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*Department of Business Administration*  
*International Marketing*

**Local Embeddedness and Knowledge Acquisition  
and How They Affect Finnish Business Operations  
in Russia**

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## **ABSTRACT**

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This pilot project aims to examine the factors of the Finnish subsidiaries' local embeddedness, their knowledge creation capabilities and the transfer mechanisms of new practices in the context of the Russian market.

The research is designed as a multiple case study conducted with a qualitative approach. The empirical data consists of the interviews of the four Finnish case companies operating in the Kaluga region and three local partner companies. The deductive and inductive approaches were employed to conduct the analysis of the data.

The propositions for the future study were developed in the conclusive chapters of the research, where we propose that the factors of the economy growth and industrialization matters in terms of subsidiaries' role dedication, their knowledge creation capabilities, and direction of the knowledge flow within the local environment.

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# 1. INTRODUCTION

## 1.1. Background

Due to some political and economical reasons, after 1991 there was a little interest to studying the Soviet-Finnish and Russian-Finnish relations. However, nowadays the economical situation has stabilized and Russia is resuming its crucial role as a trading partner and an attractive market area. It is one of the main Finnish business directions of global development. (Rytövuori-Apunen H., 2008, p. 9)

Obviously, it is next to impossible to define strictly what a “pure” Russian or Finnish culture is, since the cultures tend to mix and transform over time. Yet, one may claim that the Finnish culture is characterized by such features that generally are considered “western”, whereas the Russian culture is featured more as an “eastern” type of culture. (Vinokurova N., Ollonqvist P., et al., 2009, pp. 6-8)

The Finnish and Russian distinguishing cultures form quite different business environments accordingly. Hence, it appears to be quite challenging for the Finnish firms to get locally embedded within the Russian business environment. It poses a lot of questions for research.

The Finnish companies entering the Russian market face certain contextual challenges related to the culture or experiential market knowledge. Over time they obtain valuable experience that makes it possible to understand how to cope up with those challenges. This knowledge directly influences the market performance of foreign companies in Russia.

The problem is that these practices usually stay as tacit knowledge inside the subsidiary. It is hard to recognize them and transfer them to any other business unit, e.g. the headquarters (HQ).

One of the research purposes of this paper is to investigate to what extent the Finnish subsidiaries located in Russia are able to create new knowledge in the field of product and production process development. What is the role of Finnish subsidiary located in the Kaluga region within the whole MNC (Multinational Corporation) structure and what control mechanism is there applied? What new practices, knowledge have been recognized at the subsidiary and whether they have been consequently transferred to the HQs? We will try to identify the key transfer mechanisms, the sources of knowledge acquisition and the type of acquired knowledge.

Each subsidiary being embedded in the local environment benefits from the specific relations of networking. This results in obtaining wider opportunities for business operation at the local market and accumulating new practices and knowledge at the company level.

Knowledge accumulation by the MNC subsidiaries is actually the most important aspect of their competitive advantage. The variety of resources and the scope of local networks in each country increase the uniqueness and durability of their competitive advantage. Consequently, it enhances the sustainability of the whole MNC. (Andersson U., et. al., 2002, Zaheer A., et. al., 1998, Malnight, 1996)

The aim of this research is to study the local embeddedness of a subsidiary and its knowledge acquisition factors and how they affect the performance of



Finnish companies in Russia. The four Finnish case companies operating in the Kaluga region determine the scope of study from the geographical viewpoint.

The present study is a pilot project that aims at obtaining in-depth understanding of the factors of the Finnish subsidiaries local embeddedness, their knowledge creation capabilities and the transfer mechanisms of new practices in the context of the Kaluga region.

The research is designed as a multiple case study conducted with a qualitative approach, where the primary and secondary data have been thoroughly analyzed.

The questionnaires have been compiled with regards to the theoretical review and the researcher's exploratory objectives. The deductive approach was executed to design the themes of the study. At the end of the research we will formulate the research propositions for the future studies based on the obtained results of the inquiry. Hence, there was an inductive way of data analysis also applied here to some extent.

The results of this pilot project may be useful for the future explicit researches in the same exploring area. The following studies in the context of the Finnish-Russian business relations could be extended and the generalization of research outcomes could be achieved only if the results are supported by a high degree of conclusions similarity and repetitiveness.

## 1.2. Literature Review

As well as many other scholars we assume that the way of the market penetration or the form of establishment would possibly affect the level of corporate control over the subsidiary or the degree of local embeddedness and hence the level of the knowledge acquisition and transfer from the subsidiary in Russia to the HQ in Finland. Several studies have concluded that in the case of green field establishment, the HQ would not meet that many challenges with the subsidiary's incorporation and adaptation of the corporate management system and control mechanisms, rather than acquiring an existing company. (Andersson U., et. al.,1996; Olie R., 1994; Rosenzweig M.E., Singh J., 1991)

The subsidiary could be embedded in terms of technology or business functions, but not in terms of volume or any financially measured aspects (Andersson U., et. al. 1996, 2002). To measure the degree of local business embeddedness we will consider how the companies interact with the suppliers/customers/administrative authorities within the local network. To measure technical embeddedness we will try to figure out whether there were any product solutions developed by the subsidiary in Russia. We also suppose that the form of establishment may affect either on the level of HQ's control or the degree of local embeddedness.

The resources of the subsidiary may be originated from the HQ and peer subsidiaries of the MNC or they could be accumulated from the external local sources of the business network due to close relationships with the customers, suppliers or other counterparts. If critical resources to a large extent are coming from the local network environment to which the subsidiary

is embedded, then it affects the MNC capability to incorporate and control this subsidiary's behavior. (Axelsson B., et. al., 1992; Håkansson H., et. al., 1993; Andersson U., et. al., 1996)

Although, in our case, to measure the level of HQ's control we will identify the type of control management of the subsidiary, considering the decision making process, and the number of the expatriates presented in the subsidiary.

There is a correlation between the degree of local external embeddedness and non-codified, tacit knowledge acquisition ability. A non-codified or tacit type of knowledge requires tight relations between the counterparts to make this knowledge transferrable. Moreover, the non-codified competence is rather specific knowledge that needs to be realized by the company first and only after that assimilated and transferred further. (Andersson U., et. al., 2001)

Hence there is a clear correlation; when the local embeddedness exists at a higher level, the knowledge could be acquired from the external environment and it could be transferred afterwards to the HQ or not; it also depends on how much this subsidiary and its HQs are interested in transferring this knowledge.

The number of the studies implemented by Ulf Andersson, Mats Forsgren, Ulf Holm and other scholars regarding to the topic of this thesis were aimed at analyzing different kinds of companies' samples in terms of companies' origin and their subsidiaries location (e.g. Swedish companies) and there was no attention paid to the specific business relations between Finland and Russia. This way we have identified a research gap for our inquiry. However,

there has been witnessed a definite development of business relationships between Finland and Russia, so the material of this study may be used afterwards for both the market and academic research in the same field in case the MNCs or other Finnish companies are planning to enter the Russian market.

### **1.3. Research Problem and Questions**

To determine the direction of our research we offer the following research questions and sub-questions.

To study the external local embeddedness, we would try to figure out what significant factors affect the external local embeddedness of Finnish firms within the Russian environment, taking as an example the region of Kaluga.

The research question is formulated as the following:

***What are the factors that affect the external local embeddedness of Finnish firms that operate in Russia?***

As it was supported in the previous studies by Andersson U., et. al. (1996) the HQ's control and the external local embeddedness of the subsidiary have high correlation between each other as follows: the higher the HQ's control, the lower the external local embeddedness. So, in our study we will apply a contextual test of the theory to see how this statement fits the Russian reality. Therefore, the sub-question is as follows:

*What are the HQ's mechanisms of control management opposed to the external local embeddedness of the subsidiaries?*

Regarding to the main topic in the second part of this thesis, the next question of the study is the following:

***What are the most effective ways of knowledge recognition, acquisition and transfer in the Finnish firms that operate in Russia (Kaluga region)?***

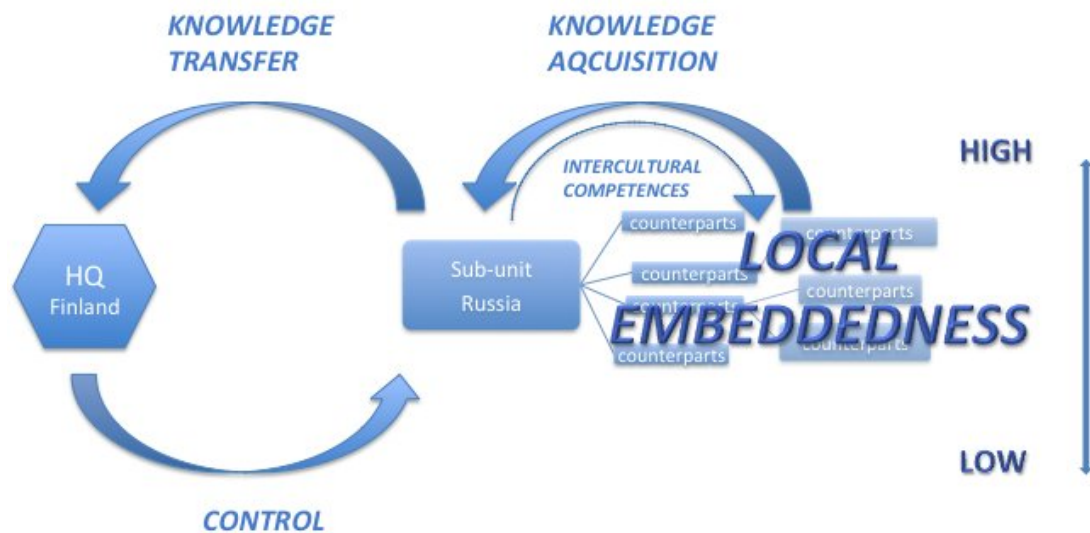
To broaden up the concerned question area we would like to figure out how the knowledge recognition, acquisition and transfer to the HQs are practically organized in the subsidiaries and how these practices depend on the intercultural competences. Here are the following sub-questions of the study:

*How knowledge is acquired in the subsidiaries in Russia (Kaluga region) and the mechanisms of its transfer to the HQ?*

*How do intercultural competences help to acquire the tacit knowledge from the local counterparts?*

## 1.4. Theoretical Framework

Our research will also apply a theory-testing concept, so our theoretical review is synthesized and integrated into the theoretical framework that we have developed to apply in our multiple case study analysis of the Finnish companies operations in the context of the Russian environment (see Figure 1). To develop this framework the studies conducted by Andersson U. et. al. (1996, 2001, 2002, 2005) appeared to be the most relevant.



**Figure 1. Correlation between the degree of local embeddedness and knowledge acquisition and transfer capabilities**

(Source: Andersson U. et.al., 1996, 2001, 2002, 2005)

Figure 1 demonstrates the main theoretical linkages that will be tested in the context of Finnish-Russian business operations. As it is shown in Figure 1, in case of the high managerial control from the HQs located in Finland there must be a relatively low level of local embeddedness of the sub-unit, established in Russia. On the other hand, the high level of local embeddedness is supposed to enable the sub-units in Russia to either create or acquire new knowledge due to the tight relations with the counterparts of the local external environment. Thus created or acquired knowledge might be considered as valuable one for the HQs and it might be transferred to the HQs (Finland) via specific mechanisms of knowledge transfer. We will also try to figure out whether the intercultural competences of the sub-unit affect the knowledge acquisition and recognition process at the local level.

### **1.5. Key Definitions**

As Andresson Ulf (1996) has defined the *external local embeddedness* as an exchange of values between the subsidiary and the main actors outside the company such as suppliers, customers, partners and etc.

Referring to the same study, we could also provide a short definition of the *corporate embeddedness* that is the opposite term to the external embeddedness, which will be delimited from our research. It is the exchange relationships between peersubunits and the focal unit of the MNC (Andresson U. et. al., 1996).

As Argote and Ingram (2000) stated that *knowledge transfer* is an exchange process “<...>through which one unit (e.g. group, unit, department, or division) is affected by the experience of another”.

Knowledge could be identified as of a codified and non-codified type. The former type of knowledge is more understandable and transferable from one organization to another. A non-codified, tacit, idiosyncratic type of knowledge is hardly recognizable. It needs extra efforts to be recognized and acquired, which could be achieved through the strong and long term relationships between the counterparts. (Andersson U., et. al., 2001)

## **1.6. Delimitations**

Moreover, there will not be explicitly studied the factor of Russian subsidiaries integration with the peer units of the MNC, located in other countries. Only relations with the Finnish headquarters will be included into the research. However, within the knowledge transfer processes we will not concentrate our attention on the role of the HQ and their ability to transfer knowledge across the rest of the MNC's units (Andersson U., et. al., 2001). In other words, we are not taking into account quite meaningful factor of corporate embeddedness that could also affect the knowledge acquisition and transfer capabilities among the MNC's units (Andersson U. et. al., 1996).

This inquiry does not consider the origin of the critical resources of the subsidiary and to what extent they belong to the HQ or to the local business networks of the subsidiary. This aspect influences the corporate control degree over the subsidiaries. Instead, this research mostly concentrates on



investigation of the nature of local network relationships between the subsidiaries and external counterparts.(Andersson U., et. al., 1996)

The local network involves direct and indirect relationships; both of them affect the degree of local embeddedness of a focal subsidiary according to Andersson Ulf and Mats Forsgren's research (1996). Direct relationships include supplies, customers, local authorities and others that we will mostly investigate in our study – the so-called *relational embeddedness*. The *structural embeddedness* suggests indirect relationships, which are not to be examined here. The indirect relationships relate to the business network including customers' customers, complementary suppliers, suppliers' suppliers and etc. (Andersson U., et. al., 1996; Dacin T., et. al., 1999; Andersson U., et. al., 2001)

The market performance of the case-subsiidiaries was considered to a little extent; the financial figures such as sales revenues, profitability, and etc. were excluded from our analysis.

## **1.7. Research Methodology**

The general methodological approach of the research is based on four cross-cases qualitative data analysis. The main purpose of the research is to generate actual data from the primary sources and analyze them with regards to the theoretical background.

The primary data were gathered by conducting interviews with the company representatives. There was a deductive approach executed to identify the

topics of questions and then supplemented by own researcher's ideas. The interviews were recorded and afterwards transcribed into the paper form. The synthesized primary data were justified by theoretical findings and these results are presented in a qualitative narrative form. The results of the study may be applied to the analogues cases. In the discussion part of this paper we used an inductive approach to make propositions for further investigations.

### **1.8. Structure of the Study**

In the following chapter of our research we will represent a more detailed theoretical review which we will start with the introduction of the most important factor of the MNC competitive advantage: their capabilities to recognize and acquire knowledge from their subsidiaries and local networks; the mechanisms of knowledge transfer to the HQs or other sub-units through wide structures established in some countries.

We will consider different types of knowledge and mechanisms of knowledge transfer according to its typology. It will determine the role of corporate management control and theoretical insights concerning the phenomenon of the subsidiary local embeddedness. We will also present a classification of subsidiary roles within the whole structure of the MNC as well as their knowledge creation capabilities with regards to Gupta's theoretical framework.

In conclusion of Chapter 2 we will provide a brief economic overview of FDI inflow into the Russian market and evaluate the Kaluga region from this perspective.

In Chapters 3 and 4 we will represent the methodology of our research, specifying the type of research, the empirical data collection approach and the validity level of the primary data obtained through the interviews. The ways of interview themes identification, case companies' determination, practical issues and the method applied for data analysis will be considered there.

In Chapter 5 we will outline all the major findings from the primary data received via a qualitative narrative approach and a further data analysis.

Our suggestions and recommendations for further research, the limitations of the present research, some theoretical and managerial contributions will be explicated in the final chapters of the inquiry.

## **2. THEORETICAL BACKGROUND**

### **2.1 Multinational Corporations as a Network of Knowledge Development**

All of the multinational corporations (MNC) running their operations abroad achieve a certain level of diversity. Clearly the diversity consumes investments of money and time and it is constantly necessary to overcome cross-cultural challenges. On the other hand, the diversity appears to be a critical resource. In other words the process of product and process adaptation in every country stimulates the subsidiaries to produce necessary local know-hows, competences and even innovations. So, the process of adaptation forces the knowledge creation process. (Gupta A., et. al., 2008)

The knowledge flows inside the global structure of the MNC enhance the competitive advantage and increase the level of sustainability of the whole MNC due to the inimitability of the established networks in different countries and those specific knowledge and resources received from those networks. As Li Li has stated, the multiple networks and the capability of knowledge generation and transfer enable a value creation process. (Malnight, TW., 1996; Andersson U., et. al., 2002; Li Li, 2004)

The knowledge diverse according to its complexity and contextually degree, therefore, the way of knowledge transfer within the MNC should match to every specific type of the knowledge. There is information, codified, structural type of knowledge, that is relatively easy to transfer and another type of knowledge relates to the contextual, tacit or specific knowledge. (Gupta A., et. al., 2008)

Tacit or idiosyncratic knowledge is same hard to recognize as to transfer it from the unit of origin to another unit or HQ of the MNC. Moreover even though knowledge was successfully transferred, it turns to be challenging to adapt it at the new place and emerge it with the existing competences. (Andersson U., et. al., 2002)

People minds possess the tacit type of knowledge; it is kind of an understanding within particular context. The knowledge holders would not necessarily express out this knowledge by themselves with a purpose to share it; hence it is quite hard to access this knowledge. Certain special knowledge management strategies have to be applied to make people share this knowledge and transfer it from one unit to another. (Andersson U., et. al., 2002)

We should also clarify that a knowledge holder(s) is an individual or a group of individuals who have valuable information, experience or understanding of the market and business operations there as Shenxue L. and Scullion H. have defined (2006).

The type of knowledge that reflects the experiential knowledge aggregation based on the learning about the foreign market environment was conceptualized by Yli-Renko et. al. and defined as 'foreign market knowledge' or 'managerial learning accumulation'. Local market knowledge is held by the local customers, suppliers, and authorities and especially by the local staff. (Yli-Renko H., et. al., 2002; Shenxue L., et. al., 2006)

Foreign experiential learning is enhanced by the internationally competent managers, key individuals that build up trust between the company and

thecounterparts of the business environment. The external relationships make it possible to disclose specific information about the acceptable behaviors in the foreign market. (Yli-Renko H., et. al., 2002)

Foreign market knowledge has to be valued as a resource of the company rather as a by-product of the firm other activities. This represents a part of the knowledge-based competitive advantage of the company. The form of establishment is one of the factors that affect the experiential market knowledge accumulation since this knowledge is based on the market entry experience obtained by the company. (Yli-Renko H., et. al., 2002)

Knowledge acquisition is the result of the external interaction of the subsidiary with its suppliers, competitors and other counterparts of the local network. Knowledge is possible to recognize when it is well spread within the organization. The recognition of tacit knowledge occurs either as s results of the task provided by the HQ or it could be initiated by the subsidiary itself. This idiosyncratic knowledge could be transmitted if there is a developed effective and efficient channel to realize the actual knowledge transfer. But there are also quite important aspects that affect knowledge transfer; it is the willingness of the entity to share the knowledge ('knowledge outflow') and, from the other side, the willingness and ability of the receiver to accept the knowledge and assimilate it ('knowledge inflow'). (Andersson U., et. al., 2002; Gupta A., et. al., 2008)

The MNC and their subsidiaries are separated geographically from the HQ and the country of origin; in addition to that there exist more complex knowledge-related, cultural and psychic dimensions of distance between local and global sides of the corporation. Cross-boarder management has to

take these issues into account while developing strategies of knowledge acquisition and transfer (Shenxue L., et. al., 2006).

Russia and Finland are the neighboring countries, regarding to the geographical proximity. According to the theorists there exist other 'soft' dimensions of the distance. They relate to the cultural aspects, country experience, and other context specific factors. These factors challenge the cross-boarder knowledge exchange (Shenxue L., et. al., 2006).

Shenxue L. and Scullion H. (2006) in their study have identified three main dimensions of the distance that restrain cross-boarder knowledge exchange they relate to the physical, institutional and cultural distance of the countries.

According to the literature, the institutional dimension of the distance implies all of the laws and regulations and also customs, norms and even cultures of industries and organizations. Institutional and cultural factors compose a psychic distance, that was originally defined by Johanson and Vahne as a combination of cultural, educational, linguistic, business practices and others aspects (Johanson J., et. al., 1977, p. 24; Shenxue L., et. al., 2006).

In the research conducted by Gupta A. (1991) there were defined four types of the subsidiaries strategic roles within their structure of the MNCs. The most crucial and forceful position is a role of *Global Innovator*. It is the origin of knowledge for all other subsidiaries, a central independent unit able to fulfill all the necessary requirements in order to realize this knowledge. Regarding to other scholars this role traditionally belongs to the domestic units of the US or Japanese MNCs. (Gupta A., 1991)

The role of *Integrated Playeris* quite similar to the role of *Global Innovator*, this subsidiary is responsible for knowledge creation for other subsidiaries, but it is no self-sufficient to fulfill its own knowledge commitments. (Gupta A., 1991)

As the *Implementator*, the subsidiary is enjoying a small potential in creating absolutely new knowledge so it generates knowledge necessary only to maintain its own activity, fully relying on the knowledge coming from the Head Office or the other like subsidiaries. (Gupta A., 1991)

The *Local Innovator* role is enjoying its own “know-how” used only in the key functions but this knowledge is too idiosyncratic and defined by the features of the region; this knowledge can be used by the other subsidiaries beyond the local region or the Russian market. (Gupta A., 1991)

It is assumed by Gupta Anil (1991) that higher the level of knowledge creation expected from the subsidiary, the more this subsidiary would be willing to execute the autonomous initiative.

There is one more factor that influences the perceived value of knowledge possessed by the subsidiary; it is the relative level of the country’s economic development. It is suggested by the researchers that knowledge transferred from the subsidiaries, located in less technologically and economically developed countries, has low level of the perceived commercial value and inapplicable by other units of the MNC. (Gupta A., Govindarajan V., 2000; Li Li, 2004)



## 2.2. Knowledge Transfer Mechanisms

The literature overview proposes that the process of knowledge transfer among organizations or units within MNC is a learning process. It takes time to identify the best and the most efficient mechanism of transfer of a particular knowledge type. Knowledge transfer mechanisms affect the factors that make an impact on the process of knowledge acquisition from the external counterparts. (Li Li, 2004)

We could distinguish two major types of knowledge transfer: intra-organizational and inter-organizational according to Li Li research work. By the research of Schulz (2001) it was claimed that geographical proximity and cultural homogeneity allow a more efficient knowledge transfer between subsidiaries and their local partners than between the subsidiaries and their HQs. (Schulz, M., 2001; Li Li, 2004)

Basically any of MNCs is able to generate new knowledge, the main issue whether these MNCs would be capable to manage knowledge transfer successfully. Successful implementation of the knowledge transfer process by many scholars identifies according to the extent of knowledge integration and utilization by the recipient organization. In case, the recipient organization finds knowledge useful and applicable for its own operations, it may affect organization' behavior and lead to the development of new solutions, competences or even new products. (Li Li, 2004; Minbaeva D., et. al., 2003)

There are many organizational or contextual factors that may facilitate or inhibit knowledge transfer process. Some of these factors relate to the units

properties of the units (motivational factors, the source and recipient units, abilities to absorb knowledge, knowledge transfer mechanisms, etc.), properties of the ties between units, and properties of the knowledge (e.g. tacitness). The ties between units usually estimated according to the closeness of the relationship (e.g. level of trust, common knowledge capacity, etc.). (Hansen, M.T., 1999; Argote, L., et al., 2003; Li Li, 2004).

For example, to handle the cross-boarder hinders of knowledge transfer, Shenxue Li and other colleagues (2006) suggested several bridge solutions. One of them to develop a multi-layered knowledge platform, that links “different knowledge holders internally and externally, physically and/or non-physically, and vertically and horizontally at both macro and micro levels”.

At the micro level this knowledge platform could be achieved by high integration with the business network and its counterparts via frequent business face-to-face meetings or intensive virtual communication. (Shenxue L., et. al., 2006)

Due to institutional distance there is an experiential knowledge gap, in this case common knowledge concept could be applied as a bridge solution. The practice of trainings has to be applied in order to bring local institutional knowledge and global expertise about the local knowledge under the concept of common knowledge. (Shenxue L., et. al., 2006)

We have considered several knowledge transfer mechanisms: face-to-face business meetings, virtual communication and trainings. To make the knowledge transfer mechanisms more efficient it is also significant to attract global/local expertise. (Shenxue L., et. al., 2006)

However, the most obvious tool for the knowledge exchange within the MNC is the information technology solutions that make the whole process of information exchange fast, easy, requiring the minimum effort from the individual. IT is the most viable tool to connect large number of people that are located in different parts of the globe and different time zones. (Gupta A., et. al., 2008)

IT solutions would suit the best to share the codified type of information. The effective knowledge management highly depends on the social ecology of the organization. The social ecology is the fundamental base that leads to the possibility of the tacit knowledge sharing, since it shapes the way people interact inside and outside of the company, affects their motivational and behavioral patterns. (Gupta A., et. al., 2008)

The most typical mistake is that the decisions concerning the mechanisms of knowledge transfer are taken rather randomly, with no consideration of alternative more efficient and systematic ways of particular knowledge type transfer. The tacit type of knowledge requires richer transfer channels, such as face-to-face meetings or transfer of people that have these competences. As Gupta A. et. al. stated, in general “personnel transfers are relatively inefficient mechanism for knowledge sharing; yet for the transmission of tacit knowledge, they may be the only effective mechanisms”. (Gupta A., et. al., 2008)

### **2.3. Corporate Control Mechanisms**

The corporate control as a tool of the HQ implies to regulate transactions with its subsidiaries. These transactions mainly relate to the multidirectional flows of capital, products and knowledge within MNC structure. There may be subsidiaries with the high and low level of transactions inflow and outflow (Gupta A., 1991).

There are two theoretical perspectives that describe HQ's control management with relation to the internal knowledge transfer of the MNC. They are based on resource-dependence concept and principal-agent concept. The increase of the resource dependency of the HQ from its subsidiary leads to the increase of the resources flow between them and as a result the control mechanisms of the HQ will be executed to the larger extent. The principal-agent theory, where the principal is a HQ and the agent is a subsidiary defines their relationships in terms of HQ's task delegated to the subsidiary and subsidiary's performance of this task implementation. The control mechanisms have to direct subsidiary's behavior in the interests of the HQ. (Ghoshal S., Nohria N., 1989; Eisenhardt K., 1989; Li Li, 2004)

The mechanisms of control applied by the HQ vary depending on the conditions where the subsidiary operates. The corporate control could be more efficient in case the HQ has its control over the most required resources of the subsidiary; it could be financial resources, capitals or technology. The control mechanisms used by the HQ has to be adjusted to the individual subsidiary's criteria such as the role of the focal subsidiary within the MNC, the specific factors of the local environment and its business network, and other factors. So, the control mechanisms have to be

distinguished from each other regarding to the distinguished characteristics of the subsidiaries (Gupta A., et. al., 1994; Andersson U., 1996; Andersson U., et. al., 2005).

Andersson Ulf and many other scholars have revealed two major types of management control: *direct control* that “<...>implies intervention by the HQ in the subsidiary’s on-going operations, through centralized decision-making and/or direct supervision by the HQ representatives”; and *output control* that “<...> implies evaluation of the subsidiary’s performance <...> such as financial performance, market share, productivity or knowledge development”. There is one of the common mechanisms of direct control is to assign expatriates to the key top positions of the subsidiary. (Andersson U., et. al., 2005)

MNC assigns a special corporate role and position within its structure for each subsidiary with accordance to the implementation of the integrated corporate strategy, but this subsidiary may have its own understanding of its role influenced by the network business relationships where the subsidiary is embedded to. (Andersson U., et. al., 1996)

Anil Gupta together with his colleagues have suggested that certain level of subsidiary’s significance depends on the financial performance; successful and stable financial performance leads to the high potential of generation new knowledge that represents valuable experiential knowledge for sharing with other subsidiaries across MNC: “a unit with good financial performance has a little to learn and a lot to teach, whereas a unit with poor financial performance has a little to teach and a lot to learn”. (Gupta A., et. al., 2008, p.164)

## 2.4. Local Embeddedness

There are indicated two the most significant types of embeddedness, relational and structural. The relational embeddedness with the customers and suppliers can be defined as business embeddedness. In fact there was revealed a technical type of embeddedness, it describes the interdependences with the external counterparts in terms of product or production process development. The business embeddedness can be a beginning point for the technological embeddedness appearance among business partners (Andersson U., et. al., 1996; Andersson U., et. al., 2002).

Several scholars observed the interdependence between the degree of subsidiary's local business/technical embeddedness within the external network, its market performance and ability to develop competences that may be useful for other sub-units of the MNC. The level of embeddedness can be characterized according to the different type of business relationship, beginning with arm's length relationships to the trustful and close partnership relations. (Andersson U., et. al., 2002)

Dacin T. and his colleagues have defined the embeddedness factor as a contentious variable, it always exists, and the question is to what extent the focal subsidiary is embedded to its counterparts within the network. (Dacin T., et.al., 1999)

The direct and strict type of control management negatively affects the degree of subsidiary's embeddedness to the local environment as it was concluded in the research of Andersson U. et. al. (2005). They also have

revealed that HQ's management, which applies knowledge development as criteria of control of the subsidiary, stimulates this unit to develop close relationships with the local counterparts and hence acquire or create new knowledge resources. (Andersson U., et. al., 2005)

Besides 'buyer-seller' relationships with the customers, suppliers, etc., we will also take into account the relationships with other network counterparts such as local authorities of the region. They actually represent the institutional side of the knowledge holders. Regarding to the Andersson U. et. al. research, the local authorities also may influence the subsidiary's performance and its role in the MNC's competence development. (Andersson U., et. al., 2002)

## **2.5 Kaluga Region as a Region of FDI Inflow**

There is growing interest of global investment capitals towards Russia as one of the emerging economies. (Kaartemo, V., 2009; Strasky J., 2012)

According to the Constitution of Russian Federation, there are 83 federation parts that include 21 republics, 46 regions and other 16 administrative areas with the equal rights against each other. In the hierarchy of the country governance, there is federal level of authorities at the top level and the next level downwards is the regional political governance that is specific for each of the regions, republics and other areas of Russian Federation. (The Constitution of Russian Federation, 2013; Structure of Russian Federation, 2013)

Russian economy belongs to the resource-based economy; some scholars argued that there is a spatial effect of regional patterns economic growth and the distribution of prosperity and richness among the regions in Russia. The regions located far from the sources countries of FDI (foreign direct investments) has less prepared legal infrastructure to welcome FDI. It is obvious to claim, that the quality of the investment climate is likely to influence FDI inflow; the regions with the stable performance of the regional economy would attract more FDI inflow. (Buccllato T., Santangelo F., 2009)

According to the research conducted by Strasky J. and Pashinova T. the lion share of FDI investments is concentrated in Moscow, Saint – Petersburg and their respective surrounding regions. This intensive FDI inflow into these regions is caused by the large market sizes and high dynamic of business activities there. Sakhalin and Arkhangelsk regions are two other prospering



regions due to rich reserves of oil and gas, these areas attracts major amount of FDI, this is one of the drives the resource-based economy development. (Strasky J., 2012)

Recently among top-3 regions of FDI per capita inflow it has been distinguished a new area of destination; it is Kaluga region. There are no reserves of specific resources and there is a lack of energy infrastructure; however, this region has own competitive advantage, it is proactive cluster strategy to attract foreign investors. (Strasky J., 2012)

According to the Table 1 prepared by Ernst & Young statistics, Kaluga region again is among top-3 destinations holding the third place in terms of number of FDI projects and it takes the second highest position according to the number of job positions created. (Ernst & Young, 2012)

Rank	Region/City	FDI Projects (2007-11)	Share of Total (2007-11)	Jobs Created (2007-11)
1	Moscow (Federal City)	231	30%	3 735
2	St. Petersburg (Federal City)	91	12%	9 843
<b>3</b>	<b>Kaluga Region</b>	<b>39</b>	<b>5%</b>	<b>7 260</b>
4	Nizhny Novgorod Region	14	2%	550
5	Kazan City	13	2%	416
6	Yekaterinburg City	13	2%	630
7	Voronezh Region	12	1%	1 462
8	Novosibirsk City	10	1%	753
9	Krasnodar City	9	1%	880
10	Togliatti City	9	1%	2 105
	Others	339	43%	28 454
	Total	781	100%	56 088

**Table 1. FDI projects by destination city/region.**

**(Source: Ernst & Young's European Investment Monitor 2012)**

The industries received the biggest share of investments are automotive, machinery and equipment, transport, food sector and pharmaceuticals. The survey of Ernst & Young has pointed out the main reasons why foreign companies decide to come into Kaluga region. So, this destination is so popular, due to favorable business climate, tax benefits, close proximity to Moscow, and the existence of business and industrial parks such as Grabtsevo, Rosva, Vorsino, and etc.(Ernst & Young, 2012)

According to the estimations of the Agency for regional development of Kaluga region, Finnish enterprises already have created around 2, 500 job positions in the region, which is significant part of all job positions created in the region by all foreign companies with regards to the data provided above. (ARRKO, 2012)

Nevertheless, the R&D base and knowledge potential of the Russian regions have a secondary importance while attracting foreign investment since foreign MNCs bring their own technologies and competences to the Russian market. (Strasky J., 2012)

### 3. METHOD OF THE RESEARCH

In this chapter the methodology of the research would be described in details with the theoretical overview that provides clear understanding of the specific terminology.

The definition proposed by Van Maanen in his work of 1983 has represented a clear meaning of *qualitative method*, it is “an array of interpretive techniques which seeks to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less naturally occurring phenomena in the social world”. (Van Maanen, J.A., 1983, p.9, Easterby-Smith M., et.al. 1991, p.71)

With regards to the Yin’s definition of *case study*, it is “an empirical inquiry that investigates a contemporary phenomenon in depth and within real-life context, especially when the boundaries between phenomenon and context are not clear evident.” (Yin R., 2009, p.18)

In order to reach the keynote of the actual multiple-case study, the primary data were collected based on the investigations of the actual experience of the participants. Subsequent interpretation of the received results would contribute into the building of the final propositions. (Creswell J., 2003)

Kevin Laws and Robert McLeod state that the main purpose of a case study is to get a deep embeddedness into the research area, representing the obtained holistic understanding of an issue. The main interest is concentrated within the process, context and enlightenment rather than any exact findings or specific variables. (Laws K., et. al., 2004, p.4)

Referring to Creswell J. (2003) the main reason to draw up the research propositions in the conclusive part of the study is based upon the complex nature of the qualitative research implementation and withdrawing the general outcomes with the application of the multifaceted, interactive and simultaneous reasoning grounds.

Multiple-case design is a research methodology where several cases are studied with an application of variety sources for data collection, including documents overview, interviews or observations. It is preferably used while conducting an exploratory case study design, because this approach provides a wider and deeper descriptive explanation of the research issue or phenomena than a single case study. Cross-case examination implementation helps to get an increased level of generalizability. During the analysis of the data certain 'cause-and-effect' linkages could be witnessed and identified dissimilarities and analogies across cases can support the theoretical background. (Chmiliar L., 2010, pp. 582-583)

Regarding to Linda Chmiliar "exploratory case studies are seen as a prelude to a large study and may be a pilot study", hence particular multiple case study is rather exploratory, than descriptive or explanatory with accordance to Robert Yin's terminology of case studies classification. In this work the research questions are settled as "what" and "how" with the final purpose to develop pertinent proposition for the future research, this also suits well to identify our exploratory research design. (Chmiliar L., 2010, pp. 582-583; Yin R., 2009, p.9)

Robert Yin also accepts that some studies may not have any propositions beforehand. This is very common for experiments, surveys, and the other

research methods alike, where the topic of the study is the subject of “exploration”. (Yin R., 2009, p.28)

In this research we are focused on gathering the categorical rather than numerical responses hence it will help us to capture qualitative evidence. In the case study mixed sources of evidence are applied in a way of ‘triangulating fashion’ of data convergence. (Yin R., 2009, pp.18-19)

In the current research paper we would attempt to explain some anticipated casual links surrounded by real-life, cultural and contextual conditions. In addition to these factors, it is a pilot study in the area of Finnish-Russian business relations and it makes the research too complex to run it in way of a quantitative study with a big sample of companies. Our research would have a descriptive mode, where an intervention will be linked to the real-life context in which it occurred. Four case-companies would be involved into the inquiry analysis with attempt to gain cross-cases broad generalizations with the little focus to represent each of the cases separately. (Yin R., 2009, p.19-20)

### **3.1. Interview Themes Design**

The existing theoretical studies have been examined at the preliminary stage of the questionnaire development. The inquiries conducted by Andersson Ulf (1996, 2001, 2002, 2005), Yli-Renko H. (2002) and Gupta A. (1991, 2008) with their colleagues have mostly contributed into the processes of the interview themes design.

The researcher and the supervisor of the research have developed significant numbers of questions for the questionnaires; they all are referenced as 'Own' questions. (See Appendix 1, 2, 3)

At the beginning, it was taken decision to develop three separate sets of questionnaires for the HQ's representative, the subsidiary's representative and the representative from the local partner company. As HQ's questionnaire and the questionnaire for the local company were developed as the complementary elements of the study, they played the role as an internal validating factor of the findings. The general questionnaire for the subsidiary was built up as the central one that covers larger number of aspects and provides more holistic overview concerning the subsidiary's operations, corporate control mechanisms, knowledge and partnership management, and local embeddedness factors.

At some point, the general questionnaire for the subsidiary went out to be too long and it was decided to split it in two different sets of questions: the structured questions interview that was usually sent in advance to the interviewees via email and the open-ended semi-structured interview used at the face-to-face meetings. The structured interview questions provided an

opportunity for the respondent to get familiar with the main themes of the interview and the researcher had an opportunity to get familiar with the general information about the subsidiary prior to the meeting. This helped the researcher to conduct an extended interview discussion. (See Appendix 1)

To assume the approximate length of the face-to-face interview with the subsidiary's representative there was a pilot interview implemented with the Finnish subsidiary located in Saint Petersburg. This interview session helped to make sure that all the questions sound reasonable and understandable with no themes' overlapping from the viewpoint of the pilot interview participant.

### **3.2. Internal and External Validity of the Data**

According to Creswell J. (2003) reliability of the data relates to “the stability or consistency of the responses” and generalizability is “the external validity of applying results to new settings, people, or samples”. Validity measures the accuracy of the researcher and all of the participants interviewed in a way of their “truthfulness”, “authenticity”, and “credibility”. (Creswell J., 2003, pp.196)

The triangulation technique is one of the eight primary strategies to increase validity of the data, it is a combination of multiple research methods and sources of data that deepen the description of the process, organize a chronology of the events, develop the evidence for internal validity and also support received outcomes of the research. (Laws K., McLeod R., 2004, Hinds P., Young K., 1987, Creswell J., 2003)

However, in work by Greg Lowhorn (2007) it is defined that “internal validity is automatically established in qualitative research because the group acts as its own point of reference”.

To enhance the internal validity there is a need of long-term observations of the same issue, peer examinations and other qualitative and quantitative studies where hypothesis test is possible to apply. (Laws K., McLeod R., 2004)

The internal validity of the data was also increased by conducting the pilot interview with the Finnish company located in Saint-Petersburg, the data obtained by this interview would be partially presented in the results providing comparative opinion of the subsidiary located in another region of Russia.



As it was mentioned above an external validity concerns the level of generalizability, or to what extent the findings of one case could be applied to other similar cases. The main purpose of our research was to run a pilot examination about the phenomena with the attempts to study it in depth; we did not settle a goal to discover a holistic truth for all of the cases. However, some of the findings may be exportable and applicable for the future research. (Laws K., McLeod R., 2004)

To support the validity of the received data from the subsidiaries of Finnish companies located in the Kaluga region, there were developed two additional sets of questionnaires for the headquarters and local partner companies. Some questions were included in all of the questionnaires or two of them regarding to the data we need to validate.

The supervisor of the research may perform as an external auditor, who was tutoring the whole project. He was sharing his expertise or providing his feedback or critics through the whole process, rising up new questions regarding to the research issues that might matter to the research. Hence, this is an additional factor of the research validity.(Creswell J., 2003, pp.196)

One way of data validation is the honest self-reflection of the researcher, what is the bias in the study that will resonate with readers. (Creswell J., 2003, pp.196)

The questionnaires translated to Russian language were validated by the translation back to English implemented by an independent translation specialist. This confirmed that the meaning of the question is kept the same in both versions of the questionnaires (See Table 2 and 3).

SUBSIDIARY QUESTIONNAIRE (OPEN-ENDED QUESTIONS)	
ORIGINAL VERSION	VERIFIED VERSION (TRANSLATION FROM RUS-ENG)
1) Why this location has been chosen from your point of view? What are the advantages/disadvantages of this location?	1) Why do you think was the Kaluga region chosen as your business location? What are the advantages and disadvantages of this location?
2) Could you briefly describe the process of making decisions? · Do all of the decisions always have to be negotiated with the headquarters beforehand? · Is decision-making authority is delegated to the general manager of a subsidiary by corporate superiors?	2) Briefly describe a mechanism of decision making at your company. · All decisions have to be agreed with the Head Office before their implementation; · The right of decision making is offline delegated to the general director of your subsidiary in the region.
3) Were there done any product modifications that would better answer to the Russian market? If yes, were those product modifications developed in Russia/in Finland/ other?	3) Was the product improved or modified to better correlate the terms of the Russian market? If yes, where were the product changes developed in Russia, in Finland, other?
4) If product modifications were developed in Russia, were those new competences transferred to HQ in Finland or to any other subsidiary? · What was the knowledge transfer mechanism?	4) If the product changes were developed in Russia, was this information transferred to the Head Office in Finland or to any other department/ a daughter company? · What transfer mechanism was used?

**Table 2. Validation of the subsidiary questionnaire**

QUESTIONNAIRE FOR LOCAL PARTNER-COMPANY	
1) How long have you had partnership relations with this Finnish company?	1) How long have you been in partnership relations with this Finnish company?
2) Would you consider your partnership relation with the Finnish company as a close cooperative relationship? Please, support your answer with a short explanation.	2) In your opinion, is your partnership with this Finnish company tight, strong with a high level of credit? Please, explain your point of view.
3) How would you describe the level of trust and commitment to your Finnish partner company?	3) How could you characterize the level of credit to your Finnish partner and their commitment to your company?
4) How does the partnership with this Finnish company affect your business? Did you learn anything new from your partner company experience or way of doing business? Please, support your answer with a short explanation.	4) Has the cooperation with the Finnish company got any influence on your business? Have you obtained any different knowledge or business practices from your Finnish partner company? Please, explain your point of view.
5) How would you differentiate having cooperation with the Finnish company as a partner comparing to any Russian partner company?	5) What is the main difference between running business with a Finnish company and that with any Russian partner?

**Table 3. Validation of the subsidiary questionnaire for the local partner companies**

## 4. EMPIRICAL STUDY: RESEARCH IMPLEMENTATION

#### **4.1. Case Companies Determination**

The regional basic infrastructure consists of political institutions, legal reforms and regulations that are likely to affect the inflow of FDI into the region. Whether the FDI inflow will increase or not fully depends on the purposes towards the regional development settled by the local authorities. If there is a lack of administrative and political support in the region, it brings up lots of barriers to settle up a foreign company there. Nowadays there is a sort of competition among regions to attract a bigger share of FDI.

Running a pilot study concerning the local embeddedness phenomena of the Finnish companies in Russia, it would be reasonable to define a sample region of Russia. In our case it is the Kaluga region, which is one of the central regions of Russia, located with a close proximity to Moscow and with a significant remoteness from Finland. The region unifies all of the Finnish companies by means of the common political regulations and support programs provided by the regional government.

The case companies' identification criterion is that each company has to be set up originally in Finland having a subsidiary in the Kaluga region.

At the preliminary stage, there was a test interview conducted with a Finnish subsidiary company, located in Saint - Petersburg. This company is not included into our target sample of case companies. However, it was useful to test our questionnaire for the subsidiary to see the length of the interview; how understandable are the questions, whether there are any repetitive questions from the interviewee's point of view. Thereby some additional data were collected that could be used as comparative data or a

validating factor to the evidence we have obtained conducting our target interviews.

The following four companies have participated in the project as our major case companies: Stora Enso, Kiilto, Ruukki Rus and Rani Plast.

The Company of Stora Enso takes its roots in the 19<sup>th</sup> century and today it has about 28,000 employees in more than 35 countries worldwide. It is a publicly trading company registered in Helsinki and Stockholm. Stora Enso has a rich industry portfolio of operations such as paper industry, packaging, construction and others with the overall annual sales equal to EUR 10,8 billion for 2012. (Stora Enso Oyj, Corporate webpage, 2013) According to the interview data Stora Enso has got three subsidiaries in Russia. The two other subsidiaries serve dissimilar market niches.

Ruukki Group has started its operations since 1960. There are over 9,000 employees and a developed distribution and dealers' network. Ruukki is represented in more than 30 countries including Nordic countries and emerging markets as Russia, India, China and South America. Ruukki Group is a publicly trading company listed in Helsinki. Ruukki's total net sales have reached EUR 2.8 billion in 2012. (Ruukki Group, Corporate webpage, 2013) With reference to the primary data of the interview, Ruukki has got one administrative subsidiary in Russian (the Kaluga region) and eleven sales sub-units all over Russia.

Ab Rani Plast Oy is a Finnish family company that holds its leading position among Scandinavian suppliers of packaging materials (polyethylene and polypropylene) for over 50 year. It was founded in 1955 and today it is an international group of companies with 9 production facilities in 5 countries

and export activities in over 40 countries. Its turnover is about EUR 200 million and annual production capacity of 100,000 tons. (Ab Rani Plast Oy, Corporate webpage, 2013) Rani Plast has only one subsidiary in Russia that is located in the Kaluga region according to the interview data.

Our fourth case-company, Kiilto Group, was founded in 1919. It is also a Finnish family-owned manufacture company that specializes in production of structural adhesives and related chemical products applied in the construction industry. They provide solutions for preparation, bonding and coating of the surface. Currently this multinational company has got its subsidiaries in 9 countries. (Kiilto Oy, Corporate webpage, 2013) Based on the interview discussion, Kiilto has got two more subsidiaries in Russia beside our focal sub-unit located in the Kaluga region. The function of other subsidiaries is production as well, but the product lines differ from each other. From all the said above it follows that two subsidiaries of our research are engaged in the construction industry and the two others relate to the packaging industry, where the products do not compete with each other. In each of the industry there is one small-sized and larger-sized subsidiary. The companies will be randomly named as A, B, C and D, keeping the same name across the whole research paper. The linkages to the actual name would stay unclear and confidential.

Subsidiary	Year of Establishment	Entry Mode	Employees (pp)
A	2010	Greenfield	23
B	2006	Acquisition	1500
C	2010	Greenfield	33
D	1997	Brownfield	300

**Table 4. General descriptive information about the case-companies**

**(Source: Interview based material)**

Table 4 provides descriptive information about the case companies of our inquiry: the year of establishment, the entry mode of the subsidiary executed when entering the Kaluga region and the size of the subsidiary according to the number of employees. All of the four companies operate in B2B (business-to-business) business format.

The company of the pilot interview also is engaged into B2B operations and its major functions are production and sales. This subsidiary was established as a green field investment in 2002 and has got 25 employees at the moment.

#### **4.2. Selecting the Interviewees**

There were developed three sets of interview questionnaires for the participants from the headquarters, the Kaluga region subsidiary, and its local partner-company's representatives. (See Appendix 1, 2, 3)

The data received through the headquarters interviews are supposed to provide a holistic internal overview seen from the top and describe the role of this subsidiary located in the Kaluga region which it plays in the whole multinational organization. These data will also demonstrate the level of corporate control applied in order to manage the focal sub-unit and the subsidiary knowledge creation capabilities. These chain-related factors are a mixture of the Finnish management requirements and local environmental aspects such as local partnerships relations, level of uncertainty of the business environment in the region, key factors of successful performance of the sub-unit and many others.

This overall picture received from the headquarters, in case of convergence with the data received from the subsidiary side, would enhance the validation of the findings, e.g. a question concerning the role of the subsidiary within the MNC.

Interviews conducted with the local partners of the subsidiaries would generate data from the external players of the network. They would also validate the partnership related data received from the subsidiaries and represent a general perception of Russians; what it means to them having a partnership with a Finnish company; whether there are any specific issues they can stand up to with a comparison to any other international or national partnership relations.

First the companies were contacted by telephone with their head offices, located in Finland. There were no preliminary decisions taken to identify the right person as an interviewee in each of the interviewing side (the head office, a subsidiary and a partner company in Russia), e.g. it could vary from organization to organization who is on duty to manage the Russian subsidiaries and to monitor the Kaluga region subsidiary performance within the headquarters structure.

In each case the head office directed me to the most appropriate person according to their own internal viewpoint. It appeared to be very common that the required managers with a Russian market expertise are not necessarily located in the headquarters (Finland); instead, they are usually located in Russia. The interviewees happened to have leading positions among the top managers of the subsidiary, in most cases it was the CEO position (Chief Executive Officer), but sometimes it was the CEO Deputy or the Financial Director.

### **4.3. Data Collection**

As a general tool to obtain the primary data there was mainly a semi-structured interview. It is a qualitative data collection approach where a series of questions are settled in advance keeping an open-ended style of questions. This allows a flexibility and informal flow of communication during the interview. In contrast of the unstructured type of the interview, the researcher keeps control over the topics and there is no predetermined range of responses to each of the questions, as it is typical for the structured interview. (Lioness A., 2008) (See Appendix 1)

The questions with the predetermined answers were also employed to collect data and they were organized as a separate questionnaire for the subsidiaries. It is the structured type of the interview that was applied to a lesser extent, where the questions were focused on the special set of researching issues, and some general but essential descriptive information about the case companies. (Laws K., et. al., 2004, p.13)

The data collection approach was based on conducting the unstructured, open-ended interviews that were audiotape recorded with the further data transcription. The reflective notes, made during the interviews, have complemented the data.(Creswell J., 2003, p.189). Some of the data were translated from Russian into English. The interviewer is Russian and the majority of the interviewees were Finnish, so the English language was chosen as a preferable tool of communication.



It usually took a long time from the point of reaching the right person to the actual interview session so the process of data collection overlapped our planned time frames.

#### **4.4. Analyzing the results**

At the initial step of data analysis the audio recorded interview data and structured interview responses were transcribed and the received joint primary data were thoroughly scanned. Naturally the data were sorted and arranged in certain groups of common sense and general meanings. After summarizing the data of each individual case there was conducted a cross-cases analysis. The major findings were described and supported by the multiple perspectives and quotations of the individuals. All of the results will be presented in the Results chapter of this inquiry. (Creswell J., 2003, pp.191-192)

As John Creswell (2003) states qualitative researches may interrelate themes into a storyline as in narratives or organize them into a theoretical frame as in grounded theory or insert them into a general description as in phenomenology analysis approach. In our research, themes of the study will be applied for each individual case and then analyzed across our four cases, as it is typical for case studies but with the application of qualitative narrative approach. (Creswell J., 2003, pp.194)

An objective account, a fieldwork experience, a chronology, a process model, an extended story, an analysis by cases or across cases, and detailed descriptive portrait—all of the mentioned factors relate to the forms that could be used in the narrative method. (Van Maanen, J.A., 1983, Creswell J.,1998, Creswell J., 2003, pp.197)

Qualitative narrative form of results presentation helps to convey the findings into a discussion that is completed by sub-themes and interconnecting themes, visuals (such as figures, tables, illustrations adjusted to the discussion), multiple perspectives from individuals and quotations. Conveying descriptive information about each participant in a table is very common in case studies based inquires. (Creswell J., 2003, pp.194)

At the end of data analysis, the results were defined with accordance to the personal researcher's results interpretation embedded with the literature review concerning themes of the research. The further questions were settled for the continuation of the study in the field of Finnish companies' level of the local embeddedness in Russia and their knowledge acquisition and transfer capabilities. The future researchers may take into account some additional variables that affect or control the degree of local embeddedness or knowledge acquisition and transfer. (Creswell J., 2003, pp.195)

## **5. RESULTS**

### **5.1. Qualitative Narrative of the Findings**

#### **5.1.1. Advantages and Disadvantages of the Kaluga Region Location**

First of all, we attempted to discover the reasons, why the Kaluga region was chosen as a location for new subsidiaries of the Finnish MNCs. There were provided several predefined answers to this question: to access low-cost production, to access local skills and know-how or to access the markets.

It occurred to be one common reason for all of the case-companies; it is the access to the market's potential. The Kaluga region is located very proximate to Moscow. The Moscow region is a very huge market by itself; moreover, it is the general gate to the whole market of Russia and markets of the CIS (The Commonwealth Of Independent States) countries.

Large subsidiaries out of our case companies, in addition to the Kaluga region and Russian markets, are already serving markets of Kazakhstan and Belorussia. Smaller companies develop their businesses within the Kaluga region and central Russia, planning to explore region by region in the nearest future.

When an MNC sets up its own production subsidiary in Russia, it seeks to avoid complicated customs procedures and provides logistics benefits as compared to the export transactions.

The upshot is that none of the interviewed participants has mentioned the access to the local skills and know-how as a reason to enter this particular region of Russia. There were not any preliminary expectations identified concerning knowledge creation capabilities and perceived R&D activities of the region.

The Company D was the first foreign company that was established in the Kaluga region in the year of 1997. According to the CEO of the subsidiary, this place was chosen due to the proximity to Moscow and the prosperity of the food industry at that time. So, this packaging company seemed to be as a missing piece of the puzzle.

The next Finnish Company B was established in Kaluga region in 2006. The location was chosen thanks to the successful performance of the Russian company located in the region, which was later acquired by Company B.

Company C was attracted to the region by worthwhile opportunities offered by the Finnish industrial park located in the Kaluga region. They have received facilities, electricity, water, IT, etc. under “a turnkey construction” project. According to the interviewee’s opinion, “it is the most appropriate way for SMEs [small to medium enterprises] to enter the Russian market. This turnkey construction project has saved our time and kept us away from long processes of negotiations with the water experts, electricity providers and so on.” Moreover, some international key customers of this MNC already have entered the Russian market and they have followed their customers and established its subsidiary there.

Small companies prefer to follow their large international customers entering the Russian market, which puts down the degree of risk taking. This viewpoint

was also supported by the interview of our pilot company. To avoid expensive procedures of greenfield investment that includes electricity connection, water supply and other costly arrangements, it is better to rent premises from another company or to get into cooperation with an industrial park. (Pilot company interview data)

The main advantage of the Kaluga region as a location in the central part of Russia with a proximity to Moscow was highlighted by all of the interviewees. All of the subsidiaries of our multiple-case study are located near the federal highway or train access to Moscow and consequently other markets as well. The well-developed transport network access makes Moscow to be the key that opens the gates to other markets including the CIS countries and the Far East markets. (Interviews based material)

Company A mentioned the access to raw materials reserves as an additional advantage of the region.

Based on the interview results it is possible to conclude that there are also positive points of being placed outside Moscow where there is a high salary level and busy traffic, which makes the Kaluga region one of the best alternative for a business location. The Kaluga region still belongs to the central district of Russia, so labor force is quite costly as compared to the far removed regions of Russia. (Interviews based material)

### **5.1.2.Critical Overview of the Business Adaptation Strategy in Kaluga Region**

Coming back to the past experience of business adaptation in the Kaluga region each interviewee wanted to provide their own understanding of what could be done in a different way. This understanding or knowledge is obtained through some practical experience and could be recognized only after some time.

The small Company A started its business development only after the actual opening of its manufacture facility. At the present moment they are still struggling some challenges of running business. They believe that if some preliminary promotional campaigns or negotiations with the distributors would have been accomplished prior to the manufacture launch, it would have smoothed the startup period and decreased the workloads at the initial stage.

Company C has executed this wise proactive strategy; this is a very small production company too. The CEO of the company is Finnish and he does not have Russian language skills. He commented:

“Of course, our parent company has got some general knowledge about Russia; they are familiar with the general principals of making business there. Although I came to the Kaluga region before we signed the final contract and I started to learn by observing and communicating with the local authorities, customs experts, customers, suppliers, and logistic companies.”

It is crucial to find the right local people who are ready to collaborate with your company and are able to transfer contextual knowledge about the local

environment and business culture of the Russian market. This was an important successful factor in the case of Company C.

The experience of the acquisition establishment that the Company B has obtained identifies the importance of the resources allocation and enough quantity of them. Another critical aspect of success is an appropriate control management tool to be identified in order to maintain the right business development direction of the subsidiary. According to the interviewee's point of view, the CEO and Business Controller appointed by the headquarters (HQ) is the best solution to execute a proper control of business in the subsidiary. There is a threat that the acquired company can continue its operations according to the previously settled standards. This is what has to be anticipated in advance and controlled by the HQ of the MNC.

According to the opinion of the interviewee of the Company B, there has to be taken into account an important cultural aspect in term of planning horizon. He has observed that the planning horizon in Russia is much shorter than in Finland, where they used to plan in along-term perspective. While in Russia it more looks like setting a direction for the future actions and then the implementation goes like an improvisation within the settled framework according to the insight provided by the Finnish manager of Company B.

“Some western policies do not always work well in terms of the Russian business environment”, stated the CEO of Company D. For example, the outsourcing practice is a very common business solution in the Western Europe; it was likewise applied at the initial stage of the subsidiary's operations in the Kaluga region. The legal company was outsourced first but then it was realized that it would be better to have its own legal entity inside the organization from the very beginning.

### 5.1.3. Control Management Overview

Companies A and C are both small-sized subsidiaries, they both were established as greenfield investment. It was inherent for these companies to experience a rather tough type of control management established by their HQs. However, it was not expressed by a large number of expatriate managers, in the both companies there is only one expatriate who takes the position of the subsidiary's CEO. The decision-making policy reveals a high dependence on the head office authority. In both of the case companies, this is also supported by means of daily intensive communication between the CEO and its HQ supervisors.

In case of Company A the number of people who keep permanently communicating with the HQ is extended across the departments. Financial Director, Chief Accountant, Deputy of CEO and Technical Director are also involved in daily communication with the HQ. This high involvement in the corporate communication may be caused by the non-permanent actual presence of the Finnish CEO at the Kaluga region subsidiary, since he/she is in charge of controlling two other subsidiaries in Russia at the same time.

The centralized direct control is not always applied to small subsidiaries of the Finnish MNCs in Russia. For example, our pilot interview data has represented an example of output control over the subsidiary with the presence of expatriates (3 out of 25 employees). The authority to take decisions is delegated to the CEO of the subsidiary.

Company B is the largest case company of our study; it entered the market by acquiring the existing company of the same industry. At the very beginning



they established a rather flexible control over the acquired subsidiary with the presence of 1-2 expatriates. Later the subsidiary grew and its production capacity increased significantly.

When a company acquires another company of the hosting country that is manufacturing similar products there could be faced a tricky situation. The interview participant explained:

“The acquired company might already have a long history behind; hence it is challenging to merge this independent and self-sufficient unit together with the MNC and its established corporate culture. This acquired company still has its own capabilities to stand alone and work separately.”

When the corporate control was applied to a lesser extent, Company B was taking a deviated direction of development that they used to adhere to in the past, running their business according to the previous management norms. That was doing harm to the new corporate strategy and in a long-term perspective this situation could have led to unrecoverable circumstances, if nothing would have been undertaken.

At the present moment the control is enhanced by an increased number of expatriates. All of the top managers are originally from Finland, they are taking the following key positions: CEO, Financial Director, Business Controller, HR Director, and Supply Chain Management Director. They are constantly communicating with the HQ by the virtually settled live meetings, this solution of communication is similar to face-to-face meetings and decreases the travelling costs.

The other sub-units operating in Russia merged together and now they all legally belong to Company B. Whereby, the model of corporate

governance was enhanced and became more centralized. There is also a transparent and clear structure of responsibilities and authorities distributed between the HQ and the subsidiary. The interview participant clarified, “it is stated by the monetary value, when the monetary level of the deal exceeds the predefined limit, the business deal has to be negotiated with the HQ”.

Company D is a relatively big company of our case-companies. It was established by the brownfield investment. In other words the Russian company was bought by the Finnish MNC, even though they didn't belong to the same industry. This was the first Finnish company that had entered the Kaluga region and the first regional FDI project in general. This subsidiary operates having no expatriates on-board. The major authority of making decisions is delegated to the CEO of the subsidiary. However, the communication with the HQ is quite extended across the departments of Company D. Around 11% of the office employees are involved in the communication with the HQ, they belong to the financial department, sales department, supply chain, quality control and sustainability departments. The corporate control management is rather flexible, although there is a controlling department and a Business Controller, who is not subordinated to the subsidiary and exists as an independent expert that is subordinated to the HQ.

Table 5 concisely represents the interviews' descriptive data concerning the corporate control management applied at the subsidiaries and the level of interaction between the subsidiaries and their HQs.

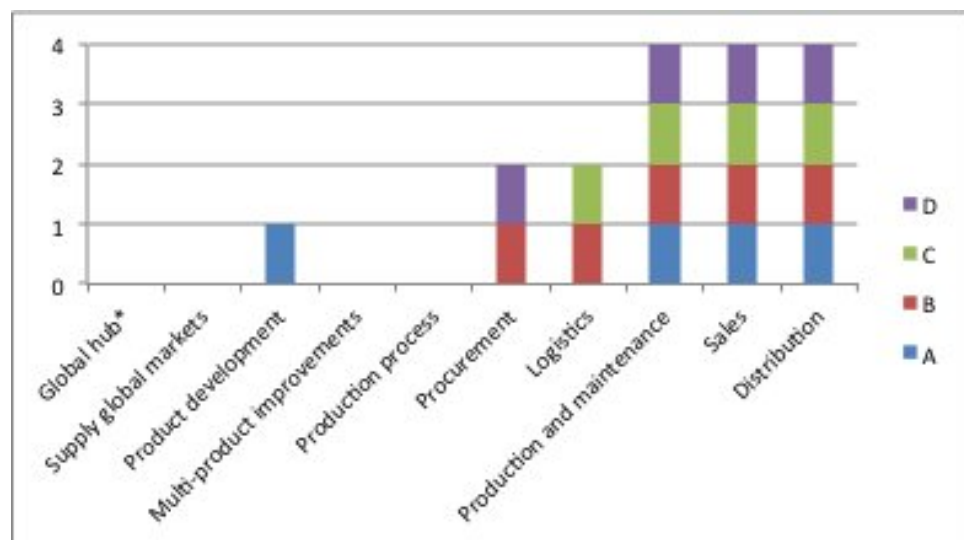
LEVEL OF HQs' CONTROL OVER SUBSIDIARIES				
Subsidiary	A	B	C	D
<b>Number of expatriates</b>	1 (CEO)	5 (CEO, Financial Director, Business Controller, HR Director, Supply Chain Management Director)	1 (CEO)	0
<b>The process of making decisions</b>	Centralized way of making decisions. The subsidiary has to negotiate every decision with the HQ.	Clear structure of HQ and Subsidiary's responsibilities stated by the monetary value, when it is exceeded the limit, subunit has to negotiate the deal with the HQ.	Centralized way of making decisions, the CEO of the subsidiary has to discuss the decisions with the company's Owner on the daily level. CEO of the subsidiary has to report to the HQ about tasks implementation.	Authority to make the decisions is delegated to the CEO of the subsidiary. There is a Business Controller presented at the subsidiary on behalf of the HQ. He is subordinated to the HQ.
<b>Number of people who collaborate with the HQ</b>	Financial Director, Chief Accountant, Deputy of General Director, Technical Director permanently communicate with the HQ.	All 5 top manager (expatriates) are constantly communicating with the HQ.	The CEO of the HQ and the CEO of the subsidiary communicate 4 days per week.	11% of office personnel communicate with the HQ permanently (financial department, sales, supply chain, quality control department, and sustainability).

**Table 5. Control management overview**

**(Source: Interview based material)**

### 5.1.4 The Role of the Subsidiary and its Knowledge Creation Capabilities

The classification of the subsidiary's role provided below was offered in the questionnaire for the HQs' representatives, so this is global viewpoint (see Figure 2).



**Figure 2. Role of the subsidiary in the MNC structure.**

(Source: Lasserre P., 2012)

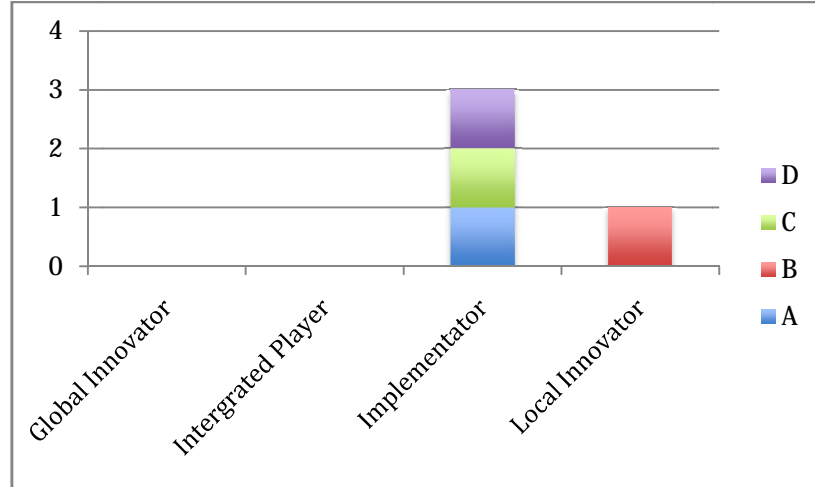
There were defined similar functional areas as the main roles of our multiple-case study subsidiaries with comparison to their peer subsidiaries of the respective MNCs. All of these Finnish production subsidiaries have their own corporate know-how and production related core competencies. Each of the subsidiaries carefully maintains this knowledge and adheres to the corporate standards, technical norms and requirements accordingly. This knowledge

and technological know-how are considered as one of the main factors of subsidiaries' success and sustainability.

The production process development or sophistication of the applied technologies was not discovered at any of the four case-companies. All companies implement their major roles by serving the markets in the ways of sales and distribution.

Company A also marked their role of product development, but it relates only to the market of Kaluga region. This new product possibly can be spread across Russian market but this knowledge stays at the subsidiary and it was not transferred to the HQ.

The classification of our subsidiaries' roles and knowledge creation capabilities were estimated with regards to the theoretical model developed by Gupta (1991). Figure 3 visually illustrates the collected results received from the interview data. This question was inserted in both questionnaires for the HQ's representative and the representative of the subsidiary in order to validate the received evidence.



**Figure 3. Role of the subsidiary and its knowledge creation capability**

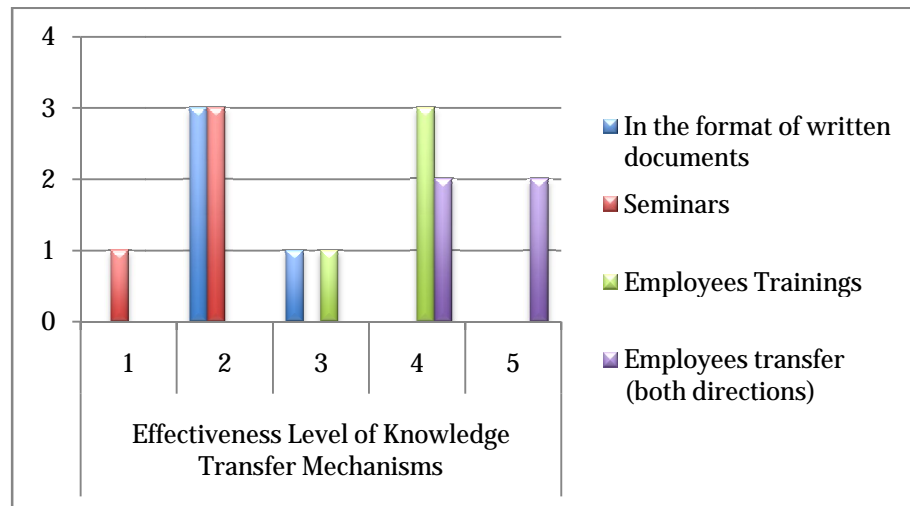
**(Source: Gupta Anil K., 1991)**

Three of our case companies were assigned to the role of 'Implementator'. According to Gupta determination, this role implies little own knowledge generation capabilities and overall dependence on knowledge inflow from the HQ and other peer sub-units of the MNC. One of the case companies was considered as 'Local Innovator' that means the subsidiary almost complete local responsibility for the generation of valuable knowledge in its key functional areas, but this knowledge is too 'idiosyncratic' and inapplicable outside of Russia. (Gupta A., 1991)

### **5.1.5 Knowledge Recognition, Acquisition and Transfer**

The mechanism of employees transfer was accomplished to transfer the corporate knowledge and core competencies from the corporate level to the Russian subsidiaries. Employees were transferred in both directions, from Russia to Finland and from Finland to Russia. This was considered as the most effective method. Two companies have estimated this method at the

highest degree (five scores); two other companies assigned only four. The mechanism of employees trainings was also considered as the second most effective method (see Figure 4)



**Figure 4. Effectiveness level of knowledge transfer mechanisms**

(Source: Gupta A., et. al., 2008)

Each of the company has pointed out some additional mechanisms for the purpose of knowledge transfer from the corporate level to the subsidiary considering them as very effective ones. Company A identified the importance of the administrative board while transferring the corporate culture and core competences to the Kaluga region subsidiary. Company C stated that its Finnish CEO was transferring all significant knowledge as the representative of the headquarters. The small size of Company C was a critical factor to make knowledge transfer possible and successful by this mechanism.

The transfer and adaptation of the corporate knowledge within local subsidiaries is a necessary strategic procedure. One of the central research

question of this study is to identify the opposite direction flow of the knowledge.

Based on the interview results we could point out three companies where the transfer of knowledge is occurring from the subsidiary level to their HQs. This knowledge does not relate to the production or technology related solutions, it is rather contextual, tacit type of knowledge that includes the understanding of making business in Russia with regards to the rules of local business environment. We can refer this type of knowledge to the terminology provided in the research of Yli-Renko H. et. al., they define this knowledge as 'foreign market knowledge', meaning "the extent to which a firm possesses information and experiential knowledge about its international operating environment", it could also be considered as the 'accumulation of managerial learning'. (Yli-Renko H., et. al., 2002)

The Finnish interviewee from Company B has provided a deeper insight:

"Our boarder already has obtained large reservoir of knowledge, including knowledge about the Russian market and culture. Reality brings us the evidence that ourHQ is still lacking some specific knowledge about the market of Russia.The knowledge transfer from the HQ to the subsidiary is not that essential at the moment, it is a much bigger issue how to transfer the knowledge concerning the Russian market realities and rules of the market to the HQ. Every month we are trying to realize this knowledge transfer at more efficient level."

The mechanisms of this contextual and tacit knowledge transfer from the subsidiary to the HQ are meetings, factory visits by the Finnish delegates and customers presence at the meetings with the subsidiary and corporate representatives. This knowledge represents a high importance for the HQ, because "regarding our strategic vision, where our company is willing to grow in the future is the Russian market". The knowledge acquired from the subsidiary of our study does not go across the sub-units of the entire MNC,



since it concerns only the particular country market. The interviewee has extended this point:

“It is possible to borrow some knowledge from sub-units within our MNC, for example, to obtain the best technological practices from our peer subsidiaries, but quite commonly those solutions that are applicable in the Western Europe markets, are not preferred or accepted in the Russian market. This incompatibility of market and technological standards is a tricky factor that inhibits intensive knowledge exchange with other subsidiaries of our MNC.”

In the small Company C this contextual and culture specific knowledge transfer to the HQ is implemented through intensive cooperation and frequent communication between the CEO of the subsidiary and the Owner of the MNC.

Company D also transfers knowledge from Russia to the HQ. This knowledge relates to the profitability analysis, market segmentation issues, customer relationship management and projects-related information and does not involve any advanced achievements of the product development process, sophistication of the production processes or any innovations in IT field. All technology or IT related competences are kept the same according to the corporate standards.

This MNC of Company D is really huge and the production niches vary significantly and can belong to unfamiliar fields. That is why it is hard to indicate any further knowledge flow of the acquired knowledge from our focal subsidiary across the sub-units of the MNC. According to the assumption of the interviewee, the acquired knowledge might be applicable only to the sub-units of the same fields of operations.

The generation of new knowledge related to the production technologies or technology sophistication achievements was not indicated at any of the subsidiaries, however, there were made some product modifications or adjustments to the local customer requirements in all of the case-companies, see Table 6.

PRODUCT DEVELOPMENT/KNOWLEDGE ACQUISITION AND TRANSFER				
Subsidiary	A	B	C	D
<b>Product development\modifications</b>	The main product is kept the same according to the corporate standards. But there were developed other product lines to answer local customers' needs in Kaluga region.	There are some product modifications in use that answer to the specific terms of the Russian market.	Product requirements were modified under request of the local customers.	There were made certain modifications of the product and the development of them had occurred in Russia.
<b>Whether those product modifications were transferred to the HQ (Finland)</b>	No	No	No	No
<b>Whether it is possible to introduce this modified product produced in Russia to any other international market</b>	It could be possible to introduce in other countries with no change, it is standardized product.	It is not possible	It could be possible to introduce in other countries with no change, it is standardized product.	It is not possible

**Table 6. Product modifications and this knowledge transfer**

**(Source: Interview based material)**

Company A has developed a new product line according to the necessities of the big local customers. Company C has adapted certain product requirements according to the main customers' requests.

The HQs of Companies A, B and D were not interested to transfer this product modification knowledge from Russia to Finland. However, the case of Company C provides us a single case of knowledge acquisition by its HQ. To put down the prices of products and hence to stimulate the demand at the Russian market Company C has found another low-cost suppliers of raw materials from Belorussia. Later, the HQ borrowed this strategically important

decision; in the same way they have decided to switch their current suppliers of raw materials to the suppliers from Belorussia. To take this decision the product development specialist was delegated from Finland to visit the subsidiary in the Kaluga region and acquire all the necessary information from the locals concerning this issue. This is a significant contribution to the MNC competitive advantage. This fact was discovered in the end of in-depth interview with the CEO of Company C.

These modifications answer the particular local requirements, although two small companies claimed that their products are quite standardized and could be demanded at other international markets as well. But our other two large companies that have been operating in Russia already for a long time have denied this possibility to introduce their locally adapted products to the international market places.

#### **5.1.6. International Competences**

All of the subsidiaries are well adapted to the local environment and they have enough capabilities to operate according to the local rules of the business environment. The majority of the employees are Russian in each of our case-companies; the Russian employees are the holders of the cultural and contextual knowledge needed to run the business (see Table 7).

INTERNATIONAL COMPETENCES				
Subsidiary	A	B	C	D
<b>Adaptation level to the local environment\the experiential knowledge about Russian market.</b>	The subsidiary is quite well adapted to the local environment due to high presence of Russian managers; holders of knowledge about the market.	The subsidiary is quite well adapted to the local environment due to high presence of Russian managers; holders of knowledge about the market. HQ and the Subsidiary do not always share equal knowledge about Russian market.	The subsidiary is well adapted to the local environment due to high presence of Russian managers; holders of knowledge about the market. The CEO as expatriate has difficulties to understand cultural and specific market issues.	The subsidiary is well adapted to the local environment, all of the employees are Russians; holders of knowledge about the market.
<b>Is there any problems in collaboration with the local partners</b>	No problems, except legal issues: federal laws do not work same way for some Russian companies	No problems	No problems	No problems
<b>Managers with the international background/competences</b>	3 Russian employees with the international background and the CEO (expatriate)	10 Russian employees with the international background and 5 expatriates	3 Russian employees with the international background and the CEO (expatriate)	5 Russian employees with the international background
<b>What is more important: international expertise or local expertise</b>	It has to be a combination of both local and international expertise	It has to be a combination of both local and international expertise	It has to be a combination of both local and international expertise	It has to be a combination of both local and international expertise

**Table 7. International and local expertise**

**(Source: Interview based material)**

The interviewee of the Company B has expressed:

”Quite often our subsidiary and our HQ do not share equal knowledge concerning Russian market reality, for example about local customer preferences, when it highly affects the production process strategy; either it is serial production or individually oriented project implementation.”

This and other deep insights of the Russian reality make sense and it was obtained through a long working and living experience in Russia of the Finnish top manager (over 14 years) who was interviewed. According to him it is hard to deliver this type of understanding to the HQ where they tend to have their own beliefs and understandings concerning the Russian culture and market realities.

The Finnish CEO of Company C moved to Russia a few years ago and he does not speak the Russian language. He provided his insight:

“Sometimes it is extremely difficult for me to understand the contextual situations and some cultural issues, e.g. customs procedures. Only my Russian colleagues with the international competences can clarify those tricky issues for me”.

Company D has emphasized that some new trends of the foreign business practices are also welcomed in Russia. It is an advantage for the subsidiary in Russia that the Finnish management does not attempt to fully copy the Russian style of making business. The Finnish managers stick to their own principles of high business transparency and adherence to the legal and business commitments; it is highly valued and respected by the local companies.

The number of employees with the international competences varies from 9% to 21% out of all employees at the small subsidiaries. In case of the larger-size subsidiaries of our study this figure equals to 3%-5% out of the office employees. It was confirmed by all the interview participants that having this kind of specialists at the company is very essential and beneficial to the business success.

These internationally educated managers are sort of intermediates that are able to translate meaningful contextual knowledge concerning the realities of the Russian market and at the same time they are able to understand the Finnish managers' mindsets and their way of thinking. The combination of both the Russian and international expertise are critically meaningful for the international business development in Russia from the initial stages, this was

highlighted by all of the case-companies' participants of the interview sessions.

We could assume that managers with the international competences and rich cross-cultural work experience can be defined as a source of contextual and tacit knowledge recognition. Their cross-cultural experience and critical mindset ensure the multi-perspective analytical approach to any situation where non-standard outcomes or solutions might be considered as a new knowledge that perfectly works within this particular environment. Other scholars supported that managers with the international competences, while communicating with each other, compare receiving information with their own knowledge about particular markets, and hence collective knowledge platform can be developed. (Yli-Renko H., et. al., 2002; Barkema H., et. al., 1998)

### **5.1.7 Local Embeddedness**

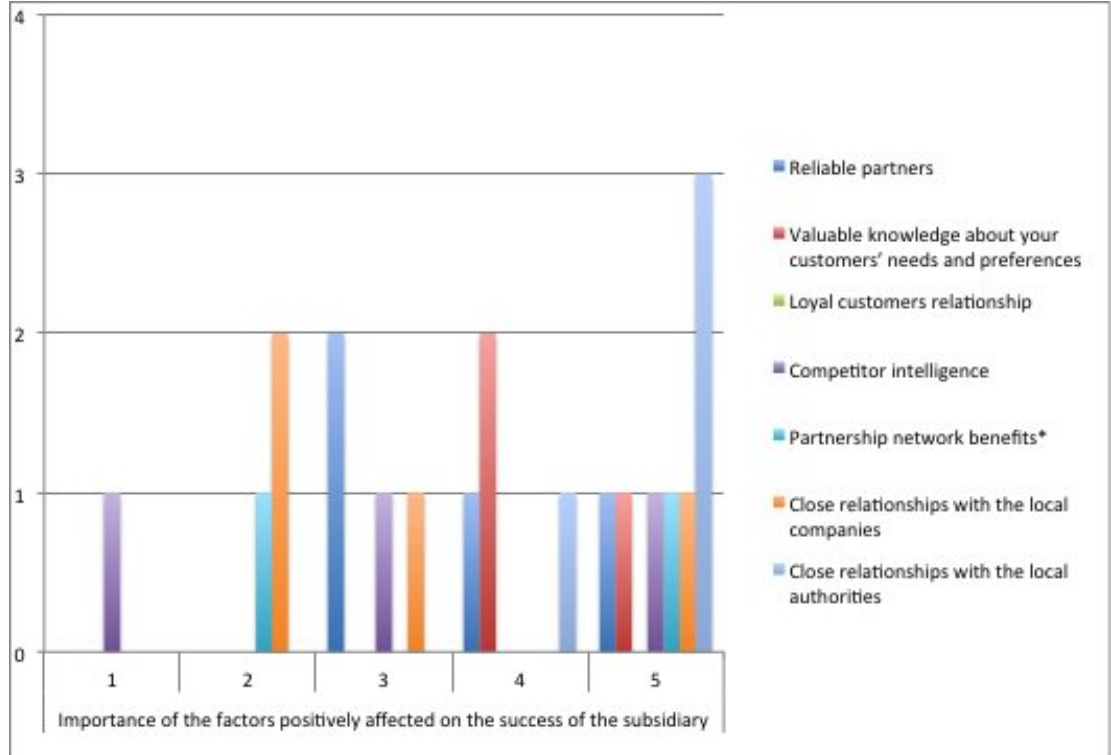
All of the participants of the interview sessions have confirmed that their subsidiaries are very well connected to the local environment. First of all, it could be explained by the major presence of Russian employees at each of the subsidiaries. Local staff is an important source of experiential knowledge concerning the local market. They already have this tacit knowledge, know home market environment and principles of business behavior, so they smoothly operate there. This knowledge source increases the level of each Finnish company's sustainability in the Russian market. (Shenxue L., et. al., 2006)

The acquisition entry mode can be considered as an accelerator of local embeddedness with the local network; the entire business infrastructure is

already developed and there are fewer efforts required to build an extended partnership network.

Product modifications of our four case study companies also indicate a certain degree of embeddedness to the local market. Two large companies that have been operating at the Russian market already for several years have adapted their products in a way that they cannot be sold in other international markets. This could relate to the industry specific requirements inconsistency of the international and Russian markets or approve their higher degree of local embeddedness.

All of the companies have emphasized the importance of good cooperative relationships with the regional/local authorities among other factors that positively affect the successful development of the Finnish subsidiaries. The local authorities not only develop strategies to attract FDI into the region, but they support foreign companies from the initial steps and during all the time of their business operations. The regional government provides enough freedom for the foreign companies' operations with no intervention into the business processes according to the interviewee from Company B (see Figure 5).



**Figure 5. The factors that positively affect the success of the subsidiaries**

**(Source: Interview based material)**

As it is seen from Figure 5 three companies have estimated the importance of close relationships with the local authorities at level 5 and one company – at 4. The other factors of success were distributed quite randomly. There is not same attitude of the regional governance to the FDI companies in other regions of Russia according to the interviewee of Company B who has worked in three other regions of Russia.

During the discussions with the interviewees of all case companies, it was discovered that in November of 2012 the Governor of the Kaluga region, Anatoly Artamonov, was awarded by Commander Cross of Lion Order of Finland in the Finnish Embassy of Moscow. Initially, Ruukki Rus and Stora Enso, which are operating in Kaluga region, submitted an application for this

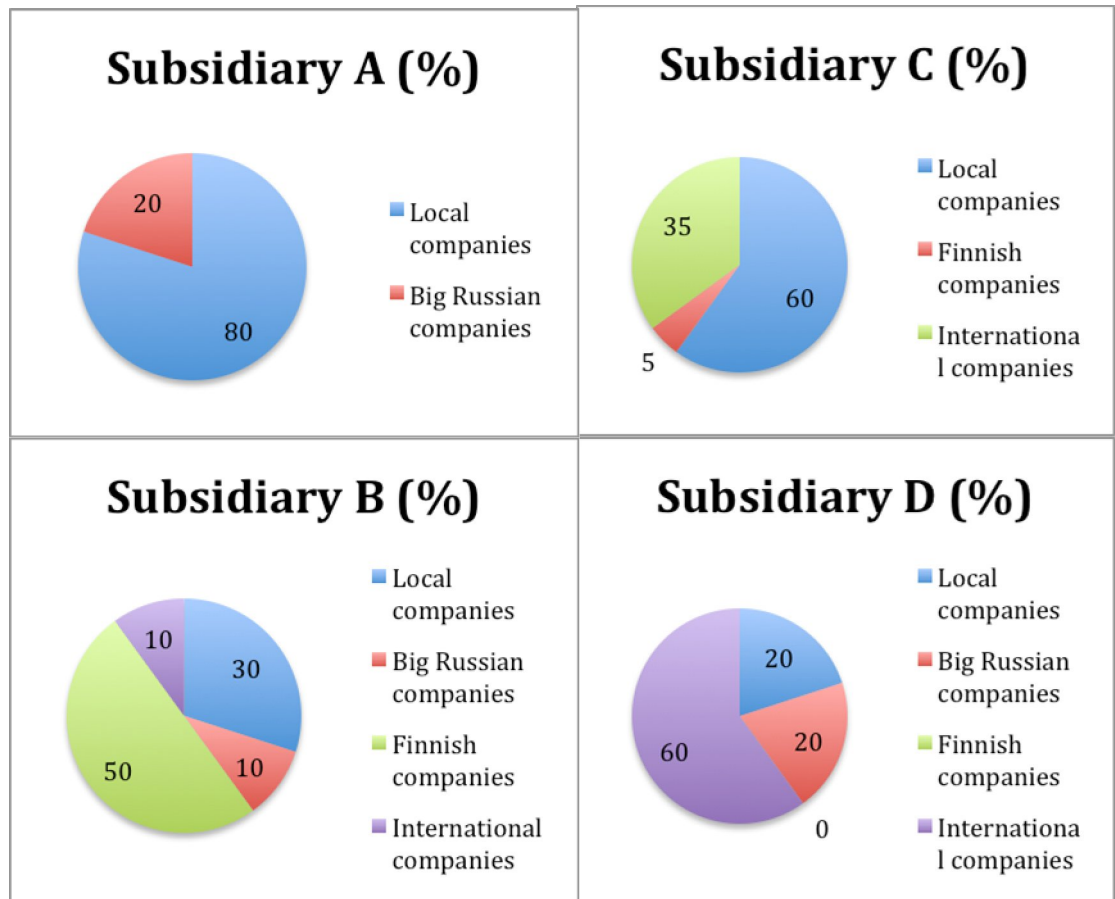


award, the other Finnish companies of the region supported this initiative. The award was aimed to highlight the significance of Anatoly Artamonov's contribution and all reforms and policies undertaken under his governance into the process of creation favorable business environment that attracts FDI into the Kaluga region. In the Kaluga region there is a favorable tax deduction policy for foreign companies, and there are several regional institutions developed that are responsible for the industrial parks creation, transport and logistics infrastructure development, consultation in the fields of real estate registration, labor force registration, legal issues, and etc. These institutions also help to build up relationships with the local authorities. This institutional infrastructure developed by the authorities of the region offers its services to find partners for foreign companies and provides comprehensive information concerning the investment climate, investment opportunities and economy situation overview of the Kaluga region. (The Embassy of Finland webpage, 2012; ARKO webpage, 2012). The award of the Governor provides evidence that this regional institutional infrastructure and policies successfully operate. Hence, close cooperative relationships with the local authorities are highly important to get locally embedded.

#### **5.1.8 Partnership Management**

We have conducted the interviews with the three local partner companies of our Finnish case companies B (2 partners) and C (1 partner). In this subchapter we would like to present findings from the side of the four subsidiaries concerning their partnership management and based on the three interview results of partner companies, we would demonstrate the external point of view concerning the image of Finnish companies and what it implies to be a partner of the Finnish company.

At first we would like to offer your attention the partnership portfolio diversification of our four Finnish subsidiaries (see Figure 6).



**Figure 6. Partnership portfolio of the case-companies**

**(Source: Interview based material)**

Both Companies A and C are small size manufacturers. They are mostly focused on the market of Kaluga region. That is why there is a high level of local (regional) partner companies' presence. It might indicate a relatively high local embeddedness, but it does not necessarily mean that these companies acquire knowledge from the local partners more intensively.

Knowledge recognition and acquisition from the local partners either does not occur at all or it is identified to a very little extent like knowledge about practices of doing business in Russia partially acquired from the local partners. For example, the interviewee of Company C marked that Finnish R&D specialists from the HQ, the CEO of the subsidiary and local customers had participated at the meetings where certain product requirements were adjusted with regards to the Russian local requirements. In other words three sides were required to be involved: the internal, corporate and external side in order to make these product requirements matching with the local ones.

The technology related competences of our Finnish subsidiaries represent the most advanced level in their fields of operations, which identifies their leading positions in the Russian market. So, it is impossible for the Finnish companies to acquire this type of knowledge from the Russian partner companies.

The long-term relationships between two parties can be determined by the degree of adaptation to each other. The quotation from the Hallén et. al. research may better represent this idea: "...adaptations are reciprocal demonstrations of commitment and trust in the relationship" (Hallén L., et. al., 1991, p. 34; Andersson U., et. al., 1996). The level of trust and commitment to the partners in Russia was characterized at medium or high level by all of the interview participants including the pilot interviewee. The interviewee of Company B commented, "If you compare with the high business standards of Finnish environment, the level of trust and commitment to the Russian partners would be characterized at the medium level". However, the rest of the interviewed participants have characterized the level of trust and commitment to the local partners at the same high level as it is in Finland. It is

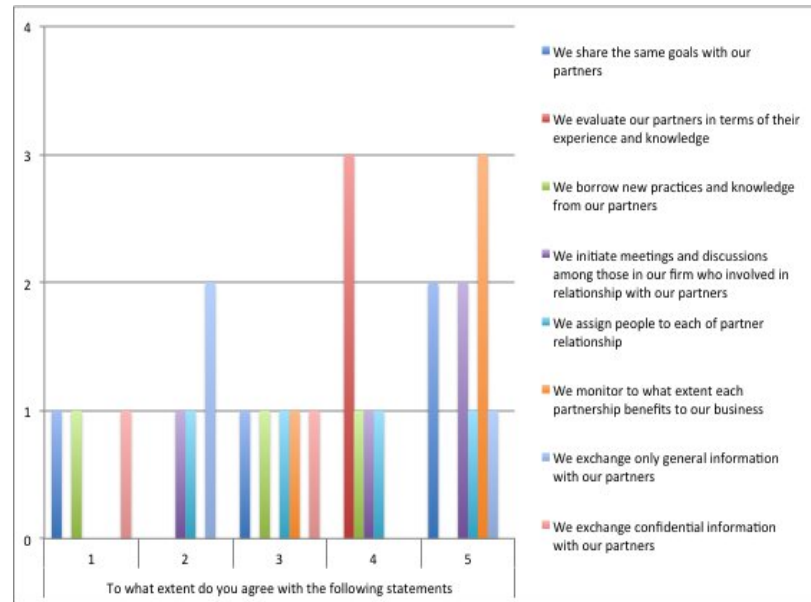
caused by the precise and thorough work of partner companies' selection in order to achieve this high level of trust and commitment. The factor of personal relations plays a critical role in order to achieve a reliable partnership with the required level of trust and commitment.

Overall, there were not any critical problems indicated by the Finnish companies' representatives during their collaboration with the local partner companies. However, the CEO of Company A has marked that sometimes Russian companies might fail to adhere strictly to the federal laws and this negligence can bring up tricky situations.

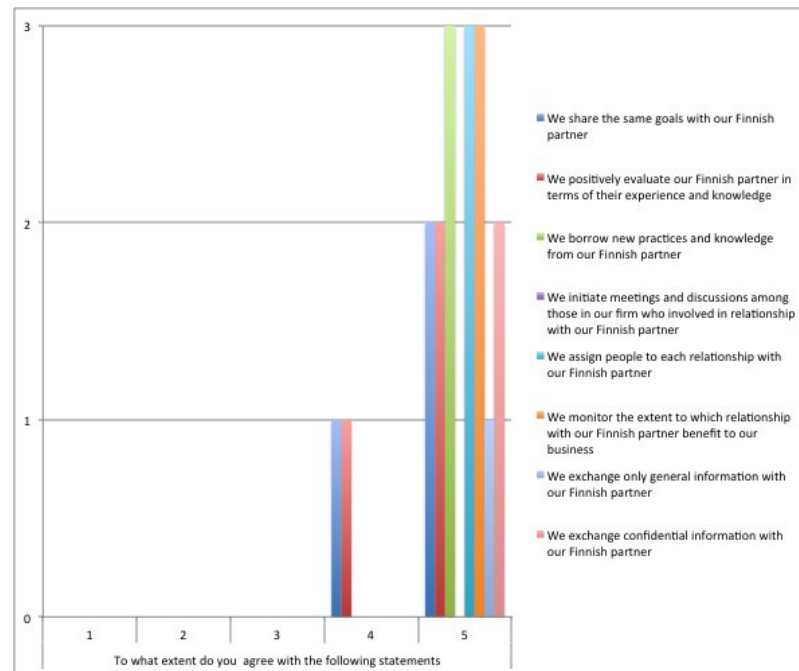
There were no communication problems identified by the interviewees of partner companies. As it was already mentioned above in our case Finnish companies the majority of employees is represented by Russian managers. It also often happens that the Finnish managers speak Russian perfectly, which excludes misunderstandings or communication difficulties between the Finnish companies and their partner companies.

Although certain cultural differences still exist according to the opinion of managers from partner companies. For example, large Finnish companies typically have a multi-level vertical hierarchy in the company structure. This affects the internal negotiation process and makes it quite complex, long and time consuming. While in the Russian business culture the process of internal negotiations is usually expected to be quick.

According to Figure 7 and 8, we can see an intensive knowledge acquisition process by the local partner companies from their Finnish partners and not the otherwise.

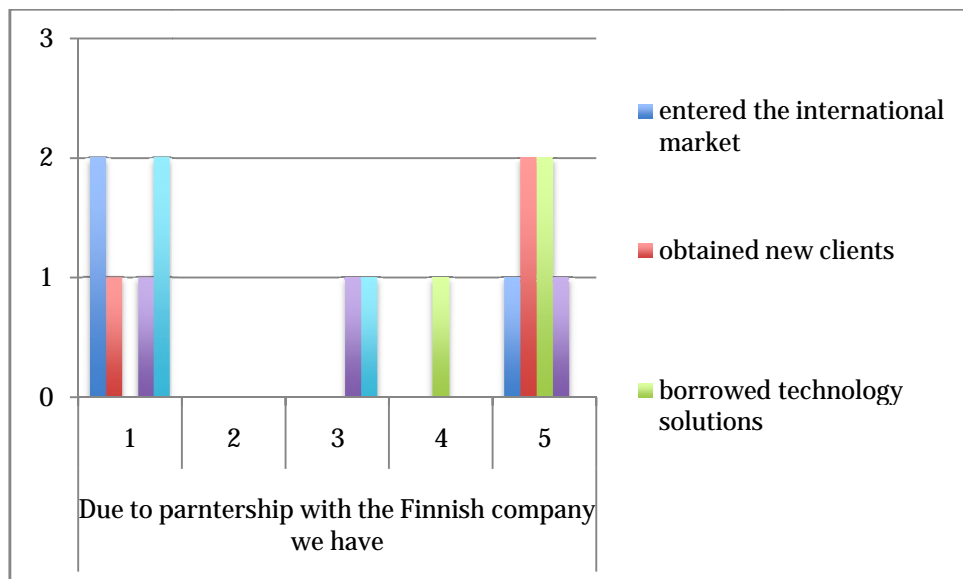


**Figure 7. The subsidiaries about their local partner- companies**  
**(Source: Interview based material)**



**Figure 8. Local partnership companies about their Finnish partners**  
**(Source: Interview based material)**

The partner companies borrow technological and new materials related solutions used in the Finnish partners' production, which are not well known in the Russian market yet. The partnership with the Finnish companies enhances the competitive advantage of the local companies. They attract new clients due to the advantage of acquired knowledge and the partnership with the Finnish company increases the credibility and level of trust to the local companies from the part of their customers. Hence, if the Finnish firms decide to substitute the current local partners for other companies, this situation brings up quite a high level of the switching costs, at least, to these local partners that are currently working with the Finnish subsidiaries(see Figure 9).



**Figure 9. Benefits from partnership with the Finnish companies**

**(Source: Interview based material)**

Appendix 4, presented below, graphically demonstrates the results of the mirror question concerning the most efficient communication tools asked at the subsidiary and partner company interviews. The usage of extranet

systems is very weak in Russia. The most efficient tools for external communication are corporate e-mail system and telephone. Face-to-face meetings also provide high efficiency but they did not occur very frequently. These face-to-face meetings include factory visits to supervise the Finnish production facilities. The partner companies also organize meetings where their client companies and Finnish partners are involved.

## **5.2. Analysis of the Results**

As it was presented in the previous chapter in order to get into the local network of the Kaluga region it makes sense to start negotiations with the local authorities and the potential partners in advance. The local authorities' factor accelerates the process of getting embedded into the local environment. However, in the pilot interview (Saint-Petersburg region) this factor was not considered as a significant one for the business success. Then we could assume that this factor could matter only in the context of the Kaluga region or it is an individual case related issue of the pilot interview company.

In our inquiry two forms of establishments have been analyzed: greenfield and acquisition. The acquisition is an accelerating factor to get locally embedded with the external counterparts of the local environment, the HQ's knowledge about the subsidiary's resources and shared values between the HQ and the subsidiary will be lower in case of the acquisition as compared to the greenfield form of establishment. (Andresson U., et. al., 1996)

In case of the acquisition, the important aspect is to keep the appropriate combination of control mechanisms over the acquired subsidiary in order to

keep its development in the right track with accordance to the integrated corporate strategy of the company.

The longer is the period of business operations in the Kaluga region environment, and the larger size of the subsidiary on average the higher is the degree of local external embeddedness (Andresson U., et. al., 1996, Andresson et.al., 2005). Larger companies out of our multiple-case study that have been longer operating at the Russian market have got an extended network of partners; and their products are modified according to the local requirements and these products cannot be sold in any other international markets with no changes. In the small companies their products were also adjusted to the local requirements, but their products still keep their core features and they are standardized so that they can be sold outside of the Russian market. In case of our pilot interview company, there were no product modifications identified with no consequent knowledge transfer from the subsidiary to the HQ.

The most important thing is where the initiative of the product modifications is coming from, either from the HQ or from the local environment. In our case, the products are adjusted according to the local customers' requirements and the HQ can either accept that or not. This reflects the subsidiary's degree of adaptation to the local environment or, in other words, its dependence on the local conditions of the market. This is one of the factors that determine the local embeddedness of the Finnish companies. (Andersson U., et. al., 1996)

The modifications of the products according to the local environments reveal the fact that the Finnish firms are functionally embedded, e.g. the customer relationship department, sales, product development (corporate level), marketing and probably some others. By several researches it has been



proved that customers and suppliers may influence the product or production development processes, indeed they play an important role in these kinds of decision-making. (Von Hippel E., 1988; Andersson U., et. al., 1996; Andersson U., et. al., 2002)

Another factor that affects the external local embeddedness is the number of close cooperative partnerships to the total number of partnerships (Yli-Renko H., et. al., 2002). Two small companies have recently started their operations in the Kaluga region, for them it was really hard to provide this estimated partnership ratio. For the large companies that have been operating at the Russian market since 1997, the amount of close cooperative partners was estimated up to 80% out of all 500 partners (in case of Company D).

The retailers and suppliers were distinguished by the majority of the case companies as the partnership categories that significantly affect the business success within the local environment, probably this could be explained by the B2B operation nature. As it was stated in the research of Andersson Ulf and Mats Forsgren (1996) the closer the relationships with these partners, that are difficult to substitute, the higher is the level of local embeddedness.

In a few cases, the interviewees could hardly separate their partner companies from their customer companies, because these two terms merge into one in the area of B2B operations.

The tacit knowledge about the market realities is recognized at each of the subsidiaries and there are attempts taken by the subsidiaries to deliver this knowledge to their HQs. This also represents a factor of external embeddedness; the local subsidiaries know better how to run business in the Russian business environment.

The centralization policy is typically applied to keep the corporate control management over the subsidiaries. It could be expressed by a higher number of expatriates taking the top management positions; more intensive communication between the subsidiary and its HQ or by a lack of authority to take decisions at the subsidiary level. In the empirical research conducted by Andersson Ulf, Björkman Ingmar and Forsgren Mats it was revealed that “direct control in terms of use of expatriates have a negative impact on subsidiary embeddedness”. (Andersson U., et. al., 2005)

Company D is the only subsidiary where a rather flexible control management is executed; there are no expatriates at the subsidiary and the authority to take decisions is delegated to the CEO of the subsidiary but there is a HQ representative which means a direct control over the subsidiary, so there is also a centralized type of control management (Andersson U., et. al., 2005). However, this subsidiary is less oriented to the Kaluga region and it operates all over the Russian market and the CIS countries markets.

Talking about a contextual, non-codified type of knowledge that relates to the business market realities, based on the data of our inquiry, it is certainly possible to confirm that the intercultural competence is the most important factor, which makes it possible to recognize this knowledge and acquire it from the local environment.

This knowledge is constantly being transferred to the HQs at the companies B, C and D of our study. This process of knowledge transfer is initiated by the subsidiaries. It is important for them to make the HQs aware of the market realities. Even though this experiential knowledge is context specificity related to the processes and transactions between the subsidiaries and their local partners; this type of knowledge is hard to use in any other corporate

units (Andersson U., et. al., 2002). The mechanisms that are used to transfer this knowledge are meetings, factory visits, customers visits at the meetings where representatives of the subsidiary and the HQ are involved, intensive communication between the CEO of the subsidiary and the Owner of the MNC (in case of family business Company C).

As it was presented in the previous chapter, with regards to the Gupta's classification of the subsidiary' roles and knowledge creation capabilities, our subsidiaries are 'Implementators' and one of them is 'Local Innovator'. This explains the little knowledge creation capabilities in the field of technologies and production know-how.

It was expected to investigate the technology or know-how knowledge flow from the external counterparts to the Finnish subsidiaries in terms of technical embeddedness. However, according to the findings of our study, this knowledge flow takes the opposite direction from the Finnish companies to the close cooperative partner companies. It is a very interesting outcome of our study. And it could be also considered as a factor that strengthens the external local embeddedness of the Finnish companies, since we observe the partner companies' dependence on our Finnish case-companies. The interdependence tends to produce long-term relationships. (Andersson U., et. al., 1996)

This opposite direction of the technological knowledge flow could also relate to the emerging essence of the Russian market. Knowledge acquisition by the local partners could be a logical consequence caused by the high local embeddedness of the Finnish companies. The Finnish companies are originated from their technologically developed and innovative market of Finland; almost all of the Finnish MNCs have their own advanced and

innovative technological competences and solutions. Due to close cooperative relationships with some Russian partners, Finnish companies share their know-how to some extent. It could be considered as a prerequisite for the future innovations-related knowledge exchange, that could be developed due to the established close long-term relationships with a high level of trust, adapted resources and intensive communication between the local companies and their Finnish partners (Andersson U., et. al., 2005).

## **6. DISCUSSION**

## 6.1 Summary of the main findings

We set out to study the specific factors that affect the external local embeddedness and knowledge acquisition and transfer mechanisms of the Finnish firms that operate in the Kaluga region in Russia. This research was inspired by the personal interest of the researcher in the field of integration of Finnish business activities in Russia. The recent progress in theories concerning the MNCs competitive advantage, their subsidiaries local embeddedness and consequent knowledge acquisition and transfer across the sub-units of the MNCs motivated us to implement a pilot study in the context of Finnish-Russian business relationships.

Previously conducted researches have already mentioned the local authorities as an example of direct relations that belongs to the relative embeddedness nature (Andersson U., et. al., 1996; Dacin T., et. al., 1999; Andersson U., et. al., 2001). By other studies there has been an evidence received that the local authorities are holders of the local knowledge that relates to the institutional side and the rules of doing business within the local environment (Andersson U., et. al., 2002; Yli-Renko H., et. al., 2002; Shenxue L., et. al., 2006). The results of our study managed to discover a critical relevance and significance of the local authorities' role that strongly affects the successful performance of the Finnish firms in the Kaluga region. However, this factor might not be the same relevant for the foreign companies' operations and their local embeddedness in other regions of Russia.

The business partners' relationships could be measured in terms of trust and commitment. A high degree of trust and commitment makes it possible to

exchange values such as resources, knowledge, and capital between the partners. The knowledge exchange occurs at the inter-organizational and intra-organizational level and that was examined in our case-companies (Li Li, 2004).

The experiential knowledge concerning the market realities and business practices is recognized and is constantly being transferred to the HQs, this is an example of intra-organizational knowledge exchange. This type of tacit knowledge is possible to be recognized due to the presence of internationally educated employees at the subsidiaries. The transfer of experiential knowledge is initiated by the subsidiaries and appears to be highly important for them to make this knowledge be acquired by their HQs. (Yli-Renko H., et al., 2002; Hansen, M.T., 1999; Argote, L., et al., 2003; Li Li, 2004)

The experiential knowledge acquired from the local environment due to communication with the employees, customers and local authorities consequently affects business operations of the Finnish subsidiaries. The products and their required modifications that were identified in our study appeared to be an evidence of this knowledge influence. Overall, we could also refer this to the factors that enhance the relational embeddedness degree of the case-companies to the local business environment. Gupta Anil and his colleagues (2008) have previously explicated that the process of adaptation forces the knowledge creation process. In our case it is more like knowledge acquisition facilitates the adaptation process to become locally embedded.

Face-to-face meetings, employees' transfer and intensive communication between the top management of the subsidiary and its HQ were mostly executed as the most efficient mechanisms to transfer the experiential (tacit)

knowledge to the HQ. These findings support the theoretical background concerning the mechanisms of tacit knowledge transfer developed by Shexue L. (2006) and other scholars. (Li Li, 2004; Gupta A., et. al., 2008)

The inter-organizational knowledge exchange occurs among the Finnish subsidiaries and their local partners. Their exchange of more complex and technology related type of knowledge provides an evidence that reflects the statement of Schulz (2001) that the geographical proximity and cultural homogeneity allow a more efficient knowledge transfer between the subsidiaries and their local partners than between the subsidiaries and their HQs (Schulz, M., 2001). However, this pre-understanding needs to be verified by other future investigations.

This acquired knowledge received from the Finnish partners affects the organizational behavior of the local partner-companies and increases their competitive advantage. In other words it provides new opportunities for the local companies to develop their own new product solutions and production related competences. This is an example of successful implementation of knowledge transfer process when the companies successfully integrate new knowledge and assimilate them to their business operations. (Li Li, 2004; Minbaeva D., et. al., 2003)

The factor of corporate control mechanisms might correlate with the role of the subsidiary within the MNC as Implementator and Local Innovator. This explains the centralized type of control mechanism applied over the subsidiaries of the MNCs. The subsidiary that operates at Kaluga region for the longest period of time demonstrated rather flexible way of control management; the same level of corporate control management was

discovered at the interview of the pilot company from St.-Petersburg. It operates in the Russian market longer than any of our other case-companies.

## **6.2 Theoretical contribution**

Based on the reviewed theory and our findings we could propose an additional interesting aspect for consideration by the similar researches in future, it is a country's economy level of growth and industrialization. In case the MNC is originally established in the developed economy market and its subsidiary operates in the emerging market, it is worthwhile to investigate how this factor affects the knowledge flows between the subsidiaries and their external counterparts of the local network, what type of knowledge they exchange, what is the level of trust and commitment settled between them and other factors that relate to the local embeddedness concept. Another factor that is also interesting to study concerns the case when both of the economies of the MNC and its subsidiary relate to the emerging economy markets, what type of knowledge do they exchange and by what type of knowledge transfer mechanisms.

In the case a subsidiary is originated in the country with the developed economy and its subsidiary is operating in the country of the emerging economy, we can propose the following:

*Proposition 1:*



An opposite direction of technology related knowledge flow is expected; that is from the subsidiary to the counterparts of the local environment, in case this subsidiary is highly embedded to the local environment.

Our case-companies belong to the Implementator and Local innovator type of subsidiaries. They are focused to serve their market niches by the fact that they answer to the initial reasons of our MNCs to enter the Russian market. They all were willing to access the markets' potential, and they were not expected to have high knowledge creation capabilities. We could assume that knowledge creation necessity arises when the market becomes saturated, mature and the competition level is critically high and companies need to keep their sustainability at the high level. Our case-companies determined as Implementators and Local Innovators have a little potential of knowledge development. In this case the corporate control mechanisms have to be rather centralized to keep the subsidiaries' operations on the right track. We could develop other two propositions that sound as the following:

*Proposition 2:*

An emerging market economy might correlate with the role adjusted to the subsidiary and its knowledge creation capabilities, predefined as Implementator or Local innovator.

*Proposition 3:*

The centralized corporate control correlates with the Implementator and Local innovator types of the subsidiaries.

The fact of product modifications might relate to the terms of the underdeveloped market, an emerging level of the economy, but at the same

time it could also reflect rather high level of local embeddedness of the subsidiaries.

*Proposition 4:*

The product modification adjusted to the terms of the market either correlates with the emerging level of the economy and/or reflects a higher level of local embeddedness of the subsidiaries and the level of adaptation.

### **6.3 Managerial implications**

We have provided experience related insights that the interviewees have provided. They relate to the cultural differences and also to the subsidiaries practical experience related insights, there could be useful for the Finnish or other foreign MNCs that are planning to enter the Russian market.

In the context of our study about Finnish companies' operations in Russia, we would highlight the significance of experiential knowledge transfer from the local subsidiaries to the HQs. HQs has to pay extra attention to this knowledge transmission and initiates the process of this knowledge acquisition from their side. Even though a head office already might have large amount of general researches conducted with regards to the Russian market, there are still some context and culture related aspects that cannot be revealed in the general sense.

The direct control is applied to the majority of our case companies. It is one of the most critical strategic decisions; it has to be settled in the appropriate manner from the very beginning. It appeared to be important having expatriate on the board of the subsidiary in Russia. It is always appreciated if

the expatriates have Russian language skills; it facilitates the process of business adaptation to the local environment. Russian managers with the international competences are one of the most important sources of knowledge acquisition concerning local environment.

If foreign company desires to start its business operations in Kaluga region, the relationships with the local authorities should be established at the initial stages, this would support your business integration into the local environment.

#### **6.4. Limitations of the research and recommendations**

The generalizability of received findings is limited by the context and research methodology. In order to formulate the overall truth applicable to a large number of Finnish or international companies that operate in the Russian market, it is necessary to achieve a high level of results repetitiveness for the similar studies that involve a significant number of companies within the research sample.

The financial performance of the subsidiaries is a necessary issue to be examined while analyzing the role of the subsidiary and its knowledge creation capabilities. In this study it was weakly examined, that is why there were no conclusions made regarding this issue.

Studying the corporate control mechanisms it is very essential to investigate the resource dependence structure established between the subsidiary and the headquarters and between the subsidiary and its external local partners in terms of capital, knowledge exchange and others. This important aspect was delimited from our study while analyzing corporate control management

mechanisms at the subsidiaries. That is why it is hard to provide an evidence concerning whether the subsidiary is more dependent on its HQ or on its external local counterparts in terms of common values and resources.

We would recommend for the determination process of sample companies for the future studies to make them more homogeneous; let them have the same long business experience (over 6 years) at the Russian market and a rather large size of the subsidiaries in terms of the number of employees and the amount of sales revenues. An industry related factor for the sample determination is also meaningful; the industry similarity would affect the data generalizability level. Probably in other industries the product modifications factor might be fully eliminated.

For the future research it would be essential to consider the factor of local authority institutions and its role within the process of getting locally embedded in the context of the Russian market. It might be relevant only within the Kaluga region environment but there might be some other insights discovered concerning this phenomenon.

In the field of partnership management research it is essential to interview managers who are responsible for the partnership management, it would provide more a precise picture concerning the nature of partnership ties, its degree of closeness and the level of trust and commitment. It had better to develop some kind of tool or framework to measure the level of trust and commitment; otherwise it is rather subjective being based only on the respondent's opinion and it is impossible to validate the findings concerning this issue.

In the context of our study the role of HQ in knowledge acquisition and transmission process and knowledge transfer mechanisms applied by the Finnish subsidiaries to transfer their knowledge to the local partner companies is still an open question.

For the future researches to study factors of external local embeddedness of the Finnish firms in Russia we would recommend to focus on the regions with a high level of FDI inflow.

## **7. CONCLUSIONS**

Our study provides pre-understandings concerning the Finnish subsidiaries external local embeddedness factors and knowledge acquisition and transfer capabilities in term of Finnish- Russian context.

In future research we argue that the factor of the economy growth and industrialization matters in terms of subsidiaries' role dedication, their knowledge creation capabilities, and direction of the knowledge flow within the local environment. There has to be literature review elaborated beforehand with regards to the provided propositions in the current study.

An investigation in the field of Finnish-Russian business relationships is an interesting area due to their growing collaborative attitude in terms of trading and business development. Moreover, Russian economy has substantial prerequisites of the future economic growth taking a new direction from the resource-based economy to the knowledge-based economy.

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## **APPENDICES**

## Appendix 1. Questionnaires for the subsidiary

### Structured Interview

#### General information

1) What is the function of your subsidiary? (own)

	<input checked="" type="checkbox"/>
Production	<input type="checkbox"/>
Sales	<input type="checkbox"/>
Distribution	<input type="checkbox"/>
Multifunction (identify, please)	<input type="checkbox"/>
Regional headquarters	<input type="checkbox"/>
Other (identify, please)	<input type="checkbox"/>

2) Does your company have a regional headquarters in Russia if it is not a headquarters itself? (Andersson U. et. al., 1996, 2005)

3) Is it B2B or B2C form of business operations? (own)

	<input checked="" type="checkbox"/>
B2B	<input type="checkbox"/>
B2C	<input type="checkbox"/>
Both	<input type="checkbox"/>

4) What is the number of employees in your subsidiary? (Ruokonen Mika, 2008)

How many people are in each of the function, in case of multifunction subsidiary?

5) When was this subsidiary established/has started its operations in Kaluga Region? (own)

6) What was the type of the entry mode? (own)

	<input checked="" type="checkbox"/>
Green field	
Joint Venture	
Acquisition	
Other (please, identify)	

7) English is the corporate language? (own)  
Yes No (specify, please)

8) How many English speaking employees are there in your subsidiary (%)?(own)

9) How would you define the level or your financial performance for the last few years? (Gupta A., et. al., 2008)

	<input checked="" type="checkbox"/>
It is strong and successful	
It is stable but could be better	
There are certain problems that we are coping with currently	
It is weak, we are far behind our competitors	

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

	Low	Efficiency			High
	1	2	3	4	5

Corporate e-mail					
Forums					
Intranet					
Corporate conferences					
Face-to-face meetings					
Telephone					

11) Could you estimate the level of importance of the following factors that positively affected the success of your company in Russia (Kaluga region)? (own)

	Low	Importance			High
	1	2	3	4	5
Reliable partners (distributors/suppliers/marketing partners/media partners)					
Valuable knowledge about your customers' needs and preferences					
Loyal customers relationship (a group of regular customers)					
Competitor intelligence					
Partnership network benefits*					
Close relationships with the local companies					
Close relationships with the local political/administrative organizations					

\*extended number of partners due to the loyal partners' recommendations; or knowledge gained due to close cooperation with the partners

### **Local Partnership in Russia/Partnership Competences**

1) How many of your partner companies are: (own)

	%
Local companies	
Finnish companies	
International companies	

2) Please, identify the most critical type of the local partnership that significantly affects the success of your company. (Olli Kuivalainen and own addition)

	<input checked="" type="checkbox"/>
Retailers	
Distributors	
Product/technology development partners (R&D cooperation)	
Partner companies that operate in the same field of business	
Delivery companies	
Suppliers	
Other (please, specify)	

3) How has the network of the partners/suppliers changed since the beginning of subsidiary operations as a part of the Finnish company? (own)

	<input checked="" type="checkbox"/>
--	-------------------------------------



Partners' relations with your company became to be stronger	
Partners' relations with your company became to be weaker	
Partnership network has extended	
Your company stopped any cooperation with some of the local partners	

4) To what extent you would agree with the following statements? (Olli Kuivalainen and own addition)

Due to partnership with the local companies:

	Disagree		3	Agree	
	1	2		4	5
We have entered the local market with the low level of risks					
We have entered the international market					
We have obtained new clients					
We developed new product/technology solutions					
We constantly obtain specific expertise about the market/business operations/information about the customers					
We discovered new practices how to do business in Russia					

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

	Disagree		3	Agree	
	1	2		4	5

We share the same goals with our partners					
We evaluate our partners in terms of their experience and knowledge					
We borrow new practices and knowledge from our partners					
We initiate meetings and discussions among those in our firm who involved in relationship with our partners					
We assign people to each relationship with our partner					
We monitor the extent to which relationship with our partners benefit to our business					
We exchange only general information with our partners					
We exchange confidential information with our partners					

- 6) Please, estimate the efficiency of communication tools that are used in your company while communicating with the partners? (own)

	Low	Efficiency			High
	1	2	3	4	5
Corporate e-mail					
Extranet					
Face-to-face meetings					
Telephone					
Other, specify please					

### **Semi-structured Interview**

#### **General information**

- 1) Why this location has been chosen from your point of view? What are the advantages/disadvantages of this location? (own)

- 2) What would appear to be critical for the success of your subsidiary? (1-2 main points) Why? (own)
- 3) What do you think could be done differently when thinking of how Finnish companies have adapted their business operations in Russia (Kaluga region)? (own)
- 4) What do you think could be done differently compare to the Finnish way of adaptation their business in Kaluga region? (own)

### **Local Partnership in Russia/Partnership Competences**

- 5) How many partnership agreements does your company have related to sales, marketing, production, and delivery? (if others, please specify) (Ruokonen Mika, 2008)
- 6) Could you identify a proportion of close cooperative customers of the total number of customers? (Yli-Renko H., et.al., 2002)
- 7) Could you identify a proportion of close cooperative partners of the total number of partners? (Yli-Renko H., et.al., 2002)
- 8) How has the network of the partners/suppliers changed since the beginning of subsidiary operations as a part of the Finnish company? (own)
- 9) How would you describe the level of trust and commitment to your local partners? (own)
- 10) Does your company pay extra attention to the partnership management? Is it important for your business? (own)
  - Managers with partnership management competences
  - Software that supports partnership management
- 11) Who does collaborate with the local partners (number of people per department)? Which departments are involved? (own)
- 12) Have you acquired any new knowledge from the local partners? And if yes, what type of knowledge (operation practices, product requirement, competences of doing business in Russia or other)? Can you give an example? (own)

### **Level of HQ control**

- 1) How many expatriates are working in this subsidiary in Kaluga region? (Andersson U. et. al., 1996, 2005)
- 2) Could you briefly describe the process of making decisions? (Gupta Anil K., 1991)
  - Do all of the decisions always have to be negotiated with the headquarters beforehand?
  - Is decision-making authority is delegated to the general manager of a subsidiary by corporate superiors (high level of environmental uncertainty)?
- 3) Who is the key person or how many contact persons who mostly collaborate with the headquarters in Finland are there? How often do they communicate? Which departments are involved? (own)
- 4) Were any of your colleagues transferred to Finland for any period of work there? What was the reason? (Gupta A., et. al., 2008)

### **International competences**

- 1) How well do you think your company understands Russian culture and the way of doing business in Russia? Please, give an example if possible. (own)
- 2) What makes collaboration between your company and your local partners problematic from your point of view? (own)
- 3) Does your company have managers with the international background/competences? Could you say that having these people gives a positive effect on your business operation in Russia? (own)
- 4) What would be more significant to have international expertise or local expertise to run a successful business in Russia from your point of view? (own)

### **Product development /knowledge acquisition and transfer**

- 1) Were there done any product modifications that would better answer to the Russian market? If yes, were those product modifications developed in Russia/in Finland/ other? (Andersson U., et. al., 2002)
- 2) If product modifications were developed in Russia, were those new competences transferred to HQ in Finland or to any other subsidiary? (Andersson U., et. al., 2002)
  - *What was the knowledge transfer mechanism? (Gupta A., et. al., 2008)*
- 3) Is it possible to introduce the product produced in Russia to any other international market with no change or it can't be adapted anywhere else except Russian market? Why? (own)
- 4) How could you characterize the type of knowledge and competences that you exchange between your company and your most relevant partners? (own)

	<input checked="" type="checkbox"/>
Information concerning the market	
Basic business information	
Technical specific information	
Confident data	
Product related information	
Production related information	
Other department related information (please, specify)	

- 5) With accordance to the knowledge creation or its acquisition and transfer, what would better describe the role of your subsidiary in the MNC, you belong to? Why? (Gupta Anil K., 1991)

Your company is	<input checked="" type="checkbox"/>
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The source of knowledge for other units and the central self-sufficient unit that is capable to fulfill its own knowledge requirements	
The knowledge creator for other units, but it is not enough self-sufficient and capable to fulfill its own knowledge needs	
The unit that has a little knowledge creation only for its own operational needs, heavily relying on knowledge inflow from the parent company of peer subsidiaries	
The unit that has created know-how for its key functional areas, but this knowledge is too contextual (idiosyncratic) and cannot be applied for the benefits of any other subsidiary outside Russia (region)	

**Appendix 2. Questionnaire for the headquarters**

- 1) What is the type of control management applied to your subsidiary in Russia (Kaluga Region)? *Please, support your answer with a short explanation.(own)*
  
- 2) What was the main reason to enter Russian market, Kaluga region? (Lasserre P., 2012) *Please, support your answer with a short explanation.*

	<input checked="" type="checkbox"/>
To access low-cost production	
To access local skills and know-how	
To access markets	
Others	

- 3) How many subsidiaries do you have in Russia? What role does the subsidiary; located in Kaluga region, play with regards to the whole company development? (Lasserre P., 2012) *Please, support your answer with a short explanation.*

	<input checked="" type="checkbox"/>
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Global hub*	
Supply global markets	
Product development	
Multi-product improvements	
Production process development and sophistication	
Procurement	
Logistics	
Production and maintenance of technical norms and requirements	
Sales	
Distribution	
Other (please, specify)	

*\*It is a head subsidiary among others in a particular function (production or procurement, etc.) with a large number of dependent subsidiaries located in other countries worldwide. From top to the down level of responsibility (from global hub to the distributor and other functions).*

- 4) Could identify the level of effectiveness of the knowledge/competence transfer mechanisms from the corporate level to the Russian subsidiary? (Gupta A., et. al., 2008)

	Low	Effectiveness			High
	1	2	3	4	5
In the format of written documents					
Seminars					
Trainings					
Employees transfer					

- 5) What mechanisms were used to establish corporate culture inside the subsidiary in Russia? Is it standard procedure for all of the Russian/international subsidiaries or it is distinguished for the Russian culture? (Gupta A., et. al., 2008)  
*Please, support your answer with a short explanation.*

6) With accordance to the knowledge creation or its acquisition and transfer, what would better describe the role of the focal Russian subsidiary in comparison to the entire MNC? (Gupta Anil K., 1991) *Please, support your answer with a short explanation.*

This focal Russian Subsidiary is	<input checked="" type="checkbox"/>
The source of knowledge for other units and the central self-sufficient unit that is capable to fulfill its own knowledge requirements	
The knowledge creator for other units, but it is not enough self-sufficient and capable to fulfill its own knowledge needs	
The unit that has a little knowledge creation only for its own operational needs, heavily relying on knowledge inflow from the parent company and from the peer subsidiaries	
The unit that has created know-how for its key functional areas, but this knowledge is too contextual (idiosyncratic) and cannot be applied for the benefits of any other subsidiary outside Russia (or other region)	

7) How important is the role that plays this subsidiary and how big is contribution into the process of creating the competitive advantage of the whole MNC? What is the relative financial performance of Kaluga region subsidiary comparing to other Russian subsidiaries /other international subsidiaries? (own)

Compare to other Russia subsidiaries	Low			High	
	1	2	3	4	5
Sales and profit performance					



Sustainable competitive advantage					
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Compare to other international subsidiaries	Low			High	
	1	2	3	4	5
Sales and profit performance					
Sustainable competitive advantage					

*Could you provide any short example of Kaluga region subsidiary contribution?*

In your opinion, what is the reason(s) for the role the subsidiary plays? (*own*)

- 8) Do you think the focal subsidiary is well connected to the other actors in the local environment it operates in? Does the fact, that the subsidiary is well-connected in the local networks or not well-connected, affect the level of importance it plays for the success of the whole MNC? (*own*)

### **Appendix 3. Questionnaire for the local partner-company**

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

- 2) Would you consider your partnership relation with the Finnish company as a close cooperative relationship? Why? (Yli-Renko H., et.al., 2002)
- 3) How would you describe the level of trust and commitment to your Finnish partner company? (own)
- 4) How does the partnership with this Finnish company affect your business? Did you learn anything new from your partner company experience or way of doing business? *Please, support your answer with a short explanation* (own)
- 5) How would you differentiate having cooperation with the Finnish company as a partner comparing to any Russian partner company? (own)
- 6) If it matters, who would you prefer to work with? (in terms of trust and commitment)? (own)

	<input checked="" type="checkbox"/>
Local companies	
Finnish companies	
International companies	

- 7) What does appear to be challenging when you are dealing with the Finnish company if any? *Please, support your answer with a short explanation* (own)
- 8) What are the benefits of having a Finnish partner? (own)
- 7) To what extent you would agree with the following statements? (Yli-Renko; Olli Kuivalainen and own addition)

	Disagree			Agree	
	1	2	3	4	5

We share the same goals with our Finnish partner					
We positively evaluate our partner in terms of their experience and knowledge					
We borrow new practices and knowledge from our partner					
We initiate meetings and discussions among those in our firm who involved in relationship with our partner					
We assign people to each relationship with our partner					
We monitor the extent to which relationship with our partner benefit to our business					
We exchange only general information with our partner					
We exchange confidential information with our partner					

9) To what extent you would agree with the following statements? (Olli Kuivalainen and own addition)

Due to partnership with the Finnish companies:

	Disagree			Agree	
	1	2	3	4	5
We have entered the international market					
We have obtained new clients					
We developed new product/technology solutions					
We constantly obtain specific expertise about the market/business operations/information about the customers					
We discovered new practices how to do business in Russia					

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

	Low				High
	1	2	3	4	5
Corporate e-mail					
Intranet					
Face-to-face meetings					
Telephone					
Other, specify please					

- 11) How well do you think Finnish companies understand Russian culture and the way of doing business in Russia? *Please, support your answer with a short explanation (own)*
- 12) How could you characterize the type of knowledge and competences that you exchange between your company and your Finnish partner? What is the knowledge transfer mechanism? (own)

	<input checked="" type="checkbox"/>
Information concerning the market	
Basic business information	
Technical specific information	
Confident data	
Product related information	
Production related information	
Other department related information (please, specify)	

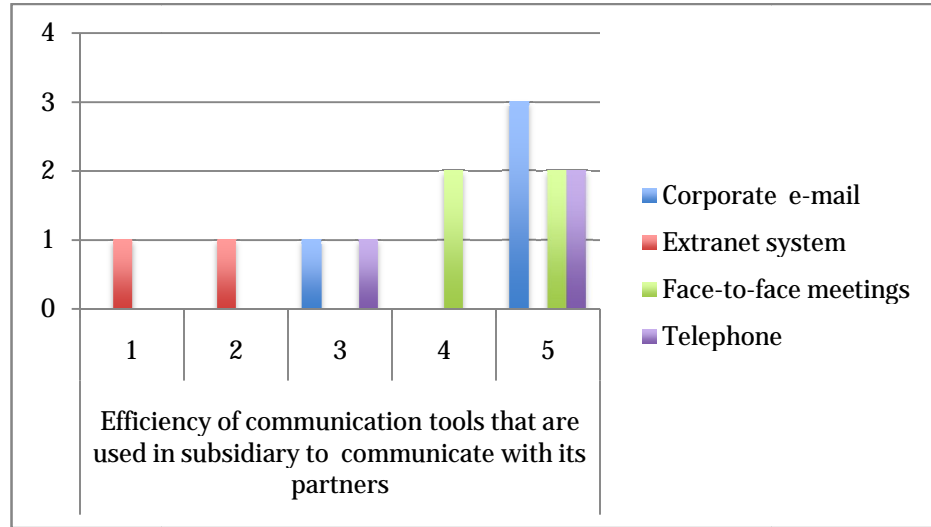
- 13) Please, estimate the efficiency of communication tools that are used in your company while communicating with the Finnish partner? (own)

	Low				High
	1	2	3	4	5
Corporate e-mail					
Extranet					
Face-to-face meetings					
Telephone					
Other, specify please					

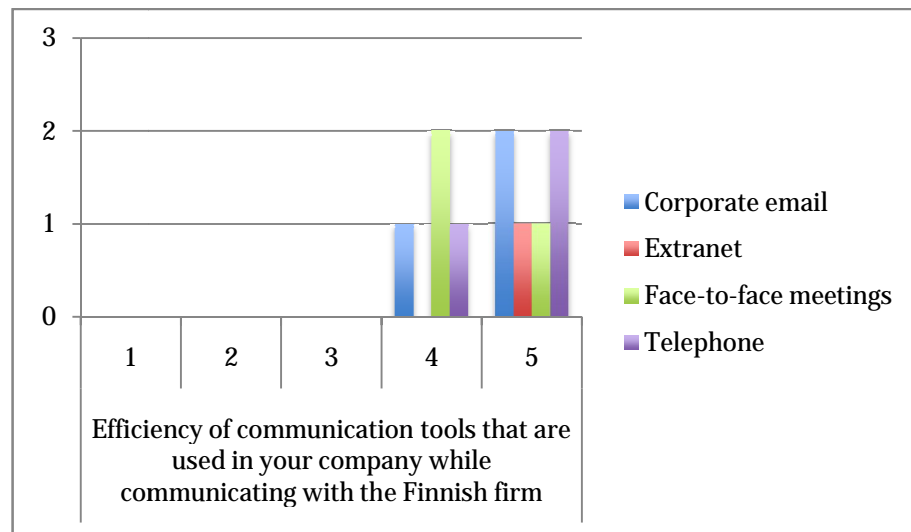
14) Does your company pay extra attention to the partnership management? Is it important for your business? (own)

- Managers with partnership management competences
- Software that supports partnership management

#### **Appendix 4. Efficiency of communication tools**



**Efficiency of communication tools that are used in the subsidiary to communicated with its partners  
(Source: interview based material)**



**Efficiency of communication tools that are used in the partner company to communicated with the Finnish firms  
(Source: interview based material)**

## Appendix 5. Samples of primary data collection and cross-cases analysis (Headquarters)

	A	B	C	D
<b>Control Management</b>	Managemen/administrative board (consist of Finnish and Russian representatives) that conrtrol russian subsidiaries	Quite high presence of expats in Kaluga region subsidiary (CEO, Financial Director, Business Controller, HR Director, Supply Chain Management Director). Earlier there were only a few expats in the subsidiary (1-2 person). The subsidiary has pretty centralzed governance model.	The CEO is communicating with the HQ supervisor (Owner) every day, he has to provide the report about all of the processes and other operational issues.	There is an independent unit, who is controlling subsidiary in Kaluga region, it is Financial or Business Controller. He does not subordinated to the subsidiary, he represents corporate authority at the subsidiary.
<b>Reason to access Russia</b>	The access to the market of Kaluga region and the whole Russia.	The access to the market of Kaluga region, consequently the whole market of Russia and some CIS countries (as Belorussia and Kazakhstan). There was a very attractive acquisition that was implemented successfully.	The access to the market of Kaluga region and the whole Russia. Avoidance of customs procedures. The obtaining of the logistics benefits motivated the subsidiary to entre the market. Besides all of these, the establishment a subsidiary was sort of a following strategy to keep their key international customers. The head office of this company had several feasibility studies after 2000, how to start production in Russia. The strategy of following your big and crucial international customers makes the risks lower.	The access to the market of Kaluga region and the whole Russia. This subsidiary is serving the market until the Ural mountains.
<b>Number of subsidiaries</b>	3 production subsidiaries (Saint-Petersburg, Moscow and Kaluga region)	There used to be quite many subsidiaries, but they were merged together to enhance the control over them. All of the sales units (11) currecntly belong to our focal sunsidiary in Russia. There is also a small-scale production in StPetersburg.	1 subsidiary in Rissia	3 subsidiaries in Russia

**Appendix 6. Samples of primary data collection and cross-cases analysis  
(Subsidiary/Partnership management)**

	A	B	C	D
<b>Level of trust and commitment</b>	It is high level of trust and commitment to our local partners.	It is Medium level in Russia, comparing to the high level of trust and commitment to the partners in Finland.	It is the same high level of trust and commitment to the local partners in Russia as it is in Finland, this level has to be high.	It is high level of trust and commitment, since we are very careful and selective while choosing our partners.
<b>Extra attention to partnership management</b>	No, our company is rather small.	The separate manager with partnership management competences (1 person) is taking care of partners; partnership management is important to us. This partnership manager is Russian and very experienced in this field.	Our company is very small. The CEO is always participate the meetings with the partners and other key persons of the subsidiary. It represents high attention to the partnership management.	We have key account managers for each of the partnership relations (clients).
<b>Who collaborates with the partners</b>	Functional managers regarding to the nature of the deal.	Same 1 person	CEO and functional top manager according to the matter of partner.	They are not that focused on the regional partners, mostly they deal with the big Russian companies all over Russian market until Ural.
<b>Knowledge acquisition from the partners</b>	Not really, the level of technological performance is ahead of the partnership companies. They would rather learn from us.	Not really, there is might be some market related knowledge acquisition.	They have modified their product requirements within mutual negotiation among R&D (HQ), subsidiary's representative and local customer. They acquire knowledge related to the practices of doing business in Russia from their partners; experiential knowledge.	No



**Appendix 7. Samples of primary data collection and cross-cases analysis  
(Local partner-company)**

	I	II	III
<b>How long have you had partnership relations with this Finnish company</b>	We had partnership with the previous Russian firm that was acquired by Finnish company and till now we continue our partnership relations for over 12 years. We have only one Finnish company among our partners.	It is 3rd year we have partnership with this Finnish company. (the respondent was previously working at this Finnish company and he was in charge of partnership management)	We are collaborating with this Finnish firm since 2006, we have started our cooperation in the way of export before this subsidiary was opened in Kaluga region.
<b>Can you define your partnership relations with the Finnish company as a close cooperative partnership</b>	Yes, I totally agree our partnership relation is a close cooperative partnership. Finnish company is very reliable, never was any doubts that they could break up this confidence.	There is no doubts that our partnership with the Finnish firm is a close cooperative business relationship.	Definitely, it is a close cooperative partnership.
<b>Describe the level of trust and commitment</b>	There is high level of trust and commitment.	The level of trust and commitment is high, also due to open personal relationship between managers of the Finnish company and our respondent.	There is high level of trust and 95% of commitment adherence.
<b>Does partnership relations with this Finnish company affect your business? Did you learn anything new from your partner company experience or way of doing business?</b>	Our company is multifunctional and we use advanced solutions borrowed from our Finnish partner company during last 8-10 years. We are satisfied with the quality and technological related issues provided by our Finnish partner. We would define their quality as premium level with the balanced price policy. It increases our competitive advantage.	We have borrowed some knowledge and practices from our Finnish partner.	We have borrowed new knowledge from the technological point of view, and we use new materials in our production process that doesn't exist in Russia yet. Due to usage of this new material we have obtained lots of new knowledge and skills. It increases our competitive advantage.