry from different perspectives, since companies are driven by various motives and conduct different market practices. Case Company A, the provider of the sawmill equipment, is now willing to expand to the Russian market using a strategical approach and seeks for the most relevant and efficient FOMs and strategies to enter it. Case Companies B & C, also the providers of various sawmill equipment, with established operations in the Russian sawmill industry that initially were founded in Finland. Finally, FRCC was selected to get an understanding of generalized practices of Finnish companies entering the Russian market.

In the view that the sawmill industry has a lot of specifics that cannot be seen when considering general market practices, it was important to gather relevant information about the Russian sawmill industry and specifically about Finnish equipment providers operating there.

5.2 Company A

The interviewed Company A was represented by its CEO; the interview was held via phone on 28 August 2020. Company A was established in 2016; it designs and

manufactures various types of measuring equipment for the sawmill industry. The company already has international operations in Finland, Sweden, and Estonia, and in total has supplied over 50 systems for these markets.

The company plans to enter the Russian market at the end of 2020, or at the beginning of 2021 in case the company will face unexpected obstacles in the view of legal and other bureaucratical issues. The company's main product will not be subjected to significant changes when adapting it to the Russian market circumstances; however, as the company's CEO believes, slight localization changes would be done (software translation).

Speaking about the core differences between Finnish & Russian business environment, the respondent claims three key visible aspects: more personal relationship attitude in Russia compared to Finland, significant language barrier, and more risk-awareness compared to Finland. According to his words, personal relationships represent a crucial point, as he previously experienced numerous situations when he personally had to be directly involved in the negotiations with the management of the sawmills, even the bigger ones located in Russia. The second aspect, the language barrier, is essential, and, for instance, since the company has already participated in the Woodex fair taken place in Moscow during 2019, he had to hire a personal translator to be able to communicate with sawmills' management representatives, as it was a very rare case when they are able to communicate directly without any help of translators. The situation is only getting worse if a certain sawmill's personnel (heads of departments, operators, etc.) is considered, as they are not able to build a clear communication channel at all. The last aspect increased risk-awareness in Russia, is the thing that was being predicted by the respondent in the view that the company has no installations in Russia yet, so it is harder to convince a potential buyer to actually conclude the deal since any sawmill is aware of potential legal obstacles that Company A might face since nobody wants to be the first one to take that risks. When considering other markets in comparison with the Russian one, the CEO claims that even though each market has its own specifics, the fact that is in the EU zone makes the business processes easier and more similar to the Finnish market; thus, the same logic can be applied when comparing them to the Russian one.

Among the main challenges when entering the Russian market, the respondent expects to have additional paperwork and potential obstacles with the customs. He indicates that he has already faced various bureaucratical challenges related to the preparation of documentation for equipment for its use in a new market and expects more obstacles to arise. Moreover, since the company's equipment is not yet presented on the Russian market and has no alternatives installed at any of the Russian sawmills, it only makes the whole process harder, as it builds additional challenges when crossing the border, i.e., dealing with the Russian customs. In addition, the interviewee stated that due to the selected FOM (going to be discussed further) and an unknown market, the planning becomes more complicated, and you have to put in extra time for every aspect that is much faster to implement, for example, in Finland.

When discussing the trends and opportunities in the Russian market, the respondent claims that nowadays, Russian sawmills are modernizing; however, they still have a lot of development potential to realize. For instance, since the Russian forest resources are substantial, they have to be further processed in the most optimal ways, which is not present on all the largest sawmills. Consequently, he understands that in a competitive market, more and more sawmills will start to understand the need for new high-technology equipment, and the equipment manufactured by company A might be able to help both large and small productions.

The motivation to expand to Russia is considered within two key aspects: huge market potential and risk management. According to the interviewee, it is hard to underestimate the size of the Russian market, as there are a lot of sawmills located almost along with the entire territory of the country, and many of them have a significant production volume, and, since most of them are not using the technologies provided by Company A, there is a clear potential for the company to realize. Apart from it, since the company is constantly developing and growing, it wants to continue expanding to the closest geographical regions and, thus, to have another market to eliminate risks of dependency on the local Finnish one. He underlined that the Swedish market at the moment plays an as high role as the Russian one, so he would not prioritize the significance of one above the other.

The company plans to enter the Russian market by establishing its own sales office in Russia. The CEO indicates that in this way, the company would be able to adapt its marketing and sales activities in the most efficient manner. The production will still be located in Finland, and the equipment will be shipped from there; however, approaching potential customers and participation in various trade fairs and exhibitions in Russia would be performed by own sales office representatives. The decision is made in the view that potential office personnel is already known and have a credit of trust and experience of operating in the Russian market, as they have already worked with other Finnish manufacturers of sawmill equipment, and their cooperation has brought a lot of success for these companies. The company has also considered indirect exporting at the same time, and it would have been selected in case they would find a better opportunity related to the own sales office, and specifically with people that are going to work there.

Once the company enters the Russian market, it is still hard to expect changes in the mode utilization, as they have not yet tested the selected one. There is a chance that the company might turn back to the initial mode planned, i.e., indirect exporting if the operations would run in a negative way than expected, or the market business environment will change unexpectedly. The same logic applies to mode stretching and combination.

Case Summary

Case Company A, the producer of various types of measuring equipment for the sawmill industry, is an SME company operating in Finland, Sweden, and Estonia. The company plans to expand to Russia at the end of 2020 or at the beginning of 2021. The company's main product will not be subjected to significant changes when adapting it to the Russian market, but slight localization changes (software translation) will be performed.

The key motivation for the company to enter the Russian market is huge market potential and risk management. The core challenges expected when entering the market are additional paperwork and potential obstacles with the customs.

Among the key differences between Russian and Finnish business environments, the company expects a more personal relationship attitude in Russia compared to Finland, a significant language barrier, and more risk-awareness compared to Finland. The respondent has already faced those challenges when participating in a trade fair and being involved in discussions with various Russian sawmills. The same logic applies to other markets in comparison with the Russian one, as they are located in the EU zone as well.

The company is planning to enter the Russian market by establishing its own sales office. The CEO indicates that in this way, the company would be able to adapt its marketing and sales activities in the most efficient manner. The decision is made in the view that potential office personnel is already known and have a credit of trust and experience of operating in the Russian market, as they have already worked with other Finnish manufacturers of sawmill equipment, and their cooperation has brought a lot of success for these companies. The company has also considered indirect exporting at the same time, and it would have been selected in case they would find a better opportunity related to the own sales office, and specifically with people that are going to work there. Once the company enters the Russian market, it is still hard to expect changes in the mode utilization, as they have not yet tested the selected one. The same logic applies to mode stretching and combination.

5.3 Company B

The interviewed Company B was represented by its vice-president; the interview was held via phone on 17 August 2020. The company was founded in 1964 in Finland and then successfully expanded to more than 30 countries worldwide. The firm began delivering its sawing machine systems and lines internationally in the 1980s and

nowadays has customers in over 30 countries located on six continents with 250 people being employed in eight countries.

The respondent first underlined that there is no specific product differentiation on the Russian market, as the company is focused on designing and producing sawing machines & lines and components for them. When considering prior international experience, the company was gradually developing on its Finnish domestic market and was looking at the same time for the closest and less risky markets to internationalize in the view that the closest countries with similar conditions in terms of sawmilling industry and mentality, Swedish and Norwegian markets were approached. At the same time, the company realized a market potential with strong product demand arising in South America, where the operations were established further as well.

While focusing on the differences between Russian and Finnish business environment, the interviewee indicated that when the firm entered the market, it realized that the language barrier plays a huge role in there, as there are a very limited number of people speaking English, that is why the firm had to seek for specific people in terms of the contacts and agents. The company does not have its own subsidiary established in Russia, as nowadays it is quite easy to run a business without it, so there was no specific reason for establishing it. Another big difference is a huge territory of the country that, in turn, makes it difficult to travel compared to either Finland in specific or Middle Europe in general. Moreover, the normal way of conducting sales activities is to take a customer to the reference sawmill (i.e., the production place where the company's B sawing system is already in use); however, in Russia, the things become more complicated. Sometimes, it makes challenging to organize normal sales activities, as, for instance, if a sawmill located in either Siberia or the Far East region, it may take up to a week to eventually meet with the customer, and the company has limited resources for that, that is why the sales process is frequently conducted in an individual way.

The firm's vice president also claims that there is a significant difference in the projects' organization process compared to the Finnish, Swedish, and other developed countries' markets. The traditional way of conducting the project activities is extended in the time schedule; for instance, the company always risks aware in terms of the

installation start and document handling processes, and thus it results in an extra month(s) being added to the traditional plan in other markets. However, at the same time, the payment conditions are the fastest taking place when being compared to the other markets, i.e., the time from the installation to the last payment being processed is the shortest. Moreover, generally, a project process is arranged in a professional and mutually beneficial manner both for the company and a sawmill. Nonetheless, one of the main challenges the company faced was a high level of staff turnover. As the sawing machines nowadays are mostly automated, they still need to be monitored and maintained by sawmill operators and mechanics. However, the firm frequently experienced the situation when trained sawmill personnel simply changed their workplace during or just after the installation, which brought difficulties for the company, that they were forced to train new staff for it.

When moving to challenges being faced when entering the Russian market, there were no well-established communication channels in the late 80s that made every project much complicated when being compared to nowadays. However, having taken all risks into account, the firm always set rigid frameworks for payments and got 90% of the machine's price in advance, i.e., before the sawing machine was transferred through the border and the ownership for the product was given to a customer.

However, the respondent affirms that there is a huge market potential on the Russian market, especially in the view of the significant natural resources located there, especially the forestry ones. Moreover, despite the general trend of the trade shows' and fairs' role to decrease in other markets, the fairs (like Woodex & LesDrevMash) in Russia is a strong channel for finding and approaching new customers. However, the vice president also indicates that the company's turnover percentage of the projects in Russia is going to stay unchanged, i.e., 15% out of the total. In addition, the company's management does not see any major shifts in the market, as it is quite steadily developing in terms of new equipment purchases.

When speaking about motivation to expand to Russia, the interviewee indicated that as it was mentioned before, the company's management at that time realized Russian market potential, and at the same time assessed the level of competition in the market

was low, that made the management more confident in terms of selecting a potentially beneficial market both in terms of company's growth and further expansion into international markets. Moreover, the vice president added that at that time, it was frequent for Finnish companies operating in the sawmill industry to concentrate on the domestic market, instead of actively seeking for expansion opportunities, that in turn resulted in company B to be more decisive than others, and the results are visible even now. It was also a part of the risk management to expand to the new market, so in this way, the company eventually shifted the focus from its domestic market worldwide, thus eliminating the potentially large impact on the company in case the local market would collapse. Nowadays, the Russian market is just a market "on the list," which makes the company B more stable even in case the market will be negatively influenced in some manner.

The company entered the Russian market through the agent (indirect exporting) called Karelia Trade. The agency used to be a big part of the Chamber of Commerce and was involved in different exporting activities between Finland and Russia, starting from sausages and up to the gas trade. Since the production was based in Finland, the company manufactured sawing machines & lines and spare parts, delivered them to the warehouses located nearby to the Finnish-Russian border, from where the systems were exported to Russia by the agent. Moreover, both sales and marketing activities were a part of the agent's responsibilities, which made it difficult for the company to control over. Furthermore, the reason behind choosing this mode was simply the idea that it was the only way to start organizing business between the countries. During the Soviet times, almost all of the Russian firms were state-owned, and international trade between companies was more directed into "exchange of goods" between them, meaning that, for example, once a Russian firm was exporting oil to Finland, Finnish companies exported sawing machines in their turn.

The company switched to the mode from the foreign agent (indirect exporting) to its own sales agent 25 years ago, who is mainly responsible for spare parts and logistics, as well as building new contacts across the Russian market. The switch happened in the view of changed circumstances, i.e., the USSR collapse opened more opportunities for foreign companies, including company B, to start operating with their own sales

manager. The agent is now also handling all marketing and sales activities, which makes it easier to control from the company's B side.

Apart from using its own sales agent in the Russian market, the company also started to actively cooperate with other Finnish sawmill industry companies operating in the Russian market. As an example, a lot of projects were succeeded after either of the companies started to be involved in a project; they helped another one to successfully sell their product to the same project's customer.

The company hasn't experienced any mode stretches nor used different modes at one time, as they were sticking to the selected ones in the view that they constantly satisfied achieving their sales objectives, as well as approaching new customers on the market and thus expanding their market share.

Case Summary

Case Company B, the producer of sawing machine systems, is an SME with significant international experience (more than 30 countries worldwide). The firm had operations established in Sweden and Norway before approaching the Russian market. There is no specific product differentiation in the Russian market.

There is a huge potential in the Russian market in terms of its significant natural resources. Moreover, the importance of trade shows was underlined. The key motivation to enter the Russian was a low level of competition and that at that time, being more decisive when compared to the other Finnish firms as well as a part of the risk management for the company to expand to the new market area.

Among the key differences between the Russian and Finnish business environment, there are the language barrier, huge country's territory, and thus difficulties in conducting normal sales activities. It is suggested that there is a significant difference in projects' organization processes when comparing the Russian market to Swedish and Finnish ones, represented by extended in the time schedule and significant level of staff

turnover. Among the core challenges when entering the Russian market that was outlined are no established communication channels.

The company entered the Russian market through an agent (indirect exporting) called Karelia Trade. The motivation for selecting this mode was because it represented the only way to establish operations in Russia (the Soviet Union) at that time. The company switched to the mode from indirect exporting to its own sales agent 25 years ago. The change happened in the view of the USSR collapse. Apart from using its own sales agent, the company also started to actively cooperate with other Finnish sawmill industry companies operating in the Russian market. The company hasn't experienced any mode stretches nor used different modes at one time, as they were sticking to the selected ones in the view that they were constantly satisfied achieving their sales objectives.

5.4 Company C

Company C developed and manufactured automated grading systems specifically for the sawmill industry and was established in 1988. The company's operations are global, as they have delivered over 400 automated grading systems in 21 countries already. Interviewed company C was represented by its CEO; the interview was held via phone on 19 August 2020.

The company's main product is measuring equipment for the sawmill industry. There are differences in the main product produced for the Russian market when being compared with Finnish and Scandinavian markets. There were certain localization modifications made in order to make the equipment matching with GOST standards and language changes to the software, and even though the modifications were small, they were crucial for the product to suit the market's needs.

The company had established its market presence in the Russian markets already 15 years ago. When speaking about the prior firm's international experience before

entering the Russian market, the company had operations in Sweden, Estonia, Latvia, and Lithuania.

In the respondent's point of view, bureaucracy represents the core difference between Finnish and Russian business environment. The level of bureaucracy is significant, as it is involved in every step, starting from quoting or sending the quotation, contracts, and project documentation. It creates much more work for a company in order to successfully operate in the Russian environment. Moreover, it is extremely important to understand the cultural differences to see how the business is conducted in Russia, as it is not as straightforward as in Finland. Personal relationships play a much greater role in Russia when compared to Finland, meaning that whereas in Finland, engineers from both sides may agree on the deal without even meeting face-to-face and have organizations' managements' less involved into this process, the situation significantly changes in Russian business environment's circumstances. There, top management or/and sales department should establish a personal communication channel with the sawmill's management in order to build trust, which, in turn, relies on the specific people from the selling company. When speaking about the key differences between other markets penetrated and the Russian business environment, the former company's CEO claims that in the Baltics and Swedish markets, the business is conducted in a similar way. Thus, the same ideology may be used when comparing these markets with the Russian one.

Speaking about the challenges the company C faced when entering the Russian market, the interviewee underlined the point that there was no brand name & recognition in the market. Without having reference equipment installations in the new market, it was harder to convivence a Russian sawmill to conclude an agreement. Once the first installation was successfully performed, it gave the company more credibility in terms that it could operate and develop further in the Russian market.

The main motivation for company Y to expand to Russia was simply to gain a new market area, so the company could consider it from the risk management point of view when the company becomes more risk-averse in terms of the other markets' conditions. For instance, if the local Finnish sawmill market is "slow" in terms of generating more

projects and thus revenue, more attention can be paid to the Russian or Baltics markets to compensate and, in this way, maintain the financial wealth of the entire company in a constant manner. Moreover, the Russian market is the closest one in terms of geographical aspect, and thus there is no strategic sense to enter Chili's or South Africa's markets before it. Additionally, it should be mentioned that since there is a significant amount of forestry resources on a par with sawmills, pulp mills and paper factories, there is a market potential for the company's equipment as well. However, the respondent does not perceive the market potential as a huge one but, instead, indicates that it is rather moderate, and the size of the Russian sawmill industry is equal when being compared to Swedish or Finnish ones.

When moving to the operation modes utilized when entering the Russian market, the company used indirect exporting, and that mode was utilized for the first five years' operating on the market. It happened in the way that when a project for a new sawmill was established in Russia, the company who took care of the equipment selection selected company C measuring system because it had a relevant reference base in its local and some of the foreign markets. That mode was selected in the view of no brand recognition on the new market that represented a limiting factor in choosing any other way to start operating. However, the situation changed later, when the sawmill's industry in general, and the majority of sawmills, in particular, changed their perception of new measuring technologies that the company C was providing, and the company had to look for further development. The other operation modes were considered at the same time; however, the most suitable one was only establishing its own representative office. Nonetheless, the firm realized that in the view of the limiting factors described above, it was too risky and ahead of time decision, that is why the company decided to stick to indirect exporting first. The interviewee also underlined that the risks of losing control when working through an unknown agent in a new market were perceived as too high, that is why the company was aiming for different development in the future (discussed further).

When the company started to be more actively involved in sales and marketing activities, but they still were monitored from Finland, and eventually, the company established its own sales office in Russia. From the company's management point of

view, it was essential to establish it because the sales activities were handled in a very passive manner and the goal of an own sales office was aimed to change it. The local manager was hired with the purpose of organizing direct sales, marketing activities, including participation in the trade fairs and exhibitions, establish contacts and negotiate distribution agreements. Moreover, the sales office was also hiring local workers to take care of the after-sales activities, to be able to organize additional service and maintenance practices directly for the Russian sawmills.

At the same time, there were no changes happening in operation mode utilization, as the company nowadays can use both the indirect and own sales office options depending on a specific sawmill's case. For instance, in case a new sawmill project is being developed, and equipment selection supplier may still directly contact the main office located in Finland to agree on the deal, in this way, the sales and marketing activities might still be being performed from the head office. Even though the largest activities are generated from the own sales office (approximately 80%), however, the core firm's management still actively participates in every selling process.

Case Summary

Case Company C, the producer of automated grading systems for the sawmill industry, is an SME with international experience (21 countries). The company had operations established in Sweden, Estonia, Latvia, and Lithuania before approaching the Russian market. There are some specific localization adjustments to the main product made for the Russian market.

The key motivation to enter the Russian market was to gain a new market area as a part of the company's risk management. At the same time, the market potential is rather moderate and is equal to Swedish and Finnish sawmill industries. The core challenges being faced were the absence of the brand name & recognition in the market.

Among the key differences between the Russian and Finnish business environment, there is a high level of bureaucracy in Russia and various cultural differences. When speaking about the key differences between other markets penetrated and the Russian

business environment, it was indicated that in the Baltics and Swedish markets, the business is conducted in a similar way. Thus, the same ideology may be used when comparing these markets with the Russian one.

The firm entered the market through indirect exporting, and the mode was used for the first five years. The mode was selected in the view of the described challenges and absence of the reference base on the Russian market. The mode switch happened after it, and the company established its own sales office in Russia. It was essential to establish it because the sales activities were handled in a very passive manner and the goal of an own sales office was aimed to change it. There were no changes happening in operation mode utilization, as the company nowadays can use both the indirect and own sales office options depending on a specific sawmill's case.

5.5 FRCC

FRCC generally promotes firms' business and competitiveness in both Russia and Finland. It offers different services for Finnish and Russian companies willing to expand to the respective markets in the fields of market research, export promotion, company operation, training, and consulting. The interviewed representative of company Z was its Russian County Director; the interview was held via phone on 18 August 2020.

Started with the topic related to the main fields of operation the Finnish companies' entering the Russian market, the respondent indicated that, historically, Finnish companies started to sell their products and services to Russia since the end of the World War II and have successfully dealt with the foreign market both during the Soviet Union times and after its collapse. Traditionally, there was a strong interest arising from the Russian market for high quality and technologically developed wood-processing and automatization systems that were designed and produced in Finland. Surprisingly, the food industry's production, especially nowadays, together with the eco-friendliness basis beyond it, has become more and more popular among Russian consumers.

When speaking about changes and services or products when entering the foreign market, the interviewee claimed that it is not happening nowadays. Instead, modifications, in the view of “winter packages” and other technological adaptations are required by Russian consumers. It used to be that the Russian market was perceived by Finnish and other European companies as a “secondary” one, meaning that in case a product or service was not successfully sold in the Central Europe region, then it could be used for the Russian market. However, when speaking about the quality of the solutions being supplied to the Russian market nowadays, customers, especially in the forestry industry, demand high-technology and efficient equipment to be able to actively participate and be a competitive player in the global market, and it is not possible when utilizing outdated equipment solutions.

When generally speaking about the prior Finnish firms’ international experience before entering the Russian market, there is no general limit for the Finnish companies not to consider the Russian market as the way to expand abroad; however, in the view of sanctions and countersanctions being placed for a certain product or service category might be restricted. As the Russian market is geographically close and big in terms of potential customers, it is essential for any Finnish firm to be able to consider it even without having a certain international experience before.

Moving to the differences between Finnish and Russian business environment, it must be said that the legislation and business environment are always changing, that is why it is extremely important for Finnish SMEs to closely monitor these aspects in order to reduce the risks associated with organizing successful business operations in the Russian market. Moreover, cultural behavior must be considered when dealing with Russian customers, as people there would like to know with whom they are building both communication and sales process. The complexity of documentation is another significant factor, however, as the respondent believes, it is not the limiting obstacle, but suggests to consistently find the most efficient ways to fulfill all the requirements, and instead of asking “why” the company should see “how” to get over it and carry out a certain environment requirement to be able to survive and grow in Russia.

When outlining the core differences between other markets, Finnish companies are penetrating and the Russian business environment, the interviewee claims that every case depends on each market's specifics. Unfortunately, there is a common procedure of having "one-day" companies in Russia, which is not that ordinary thing in other markets, that definitely creates more risks for Finnish SMEs entering the market. However, as the respondent suggests, there is no certain answer for such a question, as every aspect, in terms of product-based and after-sales processes, have to be up to date with the current legislation, and in the Russian market, the peculiarity lies in the fact that such measures are required to be considered a little deeper than elsewhere. Furthermore, the currency fluctuations must be considered by Finnish companies as well, since the Rouble is an "exotic" currency and its rate is highly unstable, and the business circumstances may be changing every day, which is not that relevant obstacle when considering other well-developed markets with a stronger currency, while this challenge is not even recognized in the EU area. All in all, these factors, when put together, characterizes the Russian as an unstable one, and this is the key limit for a Finnish SME when approaching it, as every firm is striving to operate in a stable business environment.

Generally, when moving to the trends and further opportunities of Finnish companies in the Russian market, the respondent explains that nowadays, the overall technical, IT, and medical development in Russia is taking place, which provides more business opportunities for Finnish SMEs when entering the market.

The market potential is the main motivation for any Finnish firm to expand to Russia, as the respondent claims. Cities, especially big ones, continue to develop, and Moscow, for instance, is aiming to become a "smartest" and most comfortable megapolis in the world, and there is no city in Finland having the same potential as million-plus cities in Russia. Any product or service a Finnish firm provides has market potential in Russia, and the main task for a company is to evaluate it and find the appropriate channels to deliver it, as there are more than 140 million potential consumers located in the country.

Traditionally, most of the companies started their operations in the Russian markets through exporting. Depending on the industry, it was followed by localizing after-sales activities with further own subsidiary or production establishment. Otherwise, there is a variety of modes being used, like sales representative, agent, and any other operation modes bringing the company more competitiveness in the respective field of operation in the Russian market.

When speaking about the issue related to Finnish firms experiencing changes in the mode utilization once entered the Russian market, the respondent claims it is not a very typical case. Of course, as he narrates, the companies usually start with exporting; however, every company, once successfully developed and employed some type of the operation mode, is looking for further opportunities, and, as the interviewee claims, it might be followed by localizing after-sales activities with further own subsidiary or production establishment in case the company's market share grows, as well as the interest for its product or service. All in all, as the County's Director put in an example, Neste had the first, and the only petrol and oil gas station network in Russia entered the market from the West and had a lot of opportunities for further development and utilization of new modes. However, eventually, nowadays the company is not in Russia anymore due to many strategical reasons, thus planning and changing the modes might be a tricky thing in terms of the specific business environment, and occasionally companies may follow and stick to the selected mode just to be presented in Russian market.

When discussing mode stretching, the interviewee underlined that it happens for some of the Finnish SMEs; however, depending on the industry, it is especially seen in the after-sales activities, when companies are utilizing different modes. However, as the respondent claims, he sees the technological factor as the main driving force for the companies to use a combination of modes since service and maintenance should be localized for the high quality and technologically developed systems.

Case Summary

FRCC, service provider for Finnish and Russian companies willing to expand to the respective markets in the fields of market research, export promotion, company operation, training, and consulting. It was assumed that there is no general limit for the Finnish companies not to consider the Russian market as the way to expand abroad except for certain legal restrictions. It was also suggested that there might be localization adjustments and technical adaptations for services or products for the Russian market.

The market potential is the main motivation for any Finnish firm to expand to Russia. When speaking about further opportunities of Finnish companies in the Russian market, it was said that nowadays, the overall technical, IT, and medical development in Russia is taking place, which provides more business opportunities for Finnish SMEs when entering the market.

Among the key differences between the Russian and Finnish business environments are constantly changing legislation, business circumstances, and bureaucracy. When outlining the core differences between other markets and the Russian one, the higher general risks are outlined, especially in the view of “one-day” companies, legislation, and currency risks.

Traditionally, most of the companies start their operations in the Russian markets through exporting. Depending on the industry, it is followed by localizing after-sales activities with further own subsidiary or production establishment. When speaking about the issue related to Finnish firms experiencing changes in the mode utilization once entered the Russian market, it is being claimed that such a situation is not a very typical case. When discussing mode stretching, it is underlined that it happens for some of the Finnish SMEs; however, depending on the industry, it is especially seen in the after-sales activities, when companies are utilizing different modes.

5.6 Cross-Case Analysis

Because of the qualitative nature of the study, every interview was carried out through telephone. Thus, entire data collection approach was steady during the complete procedure, also due to the fact that all of them were recorded and further analyzed, with no important data being missed. The sample of the selected case companies, having relevant experience in the sawmill industry as well as sufficient knowledge about generalized practices, was homogeneous. Companies did not vary a lot in terms of size, age, and established organizational objectives.

Based on the conducted interviews, the Case Companies (A, B & C) had international experience in other markets (for instance, Sweden, Estonia, Norway, etc.) that are psychically closer to Finland before entering the Russian market. At the same time, it was assumed by FRCC that there is no general limit for the Finnish companies not to consider the Russian market as the way to expand abroad except for certain legal restrictions. There are also some specific adjustments happening in the main product when entering the Russian market, as Company A, B, and C believe. It is determined by the idea that localization changed should be proceeded in order to suit legal and language particularities.

According to Company A, B & C, the market potential represents the key motivation for the Finnish companies to enter the Russian market in the view of the country's significant natural resources. Companies' motivation is supported by the fact that Russia ranks first in the world in terms of forest supply, possessing about 1/5 of the world's timber reserves (Priroda Rossii 2020). At the same time, despite acknowledging the size of the resources, Company C believes that the Russian sawmill industry size itself is more or less relevant to the Finnish & Swedish markets. This idea is arguable, since the indicator of commercial timber harvesting per 1 hectare of exploitable forest area in Russia is 0.3 m3, while in Finland - 2.3 m3, and in Sweden - 2.5 m3 (Lesprominform 2017). However, such a point is also understandable in the view that both Finnish and Swedish sawmills' capacity is among most productive in Europe, and Russian ones are not on the list (Sawmill Database 2020). Moreover, all of the Companies A, B & C, the Russian market was considered as a part of the risk management, since the total share of turnover is not dominant when compared to the other markets. Company A expects to get away from the dominant influence of the

local market by expanding both to the Russian one and to the same degree of importance to the Swedish one. It was also added by FRCC that nowadays, the overall technical, IT, and medical development in Russia is taking place, which provides more business opportunities for Finnish SMEs when entering the market. Such FRCC statement is arguable, since despite the opinions that the business climate in Russia is improving and has a positive transition to innovative development, but Russia is currently one of the less attractive countries in terms of investing foreign capital due to sanctions and other factors (Piskulov 2017, 29; Gorbunova 2018, 2195).

When speaking about the differences between the Russian and Finnish business environments, all of the respondents agree on a high level of bureaucracy and various cultural differences. Such opinion is strongly supported by the fact that modern Russia is categorized not only by a high corruption level but also by an inability to pursue an efficient anti-corruption policy; moreover, local society itself recognizes and considers the problem of bureaucracy as the most important after the aforementioned corruption. (Kazyrytski 2020, 434; Konoplyannik & Zhigulina 2017). Each of them then adds the list by indicating language barriers, a huge country's territory (Company B), constantly changing legislation, and business circumstances (FRCC). All of the companies' opinion can be supported by the fact that despite the constantly improving the conditions for foreign companies to operate on the market, in accordance with the Federal Law on foreign investments in Russia, the legal mode for foreign investors, and the profit usage from their investments cannot be less favorable compared to the mode set for Russian investors (Thomson Reuters 2020). When outlining the core differences between other markets and the Russian one, opinions differ, although, in their essence, they agree in logic. Company B points out extended in the time schedule and significant level of staff turnover, while FRCC underlines higher general risks, especially in the view of "one-day" companies, legislation, and currency risks. Moreover, Company A also indicates that it has already faced more risk-awareness from Russian sawmill's representatives. At the same time, Company A & B insist on the idea that in the Baltics and Swedish markets, the business is conducted in a similar way. Thus, the same ideology, in its opinion, may be used when comparing these markets with the Russian one.

Moving to the discussion concerning FOM when entering the Russian market, it is hard to outline a general tendency of selecting a specific mode due to differences in the time frame, countries, and market specifics and motivations that the companies were driven by. However, both Company B & C entered the market through indirect exporting channels as, due to different circumstances, it was the only way to expand their operations for the foreign market. Company B had to use an agent due to the fact that during USSR time, there were well established international trade opportunities & channels, while Company C had no experience and absence of the reference base on the Russian market. Company A, having no operations in Russia yet, plans to enter the Russian market through establishing its own sales office. The Company's A CEO indicates that in this way, the company would be able to adapt its marketing and sales activities in the most efficient manner. It was also suggested by FRCC that, traditionally, most of the companies start their operations in the Russian markets through exporting. However, Company A has also considered indirect exporting at the same time, and it would have been selected in case they would find a better opportunity related to its own sales office. So, based on the four cases, the proffered FOM was indirect exporting. The decisions and motivations described are supported by Welch et al. (2007, 269), as internationalizing companies use exporting as their first transition to international operations, and often other entry mode alternatives may not even be recognized, as it happened with Companies B & C due to different motivations. It is also supported by Terpstra & Sarathy (1994, 261), since, like in this case, we consider SME companies, exporting mode is often utilized as the entry mode to operate in the situations when a company is small and thus lacks the resources required for higher control modes such as JVs (joint ventures) or FDI (foreign direct investment). As all of the companies are dealing with the emerging country market, Bradly (2002, 237) also rationalizes the selection of exporting mode when there is neither economic nor political reason to manufacture overseas if there is a likelihood of government risk in the country or target markets may appear to be uncertain or unattractive. Consequently, since all of the companies (A, B & C) operate in the manufacturing industry, is also strengthens the understanding of the choice of exporting as a way of internationalizing operations, which is widespread among Finnish manufacturing companies.

The mode switches followed the same logic for both Companies B & C, but due to different factors. The company B switched to the mode from indirect exporting to its own sales agent in the view of the USSR collapse. Apart from using its own sales agent, the company also started to actively cooperate with other Finnish sawmill industry companies operating in the Russian market. Moreover, there the company did not make any FDI, as it believes it is quite easy to run a business without it, so there is no specific reason for establishing a wholly-owned subsidiary since their sales objectives are being achieved when utilizing less risky operation mode. The Company C switched their mode to the own sales office in Russia, as it achieved a certain critical number of reference equipment installations, as well as they established a brand name & recognition on the market. Since that, there were no changes happening in FOM, as the company nowadays can use both the indirect and own sales office options depending on a specific sawmill's case. FCC also generally supports the logic represented in Company B & C, as they indicate that traditionally, depending on the industry, the initially selected FOM is followed by localizing after-sales activities with further own subsidiary or production establishment. However, at the same time, it was also indicated that there are many Finnish companies that do not experience FOM change. Neither Company B nor C underwent mode stretches, as they were satisfied with their market position and general development, while FRCC it underlined that it happens for some of the Finnish SMEs; however, depending on the industry, it is especially seen in the after-sales activities when companies are utilizing different modes. Company A, in its turn, indicates that it is still hard to expect changes in the mode utilization, as they have not yet tested the selected one; and the same logic applies to mode stretching and combination. To sum things up, despite the idea that both Company B & C change their operation modes, they still represented the types exporting one. It was an interesting observation that none of the companies switched/stretched/combine neither of contractual or investment foreign operation modes, as, how they explained, they were constantly satisfied with the outcomes of their business activities, and they saw no rationale for taking more risk and investing into more unpredictable form since they realized the risks of operating in a turbulent and constantly changing Russian market.

6 DISCUSSION AND CONCLUSION

The following final chapter is focused on representing the critical theoretical and empirical findings and provides answers to the outlined research questions. Moreover, the managerial implications are provided on the foundation of the analyzed study data. When building these, broader theoretical insights are combined together with the context of the study. Limitations issues and suggestions for further research are reviewed at the end of the chapter.

6.1 Summary of Findings

As previously indicated, the core purpose of this research was to examine foreign operation mode strategies utilized by SMEs in emerging markets. The theoretical aspects of the relevant models related to FOM strategies were primarily considered with further implementation of the empirical context of the study focusing on Finnish sawmill equipment providers operating in the Russian market. The empirical findings were introduced, analyzed, and represented by applying within- and cross-case analysis in order to discover core differences and similarities among the selected firms in order to discover certain patterns and to get a sufficient understanding from different perspectives (see Chapter 5). The formulated research question and sub-questions are now going to be answered based on the research findings.

Research question:

- *How SMEs utilize foreign operation mode strategies in emerging markets?*

Sub-questions:

- *Which factors influence foreign operation mode strategies of SMEs in emerging markets?*
- *How SMEs utilize foreign operation modes when entering emerging markets?*

It was discovered that core foreign operation modes used by SMEs are exporting, contractual and investment modes (Root 1994, 1-22; Welch et al. 2007, 4; Hollensen 2016, 345). When considering contractual modes in emerging markets, the alliance option is the preferable one, as in this way, SMEs might be able to examine whether and how to operate in emerging markets, and hereinafter establish the links with other modes, like licensing agreements (Hagedoorn et al. 2002, 167-168; Welch et al. 2007, 308-310). At the same time, exporting can be considered as the major FOM option used by SMEs in order to achieve emerging market penetration, as it is considered as a relatively easy way to enter the market while having financial risks minimized and since SMEs might be able to utilize exporting as their first transition to international operations, other entry mode alternatives may not even be recognized (Welch et al. 2007, 269). Moreover, exporting mode is often utilized as the entry mode to operate in the situations when the SME lacks the resources required for higher control modes such as JVs or FDI (Terpstra & Sarathy 1994, 261). In addition, in the view of the minimal cost advantage of the mode, the target emerging market is tested by SMEs in order to understand beforehand when and in which way larger volume investments via FDI would be more efficient, thus reducing financial risk and providing with greater flexibility when compared with other FOMs (Cavusgil et al. 2017, 377). Lastly, when considering investment modes, it is mainly considered by MNCs, since it represents the costliest way of entering the market with increased capital investment costs and costs to manage entities based in various countries (Root 1994, 20-21). Anyhow, companies typically utilize exporting, alliances, or licensing prior to FDI option, especially in case of a lack of market knowledge (Cullen et al. 2010, 261-262). Welch et al. (2007, 363; 387) define two major reasons why SMEs tend to switch or stretch their FOMs: either as an adjustment of management's misjudgements; and alternatively in the form of adaptation to new conditions as foreign operations develop. SMEs combine FOMs in the view of considering different motivations and use different forms of them: unrelated, segmented, complementary, and competing (Petersen et al. 2002, 158-160; Welch et al. 2007 395-404).

When speaking about the key factors influencing the foreign operation mode strategies of SMEs in emerging markets, it is indicated that SMEs have limited resources that, in turn, harden the long-term influence of FOM strategic decisions. (Burgel & Murray

2000; George et al. 2005). Such a lack of SMEs' internal resources as well as market trust might limit a firm's FOM selection and induce it to utilize inexpensive modes such as agents or exporting, especially in emerging countries market, since firms are forced to operate in an unpredictable environment in which uncontrollable forces may constantly arise (Agndal & Chetty 2007; Sugandh 2018, 57). Among key discovered risks that SMEs are facing are, for instance, political risks (ownership, operational & transfer), which are higher in the emerging countries due to its instability and inconsistency (Hollensen 2016, 223; Erevelles, Horton & Marinova 2005, 2). Moreover, political risks particularly include selective import restrictions, governmental market control, nationalization, expropriation, and domestication. An importing country may also impose international trade barriers. Moreover, in many emerging countries, favors or payments represent a way of life, and "greasing of the wheels" is anticipated in return for the local government "services (Hollensen 2016, 219-220; 245-246). At the same time, bureaucracy and corruption prevent internationalizing SMEs from performing suitable actions to accomplish organizational objectives or to adapt to the changing market circumstances (Rockman 2020; Maclachlan 2013). Finally, SMEs have specific managerial structures and processes that are less sophisticated, rigid, and complex, which represent another circumstance when considering the FOM strategy to utilize (Bruneel & De Cock 2016, 136).

The empirical context of the study allowed to analyze Finnish sawmill equipment providers' entry market strategy in Russia. Moreover, since there were different case companies considered, it allowed the study to cover their particularities from different angles. For instance, company A is only willing to expand to the Russian market and has a more clear view on the current market environment circumstances, while companies B & C have established their market presence already a long time ago and accumulated relevant experience essential for this study, but at the same time might not have a clear view on the current entry obstacles in the view of "outdated" FOMs used upon market expansion, whereas FRCC allowed making generalizable conclusions based on their great experience dealing with Finnish SMEs entering the Russian market.

Consequently, Finnish companies are either planning (company A), actually utilized (company B & C), or suggest (FRCC) that exporting as their initial entry mode to the Russian market. Moreover, none of the case companies (B & C) changed, stretched, or combined the exporting type FOM to/with another one and not planning to, as they believe that their current company's performance meets their strategic goals, and more significant investments in the turbulent and unstable market are too risky. The specific factors influencing the FOM strategy were institutional forces during the USSR time (Company B) since there was no free trade between Finland and Russia, and nowadays, the key factors are substantial forest resources, the potential of the sawmill industry, political & legal factors, business environment, geographical location, cultural context and controllability over the selected FOM strategy.

All in all, when combining theoretical ground with empirical context, the utilization of exporting mode by Finnish SMEs is rationalized, as since there are no political and economic reasons for more complicated FOMs, especially when operating in the emerging market, and due to the theoretical justifications presented above (Bradly 2002, 237). The Uppsala Internationalization model is most suitable to apply for the analyzed case companies, as the model is described through conducting successive steps characterizing a higher degree of international participation or market commitment, and the analyzed SMEs are either planning or started their operations in Russia through non-regular export activities and then switched to the use of export through independent representatives due to a higher control over their selling processes. However, the market evolvement has not continued through establishing foreign sales subsidiary establishment with further overseas production/manufacturing units, as the companies are motivated to maintain a status quo in terms of their current market positions in a turbulent and unstable market environment of an emerging country.

6.2 Managerial Implications

Several managerial implications can be concluded based on the theoretical and empirical research findings. Generally speaking, it may be advised that SMEs managers are required to recognise the crucial role of choosing and implementing the

most appropriate and relevant FOM strategy when carefully analyzed the current circumstances. It is, therefore, important to be aware of how various internal and external factors influence the choice and use of an SME's FOM. The influences caused by external factors on the emerging market is especially significant. Particularly in Russia, the business & legal environment's circumstances are changing constantly and rapidly, so SMEs' managers should be prepared to react fast and to perform quick decisions and adjust their FOMs to better encounter the changing conditions.

In addition, SMEs' managers should have clear goals set before and after entering the emerging market. When operating in an emerging market, it is essential to understand all environmental circumstances and their significant influence on the company's operations. Russian Federation represent a large emerging country where the market is growing rapidly but unpredictably. Therefore, fast and well-thought decision-making is essential for SMEs managers.

Last but not least, most emerging markets have a lot of factors distorting competition, like a high level of corruption & bureaucracy. Thus, the key matter is then to be able to adapt to the market's conditions through obtaining as much information from various sources and as much as possible. As the FRCC interviewee claimed: "Instead of asking "why" the company should see "how" to get over it and carry out a certain environment requirement to be able to survive and grow in Russia" that leads to the point that any SME, when entering the emerging market, and Russia specifically, should be able to adapt to the environment specifics to be able to develop.

6.3 Limitations and Suggestions for Further Research

The following research had specific delimitations. In the view of its qualitative nature, the research findings and conclusions are not generable and appropriate for all sized companies and diverse business contexts; however, the outcomes and findings may be utilized and elaborated for further research in a similar context and case companies. Moreover, in the view of the thesis author's study program's emphasis and direction, the research discussed FOMs & strategies predominantly from business opportunities'

prospects, so further studies may be conducted having a greater focus on legal or taxation aspects.

Another suggestion for further research would be to study SMEs that actually made or potentially consider the decision to leave the emerging market, thus examining the factors underlying such decision and the exit strategies utilized. In addition, the research subject can be applied to Finnish MSEs from another industry.

Finally, the author asks other researchers to convince the findings' applicability for other emerging markets, as the empirical context being used in this study was the Russian market. Since Russia is one of the BRIC countries, further focus might be made on investigating Brazil, India, or China's markets' environments.

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APPENDICES

APPENDIX 1: Interview Structure (for Company A)

1. Firm's Background Information

- Question 1: Position in the company?
- Question 2: The company's main product, would it different in Russian market?
- Question 3: When the company is planning to start operating on the Russian market?
- Question 4: What is the prior firm's international experience?

2. Specifics of the Russian Business Environment

- Question 1: How do you realize the core differences between Finnish and Russian business environment?
- Question 2: How do you realize the core differences between other markets penetrated and the Russian business environment?
- Question 3: What challenges do you expect to face when entering the Russian market?
- Question 4: What are the trends and further opportunities that your organization expects when operating in the Russian market?

3. Foreign Operation Modes & Strategy

- Question 1: What is the motivation for the firm to expand to Russia?
- Question 2: How do you plan to enter the Russian market, what operation modes are you going to utilize?
- Question 3: Why that specific mode is selected?
- Question 4: Do you consider other modes at the same time, and of yes, why don't you prefer them?

4. Changes in the Foreign Operation Modes utilization & combination

- Question 1: Once you will enter the Russian market, do you expect any changes in the mode utilization, i.e. you will decide to switch it with another one?
- Question 2: Once you will enter the Russian market, do you expect to stretch the mode, meaning if your selected mode will naturally "grow" into another?
- Question 3: Are you planning to use different forms of modes?
    - Question 4: If yes, what is the motivation (i.e., what affects your decision) for conducting them?

APPENDIX 2: Interview Structure (for Company B & Company C)

1. Firm's Background Information

- Question 1: Position in the company?
- Question 2: The company's main product, is it different in Russian market?
- Question 3: How long the company has already been operating in the Russian market?
- Question 4: What was the prior firm's international experience before entering the Russian market?

2. Specifics of the Russian Business Environment

- Question 1: What are the core differences between Finnish and Russian business environment?
- Question 2: What are the core differences between other markets penetrated and the Russian business environment?
- Question 3: What are the challenges you faced when entering the Russian market?
- Question 4: What are the trends and further opportunities that your organization expects when operating in the Russian market?

3. Foreign Operation Modes & Strategy

- Question 1: What was the motivation for the firm to expand to Russia?

- Question 2: How have you entered the Russian market, what operation modes have you used?
- Question 3: Why that specific mode was selected?
- Question 4: Have you considered other modes at the same time, and of yes, why haven't you preferred them?

4. Changes in the Foreign Operation Modes utilization & combination

- Question 1: After you have entered the Russian market, were there any changes in the mode utilization, i.e. you decided to switch it with another one?
- Question 2: After you have entered the Russian market, have you stretched the mode, meaning if your selected mode naturally "grew" into another?
- Question 3: Have you used different forms of modes?
    - Question 4: If yes, what was the motivation (i.e., what have affected your decision) for conducting them?
    - Question 5: How have you conducted them?
    - Question 6: Have you used them as a combination with existing ones?

APPENDIX 3: Interview Structure (for FRCC)

1. Firm's Background Information

- Question 1: Position in the organization?
- Question 2: What are main fields of operation the Finnish companies' entering the Russian market, do they change their products / service once entered there?
- Question 3: What is generally the prior Finnish firms international experience before entering the Russian market?

2. Specifics of the Russian Business Environment

- Question 1: What are the core differences between Finnish and Russian business environment?

- Question 2: What are the core differences between other markets Finnish companies are penetrating and the Russian business environment?
- Question 3: What are the challenges Finnish companies are facing when entering the Russian market?
- Question 4: What are the trends and further opportunities of Finnish companies in the Russian market?

3. Foreign Operation Modes & Strategy

- Question 1: What is general motivation for a Finnish firm to expand to Russia?
- Question 2: What operation modes are most commonly used when entering the Russian market?
- Question 3: Why such operation modes are selected?

4. Changes in the Foreign Operation Modes utilization & combination

- Question 1: After entering the Russian market, do Finnish firms experience changes in the mode utilization, i.e. they decide to switch one mode with another one?
- Question 2: After Finnish firms entered the Russian market, do they stretch the mode, meaning the selected mode naturally "grows" into another?
- Question 3: How often Finnish firms use different forms of modes, and which ones?
    - Question 4: What is the motivation (i.e., usually affects their decision) for conducting them?
    - Question 5: Is it common for Finnish firms to use the modes in a combination?