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**FINNISH INSTITUTIONAL INNOVATION SUPPORT POLICIES FROM
RUSSIAN ENTREPRENEURS' PERSPECTIVE: ESTABLISHING
CROSS-BORDER TECHNOLOGY ORIENTED START-UP FIRM**

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ABSTRACT

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The purpose of this thesis is to study how Russian entrepreneurs perceive Finnish institutional environment and innovation support policies provided in the country, as well as to present a practical example in form of a case study of one technology oriented start-up firm which was established in Finland by Russian entrepreneurs. The empirical research of the thesis is conducted qualitatively in two parts. First part is conducted through online questionnaire with open questions in order to review the perceptions of Russian entrepreneurs in general. Second part is based on personal interviews with case company's founders with the focus on the process of establishing the company in Finland.

In the first part of the empirical research, five Russian start-up firms were contacted, and four responses were received. All of these responses were qualified for further analysis. The findings of the first part of the research reveal that Russian entrepreneurs have rather positive attitudes towards Finnish institutional innovation support policies. However, most of the entrepreneurs stated that they are unlikely to create their presence in Finland. As an outcome of the second part of the research, the process of establishing a case company in Finland is illustrated. In order to be able to establish companies in Finland, Russian entrepreneurs who have a permanent residence outside European Economic Area (EEA) are required to apply for a permission to perform business operations in the country. In addition, the established company must engage in improving the economical stand of the country by creating new work places, raising tax revenues, develop technologies and generate innovations in the country.

АННОТАЦИЯ

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Целью данной работы является определение того, каким образом российские предприниматели воспринимают институциональную среду Финляндии и предусмотренные в ней инновационные инициативы, а также анализ практического примера одной технологически ориентированной начинающей компании, которая была создана в Финляндии российскими предпринимателями. Эмпирическое исследование, представленное в данной диссертации, состоит из двух основных частей.

Первая часть эмпирического исследования включает четыре российские стартап фирмы. Результаты первой части исследования показывают, что российские предприниматели имеют весьма позитивное отношение к финской институциональной поддержке инновационной деятельности. Однако, большинство предпринимателей заявили, что они вряд ли в будущем будут создавать компании в Финляндии. Итогами второй части исследования является графическое представление процесса создания компаний в Финляндии. Для того чтобы создавать компании в Финляндии, российским предпринимателям необходимо получить разрешения, позволяющего вести коммерческую деятельность на территории данной страны. Кроме того, созданная компания должна участвовать в улучшении экономической позиции страны путем создания новых рабочих мест, увеличения налоговых поступлений, и развития технологий и инновационных проектов.

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Yours sincerely

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1 INTRODUCTION

The first chapter of this thesis presents the overall picture of the present research. Firstly, the background of the thesis is discussed. Then the key concepts utilized in the thesis are defined. The chapter also presents the research questions and objectives as well as illustrates the theoretical and research frameworks applied in the thesis. In the end of the chapter, the structure of the study is outlined.

1.1 Background of the Research

Every country has its own unique characters and policies. Typically, these are viewed in practice as so called institutional factors. Institutional factors are related to the economic and social elements of nations, which are further characterized as formal and informal with public and private perspectives. Formal economic institutions include laws, administrative regulations and taxation policies, among others; while informal institutions comprise ideologies, practices and various operating procedures (Schmid, 2004, 1).

When taking into consideration the aspects of economic operations, the role of companies must also be emphasized. Companies which operate in different countries must pay attention to specific institutional factors when they start their businesses and enter new markets (Eriksson et al., 1997; 2000). In a modern business world companies are forced to be more innovative in order to survive in the highly competitive environment. In this kind of situation companies hardly survive on their own and thus, they need some level of assistance from other organizations, and from their native and targeted countries. In order to enable economic growth, countries must provide various support policies for the companies, which will further influence the ultimate growth of welfare and enable economic

stability in the country. These support policies are, in general, related to the institutional factors (Georghiou et al., 2003).

In the modern business world companies are rather active in entering new markets, and some of these companies start their international operations from the very beginning of their establishment (Oviatt and McDougal, 2005b; Knight and Cavusgil, 1996; Kundu and Katz, 2003). These companies are referred as international start-up firms which are specifically characterized by their small size, newness and inexperience. These firms in particular express rather high demand for different support policies provided by the institutional environments of countries (Georghiou et al., 2003). The reason behind this is that these companies do not have enough experience or financial stability to survive among other companies in market competition. However, these start-up firms are the most potential for innovative activities, and they will be the ones to provide the future for the counties and for their economic growth (European Commission, 2011).

When considering the innovative support policy systems of different countries, it can be concluded that companies operating in continuously advancing and dynamic industries, such as information technology (IT), will require more support. The reason behind this is the common fact according to which the world economy is, generally, shifting to favor knowledge economies (Powell and Snellman, 2004). Companies which operate in information technology industry are providing various solutions, products and services in order to satisfy the demand of knowledge economies. In addition, these companies are the ones which engage their operations in research and development (R&D) activities in order to evolve existing technologies and to generate new ones. In order to create favorable environment which will encourage these companies and future entrepreneurs to evolve, the institutional environments of countries should be integrated more closely with globally characterized business environments.

The main purpose of the present thesis is to integrate these two environments mentioned above, and examine the cooperation between public and private aspects, taking into account the perspectives of countries and companies. The more focused integration of institutional and business environments is conducted by reviewing cooperation between Finland and Russia. Particularly, the focus is turned to Finnish institutional environment and Russian entrepreneurs. The subject of Finnish-Russian collaboration in terms of innovative activities and business practices is highly topical, nowadays. This particular fact makes the subject interesting for studying more closely.

1.2 Definitions of Key Concepts

This sub-chapter presents the main key concepts utilized in this thesis. These particular concepts are closely related to the literature reviewed as the base of the research. The purpose of this sub-chapter is to open and clarify the concepts utilized to construct the research situation of the thesis.

1.2.1 *Institutions*

According to Menard and Shirley (2005, 1), the concept of institutions is defined as “written and unwritten rules, norms and constraints that humans devise to reduce uncertainty and control their environment”. In general, institutions comprise all agreements, contracts, constitutions, laws and regulations, in addition to ideologies, codes of conduct, behavior and beliefs (Schmid, 2004, 1). Thus, the concept is rather broadly defined to include all the aspects of governing countries and their relations to the world economy with the utilization of constraints and enablement in order to establish more or less balanced environment for people and companies.

In practice institutions raise constraints from one perspective and provide opportunities from the other perspective (Schmid, 2004, 1). These imbalances occur inevitably, because nations are required to establish the frames for sustainable growth of economy, maintainable welfare of citizens, as well as security and reliability of political systems. However, according to Schmid (2004, 2) there is a concept of institutional choice which emphasizes that people continuously choose among institutional alternatives the ones that best suit them and their purposes. Inevitably, the constitutional laws and regulations in addition to, for example, taxation policies do not provide much of a choice to people and organizations. However, these commonly defined procedures are made with the perspective of greater good for the whole economy. People and organizations are able to modify their behavior and operations by various agreements and contracts in order to benefit more from the opportunities that the institutional environment provides.

1.2.2 Support Policies

According to Business Dictionary (2012), the concept of policy is defined as the basic principles and declared objectives that a government or other authorities seek to achieve and preserve in the interest of national community. Policies are, generally, developed to guide the behavior of people and organizations in order to achieve well-functioning and favorable environment for political stability and economic growth. Policies can be characterized as public and private or corporate (Business Dictionary, 2012). Public policies are related to the governmental policies and politics. Private policies are related to the business and organizational policies and economics. Also as institutions, policies can be formal and informal (Schmid, 2004, 1). Formal policies can be defined as those which are formulated in form of rules, laws and other strictly controlled principles which must be followed. Informal policies can be defined as guidelines which are commonly agreed and vary among different contracts and behavior principles.

In this thesis the focus of policies is turned to support principles which are provided by governmental authorities, business operators and public or private programs with the aim of supporting companies and organizations which need external assistance for starting their business operations. This thesis views that this kind of support is implemented in practice as financial support in terms of venture capital investors, network support in terms of important contacts and social events, information support in terms of seminars and other events, and practical support for starting business operations through business incubators and start-up programs, among other things.

1.2.3 *Cross-Border Start-Up Firms*

A small company which is just established and is beginning its business operations is commonly called a start-up firm. Usually start-up firms are characterized as micro or small enterprises. According to European Commission (2005), these companies employ fewer than 50 persons, have annual turnover less than EUR 10 million, and/or have annual balance sheet total less than EUR 10 million. Table 1 below illustrates the differences between micro, small and medium-sized enterprises (SMEs).

Enterprise Category	Number of Employees	Annual Turnover	Annual Balance Sheet Total
Medium-sized	< 250	≤ EUR 50 million	≤ EUR 43 million
Small	< 50	≤ EUR 10 million	≤ EUR 10 million
Micro	< 10	≤ EUR 2 million	≤ EUR 2 million

Table 1. Defining SMEs (European Commission, 2005)

SMEs are considered as central players in the European economy (European Commission, 2005). They are characterized with higher level of entrepreneurial skills and capabilities, innovation activity and employment potential. However, these firms are commonly challenged by market imperfections especially in their early start-up phases, and because of this they demand support from venture capital investors, government, and

other companies and organizations. Therefore, European Commission is actively providing support for SMEs (European Commission, 2011).

As these firms, especially in the information and communication technology (ICT) sector, particularly are born international, they tend to enter foreign markets right after their inception (Oviatt and McDougal, 2005b; Knight and Cavusgil, 1996; Kundu and Katz, 2003). This process in particular is known as internationalization (Calof and Beamish, 1995; Johanson and Vahlne, 1977). Going international, thus, entering new foreign markets can also, in other words, be characterized as cross-border activity. Hence, in this thesis these concepts are viewed rather interchangeable.

1.2.4 *Innovation and Technology Orientation*

When defining the concept of innovation, a distinction must be made between two closely relative terms – invention and innovation. Generally, invention is often defined simply as an abstract idea, while innovation is defined as a concrete attempt to commercialize that idea into practice (Fagerberg, 2006, 1–26). According to Fagerberg (2006, 1–26), in order to produce innovations, the combinations of various types of knowledge, capabilities, skills and resources are required. In today's world, these combinations are mainly produced by entrepreneurs, thus, by a person or an organization that is able to create new combinations of necessary factors from the existing or newly established resources (Schumpeter, 1949 ref. in Fagerberg, 2006).

According to the view of the thesis, the concept of innovation is the factor providing competitive advantage and opportunity to sustain future development among technology oriented firms. Thus, companies operating in technologically oriented industry which is characterized with high uncertainties, quick advancements, short product life cycles in addition to high profits and great future potential, are basically required to

be innovative. Further, it is also presumed that small and medium-sized companies (SMEs) are rather often facing challenges to meet the strict requirements of the competitive markets in terms of their limited resources. This fact in particular forces the companies to search for help and advice from external environments. Thus, with the case of start-up firms operating in the IT industry, the role of institutional support policies is viewed to be rather significant from the perspective of the present thesis.

1.3 Research Questions and Objectives

The purpose of this thesis is to study the cooperation between Finland and Russia with more focused perspective. The fundamental research objective is to examine Finnish institutional innovation support policies provided to Russian entrepreneurs in order to help them in their processes of establishing companies in Finland. In addition, the perceptions of Russian entrepreneurs towards Finnish institutional environment and support programs provided to foreign entrepreneurs are overviewed with more general aspects.

The empirical research itself is conducted in two parts. The objective of the first part of empirical research is to review innovation support policies provided to foreign entrepreneurs in Finland, and to examine Russian entrepreneurs' experiences and perceptions of these support operations. The main research question assigned for the first empirical part of the thesis is stated in the following:

- *How do Russian entrepreneurs experience and perceive institutional innovation support policies provided to them in Finland?*

The objective of the second part of empirical research of this thesis is to study in more detailed manner one already established by Russian entrepreneurs Finnish technology oriented start-up firm, and concentrate

on the establishment process of the firm and its experiences during the first years of business operations. In addition, the goal is to focus on more practically oriented way to examine the background policies, practical requirements and regulatory restrictions, among other things, which the case company faced during the period under research. As this empirical part in particular is viewed as the most essential for the thesis, the following three research questions are applied:

- *How Russian entrepreneurs are qualified in order to receive support from Finnish institutions?*
- *How the process of establishing a company in Finland is constructed?*
- *What kind of problems do Russian entrepreneurs face in Finland during the company's establishment process and first years of business operations?*

As outcomes of the empirical research there is, firstly, presented an overview of Russian entrepreneurs' perceptions about Finnish institutional innovation support policies. Secondly, there is an illustration of the entire process of establishing a company in Finland including Finnish start-up firm, Russian founders, Finnish institutions and other potential participants in the form of cross-functional diagram. Thirdly, there is provided a list of recommendations for future entrepreneurs in order to guide their behavior and decision making processes in the sphere of Finnish-Russian cooperation. In addition, the Finnish organizations which provide their support services for start-up firms and foreign entrepreneurs are listed as a part of the managerial recommendations.

1.4 Theoretical and Research Frameworks

The present thesis consists of theoretical and empirical parts. The theoretical part concentrates on reviewing the existing literature on the

subjects of institutional environments, international start-up firms and internationalization processes. The fundamental theoretical framework of the thesis is presented in the Figure 1 below. The figure illustrates the main situation represented in this thesis, and depicts the main theoretical components in this particular context. In this thesis, Finnish institutional environment is viewed from three main aspects: regulative, normative and cognitive. Each of these institutional aspects includes their own unique policies, which further influence the processes performed by Russian entrepreneurs when internationalizing or establishing their companies in Finland. The objective of the present thesis is to study the feedback collected from Russian entrepreneurs towards Finnish institutional innovation support policies.

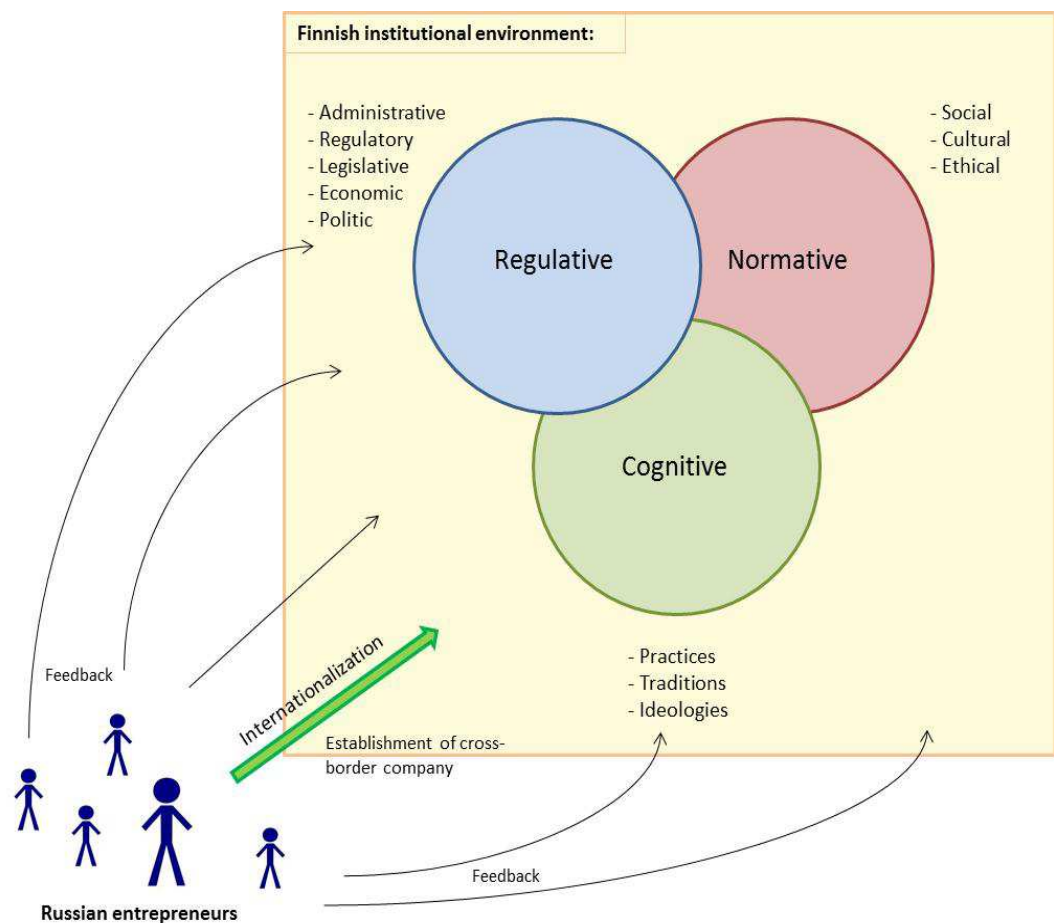


Figure 1. Theoretical framework of the thesis

Figure 2 below further clarifies the research environment which is applied in this thesis. The figure illustrates Finland's institutional and business zones in particular. Altogether, there are pictured three different research environments. First environment comprises the Finnish start-up firm itself and its close network. This network in particular includes Russian founders, customers, suppliers, business partners, investors, and employees. Second research environment presents Finnish institutional operators and factors which influence the start-up company as a whole. This sector includes factors such as public and venture capital financing, customs regulations, taxation policies, general R&D infrastructure, business incubators, and other institutions. Third environment comprises the both two environments already introduced previously; creating a complex system of start-up firm's internal and external networks. For clarification it should be concluded that the purpose of this thesis is to concentrate mainly on the second environment presented in the figure, thus to examine the influences of Finnish institutional operators and factors on the start-up firm as a whole.

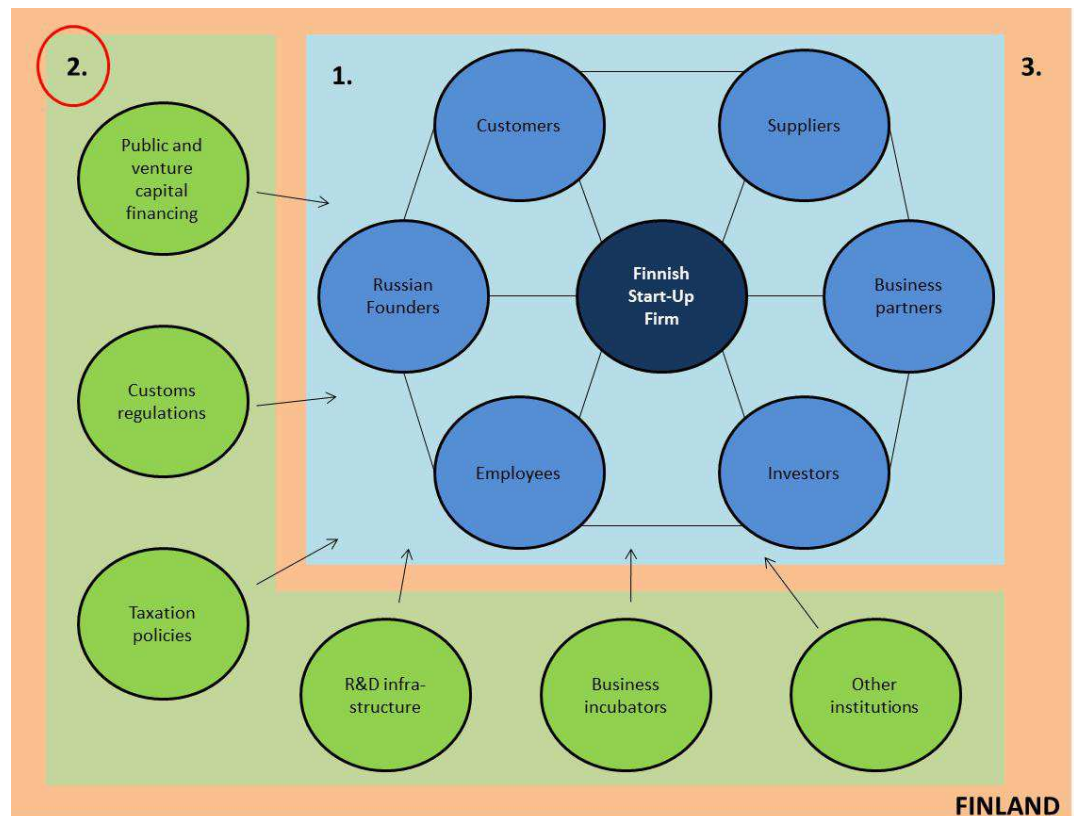


Figure 2. Research environment

The empirical part of the thesis concentrates on studying the integration between institutional and business environments, from the perspective of Finnish-Russian cooperation. The fundamental empirical research is conducted in two parts. First part is focused on the overview of Russian entrepreneurs' perceptions of Finnish institutional environment and support policies provided to foreign entrepreneurs in Finland. Second empirical research part concentrates on a case study of one particular company. The case study presents a Finnish technology oriented start-up firm which was established by Russian entrepreneurs. The fundamental research framework of the thesis is presented in the Figure 3 below. Thus, the research of the thesis starts from the literature review based on existing theories on institutional environments and international start-up firms. Then the empirical part investigates the perceptions of Russian entrepreneurs and case company's establishment process.

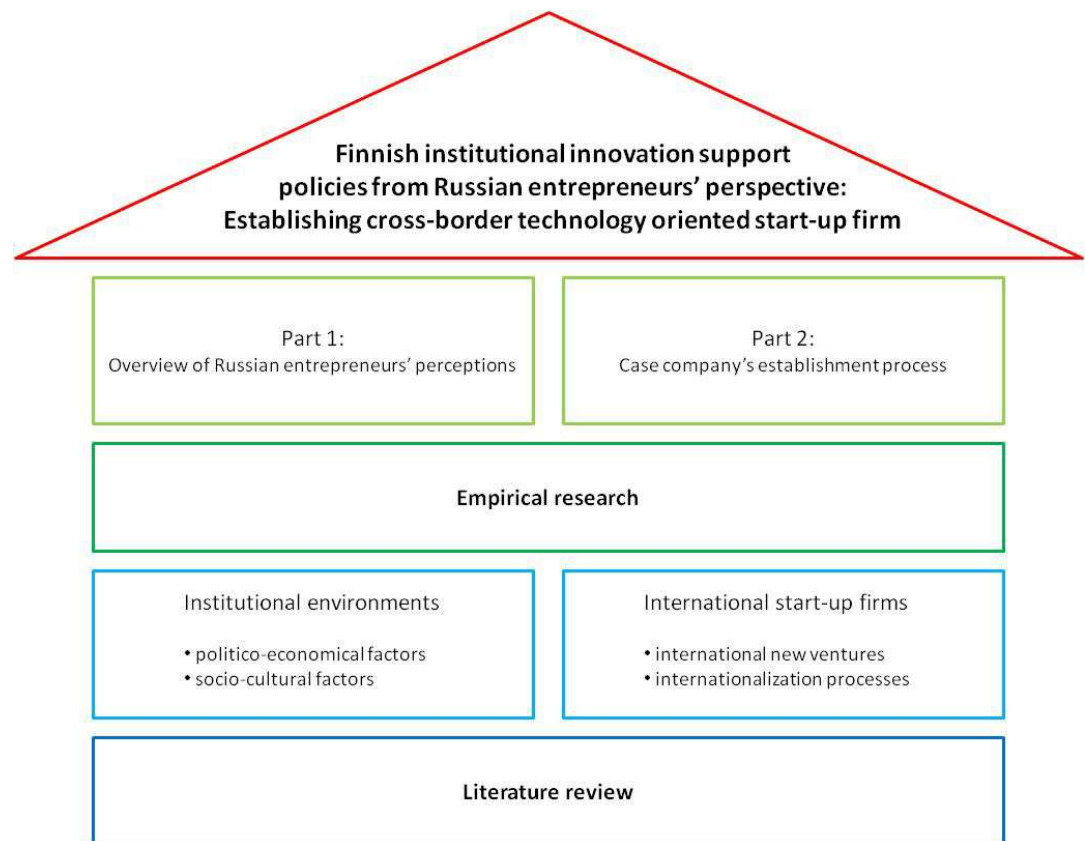


Figure 3. Research framework of the thesis

1.5 Structure of the Thesis

The present thesis follows the structure regulations provided by School of Business of Lappeenranta University of Technology and Graduate School of Management of Saint Petersburg State University. The thesis is constructed from two main parts: theoretical part and empirical part. The theoretical part as well as empirical part consists of two main chapters.

Chapter 2 reviews the literature based on the subjects of institutions and institutional environments. This particular chapter discusses the roles of institutions, institutional policies, and their analysis and measurement factors. In addition, the chapter includes also the entrepreneurial aspects into the institutional context. Chapter 2 ends with the practical illustration of the two institutional environments of Finland and Russia and their comparison. Chapter 3 reviews the literature based on the subjects of

international start-up firms and internationalization processes. The chapter begins with discussion of various types of international start-up firms. Then the existing literature of internationalization is reviewed. In the end of Chapter 3, the perspective of information and communication technology (ICT) industry is included into the discussion.

Empirical part of the thesis begins with the Chapter 4. This particular chapter discusses the methodology and limitations of the research. In addition, the chapter presents the research results and their analysis. In the end, Chapter 4 provides recommendations to entrepreneurs, and lists useful Internet web page links of Finnish organizations which provide support for entrepreneurs in establishing the companies in Finland and starting business operations in the country. Chapter 5 is devoted to the discussion of research findings and the contributions of the thesis. Firstly, the chapter presents the answers to the main four research questions stated in the introductory part of the thesis. Secondly, the theoretical and managerial contributions of the research are determined. Thirdly, Chapter 5 defines the limitations involved in the present study and provides directions for further research.

The last chapter of the thesis, Chapter 6, concludes the work. This chapter summarizes the aspects discussed in the theoretical and empirical parts of the thesis and provides specific conclusions.

2 THEORETICAL STUDY OF INSTITUTIONAL POLICIES

The purpose of this chapter is to define the concepts of institutions and institutional environments by providing theoretical background to the issue. Firstly, this chapter introduces various roles of institutions and measurement tools for their analysis. Secondly, business perspective is also included and its relation to institutional environment is discussed. Thirdly, this chapter provides a practical illustration of two different countries and their institutional environments.

2.1 Role of Institutions

In 1931 John R. Commons stated the following in his article about Institutional Economics: "Sometimes an institution seems to mean a framework of laws or natural rights within which individuals act like inmates. Sometimes it seems to mean the behavior of the inmates themselves." Thus, the definition of the concept of institution is rather broadly comprehensive. However, it can be concluded that universally this concept is known as "collective action in control, liberation and expansion of individual action" (Commons, 1931). In order to interpret this concept according to the context of this thesis, the following clarifications are stated: Collective actions are conducted in the national level by the governments and unions, and by other top level authorities together with the citizens of these nations through systems of democracy. Individual actions are related to the behavior of people themselves including the operations of organizations and companies.

According to Douglass North (1991, 3), institutions can be viewed simply as "the rules of the game in a society". Society defines its own rules of the game, which are commonly and democratically established in order to provide benefits for the greater good. In the case of individuals and companies, the ones that strive for the development, success and profit;

these rules are occasionally viewed as inappropriate. Governments and other authorities, generally, create the rules, and these rules are expected to guide the behavior of citizens and organizations. In some situations the rules are required to be modified or changed significantly, such as in the situations when the country becomes a member of World Trade Organization (WTO), European Union (EU) or North Atlantic Treaty Organization (NATO), for instance. According to WTO, every member country of its organization must strive for reducing barriers to international trade and contribute to global economic growth and development (WTO, 2012). EU was founded in order to unify the European countries into “a unique economic and political partnership” with its own currency and institutional standards (EU, 2012). NATO, on the other hand, is an intergovernmental political and military alliance which strives for creating a safe and secure environment on a global scale (NATO, 2011). These are just only a few examples of the alliances and agreements which do change or at least put a pressure on a country to develop or change its institutional policies. In general, institutional environments are created in order to standardize various patterns of behavior to establish more routinized models with longer time perspective (Hodgson, 1988, 10). However, it is rather challenging to cultivate all the countries in the world to be characterized with similar institutional systems, and this is why there are still countries which constraint their opportunities by themselves in terms of their reliability and attractiveness to foreign companies.

When discussing the subject of institutional policy change, the concepts of institutional conservatism and innovation should be mentioned (Dwyer et al., 2007). Conservative institutional culture is generally characterized with strict regulation and control, which is rather inappropriate to stimulate or support locally emerging demands. Innovative institutional culture, on the other hand, emphasizes initiative and novelty, and is more attractive for modifying policy instruments in order to deliver local opportunities. Technological advances and various reforms tend to reduce the institutional barriers across countries (Cuervo-Cazurra, 2011). However, in

order to work successfully these innovative mechanisms must be practiced at every level, from global to national and regional, and further to local levels (Dwyer et al., 2007).

2.1.1 *Institutions as Boundaries*

At the same time as world is becoming more borderless with the general trends of globalization and trade liberalization (Karunaratne and Tisdell, 1996), nation-specific institutions are viewed as establishers and maintainers of boundaries. Here, the concept of boundaries is not referred as physical obstacles, but more as intangible and symbolic restrictions, such as sets of practices, policies and programs which are not restricted to the border areas (Paasi, 1999). As the world economy faces a continuous development, the roles of states, boundaries and sovereignty are also required to change in order to maintain required level of national control.

According to Paasi (1999), institutional boundaries include social, economic, cultural, administrative and political practices, among others, which can overlap and occur simultaneously. These boundaries exist and gain their meanings not on a state level but locally in the everyday use (Paasi, 1999). The institutional boundaries are produced by state governments and other top authorities, while individuals and organizations are the ones that ultimately face these boundaries and are obligated to follow them. When the changes to these boundaries must be conducted, it is rather crucial that the state will pay careful attention to the requirements and demands on the local regional level of the nation.

In institutional setting of any country foreign policies are also viewed as sets of boundary producing procedures that define territorial identities of these countries (Campbell, 1992 ref. in Paasi, 1999). Nowadays, a modern state is willing to extent its institutional territorial areas on a larger scope (Taylor, 1994 ref. in Paasi, 1999). When this particular enlargement is not restricted by physical country borders, the foreign policy of one

country is able to gain dominative position in the whole world. However, foreign policies of various countries can be significantly diverse, and thus, they are not able to be integrated on a worldwide level.

2.1.2 *Institutional Distance*

The concept of institutional distance occurs in the situation when two or more countries are compared to each other. Similarities and dissimilarities between regulatory, cognitive and normative institutions of these countries are commonly emphasized (Kostova, 1996 ref. in Xu and Shenkar, 2002). Determinants of institutional distance between home and foreign countries, generally, have their influence on firm's structure and behavior. Generally, the institutional distance affects ultimate country selection and foreign entry strategies in internationalization activities of the firm (Xu and Shenkar, 2002).

Regulative aspect of institutional distance focuses on setting, monitoring and implementing various rules in the country. In addition, regulative aspect is based on obedience of these rules, obligations and sanctions. From this perspective, countries with higher institutional distances compared to firm's home country require higher level of commitment from the firm in order to adapt to the different institutional rules and norms, and other legal systems (Xu and Shenkar, 2002). If these differences are considered to be not comparable with the business, as a result, the country will not be selected by the firm. However, if the regulatory environment is somewhat similar to the firm's home country or does not restrict business operations of this firm, the country is likely to be selected as next internationalization target.

Normative aspect of institutional distance describes desirable objectives and appropriate means for reaching them. This perspective is mainly focusing on societal beliefs and norms occurring in the country. Generally, this aspect becomes more relevant in the transformational phase of the

firm (Xu and Shenkar, 2002). Especially, social norms influence the legitimacy of the organizational practices employed by the firm in its internationalization operations and communications with other parties of the targeted country market, such as customers, competitors, partners and government.

Cognitive aspect of institutional distance emphasizes the internal illustration of country's culture, language, business practices, and traditions, among other things. According to cognitive perspective, the firm is able to gain a symbolic understanding of the country and its individuals and organizations (Xu and Shenkar, 2002). This is mainly important in order to construct an identity of the country and study its adequacy to the firm's cognitive characteristics, when selecting foreign country and deciding entry strategies.

2.2 Analyzing Institutions

In general, institutions are analyzed according to the way they are built and the role they play in the society (Infante and Smirnova, 2010). According to Ingram and Clay (2000), institutional rules and their implementation mechanisms influence the interaction between various actors involved in the society. The structure of these interactions depends on the facts of who made the rules as well as how they were made and enforced in the society (Ingram and Clay, 2000). Generally, institutions arise in rather centralized instead of decentralized manner. Centralized rules are made by states and other top authority entities; while decentralized rules arise mainly through interaction between various actors, and thus, are taking the form of more liberal norms (Ingram and Clay, 2000). In practice, these rules and norms are enforced by third-party, who is also assigned to take care that these rules and norms are obeyed as they should, and sanction in the situation of disobedience. Based on this qualification, Ingram and Clay (2000) categorize institutions into

following three major sectors: public-centralized, private-centralized and private-decentralized.

Public-centralized institutions are generally provided by the state. The state is required to establish legal and regulatory systems to encourage trade, protect property rights, decrease transaction costs and enforce contracts, among other things (Ingram and Clay, 2000). These systems are required to create the rules of the game in order to establish and maintain efficient and stable environment for the whole society.

According to Ingram and Clay (2000) private-centralized institutions are divided into two types based on the nature of their effects on the actors in the society. First type is institutions that govern property rights. Second type is those that enable transactions. Private-centralized institutions arise mainly from private sector of society through various organizations, and are mainly focused to address commonly faced problems. Private-decentralized institutions, on the other hand, arise in more informal environments in terms of governmental and common issues of the society (Ingram and Clay, 2000). These institutions are able to support order without laws, and are raised according to each and every diverse situation in terms of contracts and mutually agreed conditions. Private-decentralized institutions are, generally, enforced by the same actors who are also involved in the creations of these institutions.

2.2.1 Measuring Institutional Environment

Henisz (2000) presents in his article three general types of measurement utilized to analyze the institutional environment of particular country. Firstly, institutional environment is measured through analyzing the degree of democracy or political and civil liberties in the country. Here, it is also important to include the degree of commitments to private property rights (Knack and Keefer, 1995). Secondly, the political instability of the country is analyzed. Thirdly, the risks associated with the country are also crucial

to take into consideration when analyzing the overall status of the institutional environment. While these particular measures are commonly used to analyze the institutional environments of different countries, it is important to pay attention to the fact that these measures suffer from four main faults (Henisz, 2000). Firstly, they are not closely enough linked to the true actions of governments. Secondly, the data is collected subjectively. Thirdly, the availability of the data is limited based on time and/or country samples. Fourthly, the measures are often employed with the lack of theoretical basis. Thus, the complex characteristics of institutions result to the fact that they are rather challenging to be measured, which further leads to frequently debatable outcomes.

In general, institutional environment can be measured by various variables, according to what is meant to be analyzed. Knack and Keefer (1995) and Chong and Calderon (2000a) focused in their articles on the following measures: contract enforceability, nationalization potential, infrastructure quality, and bureaucratic delays. In addition, measures such as risk of expropriation, contract refusals by the government, law and order tradition, government corruption, and quality of bureaucracy can be employed to analyze the institutional environment of a country (Chong and Calderon, 2000b). These various measures for analyzing institutional environments are implemented by organizations all around the world. For example, Business Environment Risk Intelligence (BERI), World Bank (WB), International Country Risk Guide (ICRG), and World Economic Forum (WEF); all provide country profiles and data including the above mentioned variables for measuring the institutional environments of these countries.

According to Infante and Smirnova (2010), institutional environments have a significant influence on the quality of government, social welfare, business relations, national competitiveness, and innovation capabilities, among others. Thus, it is rather crucial to find the appropriate measurement tools and reliable analysis methods in order to collect

significant data and develop profiles of institutional environments of different countries.

2.2.2 *Institutional Business Environment*

In the situation when a company decides to enter foreign markets and establish there its business operations, the company is required to take into consideration the institutional systems of this particular country. Generally, the success of the internationalization decisions depends highly on the institutional policies of targeted countries, and how they are affecting the fundamental business activities of the firm. These policies are related to the laws, regulations, customs and culture of the country, to name a few. These factors are highly country-specific, and may influence the ultimate internationalization processes either negatively or positively. Institutional systems are rather difficult to change according to the requirements of foreign companies, and thus, the companies must adapt themselves with existing institutional policies or try to establish various agreements and contracts in favor of their businesses.

Based on the present research of the thesis, it should be emphasized that the institutional environments including their specific processes, mechanisms and requirements are the ones that differentiate countries from one another. For example, while one country is defined as developed Western country characterized with its high welfare level, sustainable growth and reliable security systems; the other country is defined as emerging Eastern country characterized with its low level of GDP figures, and high levels of energy consumption, unemployment rate, mortality rate and criminality. According to the presumptions of the thesis, all these previously mentioned elements are determined by country's institutional mechanisms and their sophistication level.

Institutional perspective of business environment is rather crucial for the international companies, especially nowadays, when the globalized

knowledge economies are becoming highly significant for the economic growth of countries (Cantwell et al., 2010; Georghiou et al., 2003). In their operations, international companies must continuously integrate their business environments with the institutional environments of the countries in which they operate. According to Cantwell et al. (2010), there are three types of engagements between companies and institutions. The first type of engagement is called institutional avoidance (Cantwell et al., 2010). Here, the company usually takes the external institutional environment as given, but has the opportunity to choose between different institutional environments. This particular opportunity of selection occurs when the company decides which foreign countries to enter in its internationalization processes. The second type of company-institution integration is institutional adaptation (Cantwell et al., 2010). According to this particular type, the company seeks opportunities to adjust its own internal business operations to better fit the external institutional factors. In the case of international context, the company must adjust its operations according to each and every country it enters into. This particular type of engagement requires some level of effort from the company towards the institutions of the country. These efforts may relate in company's politically influential behavior in order to adapt its operations more effectively in the given institutional environment. The third type of engagement is institutional co-evolution (Cantwell et al., 2010). According to this particular type, the objective of the company is no longer to simply adjust its operations to match the institutions, but to contribute to changing these institutions on a local level. Here, the company may engage, for example, in political activities, negotiations or lobbying in order to advance specific matters of regulatory factors for not only its own benefit, but also for the benefit of other companies and the institutional environment itself.

According to Cantwell et al. (2010), these previously introduced types of integration between business and institutional environments are not mutually exclusive. Thus, for example, the company can employ both adaptation and co-evolution strategies with institutions based on the

countries in which the company is presented. However, it is expected that companies operating in less innovative sectors and relatively stable environment are more likely to employ adaptation model; while companies which operate in more dynamic environments and require innovative activities for sustaining competitive advantage, are more likely to employ co-evolution model for business-institution engagement (Cantwell et al., 2010).

2.3 Institutional Effect of Entrepreneurship

This sub-chapter provides the aspect of entrepreneurship in the discussion of institutional environments and support policies. Firstly, there is a distinction made between the concepts of immigrant and international entrepreneurship. Here, the focus is also turned to the fundamental relationship between Russian entrepreneurs and Finland. Secondly, institutional profiles of countries are discussed with the perspective of entrepreneurial responses.

2.3.1 *Immigrant versus International Entrepreneurship*

The concept of entrepreneurship is viewed in this thesis from an aspect of international context. In the situation when an entrepreneur of one country establishes a company in another country, the difference between concepts of international entrepreneurship and immigrant entrepreneurship should be defined. Chaganti and Greene (2002) define the concept of immigrant entrepreneurship as “individuals who, as recent arrivals in country, start a business as a means of economic survival”. In literature the term of immigrant entrepreneurship is often utilized as synonyms with the term of ethnic entrepreneurship (Johansson, 2006, 17). However, instead of these two concepts, this thesis is concentrating on the term of international entrepreneurship. The reason behind this particular choice is the fact that this thesis views international entrepreneurs as

people who establish companies which are mainly technology oriented and focused on R&D activities, aim at high profits and target global markets. International entrepreneurs have typically high level of education and knowledge competencies as a background for their motivations for establishing companies. Immigrant entrepreneurs, on the other hand, are presumed to establish mainly service oriented companies, which are targeted typically to gain an economical support for the immigrants themselves.

When focusing on Russian entrepreneurs who are establishing their companies in Finland, it can be concluded that these entrepreneurs in particular are characterized mainly with the concept of international entrepreneurs rather than immigrant entrepreneurs. This particular statement is based on the fact that companies in Finland which are owned by Russian entrepreneurs are not concentrated on operating in low-margin businesses (Jumpponen et al., 2007). According to Jumpponen et al. (2007), Russian owned businesses are not following the general path of immigrant businesses. Russian entrepreneurs tend to search for favorable market opportunities and high profits. According to the research conducted by Jumpponen and his colleagues (2007), factors which lead Russian entrepreneurs to establish their companies in Finland are related mainly to the role of supporting policies, self-employment aspects, and sociological factors. In addition, the role of promoting active foreign trade between Finland and Russia is viewed as an essential factor. According to the research of Jumpponen et al. (2007), in 2004 the amount of Russian owned companies in Finland was approximately one percent of all Finnish companies. In approximately 81 percent of these companies, Russian ownership was generated by founding the companies in Finland; while approximately 15 percent were based on acquisitions (Jumpponen et al., 2007). According to the results of the research conducted by Jumpponen and his colleagues (2007), nearly 80 percent of Russian entrepreneurs had planned to begin their businesses in Finland before they actually came to the country. Thus, this leads to the fact that Russian

entrepreneurs establish companies in Finland based on their predetermined strategic plans for their businesses, which is not characterized as the general path of immigrant entrepreneurs. The companies were mainly founded in Finland with the help of Russian entrepreneurs' customers, suppliers or other business partners (Jumpponen et al., 2007).

Jumpponen et al. (2007) also reviewed how Russian entrepreneurs evaluate the importance of governmental and state support organizations from their own business perspectives. The Finnish government and the ministries of the country as well as the customs regulations were ranked with the highest grades; while the agencies and organizations which provide support services to the businesses received lower grades (Jumpponen et al., 2007). The situation in the research is rather the same as in this present research of the thesis – namely the fact that Finnish support policies are not that well-known among Russian entrepreneurs in order to be ranked with higher grades.

2.3.2 Countries' Institutional Profiles with Entrepreneurial Responses

In the situation when entrepreneurs establish their companies in other countries, there are various institutions which may influence significantly the level of entrepreneurial activities and their ultimate efficiency in targeted country (Cuervo, 2005; Davidsson and Wiklund, 1997; Karlsson and Acs, 2002). The reason behind this is the fact that institutional context composed of economic, political, and cultural environment structures the society in which entrepreneurs operate (Shane, 2003 ref. in Welter and Smallbone, 2011). Both formal (legislation, rules, public regulations) and informal (social values, cultural heritage, customs and procedures) institutions are developed in order to govern and control the functions of dynamic market place in any country in the world (Arando et al., 2009; Schmid, 2004, 1). In practice, these institutions guide and constrain

interaction between individuals and organizations in terms of legislation and regulation, public policies, culture and social norms in order to establish more reliable and continuous activities for business operations. Thus, institutional conditions of a country affect the creation or entry as well as the closure or exit of new firms in this particular country (Arando et al., 2009).

Country institutional profile (CIP) can be constructed with three, also previously introduced dimensions: regulatory, normative and cognitive (Kostova, 1999). These perspectives were introduced previously to determine institutional distance between countries. Here, these three dimensions are applied to the entrepreneurial activities occurring in the country. Generally, CIP provides the information concerning the fact that country-specific institutional environment affects business management and entrepreneurship activities of firms differently (Gomez-Haro et al., 2011). Researching this particular phenomenon, Gomez-Haro and his colleagues (2011) discovered that institutional environment, with its regulatory, normative and cognitive aspects, influences organizations to adapt entrepreneurial perspectives. The authors emphasized the influence of cognitive and normative factors on organizations' entrepreneurial orientation; that is to promote innovations and proactive operations. Hence, entrepreneurial activity is stronger when knowledge about business management is institutionalized within a society, and when the society values innovative and creative behavior (Gomez-Haro et al., 2011). In addition, public policies and programs which support business operations and facilitate organizational efforts in the economy have also positive effect on ultimate entrepreneurial activity.

Ruta Aidis (2005) found that the owners of small and medium enterprises (SMEs) who perceived the influence of formal institutional constraints in their countries of operations, also perceived the influence of informal institutional constraints on their businesses. The inverse effect was also proven: owners of SMEs who perceived the influence of informal

institutions were more likely to perceive the influence of formal institutions in their operations. In addition, Aidis (2005) discovered that the owners who perceived the influence of environmental constraints were more likely to perceive the effect of skill barriers too, and vice versa.

The findings of Aidis (2005) can be explained by the fact that socio-cultural and politico-economical institutions influence significantly the general aspects of entrepreneurial motives and behavior, resource allocations, business constraints and opportunities for starting and operating a new business firm (Martinelli, 2004 ref. in Welter and Smallbone, 2011). However, as Welter and Smallbone (2011) list it, entrepreneurs have in total six ways to respond to the institutional practices. First type is prospecting. Entrepreneurs should be able to forecast new waves of economic trends and focus on innovations, market dynamics and organizational flexibility (Peng, 2000, 178). Second type of entrepreneurial response to institutional modes is evasion. Evasion allows entrepreneurs to cope in an environment where an inadequate legal systems lead to arbitrariness and corruption (Leitzel, 1997 ref. in Welter and Smallbone, 2011). Third response type is so called financial bootstrapping. Financial bootstrapping occurs in a situation where access to finance from formal sources is significantly limited, and when the assets are attracted without external finance at considerably low cost (Freear and Wetzel, 1990; Winborg and Landström, 2001). Fourth type is diversification and portfolio entrepreneurship. In order to reduce risks in their business operations, entrepreneurs are required to diversify their activities (Lynn, 1998). Fifth type of entrepreneurial response to institutions is networking and personal contacts for business purposes. Entrepreneurs are active in seeking new acquaintances, partners and friends in order to facilitate access to commodities, services and information that are scarce by nature (Sahlins, 1972 ref. in Welter and Smallbone, 2011). Sixth response type is adaptation. Entrepreneurs employ various unique forms of adaptation to cope with administrative and bureaucratic barriers of society and other institutional deficiencies (Welter and Smallbone, 2011).

In addition to above listed types for entrepreneurs to response to the institutional practices, Oliver (1991) suggests five different types of behavioral response to the institutional framework. These types are conformity or acquiescence, compromise, avoidance, deviance, and manipulation. According to dimensions of conformity, acquiescence and compromising, entrepreneurs acknowledge the existing institutional framework and adapt their behavior accordingly. Dimensions of avoidance, defiance and manipulation, on the other hand, reflect various levels of nonconforming entrepreneurial behavior to existing institutions. More straightforwardly, avoidance occurs when entrepreneurs conceal firm's nonconformity to institutions and try to escape from the institutional rules and expectations (Oliver, 1991). According to Oliver (1991), defiance and manipulation are more active forms of resistance utilized by entrepreneurs against institutional pressures. Defiance occurs in the situation when entrepreneurs are ignoring, circumventing or openly challenging institutional rules. Manipulation, on the other hand, refers to the situation where entrepreneurs actively attempt to change the institutional frameworks for the benefit of their business operations.

2.4 Institutional Aspects of Countries

The study of this thesis focuses on comparing institutional environments between Finland and Russia. The description of these environments is presented with the main aspects which define the global competitiveness of these countries according to the report of World Economic Forum (WEF). The introduction of this organization is provided firstly in this chapter, after which the differences in both of these countries' institutional environments are discussed.

2.4.1 *Analyzing Competitiveness of Countries*

World Economic Forum (WEF) publishes annually its Global Competitiveness Report (GCR) in which the organization analyzes the competitiveness of countries around the world. WEF defines competitiveness as “the set of institutions, policies, and factors that determine the level of productivity of a country” (WEF, 2011, 4). As a result, a more competitive country is the one that is likely to witness fast economic growth over time. In order to measure the ultimate competitiveness of a country, WEF studies these countries in terms of twelve main pillars (WEF, 2011, 4–9):

- 1) Institutions
- 2) Infrastructure
- 3) Macroeconomic environment
- 4) Health and primary education
- 5) Higher education and training
- 6) Goods market efficiency
- 7) Labor market efficiency
- 8) Financial market development
- 9) Technological readiness
- 10) Market size
- 11) Business sophistication
- 12) Innovation

In the scope of this thesis, the focus is made only to the following seven pillars: institutions, infrastructure, macroeconomic environment, financial market development, technological readiness, business sophistication and innovation. More detailed definitions of these pillars are provided in the following.

World Economic Forum (WEF, 2011, 4–5) defines institutional environment by legal and administrative frameworks of countries within

which individuals, firms and governments interact in order to generate wealth of society. The quality of institutions has rather significant effect on competitiveness of the country and its economic growth. In addition to the legal aspects of institutions, the total institutional environment includes also government attitudes towards markets, liberalization and efficiency of its operations. According to the WEF (2011, 4–5), the main governmental institutional factors that impose significant barriers to businesses and decrease the economic development, are excessive bureaucracy and red tape, overregulation, corruption, dishonesty in dealing with public contracts, lack of transparency and trustworthiness, and political dependence of the judicial system. The pillar illustrating the macroeconomic environment is generally captured with the dimensions of the institutions pillar. The stability of the macroeconomic environment and its institutional dimensions is crucial for the sustainable economic growth of the country (WEF, 2011, 5).

According to World Economic Forum (WEF, 2011, 5), the entire infrastructure of a country is crucial for ensuring the effective functioning of the economy. Well-developed, extensive and efficient infrastructure integrates national markets to global markets. Also as in the case of the quality of institutions, the quality of infrastructure has a significant impact on economic growth. The transport and communications networks, among others, are considerably important to the business operations of companies in the country.

Financial market development has been mainly characterized with the recent world economic crisis of 2008. As according to WEF (2011, 7), competitiveness of the world economies depend on their stable and well-functioning financial sector. The function of financial sector is to direct the financial assets from surplus to deficit, in other words to allocate the saved resources to those parties which require financial support. The key factor for establishing stable financial markets is to assess carefully the risks associated with every financial transaction. Sophisticated financial markets

should be able to provide capital for private sector investments, well-regulated securities exchanges, venture capital services, and other financial products through reliable channels. The characteristics of transparency and trustworthiness should also be included in the functions of financial intermediaries.

Technological readiness pillar measures the overall ability of economy to adapt existing technologies in order to enhance the competitiveness of the country. This measure focuses specifically on the information and communication (ICT) sector. In order to analyze the technology readiness of a country, the ICT infrastructure must be in place and functioning (WEF, 2011, 7). When discussing the technology advancement of a country, the concept of innovation is typically raised. It should be noted that innovation has also its own pillar in the competitiveness analysis of WEF (2011, 8). According to World Economic Forum (WEF, 2011, 8), the technological innovations play a crucial role in developing the standards of living and overall economic growth in the long run. Innovations are typically based on the development of knowledge bases of the economies and their actors. Firms are required to create cutting-edge products and processes to maintain their competitive advantages in the world business markets. In order to promote innovative activities, societies must create an environment supporting this kind of behavior. In practice, this means investing in research and development (R&D) operations and protecting intellectual property rights (IPRs).

According to WEF (2011, 8), the pillar of business sophistication is related to two elements: the quality of business networks and supporting industries on a nation's level, and the quality of business operations and strategies of an individual firm. The first is measured by the quantity and quality of local suppliers, and the extent of their interaction between each other and companies they collaborate with. The latter is measured by the quality of spill-overs of firms' advanced operations and strategies into the economy. Together these elements provide intellectual business

knowledge into the society, and thus, contribute to increasing the competitiveness of the country and its overall economic growth.

In order to establish an overall picture of all the twelve pillars determining the competitiveness of economies, World Economic Forum (WEF, 2011, 9) has developed three main groupings of economies: factor-driven, efficiency-driven, and innovation-driven. The first four pillars (institutions, infrastructure, macroeconomic environment, health and primary education) are the determinants of key elements for factor-driven economies. The following six pillars (higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size) determine the key elements of efficiency-driven economy. The two last pillars (business sophistication, innovation) are the determinants of innovation-driven economies.

The groupings illustrated above also represent the stages of development among world economies (WEF, 2011, 9–10). The economies which are grouped into the first category – factor-driven economies – are situated in the stage one of the development process. Stage two is for the efficiency-driven economies, while stage three is for innovation-driven economies. Between each and every stage there are also so called transition stages: transition from factor-driven to efficiency-driven economies and from efficiency-driven to innovation-driven economies. The location of a country in the development stage depends on the grouping factor which this particular country gains based on the measures of overall competitiveness analysis conducted by World Economic Forum.

2.4.2 *Comparing Institutional Environments of Finland and Russia*

This subchapter is illustrating the competitiveness of two countries relevant for the fundamental research of this thesis, namely Finland and Russia. The information determining the overall competitiveness of these

two nations is based on the figures of the Global Competitiveness Report of World Economic Forum 2011–2012 (WEF, 2011).

According to WEF (2011, 11), Finland is determined as innovation-driven economy, and is placed in most advanced stage of development. Russia, on the other hand, is placed in the transformation stage of the development process – progressing from the status of efficiency-driven economy to become innovation-driven economy. According to overall global competitiveness index (GCI) 2011–2012, Finland is ranked in the fourth place (seventh in 2010–2011) from altogether 142 countries ranked by WEF. According to the same index, Russia takes 66th place from 142 countries (63th in 2010–2011). While Finland has increased its ratings by three steps from the previous year, Russia has dropped three steps during the same time period. According to WEF (2011, 14), Finland's progress is due to its well-functioning and highly transparent public institutions, and strong focus on education and training activities. In addition, Finland's macroeconomic environment is characterized as fairly healthy. These factors, among others, have enabled the country to provide workforce with required skills and established attractive environment for high levels of technological adaptation and innovation policies. In terms of innovative activity, Finland is viewed as one of the main actors in Europe.

The drop in the GCI ranking of Russia is explained, according to WEF (2011, 27), by actions which were employed in order to improve the macroeconomic stability of the country. This led to the situation where other areas, such as the quality of institutions, labor market efficiency, business sophistication, and innovation, were organized on the second level of governmental operation list. According to WEF (2011, 27), the main factor hindering Russia's global competitiveness is rather slow progress related to the institutional framework of the country. In order to improve its position, Russia is required to strengthen the rule of law and the protection of property right in addition to raising security levels across the country. One more factor which weakens Russia's GCI ranking,

according to WEF, is the low efficiency of country's goods market. Here, the inefficient market structures must be improved by restricting anti-monopoly policies and lowering barriers on trade and foreign ownership. Also the state of country's financial markets remains rather unstable from the perspective of the World Economic Forum's Global Competitiveness Report. However, as the positive aspects of the country's competitiveness, Russia has a fairly high innovation potential, large and growing market size, and solid quality of education.

The main key figures illustrated in the World Economic Forum's Global Competitiveness Report (GCR) (WEF, 2011, 176, 306) give some level of clarity to the situation when two countries – Finland and Russia – are compared to each other. This information is illustrated in the Table 2 below.

	Finland	Russia
Population (millions)	5.3	140.4
GDP (USD billions)	239.2	1,465.1
GDP per capita (USD)	44,489	10,437

Table 2. Key indicators (2010) (WEF, 2011, 176, 306)

The main differences in these two countries are based on sizes of their populations, total gross domestic production (GDP) figures, and GDP figures divided by the population of the country. As the figures illustrate, Finland is 28-fold smaller than Russia in terms of the population figures. Also Finland's GDP figure is over six-fold lower than Russia's. However, when considering the GDP figure per capita, it can be concluded that Finland has over four-fold higher status compared to Russia. When considering the development of GDP per capita figures in Finland and in Russia, it can be concluded that the progress over time has been rather positive in both countries. In the Figure 4 below, Finland's GDP development is compared to the average GDP per capita figure of world's advanced economies. Russia's GDP per capita figure, on the other hand,

is compared to the average of commonwealth of independent states (CIS) (Figure 5).

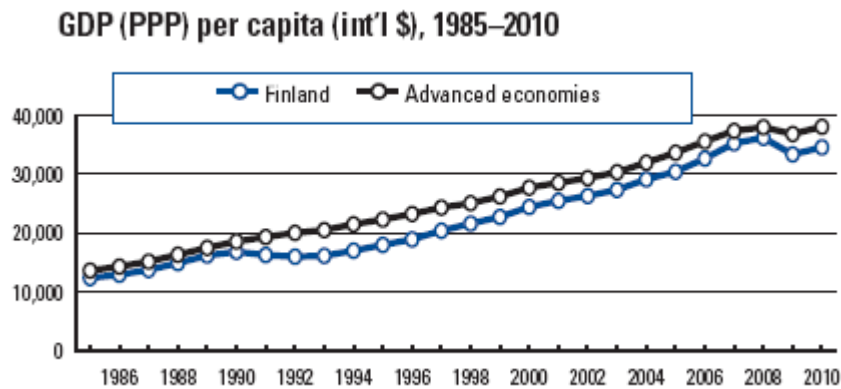


Figure 4. Finland's GDP per capita development (WEF, 2011, 176)

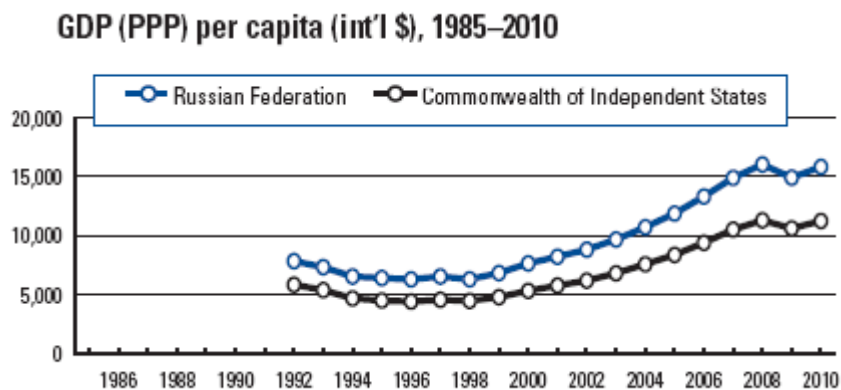


Figure 5. Russia's GDP per capita development (WEF, 2011, 306)

Table 3 below presents the details of economies' performance according to various pillars measuring the global competitiveness of countries. Here, only the seven variables taken into account in the thesis are presented in the table in order to compare the positions of Finland and Russia. The general rating of these pillars scores from one to seven. Each sub-index of total GCI score also contains the percentage ratio. These percentages illustrate the proportions of the sub-indexes to the country's total competitiveness score (WEF, 2011, 89).

	Finland score (1–7)	Russia score (1–7)
GCI 2011–2012	5.5	4.2
GCI 2010–2011	5.4	4.2
GCI 2009–2010	5.4	4.2
Basic requirements	6.0 (20 %)	4.6 (36.4 %)
– institutions	6.0	3.1
– infrastructure	5.6	4.5
– macroeconomic environment	5.7	5.2
Efficiency enhancers	5.2 (50 %)	4.2 (50 %)
– financial market development	5.3	3.2
– technological readiness	5.7	3.7
Innovation and sophistication factors	5.6 (30 %)	3.2 (13.6 %)
– business sophistication	5.4	3.3
– innovation	5.7	3.1

Table 3. Global competitiveness indexes of Finland and Russia (WEF, 2011, 176, 306)

The difference in total GCI scores during the years 2009–2012 between Finland and Russia has been steadily 1.2 points for the benefit of Finland's global competitiveness. Thus, the difference between GCI indexes of these two countries is rather low. While the percentage of efficiency enhancers sub-index of the total competitiveness score is the same in both countries (50 percent), the pillars of this sub-index show that Russia's performance in this particular area is significantly poorer than Finland's position. Russia's second highest percentage is formulated by the sub-index of basic requirements (36.4 percent); while Finland's second highest sub-index percentage is formulated by innovation and sophistication factors (30 percent). However, there is once again rather minor difference in these two ratios. In the basic requirements sub-index, the pillar of institutions represents the most significant difference between Finland and Russia. The state of Russia's institutions is scored almost the half of the Finland's score of the state of institutions. In terms of innovation and

business sophistication factors, Russia's figure is two score points lower than Finland's.

When comparing the figures of Finland to WEF's grouped innovation-driven economies, it must be concluded that Finland's performance exceeds the average figures. However, the only factor where Finland is slightly bypassed by others is the small market size. This association of Finland to other innovation-driven economies is illustrated in the Figure 6 below.



Figure 6. Finland in comparison with other economies in the same development stage (WEF, 2011, 176)

In the situation when comparing the figures of Russia to the WEF's grouped economies in the transition stage progressing from efficiency-driven economies to become innovation-driven economies, it can be

concluded that Russia's performance is only slightly poorer than the performances of others. The only factor with which the country exceeds the others is the extensive market size. Otherwise, according to the World Economic Forum, Russia has to improve its scores in the areas of institutional operations, efficiency of goods and financial markets, technological readiness and business sophistication. These associations are visualized in the Figure 7 below.

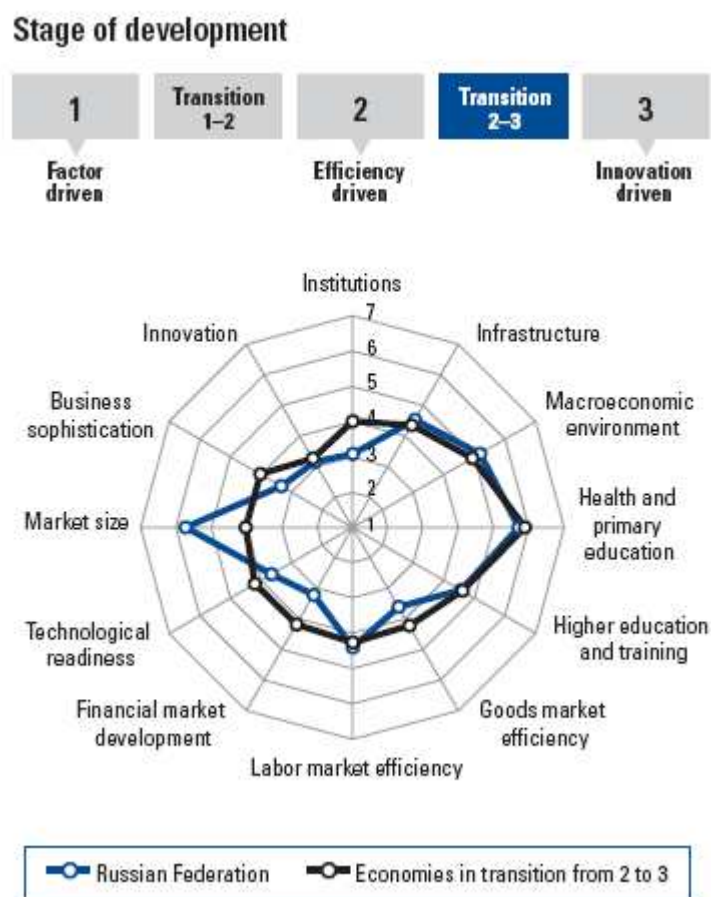
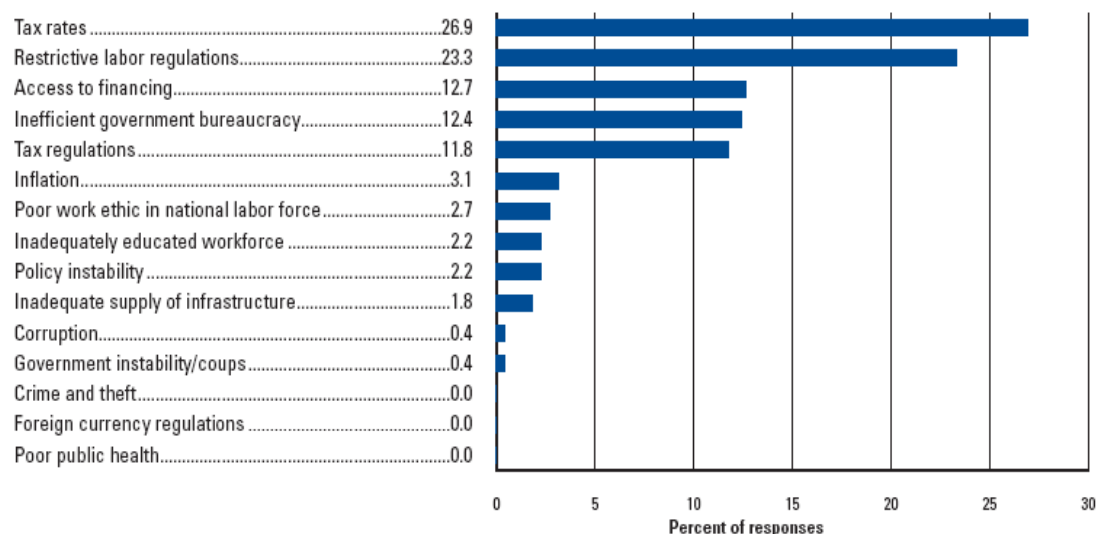


Figure 7. Russia in comparison with other economies in the same development stage (WEF, 2011, 306)

In addition to the figures representing the countries' performance on a national level, it is also crucial to find the connection between these figures to the business perspective. This connection is applied in WEF's Global Competitiveness Report (GCR) in the form of studying the most problematic factors for doing business of each country. These factors are

presented in the chart that summarizes the factors viewed by business executives as the most challenging for operating in their home economies (WEF, 2011, 89).

The most problematic factor for doing business in Finland is perceived to be the tax rates (26.9 percent of respondents). The second highest factor is restrictive labor regulations (23.3 percent of respondents). The next three most significant challenges for doing business in Finland are access to financing, inefficient government bureaucracy and tax regulations (ranging 12.7, 12.4 and 11.8 percent respectively). Figure 8 below presents the complete list of problematic factors for doing business in Finland.

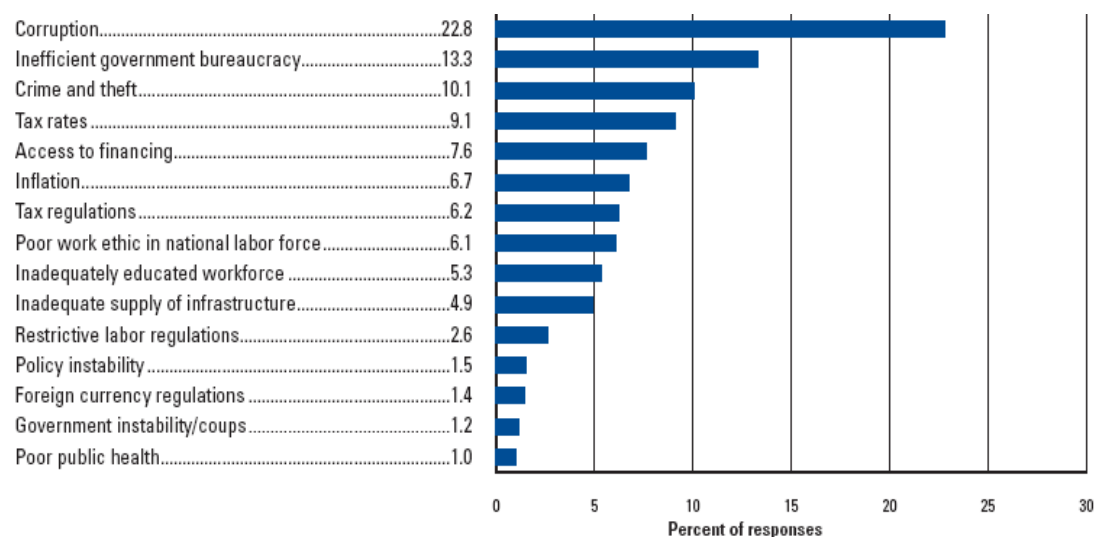


Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Figure 8. The most problematic factors for doing business in Finland (WEF, 2011, 176)

According to business executives in Russia (22.8 percent of respondents), the most problematic factor for doing business in the country is corruption. The second highest factor is inefficient government bureaucracy (13.3 percent of respondents). The next significant challenge for doing business in Russia is crime and theft (10.1 percent of respondents). The top five most challenging factors for doing business in Russia also include tax

rates and access to financing (9.1 and 7.6 percent respectively). The entire list of problematic factors for doing business in Russia is presented in the Figure 9 below.



Note: From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.

Figure 9. The most problematic factors for doing business in Russia (WEF, 2011, 306)

When comparing these two figures above, it can be concluded that there are three main problematic factors for doing business which are presented both in Finland and in Russia. These factors are tax rates, access to financing and inefficient government bureaucracy. However, it must be emphasized that the arguments behind these problematic factors are viewed to be rather different between these two countries. Tax rates are typically viewed as too high for the businesses in both of these countries. However, in Russia this factor may also include the tax payment requirements on border customs. While the access to financing might be notably limited by Russia's poor credibility and physical accessibility of financial markets, in Finland the access is mainly restricted by high level of pre-inspection and requirements. In terms of inefficient government bureaucracy, in Finland this factor might be argued by poor communication between businesses and the government in addition to the fact that government does not participate actively enough in order to

develop the business environment even further. By contrast to Finland's perspective to the inefficient government bureaucracy, in Russia this factor might be explained by the high level of corruption, crime and theft which occasionally rise in the business environment of the country.

The World Bank (WB) and the International Finance Corporation (IFC) co-public their reports of Doing Business in which these organizations analyze the main factors related to the ease of doing business in 183 economies around the world. The ease of doing business is mainly analyzed through the life cycle of a business with the following measures (WB and IFC, 2011, 1):

1. Starting a business
2. Dealing with construction permits
3. Registering property
4. Getting credit
5. Protecting investors
6. Paying taxes
7. Trading across borders
8. Enforcing contracts
9. Closing a business

In this thesis the focus is turned to seven main measures provided by the WB and IFC, thus excluding the factors which are related to analyzing the physical facilities (dealing with construction permits and registering property). Otherwise, these seven factors measuring the ease of doing business are viewed from the perspective of Finland and Russia. The World Bank and the International Finance Corporation compare the ease of doing business in 183 countries by ranking the countries according to the figures they receive in the analysis. The rankings of Finland and Russia in terms of the seven measures of doing business are illustrated in the Table 4 below.

Measures	Finland (rank out of 183)	Russia (rank out of 183)	Difference in ranking
Ease of doing business	13	123	110
Starting a business	32	108	76
Getting credit	32	89	57
Protecting investors	59	93	34
Paying taxes	65	105	40
Trading across borders	6	162	156
Enforcing contracts	11	18	7
Closing a business	6	103	97

Table 4. Ease of doing business ranking of 2011 (WB and IFC, 2011, 163, 189)

In terms of the ultimate ranking of ease of doing business, the World Bank (WB) and the International Finance Corporation (IFC) position Finland on the 13th place, while Russia is positioned on 123th place. Thus, it can be concluded that according to the rankings of WB and IFC doing business in Finland is significantly easier for a company, compared to doing business in Russia. When considering the seven practical measures of doing business, it can be concluded that starting and closing a business as well as getting credit are the most challenging factors faced by companies in Russia when compared to the same challenges faced in Finland. In terms of paying taxes and protecting investors, the ease of doing business in Russia is rather moderately challenging than in Finland. The most significant factor which clearly differentiates the state of doing business in Finland from the state of doing business in Russia is trading across borders. Here, the ranking of WB and IFC illustrates that trading across borders is remarkably easier in Finland than in Russia. On the other hand, the most equal factor facilitating the process of doing business in both countries is enforcing contracts. Thus, in both countries the state of contracts is on rather equally stable position.

When considering the competitiveness of Finland and Russia as well as the ease of doing business in these countries, it must be concluded that

both Finland and Russia represent two different sets of perspectives towards global institutional and business environments. Even though these countries share one borderline and have a long history of collaboration with each other, they represent two totally different sets of macroeconomic environments with different institutions and business practices. The more close cooperation between Finland and Russia is viewed in this thesis as a valuable method to equalize these mentioned differences for benefit of both economies.

2.5 Summary of Institutional Policies

This chapter provided definitions to the concept of institutions and reviewed the theories related to the institutional environments. The role of institutions, in practice, is defined as nation-specific collective rules of the game, which are set to liberalize and control the actions of individuals, companies and governments. Nowadays, institutional environment is required to become more innovative instead of conservative in order to promote the development of companies, advancement in technologies and ultimately increasing economic growth of societies. When discussing institutional environments, the concepts of boundaries and institutional distance are introduced. Instead of physical obstacles boundaries in institutional environment are typically viewed as intangible and symbolic restrictions, such as social, economic, cultural, administrative and political practices. These boundaries define the extent of fundamental institutional distance between two or more countries. Three factors which are generally perceived by institutional distance are based on regulative, normative and cognitive aspects of country.

When dealing with the analysis of various institutions it is, firstly, important to define whether institutions are publicly or privately established, and are they centralized or decentralized. Measuring institutional environment is rather challenging. Typically, employed measurement tools include,

among others, the following variables: degree of democracy, bureaucracy and corruption; political stability and country risks; quality of infrastructure; and practices of law and order. However, the main faults involved in measuring institutional environments of various countries include the facts that these variables are not linked to governments' true actions, that data is collected subjectively and is limited by time and/or country samples, and that there is lack of theoretical basis in the measurements.

Institutional environment is closely connected with the business environment of the country. This is why also business perspective is included in the discussion of institutions. In practice, businesses emerge in specific institutional environments, and perform their operations through restrictions and possibilities provided by these environments. In addition, especially international firms are required to adapt their operations according to the institutional environments in other countries. Typically, there exist three types of engagements between companies and institutions: avoidance, adaptation and co-evolution. Politico-economical and socio-cultural institutions influence the creation or entry as well as the closure or exit of new firms in countries. More detailed discussion about international firms is covered in the next chapter of the thesis.

As a conclusion to this chapter, the comparison of institutional environments between two countries, Finland and Russia, is illustrated. Based on World Economic Forum's Global Competitiveness Report these countries are analyzed with the focus on each country's institutional status, infrastructure quality, macroeconomic stability, financial market development, technical readiness, business sophistication, and innovation activity. In addition, the focus is also turned to the main problematic factors for doing business in these countries.

3 THEORETICAL STUDY OF INTERNATIONAL START-UP FIRMS

The purpose of this chapter is to define the concept of international new firm by reviewing existing theories related to the context. In addition, the theoretical background for internationalization is reviewed. Firstly, in this chapter the types of international new firms are introduced. Then the processes of internationalization are discussed. In the end of this chapter the focus is turned to the ICT sector and its start-up firms.

3.1 Types of International Start-Up Firms

International entrepreneurship is commonly defined as “the discovery, enactment, evaluation and exploitation of opportunities – across national borders – to create goods and services” (Oviatt and McDougal, 2005a). The emphasis of this definition is that when opportunities exist, individuals are willing to take advantage of them. In practice these opportunities enable, and in some situations even require, entrepreneurs to establish their own firms and start their business operations preferably on an international level.

Oviatt and McDougal (2005b) define the concept of international new ventures (INVs) as business organizations which right from their initial stages decide to internationalize their operations to foreign countries. Typically, these businesses are rather small when they enter foreign countries, and they are lacking experience and financial resources to perform these actions. However, the developments in the technological sphere, and increasing knowledge bases of people have created new foundations for gaining competitive advantage in the global business markets. This particular situation is true, especially, in the ICT sector. The significant ease of use and global accessibility of low-cost communication technology equipment provides opportunities not only for large and mature corporations but also for small start-up firms.

The concept of born-globals (BGs) is commonly used as interchangeable with the concept of international new ventures. Knight and Cavusgil (1996) define born-global firms as “small, technology-oriented companies that operate in international markets from the earliest days of their establishment”. According to Dave Crick (2009), while the criteria utilized to categorize and define these firms are basically similar, the more comprehensive overview certifies that these concepts have both their own meaning, and thus, need to be utilized with more careful attention. As Crick (2009) states it in his article, “generalizations potentially mask different types of behaviour”, and emphasizes that both born-globals (BGs) and international new ventures (INVs) express different behavior in their internationalization decisions and ultimate actions. The main factor that differentiates these two types from each other is the number of total markets served, more specifically the geographic diversity of these markets, and firms’ commitment to them (Crick, 2009). In the case of BGs, target markets spread globally; while in the case of INVs, the geographic diversity of markets is international. According to Crick (2009), born-globals establish their presence quickly after their inception in a global environment. This quick pace and vast spread of markets results in the situation, where the level of commitment to each market is rather low (Shrader et al., 2000). Whereas international new ventures in their start-up phases, are more focused on seeking opportunities in lead markets, and establish their presence in regional environments (Crick, 2009).

Kundu and Katz (2003) present in their article the concept of born-internationals (BIs). As the term already literally determines, the definition of this concept is also rather similar to the previously mentioned concepts of INVs and BGs. According to the authors, the emergence of born-international firms has increased through the trends of globalization, Internet and computer related industries, and roles of authorizing companies through registration, certification or membership of customers (Kundu and Katz, 2003). As an example of born-international firms, Kundu and Katz (2003) present the software firms in India. This illustration can

also be extended to include software and Internet-based companies all over the world.

Katz and Gartner (1988) present in their article a specific model in order to provide an explanation of how new organizations emergence. The model illustrates four main properties of these organizations: boundaries, resources, intention and exchange. Boundaries are referred to the restrictions and limitations that the environment is raising for new organizations in their decisions to emerge. Resources are the main elements which are structuring main competencies, capabilities and assets of the firms. Intention is the idea and purposeful effort of an entrepreneur for establishment of an organization. Exchange takes place when the organization is crossing the boundaries in order to start its business operations. In order to establish a born-international firm, the founder must have the intention and resources to do so. In other words, the founder is required to have a business idea and the willingness to enter foreign markets already in the firm's start-up phase. In addition, the founder should have a service or product to offer to customers in foreign markets, and the knowledge how to proceed in the internationalization process. Also financial resources must be considered before the organization can be emerged. After these issues are covered, the process of exchange can begin. Restrictions and other limitation to firm's emergence should be taken into consideration when creating a fundamental business plan. In the case of born-international firm these boundaries are generally involved with the institutional environments of target countries.

3.2 Theories of Internationalization

Internationalization is the process when a company adapts its business operations, strategies and resources to international environments (Calof and Beamish, 1995; Johanson and Vahlne, 1977). Existing theories of

internationalization processes emphasize incremental nature of foreign involvement, and focus on the fact that these operations are conducted progressively depending on past experiences of companies (Bilkey and Tesar, 1977). At this stage it should be stated that small international start-up firms differ significantly from established multinational enterprises (MNEs), and thus, they are not comparable to existing theories of internationalization. These firms engage in rapid internationalization and high market commitment soon, typically within three years, after their inception (Crick, 2009; Knight and Cavusgil, 1996).

Oviatt and McDougal (2005b) present three main distinctive factors which define that international new ventures (INVs) obtain specific characters in their internationalization processes. First factor is the stage theory of internationalization evolution. It is expected that MNEs enter foreign markets only after domestic markets are matured and saturated (Caves, 1982; Porter, 1990). The stage theory of internationalization is characterized with more incremental steps with the focus of reducing risks and avoiding radical changes in the company and its environment (Johanson and Vahlne, 1977; 1990). International new ventures do not follow this incremental process of internationalization, and this is why understanding the reasoning behind the internationalization decisions of these firms is rather challenging to interpret.

Second factor which differentiates small and medium-sized enterprises (SMEs) from MNEs is the scale of the business. According to existing theories it is assumed that large size of the company is one crucial requirement for starting international business operations (Oviatt and McDougal, 2005b). Generally, the scale of the company is related to its maturity, experience and status established over the long period of time. However, in the case of small ICT based start-up firms, the experience and knowledge of entrepreneur and the flexibility of the company can be emphasized as determinants of the firm's fundamental scale.

Third factor is raised by constantly changing international environment itself, including the changes in economical, technological and social spheres (Oviatt and McDougal, 2005b). Increased technological innovations and advances in communication equipment are creating significant amount of opportunities for new ventures to develop new operation processes (Bloodgood, 2006). In addition, for example, the trend of globalization is also raising its own opportunities and challenges (O'Hara and Biesecker, 2003). Globalization ensures market liberalization and integration as well as free trade, open communication and extensive networking between these markets. However, it also raises challenges such as lack of diversity, intense competition and ecological deterioration, among other things.

3.2.1 Initiating Internationalization Processes

In general, companies decide to internationalize their operations to foreign countries in order to gain access to new resources, new markets, new experiences and, foremost, to gain opportunities to develop and grow by sharing knowledge on an international level. However, a firm entering foreign markets has also certain disadvantages that require high level of consideration before the decision to internationalize can take place. Essentially, this problem is more significant to the small ICT star-up firms, which as mentioned above, have significantly limited resources, assets and competencies. These challenges are more generally related to the barriers established by institutional policies of the targeted countries, such as trade barriers, specific laws and regulations, and local business practices. In addition, these challenges also may occur from an incomplete understanding of culture, language and ideologies of the foreign counties. Established large firms overcome these obstacles by mainly relying on their large scale and past experience, while small international new ventures must usually rely on other types of resources, and on the support from external parties (Oviatt and McDougal, 2005b).

Generally, the conditions raised by the firm's internal resources, in addition to the external conditions of the industry where this firm operates in, have significant influence on internationalization decisions of new ventures (Bloodgood, 2006). In the modern business environment, successful internationalization has become one of the factors enabling the growth of the company and securing the future opportunities of gaining competitive advantage on markets. Globalization and liberalized trading regimes as well as continuous developments in information and technology (IT) sector have enabled the rise of start-up firms which are more qualified to establish international presence from the early stages of their business operations (Fan and Phan, 2007). According to James M. Bloodgood (2006), new ventures that have been engaged in greater internationalization processes during their establishment period, are more likely to engage in international activities also in the future. The argument here is the fact that these firms gain more knowledge and experience about their internationalization processes, and as a result are able to utilize these assets also in the future.

When start-up firms decide to internationalize even further, they face trade-off challenges between two main elements – whether extending their geographical scope in terms of total amount of countries entered, and/or reaching for greater market commitment in terms of establishing permanent operations in these countries (Hashai, 2011). Practically, the firms are able to integrate both of these two elements, but the emphasis ratio between them is emphasized by the fundamental business and internationalization strategies as well as intentions of the firms. Hashai (2011) presents four various paths which start-up firms are typically employing in their internationalization processes. These paths are illustrated in the Figure 10 below.

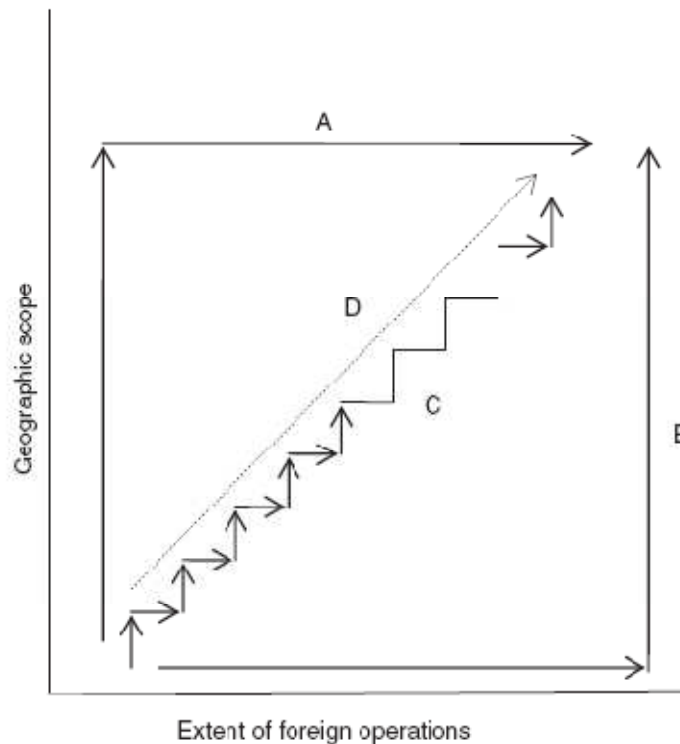


Figure 10. Possible internalization paths of international start-up firms (Hashai, 2011)

One path to internationalization is to expand the extent of foreign market commitment after the intended geographical presence is established (path A). By contrast, international start-up firm may first extent its foreign market commitment in couple of countries, after which it can expand its operations to more extensive amount of foreign target markets (path B). Alternatively, start-up firms may also expand their geographic scope simultaneously with the expansion of foreign market commitment in these markets (path D); or integrating these elements in more sequential entry modes (path C).

As previously mentioned, start-up firms are required to make trade-offs in the emphasis between the geographical scope and the extent of foreign market commitment, according to which they, in turn, will conduct their ultimate internationalization processes. The crucial decisions about trade-offs between these two essential elements have rather significant effects on, for example, knowledge accumulation, resource allocation and market

success of the international start-up firms. Thus, it is presumed that trade-off decisions determine the ultimate future potential and survival of these firms.

3.2.2 *Country Selection Models*

When a firm decides to internationalize its business operations into a foreign country, the process of qualifying and selecting a target country should be performed before the actual internationalization process is started. Typically, there are many various reasons behind the selection of one or more target countries. The selection of a particular country might, in some cases, be decided after a careful and complete consideration of various facts, or in other cases based on the quick decisions without any research. The latter situation, usually, occurs when the firm's founders or employees already have some knowledge of the targeted country, and they consider this knowledge to be sufficient in order to perform the internationalization process.

According to the incremental internationalization model (Johanson and Vahlne, 1977, 1990), a company should select countries that are similar to the company's country of origin in terms of business practices, industrial and technological development, cultural background and language, among other things. The model assumes that companies are extremely risk averse, and in turn, they tend to engage in extensive research of the targeted countries. This model is also defined as sequential (Cuervo-Cazurra, 2011), as it is assumed that the company first internationalizes into a country which is so called psychically similar with the country of origin, and only afterwards internationalizes into more dissimilar countries (Johanson and Vahlne, 1977, 1990). The concept of institutional distance, presented in the previous chapter, is closely related to the situation described above.

So called born-global model is presented as a more modern alternative to the incremental internationalization model (Cuervo-Cazurra, 2011). According to this particular model, advancements in information and communication technology in addition to globalization have significantly facilitated the knowledge acquisition by companies and enabled processes of sharing and applying this knowledge across countries (Chetty and Campbell-Hunt, 2004; Madsen and Servais, 1997).

Alvaro Cuervo-Cazurra (2011) presents one more alternative model for explaining the selections of particular countries in which companies decide to enter. This model is called non-sequential (Cuervo-Cazurra, 2011). According to this model, a company may develop internally the knowledge with which the challenges associated with foreign expansion processes can be controlled and overtaken. With its own uniquely established knowledge, the company is able to enter foreign countries with non-sequential strategy instead of sequential, in other words incremental, strategy. Hence, the company decides to enter the countries which are noticeably different from its own native country.

3.2.3 *Knowledge Required in Order to Internationalize*

According to Cuervo-Cazurra (2011), company's knowledge is viewed as basis of internationalization process. In order to internationalize successfully, a company needs to acquire three types of knowledge (Eriksson et al., 1997; 2000). Firstly, the company is required to develop its internationalization knowledge. Here, the main factor is to learn how to qualify and select specific target markets, as well as how to manage increased operational complexity and diversity associated with the overall foreign expansion. Secondly, the company should acquire knowledge of foreign business environment. Here, the main knowledge areas are related to the potential customers, market demands and competitors, among others. Thirdly, it is required for the company to study foreign institutions. Thus, for example, knowledge of institutional frameworks and

policies of governments in addition to the rules, norms and business practices should be developed before internationalizing specifically into this particular country.

Previously mentioned country selection strategies assume that companies obtain different types of knowledge in their internationalization decisions. According to the incremental internationalization model, the company lacks knowledge in internationalization itself, and that business and institutional knowledge of targeted country is limited (Cuervo-Cazurra, 2011). As a result, these companies tend to search for the required information in their home countries, which in turn leads to the selection of countries which are more similar to their native countries. In contrast, born-global model emphasizes that companies do have knowledge about internationalization processes, resulting in the situation where business environment and institutional knowledge is also developed, and thus, can be quickly applied in multiple countries (Cuervo-Cazurra, 2011). The characteristics of born-global firms include the facts that these firms are required to internationalize from their inception, and thus, develop the necessary knowledge before establishing the firm itself. The non-sequential country selection model is, on the other hand, viewed to be in the middle of the two previously presented strategies (Cuervo-Cazurra, 2011). According to this particular model, the company is assumed to be able to acquire some level of internationalization knowledge in addition to the knowledge of foreign country's business and institutional environments in its home country. As a result of this model, the company is able to select countries which are to some extent dissimilar to its native country.

3.3 ICT Start-Up Firms

In recent years, information and communication technology (ICT) industry has continuously increased its position in the knowledge based economies (Powell and Snellman, 2004). It is commonly witnessed that ICT sector

has transformed from an emerging industry to a growth industry, and is considered nowadays as an essential element of future society (Lasch et al., 2007). Generally, ICT sector includes the production of both goods and services related to the hardware and software of information and communication equipment (UNCTAD, 2011, 46). Manufacturing of computers, electronic components and telecommunication equipment, among other things, are associated to the goods of ICT sector. ICT services, on the other hand, are related to various software programs, databases, consultancy and technical assistance, and Internet commerce, among others.

When discussing ICT sectors of various countries, it should be concluded that the general conditions of technological development are significantly different between different continents and even on a country level. This raises opportunities for those companies which are specialized in one area of the ICT sector to internationalize their products and services to other countries. Additionally to the exploitation of asymmetric ICT advancement levels between countries, ICT service providers benefit from the fact that internationalizing their business processes abroad can be conducted considerably easier than, for example, internationalizing companies which are specialized in manufactured goods. In order to enter new foreign markets, manufacturing companies are, usually, required to invest in building new large facilities in the targeted country; while ICT firms can employ virtual environments enabled through the worldwide Internet. Thus, the conditions provided by the ICT sector are significantly influencing the decisions of internationalization. However, these conditions are also raising some significant challenges. The main challenge is that this particular industry is characterized with high competition among updates, rapid advancement in the technologies and pressures of intellectual property rights (IPR) protection.

3.3.1 *Promoting the Development of ICT Sector*

Many challenges and constraints that ICT start-up firms face internationally are associated with the need to establish efficient markets, to develop internal management systems, to improve access to information and other resources, to promote transparency, and to enhance environments, among others (UNCTAD, 2011, 6). In order to develop these factors the focus needs to be turned to the reforms of business environments.

Donor Committee for Enterprise Development (DCED) (2008, 2) defines business environment as “a complex of policy, legal, institutional, and regulatory conditions that govern business activities”. According to DCED (2008, 2), business environment is one substantial part of entire investment climate of a nation. It includes the frameworks of regulatory and administrative systems established to implement policies, as well as legal and institutional arrangements, which ultimately influence the behavior of various parties involved in this environment (DCED, 2008, 2). Business environment involves parties, such as governmental administrations, law and regulatory authorities, business companies and associations, society organizations, trade unions, etc. Figure 11 below illustrates the definition of a business environment according to DCED.

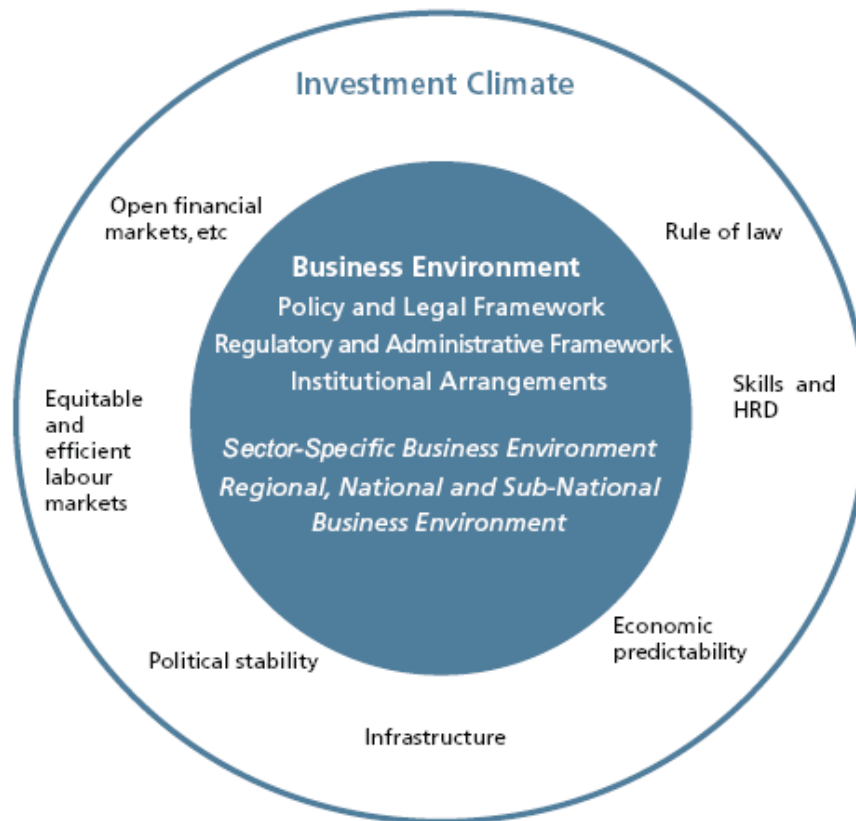


Figure 11. The definition of business environment (DCED, 2008, 2)

In general, ICT firms are considered as the key elements of modern knowledge economy (MFA, 2008, 19). According to UNCTAD (2011, 57), in order to increase the emergence of ICT firms, governments are required to establish frameworks which enable the liberalization and effective regulation of the ICT sector. Attractive markets for ICT start-up firms ensure that these companies will emerge and will internationalize their operations into foreign countries, which in turn, will enhance economic growth and innovative activities. The role of government in this situation is to reduce barriers of market entry, and minimize restrictions related to trade operations and internationalization processes. In addition, the requirements of providing applicable regulatory frameworks and support policies for existing market players must also be supported by the government.

In order to increase the number of ICT start-ups, many countries have established so called business incubators and technology parks (UNCTAD, 2011, 61). Such activities are performed because of the significance of supporting entrepreneurship and development of start-up firms in the ICT sector. The aim of business incubators is to provide key support services and cooperation possibilities for start-up firms in order to assist them in their most vulnerable stages of development and growth. Business incubators are concentrating on assisting start-up firms with such activities as financial and legal support, business training and education, and establishing valuable networks and partnerships. According to United Nations Millennium Project (2005), the experience from developed countries proved that start-up firms which are involved in business incubators and technology parks, have higher rate of future survival.

3.3.2 *Growth and Success Factors of ICT Start-Up Firms*

In their article Lasch and his colleagues (2007) are discussing critical growth factors of ICT start-up firms. They found that, especially, two factors are more critical than others – namely human capital and experiences of the founder of the company, and initial organization setting, including, for example, the components as firm's size, capital, customers and markets. According to their research, Lasch et al. (2007) found that the existing literature is classifying growth factors into three main groups: entrepreneur, firm and socio-economic environment. In order to become successful and enable sustainable growth, ICT start-up firms should pay careful attention to the fact that these three elements were in balance and striving for the similar outcomes.

When dealing with entrepreneurial characteristics, which are considered to be related to the ultimate success and growth of the firm, following elements among others should be considered: human capital, motivation, orientation, experience, knowledge and preparation (Lasch et al., 2007). These factors are crucial for the fundamental emergence of the firm, its

establishment and development in order to gain sustainable growth and competitive advantage in the markets. In addition to the above mentioned elements, in ICT sector entrepreneur is expected also to be innovative and obtain high level of technological knowledge. One more issue related to the required human capital of the entrepreneur is the networking skills and the significance of already established social networks. These networks, based on social ties between entrepreneur and other people around the world, tend to facilitate the access to various types of knowledge, which in turn, becomes a valuable asset for the established ICT start-up firm (Greve and Salaff, 2003; Hansen, 1995).

Other factors affecting the growth of the ICT start-up firms are organizational characteristics. Especially, according to Lasch et al. (2007), pre and post start-up operations of the organization have a crucial effect on the future success of the firm. The most significant elements here are the availability of sufficient financial capital and access to supporting policies from other companies, partners and governments (Schutjens and Wever, 2000; Teal and Hofer, 2003). In addition to the financial aspects of successful firm, the location of the international start-up company or the internationalization decisions might be crucial to consider if the entrepreneur is willing to gain sustainable growth for one's company (Lasch et al., 2007).

The third growth factor of socio-economic environment was excluded from the research of Lasch et al. (2007). However, this is exactly the issue which this thesis is focused on. Thus, what kind of socio-economic environment is provided to international start-up firms in foreign countries and how this might affect the success and future growth of these firms? The research of this thesis is focusing mainly on the initial stages of starting the business operations, and describing the socio-economical support institutions that are provided to the firm which is beginning its business activities in foreign institutional environment. The fundamental

research is discussed in the empirical part of the thesis in the following two chapters.

3.4 Summary of International Start-Up Firms

The chapter discusses business environments and defines various actors and their behavior activities in this particular setting. Based on the context of this thesis, the focus of this particular chapter is to define the concept of international start-up firms and to introduce the theoretical background based on the issue. Generally, to describe an international start-up companies, there are commonly utilized such concepts as international new ventures (INVs), born-globals (BIs) and born-internationals (BIs). All of these terms are used to define a small firm, usually established in information and communication technology (ICT) industry, which starts its international operations quickly after its establishment. This particular process, according to which a firm is adapting its business activities and strategies to international environments, is defined as internationalization. The commonly agreed process of internationalization involves incremental stage theory, according to which a firm starts international operations after a significant time of stable operations in home country. However, these types of theories are not compatible to international start-up firms which are influenced by the constantly changing environment and globalization.

International start-up firms face various challenges in their path to successful competition on global markets. In addition to the decisions whether to extend their geographical scope or reach greater market commitment, these firms face challenges raised by institutional environments of foreign countries. These challenges are, generally, related to trade barriers, specific laws and regulations as well as local business practices, language and culture, among others. This is why before initiating its internationalization processes, the company should focus on qualifying target countries, thus, study their business

environments and their institutional policies before selecting them. Existing theories suggest that companies tend to select foreign countries which are practically similar to their home countries, thus, countries which are close in terms of institutional distance with the home country. In order to bring more modern alternative to the existing theories of internationalization, a born-global model is presented.

When integrating business and institutional environments, the issue of supporting small start-up firms in their first years of international business activities is raised in this thesis. The focus is to research what kind of support policies various institutional environments provide. Here, the main concentration is on two different economies – Finland and Russia. The fundamental focus of the thesis is turned mainly to review policies provided in Finland which are targeted to support innovations and innovative operations by international start-up firms established by Russian entrepreneurs.

4 EMPIRICAL STUDY OF FINNISH INSTITUTIONAL INNOVATION SUPPORT POLICIES AND RUSSIAN ENTREPRENEURS

The purpose of this chapter is to present the empirical research of this thesis. The aim is to integrate theoretical overview, conducted in the previous two main chapters, to the empirical research and practical case study. Firstly, this chapter presents the fundamental research methodology and discusses the limitation of the study. Secondly, the analysis of the collected information is conducted with the following presentation of the findings. Thirdly, the figure illustrating the process of establishing a company in Finland is presented from the perspective of a case company. Fourthly, as a managerial outcome of the research, recommendations for future entrepreneurs are provided. In the end of the chapter, useful Internet web sites of the organizations providing support for companies in Finland are listed.

4.1 Research Methodology and Delimitations

The research of this thesis is based on qualitative methods and is conducted in two parts. First part is based on online questionnaire with open questions. The aim of this part of the research is to formulate an overview picture of Russian entrepreneurs' perceptions concerning Finnish institutional environment and innovation support policies provided in Finland. The online questionnaire was created with the tool provided by online based software called SurveyMonkey. The target companies were contacted via email which also provided the link to the questionnaire. In addition, one week after, the second email was sent as a reminder to answer the questionnaire. The questionnaire was created in the form of a web page link, which enabled all the respondents to be able to open the questionnaire and answer the questions anonymously. The interview questions as a whole are presented in the end of this thesis in Appendix 1.

Second part is based on personal interviews with founders of one start-up firm established in Finland. The chosen case company is legally a Finnish entity which was established by Russian entrepreneurs. The outline of the questions applied in the personal interviews with the founders of the case company is presented in the end of this thesis in Appendix 2.

In order to be qualified to participate in the research, the companies are examined by their age, size, industry, country of origin, and country of establishment. Thus, companies which are qualified to participate in the first part of the research are small Russian start-up firms which operate in ICT industry. In addition, the most essential factor qualifying these companies to be included in the research is the fact that these companies should be engaged in some sort of support programs provided by Finnish organizations. Companies which are qualified to participate in the second part of the research are small Finnish technology oriented start-up firms established in the country by Russian entrepreneurs.

Qualitative research in particular is conducted in this thesis because of the following reason: “qualitative research allows researchers to get at the inner experience of participants, to determine how meanings are formed through and in culture, and to discover rather than test variables” (Corbin and Strauss, 2008, 12). Research questions of this thesis are constructed and developed in order to discuss experiences and perceptions of people and organizations run by them as well as to discover some level of generalization of the issues covered in order to create advices, recommendations, and guidelines for others who are facing the same situation. The focus of the qualitative research conducted in this thesis is based on term of constructionism, defined by David Silverman (2005, 11) as research which is aimed to focus on behavior and to study how phenomena are constructed. The research itself is conducted through structured personal interviews as well as electronic interviews in forms of online questionnaires with open questions.

The analysis of the empirical research and its fundamental findings are discussed with confidential manner towards companies and entrepreneurs involved in the process. Thus, the names of start-up firms, the names of entrepreneurs and in some cases the names of other organizations or programs discussed are not mentioned in the thesis in order not to present possibilities which lead to the recognition of these entities.

4.2 General Overview of the Research Environment

In order to answer the first research question, the responses of online questionnaire are examined. Based on the qualifications of companies, the questionnaire was sent to Russian entrepreneurs who participated in support program provided in Finland to foreign start-up firms. According to the representative of the support program, Russian entrepreneurs and relatively their start-up firms are mainly characterized with high technological orientation. The Finnish program is designed to provide support in terms of consulting and coaching services to start-up firms which are in their initial stages of starting their business operations. The name of the support program is not mentioned in this thesis related to confidentiality of companies which participated in it.

The questionnaire was sent altogether to five companies, and four responses were received. All of these responses were qualified for further analysis. According to the answers, two of the Russian companies were established as pure start-up firms; while one was established as competitive entry on the markets. One start-up firm was characterized as a corporate spinoff. In terms of international presence of these start-up firms, only one was already presented abroad – in the United States of America. When asked about the plans of internationalization in the future, two of the three companies which currently were not presented abroad stated that they planned to enter USA, China, Japan, India and CIS countries (Commonwealth of Independent States). Only one of the four

Russian start-up firms was planning to internationalize to Finland. In terms of the main product or service modifications for international markets, only one Russian entrepreneur mentioned language translations. Two of the four companies did not require any modifications with their products and services because of the fact that these companies were targeting global markets right from their inception. One entrepreneur did not provide an answer to this particular question.

When asked about experiences related to the support program in which these companies participated, all of the respondents highlighted their positive opinions. These entrepreneurs in particular raised consultancy, mentoring and learning as well as possibilities to establish networks and get basic contacts as the main benefits gained through the Finnish program for foreign start-up firms. This program in particular provides mainly coaching services and involves investors and other professionals in order to help foreign start-up firms in achieving their goals.

According to the results of the online questionnaire, the attitudes of Russian entrepreneurs towards Finnish institutional environment are either neutral or positive. Only one of the respondents views Finland as not welcoming country for foreign start-up firms. The entrepreneurs who view Finnish institutional environment as welcoming, state that the climate in Finland for start-up firms is suitable, culture is tolerant, and opportunities are provided on a higher level. When asked to compare Finnish support operations with Russian ones, the respondents stated that, from their perspective, Russian support programs are not as effective and valuable enough as Finnish ones. One of the entrepreneurs highlighted that in Russia it is rather more beneficial to start business operations without any support than with support. The essential issue which was raised by every respondent was the fact that in Russia the amount of required paperwork and documentation exceeds significantly the level required in Finland. In terms of general discussion related to whether socio-economic environment of a country has an effect on growth of start-up firms or not,

all of the respondents stated that it does have a rather crucial effect. According to the arguments of respondents, in general, governments should eliminate all barriers of trade, such as customs and high taxes, and enable stability of financial markets in the country in order to promote the growth of start-up firms even further.

When discussing the support operations which are viewed to have the most significant effect on start-up firms' establishment and operations, in general, the Russian entrepreneurs responded that start-up firms require foremost consultancy, mentoring and advisory services. In addition, it is also essential to provide networking opportunities and basic contacts to start-up firms in the beginning of their business operations. Only after these factors, financial and legal support is viewed to be required. According to the Russian entrepreneurs, on a third level of most significant support operations, start-up firms might require some level of guidance with their future marketing and human resource operations, or customer and partner search.

All in all, it can be concluded that based on the first part of the research, Russian entrepreneurs are highly motivated for establishing international and even global start-up companies. The entrepreneurs involved in the research are viewed to be determined with their future business plans. The willingness to develop not only organizational and technological knowledge but also entrepreneurs' personal knowledge related to the global business operations and networks, was emphasized by the respondents in every question. As a result, it should be concluded that Russian entrepreneurs are characterized as active, determined and knowledgeable actors in the global business sphere.

4.3 Establishing a Company in Finland

In order to answer the last three research questions, the process of establishing a company in Finland should be examined in more detailed manner. In general, entrepreneurship activities and creating small and medium enterprises (SMEs) are viewed as significant cornerstones of economic development both in Finland and Northwest Russia (Karhunen et al., 2008; Jumpponen et al., 2007). Firstly, new companies bring investments in the economy and facilitate its infrastructural development. Secondly, new companies bring new work places, and in turn, increase tax revenues of the economy. Thirdly, new companies, especially operating in ICT sector, bring welfare for the whole economy by setting new standards, advancing technologies and bringing new solutions for existing problems or for preventing future ones.

In the situation when a Russian entrepreneur is willing to enter European or international markets and seeks a profitable business strategy to realize these plans, it is rather crucial for this entrepreneur to consider about the possibility to establish his or her company in Finland. Finland can be viewed as one window opening not only European but also international markets for Russian entrepreneurs. This thesis in particular is mainly concentrated on the cooperation between two cities – Saint Petersburg in Russia and Lappeenranta in Finland. The reason behind this choice is the fact that these particular cities are close to each other, and thus, represent great amount of opportunities for Russian entrepreneurs for establishing their companies in Finland.

4.3.1 *Russian Entrepreneurs in Finland*

The main principle is that each and every person can practice legal and ethical business in Finland without separate permissions and restrictions (TE-keskus, 2008, 30). However, in order to be able to establish a company in Finland, foreign person whose permanent country of

residence is not located on European Economic Area (EEA) needs a separate permission document allowing him or her to establish a Finnish company and perform managerial or other responsibilities in businesses in Finland (NBPR, 2011). Citizens of EEA countries do not need this separate permission to establish companies in Finland. The permission is applied from National Board of Patents and Registration of Finland (NBPR) in two main phases (Wirma Lappeenranta – YT9, 2012). Firstly, Finnish ELY-Centre (Centre for Economic Development, Transport and the Environment; CEDTE) evaluates qualifications of profitable business operations, and that entrepreneur's welfare is secured (ELY-Centre, 2010). Secondly, office of foreign affairs confirms a residence permit for the entrepreneur (FIS, 2012), and jurisdictional district's police department confirms a continuation of the permit (Finnish Police, 2012). In order to receive the permission, business operations of the established company should be proved to be profitable. This qualification is evaluated by examining the business and financial plans of the company being established. In addition, in order for the permission to be received, entrepreneur must certify that his or her welfare is secured by regularly generated profits of the company, received salary or sales revenues. The application of the residence permit must be applied from the Finnish embassy abroad. In the case of Russian entrepreneurs it is either Finnish embassy in Moscow or general consulate in Saint Petersburg (Ministry of Foreign Affairs of Finland, 2006). When the residence permit of foreign entrepreneur is granted, the entrepreneur is able to begin the process of establishing his or her company in Finland.

Nowadays, there are rather many organizations in Finland which are providing their support and consultancy for Russian entrepreneurs in their processes of establishing their companies in the country. These are the organizations such as Wirma Lappeenranta Oy, Finnish-Russian Innovation Centre (FRIC), European-Russian InnoPartnership (ERIP), and FinNode Russia, to name a few. These organizations also cooperate

closely with each other, which enables them to provide the best possible services for entrepreneurs.

Close and active cooperation between Finland and Russia results from two main factors. Firstly, from Finland's perspective, Russia is viewed as highly potential market for future development and employment of modern technologies. Secondly, from Russia's perspective, Finland is viewed as a close and reliable connection to European markets. Table 5 below illustrates some of the advantages and disadvantages related to Finnish and Russian institutional and business environments. The table can be viewed as an illustration of the reasons why these countries are so well suited for further cooperation with one another.

In general, Finland is mainly represented by its business oriented professionals, high innovative priorities and clear business procedures as well as high ecology, safety and stability of the country itself. Russia, on the other hand, presents its scientifically oriented professionals, fast developing innovative culture and highly potential markets for many businesses. In terms of disadvantages, Finland has rather small domestic markets and small funds for providing venture capital as well as limited amount of ideas and technologies. Russia, on the other hand, suffers from country's poor image, challenging customs and logistics procedures as well as form lack of competencies related to commercialization, international project management and market knowledge, and poor legislation for international investor protection. Based on these advantages and disadvantages of Finland and Russia presented in the Table 5, it can be concluded that these particular countries are rather appropriate complements for each other. Thus, close cooperation between Finland and Russia is bringing benefits and value for both countries.

Finland	Russia
Advantages: <ul style="list-style-type: none"> - surplus of business oriented professionals - innovative business is on high priority - clear customs procedures - competitive capital costs - highly ranked among EU countries - high level of ecology, safety and stability 	Advantages: <ul style="list-style-type: none"> - surplus of scientifically oriented professionals - innovative business culture is developing fast (incubators, technoparks, funds) - significant governmental funds for supporting innovations - potential market for many businesses
Disadvantages: <ul style="list-style-type: none"> - deficit of venture capital money, small funds - small domestic market - limited amount of ideas and technologies - intellectual property right transfer to Finnish company necessary before any investment decisions from venture capitals are made 	Disadvantages: <ul style="list-style-type: none"> - challenging customs legislation and logistics procedures - high capital costs - poor reputation of the image "made in Russia" - poor image of Russian Patent agency - lack of competencies related to commercialization, innovation financing, international project management and market knowledge - legislation does not protect international venture capital investor

Table 5. Advantages and disadvantages of institutional environments (Finnish-Russian Innovation Centre, 2011)

According to results of a Joint Study of International Infrastructure Development of Small and Medium-sized ICT Enterprises in North West Russia (JIID), there are some factors which prevent companies' international activities. The list of these factors is presented in the following – first being the factor which hinders the most, while last being the factor which hinders the least or does not have a significant effect on companies' internationalization processes (Bilozarov et al., 2010, 15):

1. Lack of support of foreign activities from government
2. Deficiency of financial resources for entering foreign markets
3. No demand for the current products or services of a company

4. Excessive financial risk
5. Insufficient information on foreign technical standards
6. Insufficient information of foreign legislation
7. Very high competition on foreign markets
8. Lack of experience in international business
9. Insufficient information about the situation on foreign markets
10. Difference of Russian and foreign business-culture (and culture in general)
11. Difficult to find reliable foreign partner
12. Product or service are not meant for the international market
13. Insufficient information on availability of skilled personnel
14. There is little of positive in international activities
15. Russian market is enough for the company
16. Difficulties with languages

Above listed factors that are mainly preventing internationalization activities among Russian ICT companies can be also viewed as factors that prevent Russian entrepreneurs to establish their companies in Finland. Based on the results of JIID study, it can be concluded that the main three reasons why Russian entrepreneurs are not willing to establish their companies in Finland are related to the lack of support provided by government, deficiency of financial resources of start-up firms, and low level of demand of company's products or services in Finland. According to the study, the reasons which, in general, do not have an effect on starting international activities among Russian entrepreneurs relate to insufficient amount of information about availability of skilled personnel, lack of positive perceptions of international activities, and difficulties with languages. In some cases the fact that Russian market is seen to be enough for the company, does not raise the willingness to enter foreign markets. Thus, as a result it should be stated that Russian entrepreneurs are not afraid of language barriers when entering new foreign markets. In addition, lack of information about where to find skilled personnel for the company or where to find other companies with more positive experiences

of international activities, do not affect entrepreneurs' decisions. It can be concluded that in modern business world thinking internationally or even globally is becoming the main factor for surviving on markets. This is why this particular aspect is actively adapted by Russian entrepreneurs when they are planning to internationalize their companies to foreign markets. In order to prevent the challenges related to the processes of beginning international activities in the country, Finnish government tends to participate more actively in various support programs involving foreign start-up firms; and especially the cooperation with Russian parties is viewed as crucially important for both economies. In addition, Finnish universities, organizations and other companies are actively involved in creating various projects, seminars and events in order to promote international activities in the country and provide skilled and highly educated people for future companies.

There are few main factors why Finland can be viewed as a beneficial target for Russian entrepreneurs to establish their companies into (Vehviläinen, 2010). Firstly, Finland is advanced industrial economy, and one of the most competitive and open economies in the world. Secondly, the country has rather stable and business-friendly environment with a strong system of government support. Thirdly, Finland provides highly skilled workforce for companies operating in various industries. Fourthly, the country is one of the least corrupt countries in the world. According to Transparency International's Corruption Perceptions Index (CPI) 2011, Finland is ranked on the second place out of 183 countries (Transparency International, 2011). Fifthly, in Finland there is rather strong system of general SME support. This issue in particular relates to the fact that over 99 percent of Finnish companies are categorized as small and medium enterprises (SMEs) (European Commission, 2011). Companies registered in Finland (also foreign owned companies) are able to benefit from governmental investment incentives and access to the latest research from the extensive cooperation between Finnish universities and private sector. In addition, in Lappeenranta there is established a regional system

of business start-up firms and business development for Russian entrepreneurs in particular.

4.3.2 *Ten Steps' Process*

Wirma Lappeenranta Oy provides their support along the entire process of establishing a company and starting business operations in Finland. The organization has established on its Internet web page a packaged solution which is called Yritystulkki (Wirma Lappeenranta Oy – Yritystulkki, 2012). This package provides all the necessary information and required forms for entrepreneurs in order to guide them in the process of how to establish their companies in Finland. According to the representative of Wirma Lappeenranta Oy, it is rather strongly recommended that entrepreneurs firstly turn to Wirma, and that they start the process together in order to gain the most beneficial and sustainable outcomes. For Russian entrepreneurs in particular the city of Lappeenranta is the most beneficial to contact because of the fact that there are officials who also speak Russian, and thus, are able to provide their support and translation services for entrepreneurs on their native language (Vehviläinen, 2010).

According to Wirma, in practice the most popular form of a company among Russian founders is privately owned limited company, Ltd. In Finnish the company is called “osakeyhtiö” and has an abbreviation of “Oy” after the company’s name. According to Finnish law, limited company is a separate legal entity from its shareholders (FINLEX, 2006, 1898–1901). Privately owned limited company is required to have as minimum EUR 2 500 of share equity for establishment of the company. The main purpose of the limited company is to provide value for everyone who holds a share in the company. In general, an entrepreneur who is planning to establish a company in Finland is required to follow the phases illustrated in the Figure 12 below.

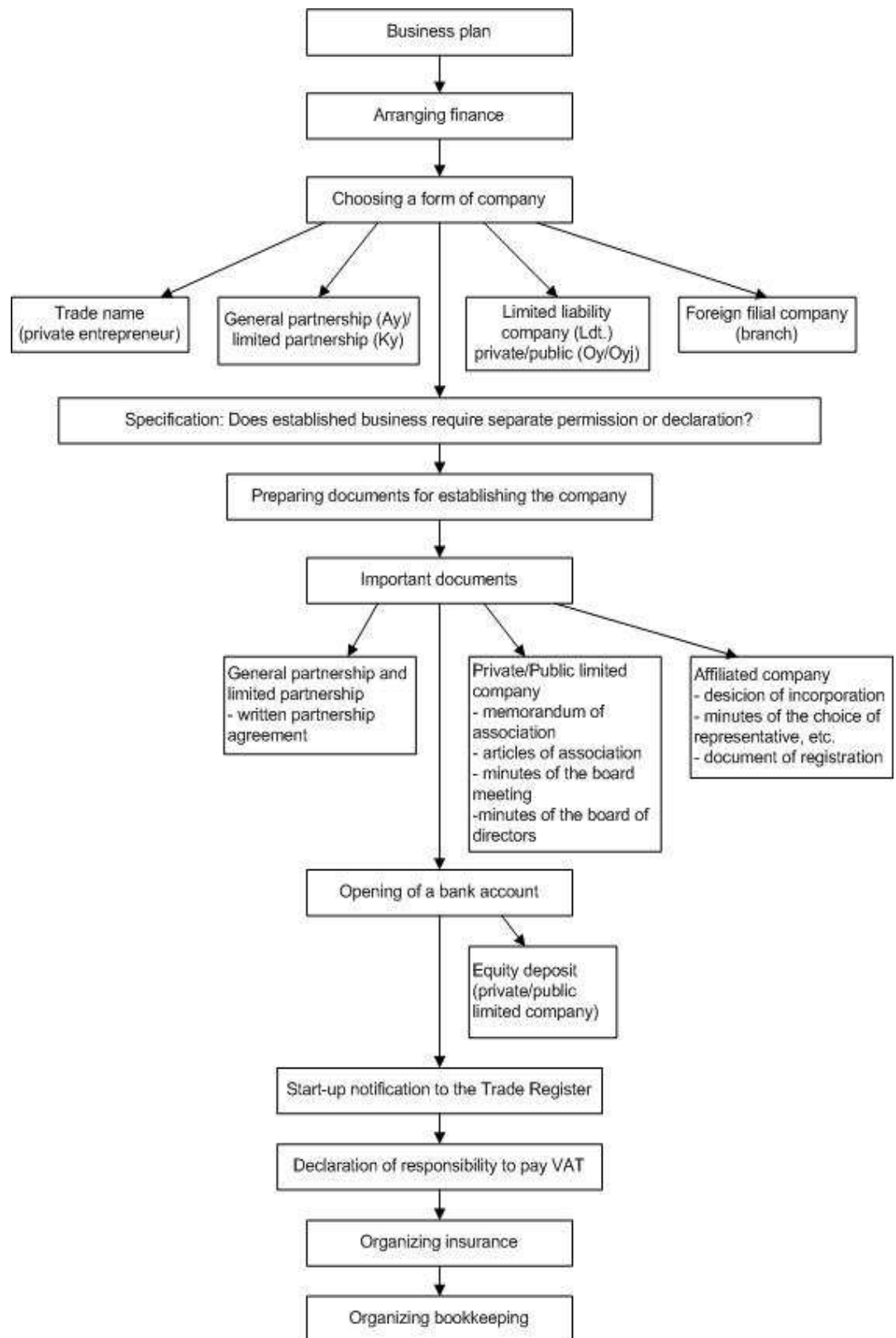


Figure 12. Steps for establishing a company in Finland (TE-keskus, 2008, 36)

According to Wirma, first and most essential step in establishing a company is to generate a business plan and budgetary calculations

(Vehviläinen, 2010). The plan should be in written format, and it should include the following ten aspects (Wirma Lappeenranta – YT1, 2012):

1. Entrepreneur's objectives
2. Visions and goals of the company
3. Marketing and sales plan
4. Human resource management plan
5. Financial calculations of the company
6. Analysis of operational environment and competitors
7. Business idea
8. Production plan
9. Research and development plan
10. Risk assessment

There are few forms and models provided on YritysTulkki web page which help the companies to establish their business plans and financial calculation figures on more ideal level. These forms are provided in Finnish, so cooperation with Wirma or other people who know the language is highly recommended. However, some documents are provided in English and in Russian also.

Second step in the process of establishing a company in Finland is to check that the business license of the company is valid and legitimate (Vehviläinen, 2010). Here, it is also necessary to examine if the company requires specialized permissions in order to start its business operations. In Finland permits or notifications are required for companies which involve pharmaceutical services; serving, importing or selling of alcohol; private social and health care services; accommodation, restaurant and café businesses; real estate agencies; security services; road transportation services (freight and passenger traffic); and debt collection agencies, among others (TE-keskus, 2008, 30). This step is characterized as rather challenging for the foreign entrepreneurs to manage on their own, and thus, the collaboration with Wirma is once again recommended.

After the business plan and business permissions are covered, the third step is to arrange financing for the company (Vehviläinen, 2010). Finland provides highly developed financial systems with various methods for funding beginning businesses. The company's obligation is to investigate opportunities for financing and business support. One possibility is to apply financing from Tekes. Tekes is an organization which mainly provides grants and loans for various research and development (R&D) projects. Tekes invests in companies which have the potential to grow, internationalize, reform their businesses, improve their competitive advantages on markets, and develop their knowledge bases (Tekes, 2012). In addition, also ELY-Centers (ELY-Centre, 2010), Finnish Innovation Fund Sitra (Sitra, 2011), Finpro (Finpro, 2012), Finnvera (Finnvera, 2012), Finnish banks (list of banks can be found on web page of Federation of Finnish Financial Services (FFI, 2012)), the Finnish Venture Capital Association (FVCA, 2012), among others, are providing financial support as well as consultancy services for start-up firms in Finland. At this step, Wirma Lappeenranta Oy is providing their help in searching for these opportunities (Vehviläinen, 2010).

According to the fourth step, the established company must choose members for its board of directors. Here, the main requirement is to include at least one person who has permanent residence in the EEA area as the member of company's board of directors. This fact in particular is strictly defined in the Finnish law, and that is why this step is crucial for the Russian entrepreneur to perform, if one is willing to establish the company in Finland (NBPR, 2011). If needed, Wirma is able to provide a person qualified for performing this particular role in the established company (Vehviläinen, 2010).

The fifth step of the process of establishing a company in Finland is to contact a Finnish bookkeeper and auditor (Vehviläinen, 2010). In Finland companies tend to outsource their bookkeeping to special firms and agencies. The purpose of the bookkeeper is to clarify with the tax liability

issues and practical bookkeeping issues in collaboration with the company. The auditor must be authorized by central or regional Chamber of Commerce of Finland (BIS, 2012a). At this step it is also recommended to contact insurance companies in order to cover the established company and its employees. In Finland limited companies are obligated to insure their personnel (FCP, 2011).

According to Wirma, sixth step in establishing a company in Finland is to begin filling in the forms and documents required for the process of registering the company (Vehviläinen, 2010). According to the National Board of Patents and Registration of Finland, a limited company must be reported for registration within three months from signing the Memorandum of Association (BIS, 2012a). The registration documents should be filled in either in Finnish or in Swedish. In some cases also English can be utilized. At this step Wirma is providing its help and support in the filling process. Completed documents are then sent to National Board of Patents and Registration of Finland (NBPR) to register the company at the Trade Register. The established company must file a start-up notification document which can be found at Finland's Business Information System's (BIS) web page (BIS, 2012a). This particular notification form is provided jointly by Business Information System (BIS), National Board of Patents and Registration (NBPR) and Tax Administration (TA). By filling in the form, the established company is able to enter in the Trade Register (in Finnish "kaupparekisteri"), Foundation Register ("säätörekisteri"), VAT (value added tax) Register ("arvonlisäverovelvollisen rekisteri"), Prepayment Tax Register ("ennakkoperintärekisteri"), Employer Register ("työnantajarekisteri") and Register of bodies liable for tax on insurance premiums ("Verohallinnon vakuutusmaksuverovelvollisten rekisteri"). Here, in addition to the Trade Register, according to the Finnish law, the established company must also register at the Prepayment Tax Register and Employer Register (Holopainen, 2011, 54). In Finland companies are obligated to pay corporate income tax. In practice, the taxes are calculated and paid

monthly in advance as prepayment tax from company's budgeted profit. The company is obligated to pay value added tax if its turnover during one accounting period (12 months) exceeds EUR 8 500 (Holopainen, 2011, 57). If the turnover is less than EUR 8 500 during one year, the company does not have to pay VAT. As employer's contributions, the company must pay approximately 30 percent of employee's fees which include unemployment security, social security and pension insurance (Vehviläinen, 2010).

Seventh step in the ten steps' process of establishing a company in Finland is to open a bank account in local bank (Vehviläinen, 2010). Eighth step in the process is to make an equity capital deposit of as minimum EUR 2 500 to the opened bank account as it is regulated by the Finnish law when establishing a private limited company in the country (FINLEX, 2006, 1898–1901). This first obligatory deposit is not viewed as an expense for the company. This sum in particular is the initial equity of the Finnish privately owned limited company. The sum can be used by the company in any business purposes at any time. However, it is not recommended to withdraw the entire deposit sum right away, because in that situation the entrepreneur is obligated to pay taxes of the withdrawn sum (Vehviläinen, 2010).

Ninth step of the process is to pay a fee for the official company registration at the public records in Finnish register office ("maistraatti") or in ELY-Centre (Centre for Economic Development, Transport and the Environment; CEDTE) (Vehviläinen, 2010). At this step the established company is provided with its unique business ID-number (in Finnish "yritys- ja yhteisötunnus"), which is utilized by Finnish authorities as a mean for distinguish companies from one another (BIS, 2012b). After this step, the company is able to start its operations and acquire necessary resources for the business.

Tenth and last step of the process for establishing a company in Finland is to find a suitable office premises (Vehviläinen, 2010). However, this step cannot be completed before the established company receives a certificate from the NBPR, conforming that the company is registered at the records of the Trade Register. According to Wirma, the process of establishing a company in Finland by foreign entrepreneurs is rather easy (Vehviläinen, 2010). Thus, the process follows basically the same steps as in the case when Finnish entrepreneurs are establishing their own companies in the country.

4.3.3 *Establishment Process of the Case Company*

This sub-chapter discusses the process of establishing a company in Finland from the perspective of the case start-up firm. The process is illustrated in the Figure 13 below in form of cross-functional diagram. The diagram is constructed based on the information collected during the personal interviews with the case company's founders. The figure presents in total five participants involved in the process. First participants are the Russian entrepreneurs who are viewed as the founders of the Finnish company. Second participant is the established start-up firm itself. Third participant is Konsu Oy, which provided their consultancy and support services in the very beginning of company's establishment process. Fourth participant is Wirma Lappeenranta Oy, which provided their help and support for the start-up firm in form of privately created partnerships between the members of both parties. Fifth participant in the process is Tekes, which is included in the picture as a representative of financial investor. It should be emphasized that the figure includes only the participants which are viewed as most essential to present in order to get an overview of the whole situation of the case study. In addition to the parties mentioned above, there were also involved European-Russian InnoPartnership (ERIP) organization and Lappeenranta University of Technology (LUT), among others, with their various levels of commitment in the process.

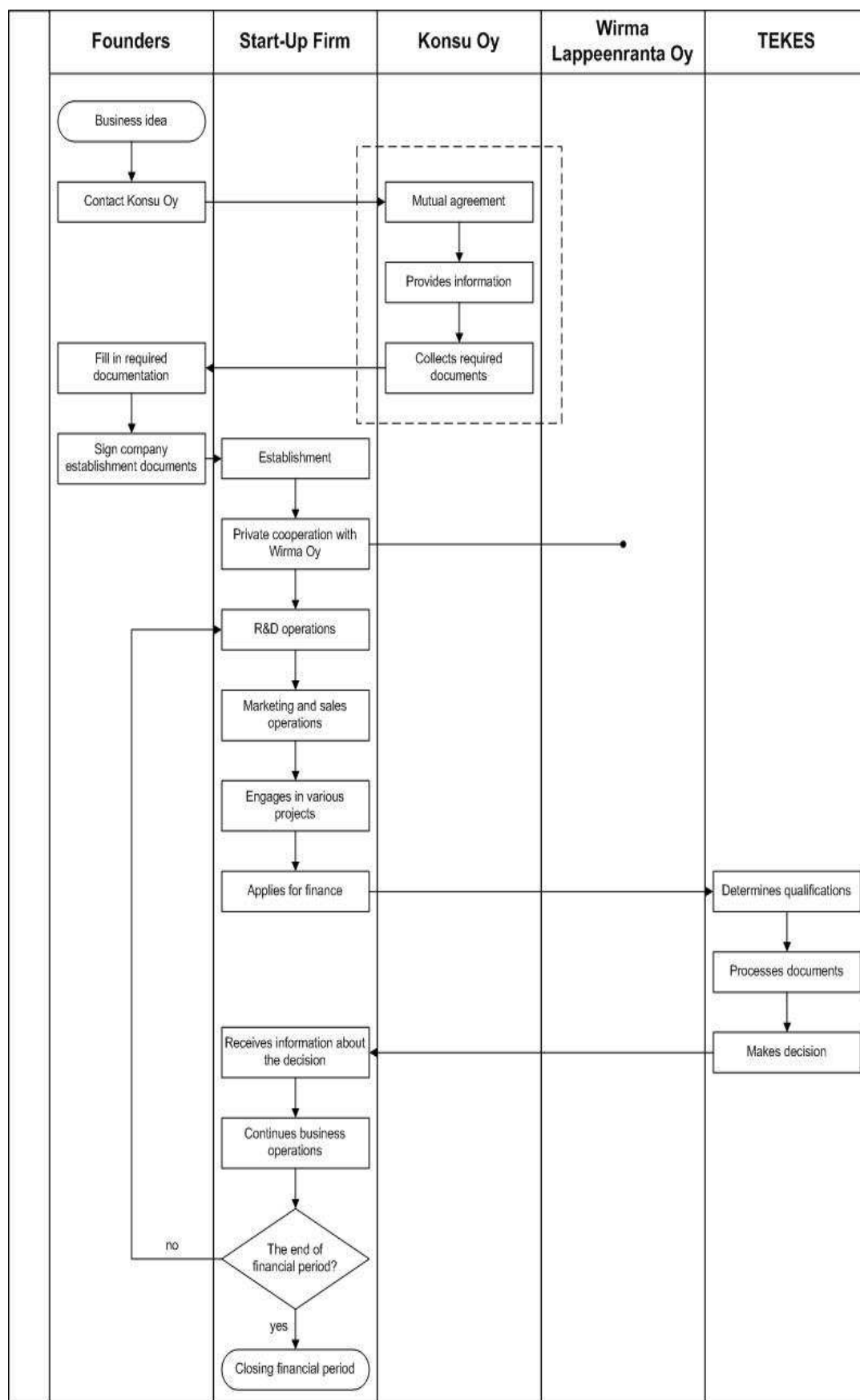


Figure 13. The process of establishing the case company in Finland

The idea to establish a company in Finland was generated by Russian entrepreneurs after they had participated in an event related to cooperation between Europe and Russia. Finland was viewed as rather an ideal place for establishing a company, because it is closest country to Russia, which provides an access to European markets. According to the Russian founders, Finland is stable, secure, innovative, and is well-known for its high quality operations. The start-up firm established in Finland is characterized as a spinoff company generated from one of the largest and experienced Russian company operating in ICT industry. The founders of the start-up firm decided to establish an independent company in Finland, and formed a licensing agreement with the Russian company. According to the agreement, Finnish start-up firm has full access to Russian partner company's technologies. However, the start-up firm engages in its own separate projects in European markets providing its own solutions, which require specialized research and development (R&D) operations. In general, the reason behind the licensing agreement with the Russian company was the fact that the management of the start-up firm was highly motivated to establish and maintain a close Finnish-Russian partnership in their business sphere.

After the idea to create a company in Finland was generated, the process of establishing the start-up firm began by contacting Konsu Oy. Konsu Oy is a Finnish company providing consultancy and accounting services to business companies (Konsu Oy, 2007a). In addition to Finland, Konsu Oy is presented also in Russia, Ukraine and Germany (Konsu Oy, 2007b). Based on the fact that Konsu Oy has its offices both in Lappeenranta and in Saint Petersburg, the cooperation agreement with the Russian founders and Konsu Oy was rather predictable. The reason behind this statement is the fact that founders' place of residence is in Saint Petersburg. The process of establishing a company in Finland was managed by Konsu Oy and a Russian person assigned as the Chief Executive Officer (CEO) of the start-up firm. Konsu Oy was in charge of collecting all the required documents, and provided their consultancy services to the Russian

founders. During the initiation stage of the company's establishment process, start-up firm's assigned Business Development Manager was responsible for finding out all the necessary issues related to the Finnish business legislation, and for searching companies and organizations which could provide their support and help for the start-up company. In the process of establishing a company, there was a Finnish person from Konsu Oy who was assigned as a member of board of directors of the start-up firm, which was required according to the Finnish law. During the company's establishment process, managers searched actively new contacts and networking opportunities for company's future development. In the situation of the case study, the process of establishing a company in Finland took altogether approximately half a year (six months).

The worst problem which the case company faced in starting its business operations, was a problem related to incorrect VAT-number, which generated further problems with banks and firm's customers. According to the Business Development Manager of the start-up firm, this problem might have been avoided if Konsu Oy was more focused on advising the company based on their requirements and unique situation of being established by foreign entrepreneurs. However, the company understands that learning follows from mistakes. In general, during the company's establishment process and also in starting business operations, the case company faced problems related to language barriers, reputation of Russia, and situation of start-up firms in general, among other things. In addition, start-up firm's low turnover raised some problems in participating in projects and applying funding. According to the founders, the case company tries to study the problems and forecast them in various business situations. However, when a company oversees some problems and is obligated to face them, the experience is viewed as valuable for future organizational learning. Also, the case company continuously goes through issues related to the Finnish legislation and business practices in order to operate as an independent and fully authorized Finnish entity.

From the perspective of received support from the participants in company's establishment process, Konsu Oy and Wirma Lappeenranta Oy provided mainly connections and networking opportunities for the start-up firm. Konsu Oy provided their services based on formal establishment agreement with the start-up firm. Relationship with Wirma Lappeenranta Oy, on the other hand, was based on friendships between individuals working on both sides. Wirma Lappeenranta Oy provided information about dealers and accounting companies, among others, to the start-up company. In addition, the case company also networked with universities: in addition to Lappeenranta University of Technology (LUT), Business Development Manager of the start-up firm established networks with other Finnish universities. Mainly the support received by the case company was all unofficial and based on personal connections and networks of founders. Official support services were provided by Konsu Oy, language translation and interpretation companies, as well as accounting companies. According to the founders of the case company, Russoft cluster (Russoft, 2012) and the Committee on IT and Communications of Government of Saint Petersburg (CITC, 2012) provided connections to Finnish organizations from Russia. Representative office of Wirma Lappeenranta Oy in Saint Petersburg was the main connection for the case company to Finland and to Lappeenranta in particular.

After the company was established, the partnership with European-Russian InnoPartnership organization got initiated. The organization provided information for the case company related to the factors how to make the establishment process faster. The founders participated in various seminars related to the establishment of a company in Finland. Based on these seminars, founders were able to get contacts and receive the main information about how to establish a company and start business operations in Finland without any help of formal consulting agencies. Contacts gained from seminars and other networking opportunities were utilized as means to gain valuable information and necessary services related to the process of establishing a company and starting business

operations in Finland. Thus, according to the company's Business Development Manager, the main help and support was gained based on close friendship and partnership relations.

Based on the personal interviews with the case company's founders, it must be concluded that Russian entrepreneurs have also the possibility to initiate and complete the process of establishing a company in Finland independently. Thus, entrepreneurs are able to establish their companies in the country without involving any formal consultancy agencies or other organizations. This particular situation is illustrated in the Figure 13 above with the discontinuous line drawn around the operations performed by Konsu Oy. These particular operations can be performed by the founders of the company, in the case when Russian entrepreneurs are acting independently. However, in this particular situation Russian entrepreneurs are required to obtain a significant amount of information and knowledge about Finnish procedures and legal requirements in the process of establishing the company in the country. In practice, it is rather possible to operate independently without formal consulting agencies involved. However, in this case informal advisory and informative support plays a highly essential role in order to complete the process successfully. Thus, this means that Russian entrepreneurs should actively build stable and close networks and gain necessary contacts in Finland before they decide to establish their companies in the country. The final decision to initiate the process should be made when the entrepreneur is completely certain that one is able to perform the operations required in the process.

In terms of its first years of business operations, the case company is engaged in various projects, and is also actively searching for future ones. In addition, the start-up firm is also engaged in searching for investments and funding for the projects it is involved in. In terms of experiences gained after the firm was established, according to the case company, being a start-up firm is rather challenging to operate in Finland. The basic reasons for this are related to the facts that, in general, the company is

required to have some level of turnover and market experience for sufficient period of time in order, for example, to be granted with financial support. According to the founders, the case company has applied finance for its projects and R&D operations from Finnish Funding Agency for Technology and Innovation, Tekes. This particular organization is also presented as a participant in the process illustrated in the Figure 13 above. Tekes is one of the organizations which provide financial support mainly for small and medium-sized companies in Finland. The organization qualifies the projects for its investments according to their potential of growth, internationalization, competitive advantage, and knowledge, among other things. In Finland the case company is also searching opportunities to establish partnerships with the local companies which are operating in the same industry and the same markets. The case company has contacted two main candidates for future cooperation, one of which has been more or less successful. Together these companies plan to focus on market and research activities in their particular industry sector. General directions for research and development (R&D) operations, and information about potential future specialists are received from universities which the start-up firm is cooperating with.

Figure 13 above, presenting the process of establishing the case company in Finland, ends by illustrating the closure of the financial period of the case company. Generally, the case company is viewed to continue its business operations by following the cycle of operations related to engaging in R&D projects as well as marketing and sales of its own solutions. Thus, the figure presents only the closure of the first financial year of the case company. In practice, after the first financial period is closed, the company opens a new one. In terms of future plans, the case company is concentrating on two main dimensions: markets and research. The company will focus on marketing and sales of its own unique and flexible solutions and, of course, on developing underlying technologies. The main aim is to establish more powerful image of independent company operating in the SME sector in Finland. Currently, the case

company is viewed as a success story by Wirma Lappeenranta Oy and European-Russian InnoPartnership organization.

All in all, it should be concluded that the case company follows the common process of establishing a company in Finland. Thus, Russian entrepreneurs are able to establish their companies in Finland with the same requirements and steps as Finnish entrepreneurs do. In general, entrepreneurs who plan to internationalize or establish their companies in foreign countries are required to obtain the knowledge based on necessary issues related to those processes in question. Generally, the knowledge related to business operations and internationalization processes themselves as well as knowledge about the institutional environment of the targeted country must be acquired beforehand. In addition, entrepreneurs need also support from their networks and opportunities to gain necessary contacts. The following two sub-chapters provide some recommendations and useful Internet web sites for future entrepreneurs to utilize related to the situation presented in this thesis.

4.4 Recommendations to Entrepreneurs

Based on the research results of this thesis, this sub-chapter in particular provides some recommendations to Russian entrepreneurs who are willing to establish their companies in Finland. These recommendations are divided into two main categories: organizational and individual.

On organizational level, entrepreneurs are, first of all, recommended to create and develop organization's business and financial plans. Secondly, organization's budgets for costs should be allocated in association with R&D operations on a regular quarterly basis. Thirdly, entrepreneurs should be active in promoting organizational learning and create an open corporate culture. Fourthly, it is important to implement continuous control system for business and technology development in the company. In

terms of establishing a company in Finland and starting business operations in the country, entrepreneurs of the organization are recommended to participate in and apply funding from Finnish governmental and organizational programs provided to the small and medium-sized enterprises (SMEs). Thus, the organization should be actively involved in various support and funding programs in order to develop further.

On individual level, entrepreneurs are recommended to concentrate on their own personal competencies and on improving them. As it is confirmed with the research findings from the case company, it is rather crucial for entrepreneurs to participate actively in various events such as seminars, conferences and forums, which are related to the themes of Finnish-Russian as well as European-Russian cooperation. These events in particular present valuable opportunities for networking and for gaining beneficial information and contacts which, based on the findings of the first and second empirical research parts, are viewed as the most essential factors for entrepreneurs and their start-up firms. These contacts and networks should be further developed into close partnerships and friendships between various parties involved. Thus, it is rather essential for entrepreneurs to create connections with other organizations, businesses and universities in order to receive the necessary support and information. Entrepreneurs should also develop their business, internationalization and institutional knowledge in order to be able to manage various situations and overcome problems. Here, entrepreneurs are also required to get familiarized with international and Finnish standards, culture, and legislation issues, among others.

4.5 Useful Internet Web Sites

The list of organizations which provide various support services, informational consultancy and other services related to business

operations for Finnish companies is presented below. It should be mentioned that the list is not all-inclusive – the list includes only the organizations which are presented in the present research. The organizations are listed in alphabetic order in the following.

- Business Information System (BIS). Business Information System is managed jointly by the National Board of Patents and Registration of Finland and the Finnish Tax Administration. The system enables businesses and organizations to report their information by one single notification to both authorities involved. Business Information System provides necessary information as well as forms and documents for establishing a company. The web site is available at <http://www.ytj.fi/english/>

- Centre for Economic Development, Transport and the Environment (CEDTE) (ELY-Centre). Finnish ELY-Centers manage regional implementations and development tasks of the state administration. The organizations provide advisory, financing and development services for enterprises, and are key actors in promoting regional labor and industry policies in the country. In addition, ELY-Centers are also involved in developing trade, industry and innovation environments of Finland. On regional level, ELY-Centers manage tasks related to immigration, integration and good ethical relations. The organizations are also involved in cooperation with neighboring areas and international activities, among other things. The web page is available at <http://www.ely-keskus.fi/en/frontpage/Sivut/default.aspx>

- Enterprise Finland. Enterprise Finland provides information about assistance and support available to companies or entrepreneurs for establishing and developing their businesses. The service solutions provided by the organization include the following aspects: establishment of business, business operations, business

development, internationalization, employment, environmental consciousness of businesses, Enterprise Europe Network, business permissions, business recovery, and product and service development. The web page is available at

<http://www.yrityssuomi.fi/web/enterprise-finland>

- European-Russian InnoPartnership (ERIP). ERIP provides services for development and protection of innovation activities as well as organizes research, appraisal and implementation of the best Russian and European innovation experience. The main services for companies include market access and company information services, business development services, HelpDesk, innovation services, project management and fund raising, and public relation services. Main activities of ERIP are related to the creation and development of international multidiscipline network of experts; preparation of strategic projects for regional development; and enforcement of business and personal contacts of the state officials, political and business representatives in Russia and in the European Union (EU). One of the main strengths of ERIP is a concept called Triple Helix, which provides the approach of integrating business, university and government in order to gain the most profitable solutions. The web site is available at <http://www.innopartnership.ru/>

- Federation of Finnish Financial Services (FFI). FFI is a trade body which represents financial companies in Finland. The aim of the organization is to promote the interests of Finnish financial industry, secure well-functioning financial markets and effective payment systems in Finland. The organization provides list of banks presented in Finland, among other things. The web page is available at

<http://www.fkl.fi/en/Pages/default.aspx>

- FINLEX. Finlex represents legislative data bank of Finnish acts and decrees. In addition to legislation, Finlex includes also sections which cover case-law, secondary legislation, international treaties and government bills. The web site is available at <http://www.finlex.fi/en/>

- Finnish-Russian Innovation Centre (FRIC). FRIC provides a medium for European and Russian companies and organizations in order to exchange ideas on innovation and commercialization activities. The Centre promotes the cooperation in R&D activities among its customer base of private and public entities, which include entrepreneurs, corporations, organizations, research institutions, universities, innovation centers, and technology parks. FRIC provides its support for companies which are looking for the right networks, partners, and venture capitals in order to commercialize their innovations at any stage of business development. The web page is available at <http://www.finrusinno.ru/>

- Finnish Venture Capital Association (FVCA). FVCA promotes venture capital financing for companies and organizations in Finland. The objective of the organization is to develop private equity and venture capital as an industry, and promote the interests of its members. FVCA improves the operating environment of the industry by taking care of general interests and ethics of the industry itself, by promoting the relations between venture capitalists and entrepreneurs, and by organizing research activities. The web page is available at <http://www.fvca.fi/en/>

- Finnvera. Finnvera provides financing for the starting, growth and internationalization processes of small and medium-sized enterprises (SMEs) in particular, and guarantees against risks

arising from exports. The organization supports the operating potential and competitiveness of Finnish companies by offering loans, domestic guarantees, venture capital investments, credit guarantees, and other services associated with the financing operations. The web site is available at

<http://www.finnvera.fi/eng>

- Finpro. Finpro is a global organization which is involved in building the growth and success of Finnish companies on international markets. The organization provides various consulting and information services in different phases of internationalization of companies. In addition, Finpro has a service called Foresight which allows the company to identify and select ideas suitable for its operations from observations and perceptions gathered around the world. The web page is available at
<http://www.finpro.fi/web/english-pages>
- Konsu Oy. Konsu Oy is a part of Accountor Group (<http://www.accountorgroup.com/>) which is the leading actor in providing financial management services in the Nordic countries and the Baltic Sea region. Konsu Oy provides wide variety of services related to the following issues: business start-up, consulting in taxation and legal issues, financial management, auditing and IT-consulting. The web site is available at
<http://www.konsu.com/node/1>
- National Board of Patents and Registration of Finland (NBPR). NBPR of Finland manages issues related to the Trade Register, the Register of Foundations and the Register of Associations as well as provides a variety of advisory and information services and training programs. In addition, the organization grants patents, utility models and register trademarks and designs. The web page is available at
<http://www.prh.fi/en.html>

- Sitra. Sitra is the Finnish Innovation Fund. The organization provides services related to capital and funding investments as well as project investments. The web site is available at <http://www.sitra.fi/en>
- Tax Administration. Tax Administration of Finland provides instructions for companies and organizations related to the tax issues. The aspects covered by the administration are related to business tax, value added tax (VAT), income taxation, prepayment register, taxpayers' rights and obligations, transfer tax and refunding taxes, among other things. The web site is available at http://vero.fi/en-US/Companies_and_organisations
- Tekes. Tekes is the Finnish Funding Agency for Technology and Innovation. Tekes is the main public funding organization for research, development and innovation in Finland. The organization provides financial support to companies which have various development and innovation projects as a part of their growth strategies. Tekes funds the projects of companies which aim to grow, internationalize, be competitive, have an influential team, are based on unique knowledge and competencies, and are pioneers on the markets. The web site is available at <http://www.tekes.fi/en/community/Home/351/Home/473>
- Wirma Lappeenranta Oy. Wirma Lappeenranta Oy provides a solution called Yritystulkki. This particular solution provides information and advisory services related to the following issues: establishment of companies, management of companies, company finance, and marketing and sales. Yritystulkki solution includes various reports, forms and documents which are designed to support entrepreneurs in the process of establishing companies and starting business operations. The web page is available at <http://www.yritystulkki.fi/alue/lsyp/index.php?page=1184&lang=1>

5 DISCUSSION AND LIMITATIONS OF THE RESEARCH

This final chapter of the thesis summarizes and analyzes research findings. The aim is to provide theoretical and managerial contributions related to the study. In addition, the limitations of the work are discussed, and directions for further research are provided.

5.1 Discussion of the Findings

As a result of the first part of the empirical research, it can be concluded that, in general, Russian entrepreneurs have highly positive attitudes towards Finnish institutional environment and innovation support policies provided to foreign start-up firms in the country. All of the entrepreneurs are raising the consultancy, mentoring and informative services as the most valuable support provided to them by the program in which they participated in Finland. In addition, the respondents also stated that one of the advantageous outcomes of the support program is the presented opportunity to network with professionals and to gain basic contacts for further development of business operations of their companies. When comparing their companies' home country to Finland, the entrepreneurs state that in terms of effective support policies and valuable networking opportunities, Finland is viewed to be more preferable country to establish a company or to internationalize into than Russia. In general, the research demonstrated that institutional environments of countries have rather crucial effects on the emergence and further growth of new innovative start-up firms in the world.

However, the findings show that most of the Russian entrepreneurs are planning to internationalize their start-up firms firstly into the United States of America rather than to Finland. Here, the main aspect is turned to the size of targeted markets and the fundamental goals of the entrepreneurs. Thus, Finland is viewed as a channel to enter and build a presence in the

European markets, while USA provides an opportunity to expand the business to cover global markets. In addition, as the global business language in the world is English, it can be added as a one more advantage in favor of the markets of USA. As a result of the research findings, it can be concluded that Russian entrepreneurs seem to be rather active, highly knowledgeable and ambitious to create the presence on a global level. In addition, they are not afraid of taking risks and making risky decisions in order to reach their goals. These particular factors are highly essential in order to promote entrepreneurial activities all around the world, and to develop the economical position of the country itself.

As an outcome of the second part of the empirical research, it can be concluded that Russian entrepreneurs are able to establish their companies in Finland mainly through the same process as the Finnish or European entrepreneurs do. However, the entrepreneur who has a permanent residence outside the European Economic Area (EEA) is required to apply for a permission to perform business activities in Finland. There are many organizations in Finland which provide their support in terms of consultancy, informative, language translation as well as legal and financial services to the entrepreneurs who are in the process of establishing their companies in the country. In order to receive support from Finnish institutions, the requirements for any company include the facts that the company should be established in Finland and show its active commitment in improving the economical stand of the country. Thus, the established company is expected to create new work places, raise tax revenues, develop technology bases and generate innovations in the economy, among other things.

Based on the research findings of the case study, the process of establishing a company in Finland is initiated by the intention of the Russian entrepreneurs themselves. At the beginning of the process, the activity as well as existing networks of entrepreneurs play crucial role. Thus, the entrepreneur should search for possibilities and opportunities

and create contacts with the necessary parties in one's home and targeted foreign countries. In Finland, there are many organizations which provide their help to entrepreneurs in the process of establishing the company as well as in starting and developing its business operations in the country. As with the case study, the company's establishment process begins with a contract made between the entrepreneurs and one of the organizations providing its services according to the conditions of the mutual agreement. On the one hand, it should be mentioned that entrepreneurs are also able to manage the process of establishing a company in the country on their own, without any contracts involving external organizations. However, on the other hand, operating on their own the entrepreneurs are required to obtain rather extensive knowledge about the process itself and about the fundamental requirements taking into account legal, practical, cultural and other aspects. In addition to knowledge and experience, the entrepreneurs will also benefit if they have personal contacts and networks to provide help and support in the situation. In the end, the establishment of a company in Finland involves approximately ten steps which are required to be completed before the company is able to begin its business operations in the country.

According to the findings of the case study, the problems faced by Russian entrepreneurs in Finland during the process of establishing the company and starting business operations in the country, are mainly related to the legal, practical, cultural and general situation of the SMEs. Thus, lack of entrepreneurs' knowledge related to the institutional factors of the targeted country raise the main problems. In addition, cultural and language based complications are faced by Russian entrepreneurs when dealing with legal and documentary issues in Finland. In general, inexperience of the company hinders on some level the processes of getting financial support from the Finnish organizations. However, all of these particular problems are avoidable to some extent, and as it is also demonstrated by the case company of the research, all of the faced

problems should be viewed as factors for improving organizational learning of the company and the entrepreneurs.

5.2 Theoretical and Managerial Contributions of the Study

According to Corley and Gioia (2011), theoretical contribution of a study can be divided into four dimensions according to the originality and utility of the study. These particular dimensions are presented in the Figure 14 below. The first dimension of theoretical contribution of a study is characterized by revelatory originality and scientific utility. The second dimension is characterized by incremental originality and scientific utility. The third dimension of theoretical contribution of a study is characterized by incremental originality and practical utility. The fourth dimension is characterized by revelatory originality and practical utility of a study.

When viewing the dimensions presented by Corley and Gioia (2011), it can be concluded that the theoretical contribution of this thesis is characterized by revelatory originality and practical utility. Thus, the theoretical contribution of this thesis in particular is categorized to the fourth dimension presented in the Figure 14. The reason behind this categorization is the fact that the research of the thesis concentrates on the issue which is rather revelatory by its nature. In addition, the contribution of the research is mainly characterized by practical utilization by managers.

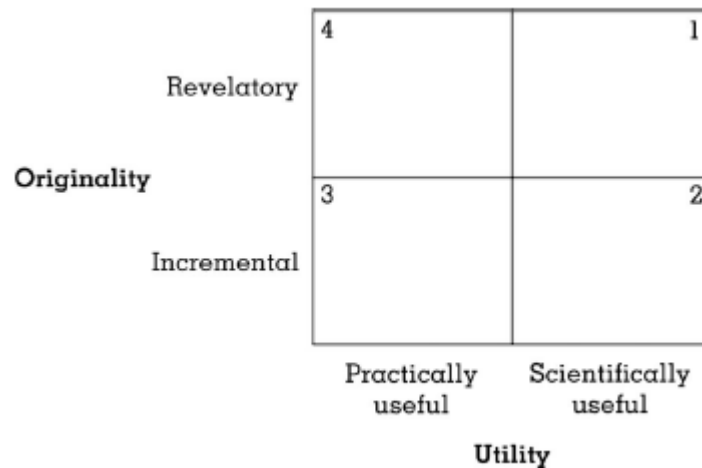


Figure 14. Dimensions for theoretical contribution Corley and Gioia (2011)

The study of the thesis has contributed to the existing literature by integrating the theories of institutional environments, international start-up firms and internationalization processes in order to provide new aspects with the focus of Finnish-Russian cooperation activities. The contribution is mainly based on practical perspective which is constructed by qualitative research conducted in two parts. The first part is based on examining the perceptions of Russian entrepreneurs about Finnish institutional innovation support policies, while the second part studies the process of establishing a company in Finland by Russian entrepreneurs from the perspective of a specific case company.

From theoretical and practical perspectives, the present study has proceeded a step closer in understanding the process of establishing a Finnish company by Russian entrepreneurs as well as in gaining a general overview of Russian entrepreneurs' perceptions related to Finnish institutional environment and its innovation support policies. As managerial contribution, the thesis provides recommendations for Russian entrepreneurs on organizational and individual levels. The recommendations are provided in terms of business development perspective and managerial improvements. In addition, the thesis presents a list of various organizations which provide a wide range of services for

foreign entrepreneurs related to support activities as well as consultancy and advisory operations.

5.3 Limitations and Directions for Further Research

The study of the thesis provides some insights to the Finnish-Russian cooperation from the aspects of business and institutional environments. The issue of improving Finnish-Russian cooperation activities is raised in the thesis. The aim is to raise awareness of this particular issue and to present one case example in order to provide practical contribution on some level to guide future entrepreneurs and institutional innovation support policies both in Finland and in Russia.

There are some limitations involved in the present research which complicates the generalization of the research findings. Firstly, the sample size of companies included in the empirical research is rather small. Thus, for further research the number of companies involved should be higher in order to be able to generalize the results to cover greater amount of companies. Secondly, the research of the thesis is focusing only on Finnish-Russian cooperation activities, involving Finnish institutional innovation support policies and Russian entrepreneurs. These particular factors narrow down the perspective of the research to cover only these two countries mentioned previously. Thirdly, only one specific case company is presented in the thesis as an example of the process related to the issue of establishing a company in Finland by Russian entrepreneurs. Thus, for further research the amount of case companies reviewed should be higher in order to be able to provide a standardized view of the process of establishing a company in Finland.

In terms of setting directions for further research, the issue raised in the thesis provides rather good starting point. The current topicality of Finnish-Russian cooperation activities provides great opportunities also for future

researches. As a continuation to the present research, the future research should also raise awareness and knowledge of the processes and policies involved in the Finnish-Russian cooperation activities in order to improve the policies even further and to promote the entrepreneurial activities involved in this particular sphere. In further research, this thesis can be utilized as a starting point of the analysis and as a guide for information search.

6 CONCLUSIONS

This thesis raised the issue of Finnish-Russian cooperation into more focused research, and discussed the process of establishing a company in Finland from the perspective of Russian entrepreneurs. In addition, the perceptions of Russian entrepreneurs towards Finnish institutional innovation support policies were studied in order to gain a general overview of entrepreneurs' experiences and attitudes. The main objective of the thesis was to raise awareness among Russian entrepreneurs and Finnish institutions about the researched situation. This particular goal was reached by presenting one successful example in the sphere.

Literature review based on the existing theories related to the topic was covered in the first two main chapters of the thesis after the introductory part. Firstly, the existing literature based on institutions and institutional environments were reviewed in the Chapter 2. Then, the theories of international start-up firms and their internationalization processes were discussed in Chapter 3. The entire literature review was mainly characterized with the information technology (IT) perspective, which was also introduced separately in the sub-chapter 3.3.

The empirical part of the thesis was covered in the following two chapters of the thesis. Chapter 4 introduced the methodology and delimitations of the research. The empirical research of the thesis was conducted qualitatively with the help of online questionnaire as well as with the help of personal interviews with the specific case company. According to the findings of the first empirical research part, Russian entrepreneurs have rather positive attitudes towards Finnish institutional environment as well as towards Finnish innovation support policies. As a result of the second part of empirical research, the ten steps' process was illustrated for Russian entrepreneurs to follow in the sub-chapter 4.3. The process of establishing the case company in Finland was presented in the sub-chapter 4.3.3. Sub-chapter 4.4 proposed some managerial

recommendations for future entrepreneurs; and sub-chapter 4.5 provided a list of Finnish organizations included in the thesis which provide their support and information services for entrepreneurs. Second empirical chapter – Chapter 5 – presented the following general discussion of the research findings, clarified the theoretical and managerial contributions of the study, and provided directions for further research.

As a conclusion it should be mentioned that this thesis views the cooperation activities between Finland and Russia in the sphere of supporting the establishment of technology oriented start-up firms in these countries, will provide benefits and value for all parties involved in the process. However, more close integration between institutional and business environments is suggested in these particular countries.

This thesis provided a starting point in the sphere of integrating these two particular environments together. The main argument behind this statement is related to the fact that the business environment is becoming continuously global and borderless, and thus, requires institutional development, and in some cases even radical changes in institutional environments of the world economies. Hence, countries should actively provide institutional support for international entrepreneurs in their processes of establishing, developing and internationalizing their companies into foreign markets. Especially, these support policies should be carefully considered from the perspectives of modern, innovative and technology oriented start-up firms.

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APPENDICES

Appendix 1. Online Questionnaire

1. When was your company established and what issues were behind the creation of business idea for your company (knowledge, motivation, staff, etc.)?
 - a. What conditions led to the creation of your company (university, corporate spinoff, etc.)?
2. In what industry your company operates in?
 - a. What products/services does your company provide?
3. Is your company present also abroad? If yes, in which countries?
 - a. If your company is not yet presented abroad, are you planning to enter foreign countries? In which countries are you planning to enter?
4. Was your company required to modify the products/services in order to be applied to foreign countries?
 - a. What, if any, was modified?
5. What kind of support programs or support operations were provided to your company from Finnish side in order to facilitate the starting of your company's business operations (for example, programs provided by government, organizations, investors as well as contracts and special conditions)?
 - a. How did you get acquainted with these programs and other support operations?

6. What kind of experiences did your company have with support program provided to foreign start-up firms in Finland?
 - a. How did your company get acquainted with this program?
7. What kind of attitude does your company have towards Finnish business environment?
 - a. Taking into consideration factors related to taxation, laws and regulations, R&D infrastructure, innovation and technology, business sophistication, financial markets, politics and corruption, culture, among other things.
 - b. How do you perceive, are these factors promoting the emergence and development of start-up firms?
8. In general, how does your company perceive the support provided by Finnish parties in contrast to Russia?
 - a. In your opinion, what kind of support operations do start-up firms need when starting their operations? What support operations are already presented and what possibly are still required?
9. According to your perceptions and experiences so far, what support operations, if any, will your company need in the future?
10. Based on your perceptions, does macroeconomic environment of a country have a critical effect on growth of the start-up firms or not?
 - a. Taking into consideration factors such as economic and financial stability, taxation and regulatory systems, customs regulations, political relations, R&D infrastructure, technology and innovation development, etc.).

Appendix 2. Interview Questions for Case Company

1. How did the idea of establishing a company in Finland get generated?
2. How was the name for the company created?
3. Who was responsible for managing the process of establishing the company?
4. How did the process get started, and how long did it take altogether?
5. What kind of support was provided to the company, and by whom?
6. How did the company get familiarized with these parties which provide their support?
7. Who participated altogether in the process of establishing the company in Finland?
8. What kind of experiences and perceptions did the company gain while the process was on?
9. Could you describe the process as a continuum (who was involved, what kind of decisions were made, what kind of opportunities were provided, etc.)?
10. Were there any problems which you faced during this process?
11. How did you overcome these problems?
12. Are there any kinds of problems that you face now, after the company is already established?
13. How company's business operations are planned to be carried out in the future?