

**INTERNALIZATION OF FINNISH SMALL- AND MEDIUM-SIZED  
ENTERPRISES PROVIDING PROFESSIONAL SERVICES TO RUSSIA**

**Jyväskylä University School  
of Business and Economics**

**Master's thesis**

**2019**

**Elena Sali  
Entrepreneurship  
Mari Suoranta**



JYVÄSKYLÄN YLIOPISTO

## ABSTRACT

Author Elena Sali	
Title of thesis INTERNALIZATION OF FINNISH SMALL- AND MEDIUM-SIZED ENTERPRISES PROVIDING PROFESSIONAL SERVICES TO RUSSIA	
Discipline Entrepreneurship	Type of work Master's thesis
Time (month/year) 12/2019	Number of pages 122
<p>Abstract</p> <p>The topic of this master's thesis is the entry of small- and medium-sized Finnish companies providing professional services, to the Russian market. Small- and medium-sized enterprises (SMEs) are the vital part of Finnish economy and Finnish export activities grow year by year. Since active research on internalization of service SMEs was initiated only two decades ago, the goal of this research is to gain an understanding of the process of internationalization, especially pathways Finnish SMEs providing professional services undertake, choice of entry mode and use of networks. Moreover, the researcher aims to provide practical guidelines for Finnish SMEs planning Russian market penetration: great attention is paid to characteristics and key challenges that Russian market carries.</p> <p>The research is conducted as a qualitative multiple case study. The researcher conducted nine different interviews: five with the Finnish SMEs engaged in the Russian business and four interviews with consultants that have extensive experience in Russian culture and ways of doing business. An abductive reasoning approach is followed in order to refine the existing literature and intertwine this current knowledge with empirical data.</p> <p>The research findings suggest that single theoretical framework (e.g. stage model of internalization) is not able to describe modern companies' decisions inside international activities as SMEs tend to combine and integrate several theoretical modes. Specifically for the Russian market, while it is considered as psychically distant market, business networks play vital role in establishing business operations. Desire to keep full control of operations, to be closer to the potential customers, to serve existing clients globally, and intangibility of the services Finnish SMEs provide, often stimulate them to set up a local subsidiary. However, unique characteristics and challenges Russian market and culture possess, might become a barrier to entry and business extension. Therefore, in addition to the recognition of these cultural and market differences, another goal of the research was to provide managerial implications for the service SMEs planning Russian market penetration.</p>	
Keywords: Internalization, SME, service SMEs, Russian market, challenges, entry modes, strategy	
Location Jyväskylä University School of Business and Economics	

## FIGURES

Figure 1. Entry modes order from the perspective of level of risk, commitment and control.....	17
Figure 2. Geographical distribution of FDI in Russia by investment size.....	27
Figure 3. Economic growth in Russia (1990-2017), % annual growth.....	28
Figure 4. The Global Competitiveness Index of Russia (2012-2018) .....	28
Figure 5. Contribution of the SMEs to the economy. ....	29
Figure 6. Six cultural dimensions of Russia .....	32
Figure 7. Difference in Hofstede dimensions of culture between Russia and Finland.....	35
Figure 8. The most problematic factors for doing business in Russia (2017).....	36
Figure 9. Brent Oil Prices (2013-2018) .....	38
Figure 10. Russian ruble/U.S. dollar exchange rate (2013-2018).....	39
Figure 11. Hofstede’s cultural dimensions of Russia and Finland .....	42
Figure 12. Russian GPD by quarter, % (2014-2018) .....	43
Figure 13: Data analysis process.....	56

## TABLES

Table 1. Results of the VCIOM questionnaire of Russian entrepreneurs, 2007-2009 .....	33
Table 2. Corruption Perceptions Index (Russia, Finland), 2012-2018 .....	36
Table 3. Basic information about the case firms .....	50
Table 4. Interviewed Experts .....	50
Table 5. International activities and motivational factors for internalization of case companies.....	59
Table 6. Motivational factors for internalization of Finnish service SMEs (Experts’ view) .....	61
Table 7. Entry mode selection by case companies .....	70

# CONTENTS

ABSTRACT .....	2
FIGURES .....	3
TABLES .....	3
1 INTRODUCTION .....	6
1.1. Background.....	6
1.2 Research objectives and questions .....	8
1.3 Structure of the study.....	8
2 THEORETICAL FRAMEWORK.....	9
2.1. Small- and medium-sized enterprises and their internalization .....	9
2.2 Models of Internalization .....	12
2.2.1 Uppsala model .....	12
2.2.2. Business network model.....	14
2.4.3 International new ventures .....	15
2.3 Entry modes.....	16
2.3.1 Exporting .....	19
2.3.2. Licensing .....	22
2.3.3 Joint venture .....	23
2.3.4. Sole venture .....	24
2.4 Russian market and its challenges .....	26
2.4.1. Russian language and culture.....	30
2.4.2. Corruption and bureaucracy.....	35
2.4.3. Currency fluctuations .....	37
Concluding remarks.....	39
3 METHODOLOGY .....	45
3.1. Research method.....	45
3.2. Data collection.....	48
3.3. Data analysis .....	55
4 RESULTS AND FINDINGS .....	58
4.1. Process of internalization .....	58
4.1.1. Motivation for internalization .....	58
4.1.2. Market research.....	63
4.1.3. Use of outside experts.....	67

4.1.4. Financing internalization.....	68
4.1.5. Entry mode selection.....	70
4.2. Challenges and ways to deal with them .....	75
4.2.1. Cultural differences.....	75
4.2.1.1. Building relationships and networks is a key in a high level uncertainty culture.....	75
4.2.1.2. Hierarchy is complex .....	80
4.2.2. Language barrier.....	83
4.2.3. Control issue.....	87
4.2.4. Difficulty to get reliable partners .....	88
4.2.5. Localization: is it only the price that needs to be adjusted? .	90
4.2.6. Difficult economic situation and weak rubble .....	93
4.2.7. Bureaucracy and corruption .....	94
Discussion.....	97
5 CONCLUSION.....	102
5.1. Managerial contributions .....	105
5.2. Critical examination of the study and future research suggestions.....	108
REFERENCES.....	111
APPENDICIES .....	121

# 1 INTRODUCTION

This section aims to introduce the topic of the master's thesis research. First, the background of the study, including brief Russian market overview, economic relationships between Finland and Russia, service firms and their importance and authors' interest in the topic will be introduced. Second, research objective and questions, that the author aims to achieve in this research, are presented. Third, master's thesis structure is introduced.

## 1.1. Background

Russia has been a tempting market for Finnish companies for decades and there are several reasons for that. Russia is the biggest market geographically covering over 17 million km<sup>2</sup> of land with population of over 144.3 million people. Gross Domestic Product (GDP) reflects total market value of products and services that are manufactured in a country per year. In 2016, Russian GDP fell by 4% in comparison to 2015 and was \$1.28 trillion. Despite this decrease, the economy is recovering after the crisis. Thus, in the second quarter of 2017 GDP grew 1.1% compared to the previous quarter. It is expected that this gradual recovery is expected to continue in the upcoming years.

Russian Federation remains one of the main trade partners of Finland: in 2016 share of exports to Russia reached EUR 3 Billion (5.7%) of total EUR 51.9 Billion as well as Finland imported from Russia products and services worth of EUR 6.15 Billion (Statistics Finland, 2017). According to the Finnish Customs' Report (2015) large enterprises (that employ at least 250 people) still dominate Finnish international trade and export 57% of the goods and service. Moreover, in these enterprises goods exports (61%) have a bigger share than service exports (48%). However, SMEs also play a big role in exports of Finland; thus, 35% of export activities are done by the companies that have less than 250 employees. It has been reported that nowadays there are around 600 Finnish companies operating in Russia (TACC, 2017). Thus, being one of the fastest growing export markets for Finland, Russia remains interesting for both bigger companies and SMEs.

After the fall of Soviet Union economic relations between Russia and Finland have deepened; moreover, mutual investment activity has grown. Investments to Russia and the amount of Russia-related companies in Finland have increased rapidly in recent years. To say more, demand for foreign services particularly in travel and construction sections is growing. In last quarter of 2017 exports of services increased by 13% in comparison to the same period in 2016 (Statistics Finland, 2018). Particularly to Russia, Finland exported 17% more services in last quarter of 2017 than in the corresponding period of the previous year. Overall, total value of exported services from Finland

reached EUR 26,3 billion in 2017. Moreover, most of the research on internalization including entry mode selection is covering manufacturing companies. Among studies on entry mode strategies by service firms, there are only few that draw the attention to the small- and medium-sized companies. Therefore, studying enterprises providing professional services with experience of penetrating Russian market can be very beneficial for Finnish service SMEs seeking to internationalize to this market.

Services are defined as: “an activity or series of activities of a more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems (Gronroos, 1990)”.

Companies providing professional services are often determined in the literature as knowledge intensive business services (KIBS) and defined as companies counting on expert knowledge relating to certain technical or functional sphere (Windrum and Tomlinson, 1999). These firms are often based on individuals and their creative thinking; they usually provide consultancy to other businesses. The common examples of KIBS are financial services, design consultancies, IT consulting, engineering services, etc. Usually businesses offering professional services are seeking to internationalize as clients all over the world are getting more and more interested in foreign services as well as markets for such services are becoming global. However, when it comes to the internalization of KIBS, it is a totally different story than international growth of product-based enterprises. Specifically, international development of product-based enterprises relies on economies of scale, firms offering professional services need other solutions as they are very dependent on their knowledge intensity and customer interactions (Abecassis-Moedas et al., 2012). The importance of KIBS is growing and internalization of such businesses plays vital role in the process of globalisation. Coviello (1999) found that the main stimulus for internalization for service firms are the internal characteristics and firm resources.

There is a limited amount of studies around companies offering professional services and their internalization including the market entry mode choice (Blomstermo, 2006). Therefore, the author of this research wants to contribute to the current literature on this topic. Apart from that, the author’s interest lies in the phenomenon of SMEs, in particular ones that provide business services, and internalization process of such firms. Moreover, due to the author’s cultural background and future career plans, Russian market appears to be a great area of research for this master thesis. Moreover, as it was already said before, Russia, as one of the largest markets, has been very attractive for Finnish SMEs offering professional services. Thus, the researcher aims to gain an understanding about which entry modes fit the best for the Finnish small- and medium-sized companies providing professional services, what are the challenges these firms may face when entering the Russian market and how Finnish SMEs can overcome or avoid these challenges.

## 1.2 Research objectives and questions

In addition to the own interest of the author, the research gap of knowledge of entering into Russia by service SMEs have raised the motivation to inspect the subject. Researcher seeks to recognize the differences between Finnish and Russian markets to help to reduce the risk of unsuccessful market entry. Author aims to get a new perspective on this topic which the research world is missing. This requires getting familiar with differences between manufacturing and service companies as well as differences between multinational corporations and SMEs. Besides, learning about internalization theories and different entry modes applied to SMEs as well as learning about Russian market, its challenges and business culture is necessary.

The main research question of this Master's thesis is "How Finnish small- and medium-sized enterprises providing professional services internationalize to the Russian market?" To answer main research question, two subquestions were created:

- 1. Why service SMEs chose to target Russian market and how they tend to approach market penetration?**
- 2. What are the main challenges of the Russian market Finnish SME's providing professional services face when entering and doing business in Russia?**

Answers to the research questions are gathered through collected primary data, particularly the interviews with the consultancy companies (experts) and Finnish professional services SMEs that have an experience in doing business in Russia. This data provides insights on companies' decisions and actions as well as reveals important issues that enterprises seeking to penetrate Russian market should take into consideration.

## 1.3 Structure of the study

The master's thesis consists of four chapters. The first part of the study is introduction section; it highlights the research topic, objective and questions. The following chapter introduces the theoretical framework, where SMEs and their internalization, models of internalization, entry modes, Russian market and its challenges are described. The section provides the overview of the existing literature on these topics together with the context of knowledge intensive business services. Third chapter - methodology, presents the research methods that study is based on and explains the way the data was collected. After methodology section, the research findings on case companies are discussed and analyzed. In the end of the study, results of the study are concluded, answers are given to the research questions as well as limitations of the study and potential topics for further research are presented.



## 2 THEORETICAL FRAMEWORK

The aim of this part is to introduce the theoretical background of this research. The key concepts and studies related to this research will be discussed.

First, the definition of SMEs and will be presented. Secondly, the concept of SMEs internalization and its theories and models will be discussed and overviewed. Thirdly, different entry modes will be presented. Finally, Russia as a market and its challenges will be discussed.

### 2.1. Small- and medium-sized enterprises and their internalization

Small and Medium-sized enterprises (SMEs) contribute to the economic development and welfare by being more and more active in international markets (Reynolds, 1997). SMEs significantly differ from multinational enterprises (MNEs) in terms of organizational characteristics, strategies, financial and human resources.

One of the first authors who defined multinational enterprise (MNE) was Dunning (1973): he proposed that MNE is an enterprise that owns (at least 50%) and controls income generating assets in more than one country. However, Dunning was criticized that this definition overlaps with the definition of foreign direct investment (FDI) and the quantity of ownership was reconsidered and definition was broadened. Therefore, the updated interpretation of MNE by Dunning (1989) was: "an enterprise which owns or controls value-adding activities in two or more countries. These activities might lead to the production of tangible goods or intangible services or some combination of the two" (Dunning, 1989). Later, Kusluvan (1998) provided a definition of MNE as "a firm which has more than 10% of equity or contractual involvement like management contracts, franchising, and leasing agreements in more than one country" (Kusluvan, 1998).

The definition of the term SME varies from country to country and from researcher to researcher. However, the variables are normally number of employees, value of assets or investment level. Based on EU recommendation from year 2003, SMEs are defined by staff headcount or by turnover or balance sheet total. Because Finnish SMEs are analysed in this thesis, author is using the definition of Statistics Finland (2017). In Finland SMEs are defined as "enterprises which have fewer than 250 employees, and have either an annual turnover not exceeding EUR 50 million, or an annual balance-sheet total not exceeding EUR 43 million" (Statistics Finland, 2017).

It is important to note that in comparison to MNEs (multinational enterprises), SMEs usually have limited financial and human resources, are more sensitive to the changes in external environment, have different

ownership structure and management characteristics (Laufs, 2014). However, SMEs are dynamic, flexible and adapt quite easily to changing economic conditions as their organization structure tend to be more flat and decision making process is considered to be more efficient in terms of time (Daszkiewicz & Wach, 2012). Besides, nowadays SMEs take advantage of the growing role of the Internet and other communication technologies for assuring a competitive advantage and ability to efficiently serve international markets. Therefore, the process of internalization of SMEs tend to be different due to these factors.

The phenomenon of internalization appeared in 1920s and until recently the focus was mainly on multinational corporations. SMEs and their internalization got broader attention only recently (Miesenbock, 1988). The growth-generating potential of SMEs has been subject of many academic studies. Many researchers studied and described the process of SMEs internalization (e.g., Preece, Miles, and Baetz, 1999; Wolff and Pett, 2000). Covin and Slevin (1991), McDougall and Oviatt (1996), Coviello and McAuley (1999) and later Lu (2001) studied the connection between internalization and firm performance.

There is still no unified, universally accepted definition of internalization. Williamson (1975) interprets internalization as a model of investment to foreign market. Welch and Luostarinen (1993) claim that internalization of SMEs is a "process of increasing involvement in international operations". This definition seems logical to the author because internalization is a process of doing business activities not only in domestic market, but outside as well. Definitions of Johanson and Vahlne (1990) and Lehtinen and Penttinen (1999) are concentrating on relationships and networks. Johanson and Vahlne (1990) claim that internalization is a process where a company builds, maintains and develops relationships in order to achieve its objectives. Lehtinen and Penttinen (1999) refer to internalization is a process of development networks of relationships abroad. Calof and Beamish (1995) defined internationalization as a process of adjusting company's activities such as strategy, products, organisational structure, resources to international conditions. Andersen (1997) has been caring through his research similar approach to internalization: "Internationalization is the process of adapting exchange transaction modality to international markets".

For this study author picked an approach where internalization is an extension of business operations to other markets which may result in significant growth, enlargement of customer base and firm's competitiveness. In author's opinion this definition highlights several important factors: business strategy, foreign market selection and changing state.

The interest for the topic of internalization of SMEs has been manifested only for the past thirty years. Since then, researchers have been differentiating between MNEs and SMEs in terms of international expansion; international pathways of SMEs has been analyzed and applied in certain industries and sectors. Service sector is not an exception: service firms have been studied recently and claimed to have different motivational factors for starting international activities and choosing certain entry mode. Usually the main

reasons SMEs expand to foreign markets are: seeking for growth, getting an access to new markets that are often bigger than a local one and improving firm's competitiveness (Daszkiewicz & Wach, 2012). In the research conducted by Coviello, N. E. (1999), it was found that service firms have also specific driving forces for starting penetration of foreign markets, the ones that are not inherent to manufacturing firms: a product is embodied in the employees; the client is involved throughout the project; the specific nature of the service firms - project-based and low capital intensity.

When firm penetrates a new market, it gets an access to know-how, business relationships, international resources and competence (Daszkiewicz & Wach, 2012). By leveraging foreign resources SME can achieve higher returns on investment (Lu, 2001). However, geographical expansion brings not only opportunities, as companies especially SMEs are facing challenges associating with liability of foreignness, liability of newness and liability of smallness (Lu, 2001; Lu, 2006). Liability of foreignness refers to situation where a SME faces a new environment and its existing expertise and way of doing business may not fit to operations in the new market, which may lead to disadvantages in competing with local competitors. To eliminate these challenges new knowledge and capabilities must be gained as well as current operations adjusted to the new environment in order to be successful in the international market. Liability of newness is also a topic of current interest for start-ups: companies, regardless of their sizes, establishing presence in a new market are facing the same issues - need for building networks with stakeholders, legitimating a subsidiary, building operations, hiring employees, etc. (Lu, 2001). Firms are required to spend considerable amount of time and other resources on establishing presence in new market, learning about new rules and regulations, building brand awareness. Thus, such challenges as different regulations, language, political and economic environments, demands, customer needs and others will most probably change the way the company will be doing business in the foreign market in comparison to the local market. Liability of smallness is also something that is inherent to SME. As such companies have limited resources and capabilities, they can be quite sensitive to the changes in external environment.

To overcome these challenges and liabilities, SMEs undertake different pathways, strategies and modes of entry. In the planning phase it is important for SMEs, aiming to penetrate foreign markets and compete with larger companies, to clarify key success factors of these markets. It is not possible anymore for most of SMEs to enter foreign market without proper market analysis that reveals risks and opportunities presented by various competitors (Ruzzier, 2006) as well as brings insights and hints for choosing right strategy of market penetration. Obtained through market research, information is an important component of company's internalization process. Market survey made on time can save a lot of resources later on and prevent company from making mistakes. Moreover, company will be aware of way of doing business in the market, its challenges, "rules of the game", which is very important for planning an international expansion.

The next sections will provide an overview of main theoretical models of internalization that SMEs tend to follow when going international.

## **2.2 Models of Internalization**

Numerous internalization theories have emerged over time to address the complexity of different processes involved in internalization and have formed the understanding of how companies execute this dynamic process of international expansion. The most discussed models are Uppsala theory that highlights internalization “stages” and experimental learning in this process; Network model that emphasizes the value of relationships and company’s position inside the network; International New Ventures theory that describes the formation of firms that are international from inception. These three models will be described in the following sections.

### **2.2.1 Uppsala model**

Uppsala model is the most traditional internalization model that was invented by Johanson and Vahlne in the Department of Business studies at Uppsala University in 1977 as a result of criticism towards international business literature of that time. The literature claimed that companies should find optimal entry mode for penetrating new market by evaluating costs and risks that market may cause as well as taking into account the resources available in the firm. The main assumption of Uppsala model is that knowledge developing and learning processes are crucial for firm's international involvement internalization process of the company especially as this knowledge is coming from the learning processes of the foreign market. Moreover, such learning through experience creates more comprehensive understanding of the target market and company’s competences (Johanson, J. 2009) as well as internalization of the company develops according to a chain of establishment (Andersen, 1993). Johanson & Vahlne (1997) noticed that Swedish companies tend to expand their international operations in gradual small steps, starting with learning about the target market by exporting via local agent, then proceeding with launching own sales subsidiary following by starting a manufacturing process in the foreign country. One of the case companies - Swedish second largest pharmaceutical company - was a prove of this concept. When receiving first orders from the new country, Pharmacia made agreement with local agent or sold licences. After several years when the business grew, the company replaced agent with own sales agents and set up sales branch. Later when growth continued it started production activities (beginning with least complex one) in order to overcome several barriers. Pharmacia didn't do further steps until it has enough knowledge about the market (before

penetrating new market, decision-maker received education in the host country). According to the authors of the model, learning, gaining experience and commitment building take time that's why moves to the more risky and more distant in psychic distance are done step by step.

Furthermore, second study of Johanson and Vahlne proved the usage of the same order of the development of the business in new markets - usage of agents in the beginning, sales branches, followed by building manufacturing premises). Another aspect of the study is that companies tend to start internationalising to the countries that are close to the domestic one in terms of psychic distance (factors that determine how difficult it is to understand foreign culture in terms of culture, business practices, level of education, language, etc.) (Johanson, J. 2009). Russia is close to Finland in terms of psychic distance in comparison, for example, to Asian countries, that's why many Finnish companies tend to internationalize to Russia and the same time or after penetrating Swedish and other Nordic countries (Johanson, Jan & Vahlne, Jan-Erik, 2015).

According to Uppsala model there are two state aspects about foreign market acquired by the company at a given point of time - market commitment (resources commitment, degree of commitment) and experiential knowledge about the target market at that time (market knowledge) as well as two change aspects - current activities and decision to commit resources to foreign activities (Johanson, Vahlne, 1997). There is mutual influence between these factors: while state aspects affect change aspects, the change aspects, in turn, increase the market knowledge and encourage farther resource commitment to the target market in the consistent cycle (Andersen, 1993). The market commitment consists of two elements - the amount of resources committed (size of the investment in internalization process) and the degree of commitment ("difficulty of finding an alternative use for the resources and transferring them to the alternative use") (Andersen, 1993). The level of commitment in the market usually depends on the market knowledge that is gained through experience in this market: the better experience (market knowledge) the deeper is the commitment. Because SMEs usually lack the market knowledge and financial and human resources, they face challenges in penetrating new markets.

To sum up, the main ideas of Uppsala models are the following (Johanson and Vahlne, 1997):

- Companies develop their international activities step by step based on their knowledge and experience.
- The knowledge and experience are referred to the concept of psychic distance: first company penetrates those foreign markets that are physically close (have similar culture, way of doing business, language, etc.); over time knowledge is developed and commitment is increased, so firms start to internationalize to more distant countries. Therefore, moves into more risky and distant in terms of psychic distance are made carefully and take time (Johanson, Jan & Vahlne, Jan-Erik, 2015).

- Experimental knowledge plays an important role in Uppsala model as it is gained through personal experience.

### **2.2.2. Business network model**

Later in the study of Johanson & Vahlne (2009) revised the original Uppsala model according to the literature that have been published in these years. Thus, according to a business network model of the internationalization process, every company has relationships with different customers, suppliers, friends, agencies, competitors, governmental organisations and so on. This model describes the process of internalization through the network perspective: the process is cumulative and networks are continuously established, developed and maintained (Johanson & Mattsson, 1988). Company's business networks have a significant influence on which market an internationalizing company will penetrate and which entry mode it will undertake. Existing domestic networks that a company has may be complimented by international networks as firm reaches to foreign markets through extension, penetration or integration of networks (Johanson & Mattsson, 1988). Unlike Uppsala Model, in Network Model gradual learning and development of market knowledge is gained through interaction within networks.

Study of Coviello and Munro, which was describing the internalization process of small software firms, found that networks effect on what market will be chosen for the internalization as well as entry mode (Coviello and Munro, 1995). Chen & Chen (1998) added that networks also benefit for performance consequences. Another contribution to the literature is that sometimes service SMEs are internationalizing to specific markets as a result of initiatives taken by customers or supplier; development of such relationships is called passive networking (Johanson & Mattsson, 1988). In turn, in active networking firm itself is taking an initiative to internationalize. Company can start building new business relationships prior the new market penetration if it does not have right connections yet (Loane and Bell, 2006). Authors that were studying firms that offer professional business services and their network ties have found that these companies tend to undertake passive networking behaviour as their existing networks usually guide them to new markets (Bell, 1995; Coviello & Munro, 1995; Coviello & Martin, 1999; Sharma & Blomstermo, 2003). When SME has a partner abroad with a strong position in the market, SME is likely to follow this partner and initiate internalization process as it is highly possible to find business opportunities for potential business. Another reason is to demonstrate SME's commitment to relationship with this partner if partner wanted SME to follow (Johanson & Vahlne, 2009).

Thus, according to network view, internalisation of the company depends more on its business networks rather than on its internal capabilities and advantages. The importance of long-term relationships with foreign players, establishment of formal and informal contacts were stressed in the study of Johanson & Vahlne (2009) as these factors characterises the internalization process itself. Moreover, the authors agreed that learning and commitment to

partners play a great role in identifying and exploiting opportunities. The experiential learning commitment in this model is focused on business network relationships. Mutual learning between partners in the relationships takes place: they learn about each other's needs, business practices and approaches, strategies, resources, etc. Business relationships give company a chance to enter new market and develop new networks there with a possibility to entering new markets later on using obtained relationships (Johanson & Vahlne, 2003). Furthermore, SMEs can get mutual benefits when it comes to resources. Thus, building close high quality business networks is time and resources consuming. But if such network is built, it will create great opportunities for internalization.

It has been found that networks are a platform, starting mechanism for small- and middle- sized service firms internalization process, entry mode choice and market selection as they tend to follow formal and informal business relationships when penetrating new market (Coviello & Munro, 1995; Coviello & Martin, 1999; Dubini & Aldrich, 1991; Harris & Wheeler, 2005). Therefore, the internalization process will be incremental, gradual process, it is influenced by the relationships gained overtime.

Ojala, A. (2009), who conducted a study of Finnish service firms in software industry, found that when it comes to entering distant markets, these firms are likely to decide on the target market and mode of entry before they start obtaining relationships in this market both, through existing networks and themselves. When a SME is able to access a social network, it may become more informed and capable for capturing growth opportunities for better firm performance.

### **2.4.3 International new ventures**

The international new ventures (INV) first were defined in 1994 in the study highlighted an importance of young firms in the global marketplace. Oviatt & McDougall described INV as “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (Oviatt & McDougall, 1994). Because of the international origins of INV, such companies tend to follow proactive international expansion no matter what their size is. Such companies are totally opposite to companies that obtain a gradual growth.

For international entrepreneurs adjusting company's routines to new markets is not seen as an issue. From the inception INV try to avoid “domestic path-dependence” (McDougall, Shane & Oviatt, 1994), so they build a company where employees from different nationalities can deal with multicultural customers, several locations of the company all over the world and targeting geographically distant markets. The firm has unique set of networks, knowledge and background for doing international business straight from the beginning. Therefore, Zahra (2005) suggests that competitive advantages of INV are located in the cognition of the founders, which in turn allow INV to spot and grab opportunities abroad quickly and find new innovative ways to exploit

them. The reasons why INVs start going international in the early phases, according to Zahra (2005), are the previous international experience of the founder, recognition of opportunities in foreign markets and level of digitization of the industry INV is operating in.

Another characteristic of INV is controlling rather than owning assets due to their shortage in resources (Oviatt & McDougall, 1994). Therefore, such companies don't aim to open subsidiaries in every market they are present. Entrepreneurial companies are defined by the way they do business and how they operate, not by how much they own. INVs concentrate more on developing and maintaining their unique intangible assets such as networks, organizational culture, capabilities and abilities that help them to innovate (Zahra, 2005). They usually show a strong customer focus and try to react on changes in demands and external environment.

## 2.3 Entry modes

Choosing right entry mode is crucial when company is making a decision to internationalize. It sets the objectives, goals, resources and policies that will direct a firm in the international market. Before penetrating new market, firm should plan how many resources (money, personnel, time) it is willing to invest as well as evaluate all the pros and cons of the chosen entry mode in advance. Many companies fail in the early phase or soon after establishing business operations in Russia due to a lack of proper market research. Moreover, it is dangerous to assume that the same model that works in domestic or other international market will fit to the target market. Many SMEs do not conduct a proper market research due to lack of resources, which may result in unpredicted costs and losses.

Entry mode choice is crucial in firm's international activities as depending on which mode of entry is chosen, company will have certain level of control and involvement over day-to-day international operations as well as marketing activities in the target market. Before making a decision about which market entry form to choose, company should familiarize itself with all the other modes of entry, their advantages and disadvantages and see which one suits the best to the market conditions. According to Agarwal & Ramaswami (1992) there are four main foreign entry modes: exporting, licensing, joint venture and sole venture.

Each of the entry mode type carries different level of resource commitment and level of control and risk (Anderson & Gatignon, 1986). Thus, establishing a new fully owned subsidiary possesses high resource commitment, as internationalizing firm has to carry all the costs that are required to set up such a branch and serving the foreign market. However, the level of control is high as firm is controlling all the aspects of the branch's operations and strategic choices. The level of risk of establishing sole venture is high as well as if the firm fails in this particular market, the investment turns



out to be ineffective and company can lose very valuable resources. In contrast, exporting requires quite low level of resource commitment as products/services are produced in the home country and costs that the company must take when doing exporting, include transportation costs and costs for agent's work. In the Figure 1, the main modes of entry are located according to the level of commitment, risk and control, where exporting possesses the lowest risk, commitment and control, and direct investment (owning a company or facility overseas) carries the highest levels of risk, commitment and control. It has been found that companies are likely to choose high control mode when cultural distance between local and host markets is high (Blomstermo et al., 2006).

Figure 1. Entry modes order from the perspective of level of risk, commitment and control.



Based on Blomstermo et al., 2006

The research on market entry mode selection by service companies, especially of small- and medium-sized is quite limited. Another gap in the research on this topic is that one group of scholars believe that entry mode selection process of manufacturing firms and service companies is generalizable (Agarwal, 1992; Terpstra and Yu, 1988; Weinstein, 1977), another group claims that choice of entry mode is different among these types of companies (Erramilli, 1990; Erramilli & Rao, 1993). Ekeledo (1998, 2004) suggests that scholars should be careful generalizing manufacturing and service firms as some services require production and consumption to be done simultaneously.

Why some researchers claim that the entry mode choice does not differ much among manufacturing and service firms? Blomstermo (2006) explains this by the fact that service firms can be divided to *hard-service* (linked with physical products) or *separable service* (when production and consumption are decoupled; Sampson and Snape, 1985), and *soft-service* (delivered in real time, requires presence from both customer and seller) or *inseparable service*. Sampson and Snape (1985) suggest that separable-/hard-service companies can be exported to foreign markets just like manufactured goods while companies that offer inseparable or soft-services need another approach. Thus, customers of soft-service firms are not able to evaluate the quality of the service before it is delivered (Zeithaml, 1981). Besides, due to inseparability of production and consumption of such services, there is a need for the customer to be involved in service delivery and be in contact with service provider constantly. Therefore, Blomstermo argues that due to the specific characteristics of soft-service

enterprises, they are more likely to obtain high control entry modes (such as wholly owned subsidiary or majority owned subsidiary) than companies offering hard-services as soft-service companies need more cooperation with the clients. For soft-service firms foreign presence helps them to gain an understanding of buyer behaviour and requirements and, if needed, necessity to adjust products to these requirements as well as have enough interactions with the consumers. Due to these reasons, often providers are required to have a local presence in the target market. Erramilli & Rao (1993) who also studied service firms, found that service firms, characterized by low asset specificity, especially SMEs that offer inseparable services, trying to penetrate the market with high country risk, tend to turn to shared-control modes (e.g. franchising, licensing, management contract). Additionally, when making a decision on the entry mode, managers of soft-service firms should not possess cost savings as the main factor as for some service firms (with high people intensity) switching costs are much lower than for manufacturing companies due to the concentration of valuable assets in the human capital (Sanchez-Peinado, 2007). So, it does not require many resources to relocate activities if necessary (Pla-Barber, 2010). Due to these reasons, there are different drivers for entry mode choice for soft-service firms than for hard-service companies.

In the beginning, hard-service firm should determine whether it will internationalize through exporting or produce its service in the host market. make the choice between exporting and production in the host market (Ekeledo, 1998). As for soft-service firms, they should make a choice between full-control or high-involvement modes and shared-control or low-involvement modes. (Ekeledo, 1998). Initial entry mode choice is crucial, but the entry mode can change over time as company's knowledge about the host market will be expanding, circumstances and external environment might be changing (Ekeledo, 1999).

Holmlund & Kock (1998) studied internalization of Finnish SMEs; they highlighted that agent/commissioner, own sales man visiting customers and alliance with another Finnish firm were found to be the most popular entry modes that 113 of 173 studied Finnish SMEs chose for their internalization activities. The main reason for choosing these entry modes is resource savings: by hiring an agent, company receives the access to his business network and market knowledge; sending sales man to the host country is cheaper than opening office abroad; acting as a sub-supplier for a bigger Finnish company also helps to save the resources for internalization process (Holmlund & Kock, 1998).

Specifications on entry mode choice that are inherent to service enterprises will be reviewed in the sections of specific entry modes. However, franchising will not be described in details. It is a form of licensing where franchisor (a trademark owner) gives to franchisee rights to do the business under its name in exchange for royalty and other fees. Normally, the ways of doing business are determined in the contract in order to minimize risk of losing the brand image of franchisor. In this master's thesis franchising will not be examined in details as the author believes that (1) this mode of entry fits

better for companies that offer goods, (2) it may include high costs (e.g. looking for right franchisee, training of franchisees, etc) for SMEs which may not be able to afford, (3) as human capital and its knowledge are the most valuable assets to the service companies that provide competitive advantage, it may be risky to license this know-how, (4) SMEs normally do not have volumes as MNEs that will drive them to choose this mode of entry. Moreover, Toivonen, Tuominen, Smedlund, & Patala (2009) stated that franchising is not common among companies in soft-service sector as it is not a suitable way of working for such companies.

### **2.3.1 Exporting**

Exporting means production of the goods/services in the company's domestic market (or in the third country/region) and selling them in the target foreign market. Exporting does not require high resource investment from the firm, it provides a lower risk/return ratio and it is more flexible than other forms of entry. It gives a company operational control and may provide an opportunity to reach economy of scales when manufacturing products in the home country for both local and foreign markets. Furthermore, firm broadens its customer base and gain international connections by going international through exporting as well as decrease the level of dependence on the demand in the home market. For these reasons many companies prefer to start their international activities with exporting and switch to another mode later on if expansion is successful. Exporting is a good way to learn about the target country, customer behavior, ways of doing business, competitors and other information.

Another side of exporting is that it can be that the foreign market offers more affordable environment for the manufacturing (lower costs for production process, labor force, materials, etc.). Moreover, marketing control can be lacking as marketing activities are often delegated to the foreign agent. To say more, exporting is not the most suitable option if the transportation costs and tariffs barriers are high.

It is important to note that for service companies the situation is different: due to business characteristics the motivation for internationalization of such companies differ from the ones that manufacturing firms undertake. For example, services cannot be transported or stored due to their intangibility. Besides, in most cases services should be produced at the same place where they are going to be consumed. When it comes to scalability for service firms, only marketing activities can achieve economies of scale (Campbell & Verbeke, 1994) as otherwise, the main tasks of companies offering professional services are planning, thinking, and combining different solutions to a problem (Sharma's, 1988). Thus, internal characteristics, available resources, existing network of the company, not the external factors, are the main drivers for internationalization (Coviello, 1999; Majkgård & Sharma, 1998). Other driving forces include professional knowledge and experience of the company, international

experience of the workers and desire of the company to have better control of the service delivery (Bell, 1995; Oviatt, 1994, Coviello, 1999). Client requirements may be the only external factor that can influence company's decision on international environment. Campbell & Verbeke, 1994 also found important question that service firms ask themselves before deciding on the entry mode: whether to create knowledge in the home market and relocate it to the target market or initially start creating knowledge in the foreign markets.

Many service firms use exporting as a way to enter new market. Coviello (1999) stated that obtaining another than exporting mode is a result of client or government requirements. Thus, if project requires "resources that are outside the capabilities of the case firm, the firm forms temporary alliances to enable it to complete the project" (Coviello, 1999).

In his research Blomstermo (2006) argues that service firms can be divided into hard-service (linked with physical products) or separable services (when production and consumption are decoupled; Sampson and Snape, 1985) and soft-service (delivered in real time, requires presence from both customer and seller) companies. Sampson and Snape (1985) suggest that separable services can be exported to foreign markets just like manufactured goods while companies that offer inseparable or soft-services need another approach.

If the company chooses exporting as an entry mode it has to decide what level of control it will have over the operations and this functions it will delegate to the firm from the target market. There are three possible types of export: direct, indirect and cooperative export.

*Direct exporting* refers to the situation when the internationalizing company takes on the duties of an intermediary and takes care of all the operations (documentation, delivery, pricing, etc.). It also makes contact to the customers in the target market directly. There are several forms of direct exporting such as: own representative office or a branch, foreign agent, foreign distributor (Hirsch, 2012). The difference between agent and distributor is that foreign agent is acting in behalf of internationalizing company and its name but foreign distributor acts on his own behalf.

Specifically for Russian market the easiest, fastest and less risky way (especially in case if company does not have knowledge and experience from the Russian market) is to find a Russian professional to act on behalf of the foreign firm as there is no need to register a company in the Russian authorities. It suits best to the companies making first steps into Russian market. The main idea is that the firm chooses the local representative and hires him as a contractor with the terms that two parties mutually agree. Hiring this person as a consultant rather than employee gives company flexibility towards such aspects as salary, termination of the contract, overtime, etc.; besides, this will allow the company to avoid the mandatory rules of Russian labor law (Danske, 2015). In order to create a service contract, this individual must be registered as an entrepreneur. One more benefit of service contract is that company is not eligible for paying taxes and social fees of the contractor.

As it comes to the question about the office, foreign firm can rent a working space without registering the branch or representative office in Russia.

Another option is for the hired individual to rent an office himself and get reimbursement from the company. Important to notice that if such person has permanent/long-term (longer than one month) working space, the foreign enterprise is recommended to register in the tax entity in case if in the future this individual will be representing the firm in negotiations, signing contracts and so on (Danske, 2015).

If a SME decides to open a representative office or a branch, both are considered as subdivisions of the foreign company located in the other country than a head office (Russian Civil Code). However, there are differences between these two. A representative office is only eligible to represent company's interests, meaning that it can perform only certain activities - that have non-commercial nature, e.g. marketing or market research (Deloitte, 2017). Thus, representative office is not a subject to income tax.

In contrast, branches are engaging in commercial activities (sales processes, payments) and thus, are eligible for paying income taxes. Branch has to keep and maintain financial records and is responsible for its debts and obligations, while in the case of representative office, the foreign company is taking care of office's debts and obligations (Danske, 2015).

In order to become "fully operative a representative office and a branch office must carry out a post-accreditation procedure, which includes obtaining registration documents from the tax authorities, the State Statistics Service and the Russian social security funds" (Danske, 2015). The accreditation process of a representative office and a branch tend to be time-consuming procedure although such entities are not regulated in much detail by Russian law (MK-law, 2018) The reason behind it is that the documents needed for the accreditation process are "usually issued outside of Russia and verified by foreign notaries, which means that the documents are often different from corresponding documents in Russia and executed in a manner that does not necessarily correspond to the way in which a corresponding document would be executed in Russia" (MK-law, 2018). Russian authorities are handling the execution of these documents with much detail and even small disparity may cause rejection of the application.

*Indirect exporting* implies participation of other domestic company (agent and trading company) in certain activities. A firm becomes dependent on these middleparties as they help a firm to find potential sellers and customers in the target market, providing consulting services, proceeding payments, organising shipping etc.

There are several consulting firms in Finland that support Finnish companies in international activities. These companies help SMEs to find partners, experts and networks all over the world as well as offer legal, translation and administrative support. Moreover, in Finland SMEs play very important role in economy development that's why government aims to help them not only by providing useful information about different markets but also by offering financial support. Some examples of such organisations are: Business Finland, which was created by the merger of two organisations in 2018 and founded by Finnish Ministry of Employment and the Economy; Finnvera

(financing against risks arising from exports), ELY centres (Centre for Economic Development, Transport and the Environment) and others.

- *Cooperative export* refers to making collective agreements with other companies in producing product or service to export. SMEs normally do not have sufficient resources to achieve economies of scale, thus, such cooperation may help them to be able to scale the product and achieve broader product concept.

It has been concluded in the study conducted by Agarwal & Ramaswami (1992) that SMEs tend to avoid picking up exporting when there is a possibility of gaining high potential returns through other entry modes in the market, but they tend to choose exporting mode when the potential risks are higher for other entry modes.

Coviello, N. E. (1999) found that when service firms undertake the process of internalization and make a decision on the entry mode to proceed with, they most commonly choose exporting. There are some exceptions due to requirements that can arise from the customer or government in the target country; another reason can be when a project has a need for resources that are outside the capabilities of the internationalizing service company - in this case temporary alliances are settled. Javalgi et al. (2004) and Holmlund & Kock (1998) add that when choosing exporting, companies tend to send experts to the target market or actively do online activities, for example in such sectors as training and consulting. However, sending own salesman is more demanding than choosing to export through an agent which is a more resource saving approach as the agent has already a business network in the target country. Thus, salesman needs to establish business relationships with all the parties (e.g. customers, government, partners, etc.) in the target country. However, in engineering consultancy the "export projects" - occasional travelling to other markets are dominating in internalization process (Léo & Philippe, 2001).

### **2.3.2. Licensing**

Licensing refers to forming a licensing agreement that states that one firm is allowed to perform its business using intellectual property of another firm in exchange for financial compensation (royalty). This form of internalization is used to the countries with distant cultures, high barriers for the foreign companies or to the markets where government doesn't treat foreign companies in the same way than local forms. Licensing does not require market knowledge or big capital investment, possessing quite low financial risk. Another advantage of this market entry mode is that it creates a strong presence in the target market and ensures steady income to the company. However, lack of market knowledge can be a disadvantage - firm does not interact directly with the customer, so it does not gain expertise and experimental knowledge about the target market. Besides, the foreign firm may turn into competitor later when it gains enough of the product expertise (disloyalty of licensee). The firm can also lose control over the technologies and know-how as well as losing the

control of maintaining the quality on the target market. For companies offering professional services control through licensing is maintained through transferring firm's and management know-how and capabilities to the foreign licensee. As the most important resources of service firms are human capital, its knowledge is transferred through trainings, which may be quite time-consuming. Thus, licensing fits better to the manufacturing companies and hard services where the right for technology process is transferred. In contrast, due to intangibility of soft-services, licensing is not a good fit (Blomstermo et al., 2006).

Service firms may opt for licensing to reduce the risk for entering in a not well-known foreign market. Franchising is also used for services that involve several sites (Javalgi et al., 2004). Moreover, as it was already discussed before, soft-service firms' main asset is employees' expertise, not physical assets, and these companies spend a lot of effort to protect it. Such expertise is sometimes "very difficult to codify and patent, thus, it can be quite hard to transfer these assets through contractual processes", Sanchez-Peinado (2007). Therefore, licensing fits better to the manufacturing firms, not to service providers.

### **2.3.3 Joint venture**

Joint venture is a form of a strategic alliance, when two companies form a new independent entity in order to enter foreign market. Normally firms choose joint venture as an entry mode when they want to reduce risk by obtaining experienced partner with knowledge of target market. Therefore, firm will get access to partner's knowledge and resources, its expertise and connections in the target market. For service firm with the lack of knowledge of the culture of prospective customers in the foreign market collaborations with locals will bring significant advantage (Ekeledo, 1998). Such collaboration helps a joint venture to become competitive; it also creates a synergy effect. Moreover, it builds a good picture of such cooperation in the market which is important for the foreign company so that it becomes politically acceptable.

However, this form of entry requires quite large investment of resources, so not all the SMEs can afford to settle a joint venture due to their limited resources. Another problem about such collaboration is that it should be based on trust and commitment. So there is a risk of arising conflicts and challenges in decision making process due to the cultural differences and mistrust. There is no guarantee that with time there will not be a conflict of interest in such cooperation. Of course the level of flexibility is lower than, for example, in exporting as there is a need for mutual agreements in decision making. Registering such a cooperation can be hard in some countries as it might include complicated procedures and a lot of bureaucracy involved. As for Russian market, there are no certain rules for setting up joint ventures as it is "treated as an acquisition of assets, shares or rights by the joint venture company from its founders and/or third parties."- (Association of European Business, 2017).

SMEs when doing international business, face several liabilities, that they need to overcome: liability of foreignness, liability of newness, liability of smallness (Lu & Beamish, 2006). Liability of foreignness arises from the lack of knowledge of the new market and culture; it makes hard for SMEs to compete with local companies that have experience and expertise in the target market. SMEs are also a subject to liability of newness, as when penetrating a new market, they need to get familiar to several processes such as financing, recruitment, attracting new customers and understanding their needs. Lastly, liability of smallness means the small size of the companies and sensitivity to the changes in external environment. Establishing joint venture may help to overcome these liabilities of SMEs. When internationalizing, SMEs have three partner choices: (1) partner with the companies from the target country, (2) penetrate the market together with the company from the home country, and (3) collaborate with the enterprise from third country. Lu & Beamish (2006) found that forming joint ventures with local firms from the target country is more efficient than partnering with the players from the home market as local companies a primary source of market's knowledge and access to resources (Lu & Beamish, 2001). Additionally, for SMEs it is better to collaborate with larger companies in order to overcome liability of newness and smallness. However, it is important to remember that such companies have high bargain power, so it may result in "unfair" collaboration for SMEs.

Agarwal & Ramaswami (1992) found that SMEs with poor multinational experience select joint venture as a market entry because it helps to decrease the level of long-term uncertainty through sharing costs and risks as well as supplementing their resource needs. Moreover, setting up a joint venture can be a good fit in the markets where governments are restricting the share of foreign capital and ownership. Joint venture mode of entry can also be preferable for service SMEs when their main goal of penetrating certain market is find new assets (Sanchez-Peinado, 2007). Soft-service firms often choose joint venture as a market entry mode as production and consumption of such services processes happen simultaneously and face-to-face contact with the customers is necessary (Terpstra and Yu, 1988).

#### **2.3.4. Sole venture**

Setting up a totally new venture is the most risky entry mode in comparison to the described above. Moreover, it requires large resource commitment. However, the level of control is the highest among other entry modes as the internationalizing company holds centralized control. If internalization process through establishing sole venture is successful, it will bring the highest profitability and create a good picture of the company in the target market. Moreover, if the internationalizing company aims to build up personal relationships and networks, organize on-site research and understand needs of local market and customers, sole venture is a good fit (Blomstermo, 2006).



The decision-making process, when creating a sole venture is faster as there is no need to discuss and negotiate with the foreign partner like it would be in internalization form of joint venture. Thus, with this entry mode firm can respond quickly to changes in environment or actions of competitors as it has full control. Besides, starting operations when establishing a sole venture is faster, because in most cases negotiations about creating joint venture can be time-consuming. However, as it was mentioned before, SMEs often don't have enough resources to start a totally new enterprise in the foreign market; that's why this mode of entry is not so common among SMEs, unless the firm is people intensive (e.g. consulting, accounting, advertising services, etc.) (Pla-Barber, 2010). Such service firms as hotels, telecommunications, airlines will possess costs similar to manufacturing companies.

When it comes to soft-service firms, they are likely to set up an enterprise in order to be close to the customer (Toivonen, Tuominen, Smedlund, & Patala, 2009). Moreover, many service firms use FDI, as their capital needs tend to be much lower compared to manufacturing firms (Terpstra and Yu, 1988). Therefore, Weinstein (1977) found that companies offering professional services that follow their domestic client abroad prioritize sole ownership entry mode over others as they are usually aware of the market niche they operate in the target market and do not necessary need help from local players or market penetration. Blomstermo (2006) adds that soft-service providers (when separation of production and consumption of the service is not possible) tend to choose high-control modes, including sole ventures, rather than hard-service providers due to the need of buyer-seller activity of soft-service firms. Besides, he found that in more distant markets with high cultural distance service firms tend to set up sole ventures due to the opportunity to learn better about cultural and other aspects of the country. In addition, customisation, which is very common in service sector, requires a high degree of personal contact (Pla-Barber, 2010). Service provider that offers a high level of customisation, is more likely to prefer to keep operations in-house. Moreover, the inability of the customer to evaluate the service before its delivery, can make service operator to bring operations to the target country in order to gain brand reputation (Pla-Barber, 2010).

Ekeledo (1998) found for soft-service businesses firm-specific resources (e.g. business experience, tacit knowledge, proprietary technology reputation, firm size, organizational culture) play an important role on the choice of entry mode as they help to create competitive advantage in the target market and enhance resources such companies possess. When choosing an entry mode, not only firm-specific resources but also the ability to protect these resources that provide firm's competitive advantage should be taken into consideration. Thus, Ekeledo (1998, 2004) and conclude that full control mode such as sole ownership is the best fit for these needs and in later study on soft-service firms and entry modes, Sanchez-Peinado (2007) comes to this conclusion as well.

The most common form of establishing a Russian subsidiary is to start a Limited Liability Company (LLC). The reasons for choosing this business structure are the following: as LLC is an independent business unit, thus, it can

conduct business under its own name, proceed negotiations and sign agreements, it carries its debts and liabilities by itself and shares in LLC are considered as property rights and not needed to be registered (Association of European Businesses, 2017). To register as LLC, foreign company needs the following:

- address,
- initial capital of at least 10 000 RUB,
- bank account,
- chief accountant,
- managing director (Association of European Businesses, 2017).

The registration of LLC consists of the following steps:

1. State and tax registration,
2. Registration with the State Statistics Committee
3. Registration with social insurance funds (Doing Business in Russia, 2017).

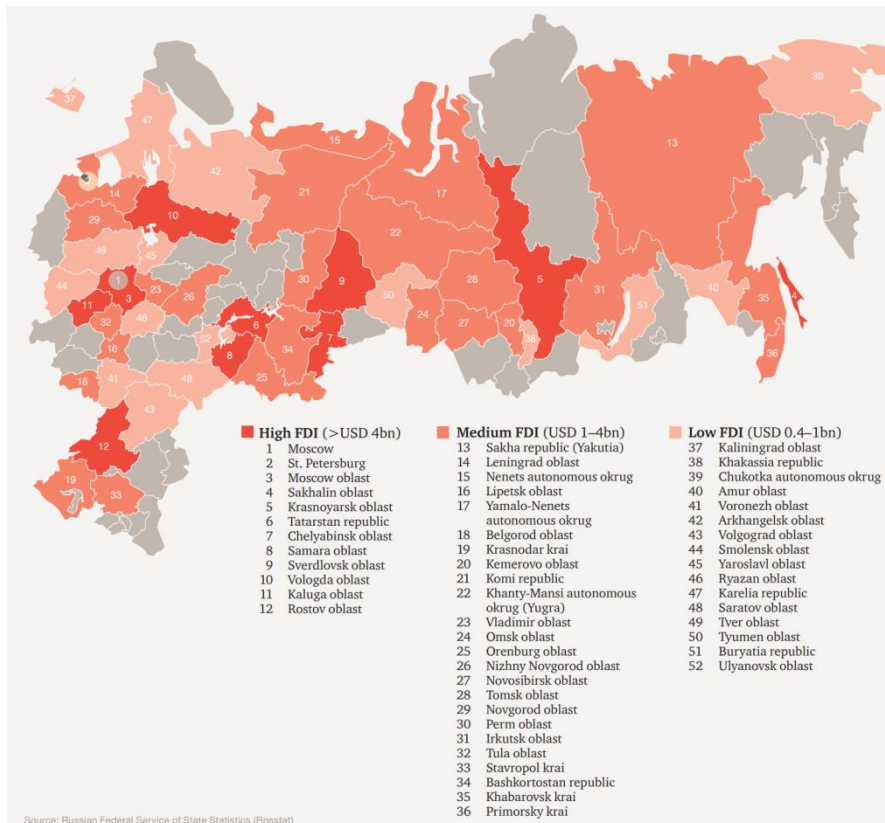
The process of opening a sole venture in Russia is not complicated and the whole process takes about 3-4 weeks starting from the moment after submitting the required documents to the authorities (Doing Business in Russia, 2017).

## **2.4 Russian market and its challenges**

As it was discussed earlier, before internationalizing to the foreign market, firm must gain knowledge about the market. Russia is not an exception as there are a lot of differences in Russian business, culture, laws and regulations, taxation and currency and many other factors. Therefore, Finnish SME that intends to expand its operations to Russia should be aware of these differences before entering this market.

Russia is a huge country and foreign direct investments are geographically distributed due to the different levels of developments of regions. As seen from the Figure 2, Moscow and St. Petersburg regions are the most attractive for foreign investors. Finnish businesses are not an exception: they consider Moscow as one of the most interesting and perspective markets in the world due to city's balanced budget (Finnish-Russian Chamber of Commerce, 2018). The trade between Moscow and Finnish companies grew by 22% in 2017 and reached 1 billion euros (Interfax Russia). There are over 100 Finnish companies that are doing business only in Moscow region alone.

Figure 2. Geographical distribution of FDI in Russia by investment size



Source: PWC (2013), *The Russian evolution: how can foreign businesses prepare to prosper?* (<https://www.pwc.dk/da/skat/assets/marketmap-russia.pdf>)

The Russian service sector, particularly in the retail, wholesale, and real estate markets, also has shown growth, fueled by per capita income growth (Marketmap Russia). Moreover, construction industry needs large investments due to the poor condition of infrastructure as majority of infrastructure in Russia remains from the Soviet times. Government has implemented several strategic programs and initiatives that face this demand for modernization and expansion. Besides, especially in the bigger cities there is a demand for quality housing and other properties and new players can find room for investments in subcontracting, construction services, and construction materials production (Marketmap Russia).

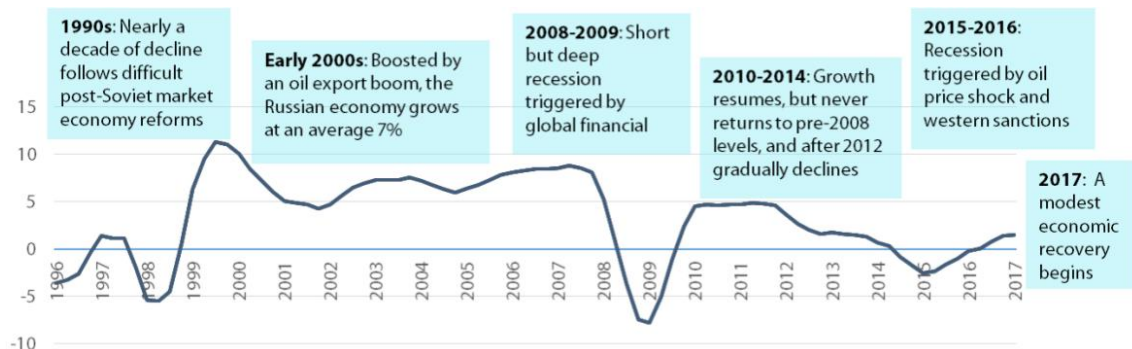
Russian government restricts share of foreign capital/entities in 42 strategic industries (e.g. power and gas, banking, insurance, mass media) to 50%. In case a foreign company wants to secure more than 50% share in ownership, they need to secure a special permit from the committee (Marketmap Russia).

Russia joined World Trade Organisation in 2012; that contributed to the lower custom fees, duties for export and import as well as has helped to bring formerly high import tariffs down. It also benefited to service industries as it caused reduction in the prices of services, extension of assortment of services, increase in quality, better consumer-orientation, correction of juridical

drawbacks, etc. (Gnevko, Shahina, & Kirsanov, 2016). As a result, more service foreign companies penetrated Russian market such as audit and consulting, accounting and others.

When crisis hit Russian economy in 2014 and caused nearly 75% drop in oil prices and sanctions against Russian government, the economy went into recession (EPRS, 2018). With growing oil prices, Russian economy started recovering in the late 2016 and this process continues nowadays (Figure 3).

Figure 3. Economic growth in Russia (1990-2017), % annual growth



Source: EPRS, 2018:

[http://www.europarl.europa.eu/RegData/etudes/IDAN/2018/625138/EPRS\\_IDA\(2018\)625138\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2018/625138/EPRS_IDA(2018)625138_EN.pdf)

Despite the ongoing process of recovery from crisis in 2014, Russian economy still possesses uncertainty as it is highly dependent on mineral exports - export of fuels and mining products was accounted for 67,4% in economy's total exports in 2015 (World Trade Organisation). The Global Competitiveness Index (GCI) of Russia was ranked 38th out of 137 countries in Global Competitiveness Report 2017-2018. GCI is calculated based on 12 pillars of competitiveness. "It assesses the factors and institutions identified by empirical and theoretical research as determining improvements in productivity, which in turn is the main determinant of long-term growth and an essential factor in economic growth and prosperity" (World Economic Forum 2017). Analysed from 2012 till 2018 years, Russia has shown the progress in terms of Global Competitiveness Index. For 2017-2018 Russia has improved its position with 5 points from the year 2016-2017 and has obtained 38th position out of 137 countries (Figure 4). The reason for such improvement is positive change in macroeconomic environment in comparison to the previous year's recession (GCI report, 2018).

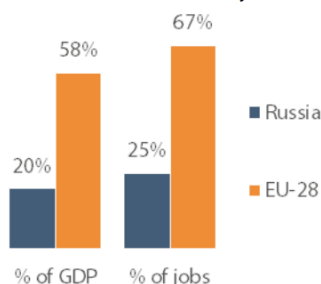
Figure 4. The Global Competitiveness Index of Russia (2012-2018)

Edition	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Rank	67 / 144	64 / 148	53 / 144	45 / 140	43 / 138	38 / 137
Score	4.2	4.2	4.4	4.4	4.5	4.6

Source: Global Competitiveness Report 2017-2018

While in Europe small and medium sized businesses play a very big role in the economy development, in Russia only 1/5 of the country's GDP and 1/4 of employment (Figure 5). One of the reasons is that Russian economy is dominated by large state-owned corporations (EPRS, 2018).

Figure 5. Contribution of the SMEs to the economy.



Source: EPRS, 2018:

[http://www.europarl.europa.eu/RegData/etudes/IDAN/2018/625138/EPRS\\_IDA\(2018\)625138\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2018/625138/EPRS_IDA(2018)625138_EN.pdf)

According to the GCI report, the weak points of Russian economy are: corruption, financial market (banking sector), property rights and judicial independence as well as the dependence of Russian economy on mineral exports. Furthermore, previous studies found that Russian market carries risk and has several challenges that foreign companies are facing when trying to penetrate this market, for example political environment, corruption, bureaucracy, lack of support for small businesses (Zarkada-Fraser & Fraser, 2002). Such processes as getting licensing and permits or registering businesses can be managed by foreign individuals or companies but they are usually quite complex, time-consuming and vulnerable to corrupt influences (Marketmap Russia). "Russia's construction-related rules and regulations, established in the interest of safety, security, quality, and environmental protection, can be complicated and challenging for incoming businesses to understand", Marketmap Russia). Moreover, delays in processes are very common and can be handled slowly and inefficiently.

In 2017 Russian Public Opinion Research Center (VCIOM) conducted a study that reveals the most problematic areas in entrepreneurs' opinion. Entrepreneurs suggested improvements in the following areas of doing business for SMEs:

- financial support:
  - tax reduction (36%),
  - interest rate reduction on loans (12%)
  - support through subsidies (7%).
- regulations:
  - simplification of bureaucracy (10%)

The rest of suggestions were regarding educational support, judicial system and others (VCIOM, 2017).

Finnish-Russian Chamber of Commerce in cooperation with East Office of Finnish industries, association of entrepreneurs Suomen Yrittäjät,

Confederation of Finnish industrial sector, Central Chamber of Commerce, The survey conducted the survey in the spring 2018. The goal of the survey was to get opinions of 300 managers and key decision makers in Finnish companies on the topic of trade between Finland and Russia, doing business in Russia as well as economic climate in the country and readiness to invest to the Russian market. This study is conducted two times a year since spring 2002. The results of the survey have shown that political situation, custom clearance, ruble exchange rate, economic uncertainty and low demand are the most problematic factors of the Russian market (Barometer of Finnish-Russian Chamber of Commerce, 2018).

#### **2.4.1. Russian language and culture**

In Russia the majority of people (99,4%) speak Russian language and English speaking people account only for 5,48% (Aeroflot, 2017-2018). English speakers, who are mainly younger generation, can be found mostly in the biggest cities such as Moscow and St. Petersburg. Due to the hierarchical culture, the decision makers are normally people in high positions (e.g. top-managers, CEO) and they are often older people, thus, it is very likely that your potential customer/partner will not speak English. However, it is likely that first meeting will be conducted with middle management, not CEO. Moreover, because the role of relationships in Russian culture is very big and personal relationships are the essential part of doing business, it would be very beneficial if you or your representative could speak Russian. The use of foreign languages also depends on the industry: for example, there are more people who are able to speak foreign languages in IT/software field than in traditional sectors. However, if you agreed on having a meeting in English, it would be still a good idea to prepare handouts in Russian as it could help to get your message better.

Russia is the Eurasian country which is located between Europe and Asia, West and East. However, Russian culture is closer to the Eastern culture and values, even though one can often hear about “Western influence” (Gavrilenko, 2014).

The author will use Hofstede’s dimensions of culture in order to cover the Russian culture and its characteristics. This model provides an overview of the culture based on six indexes (Hofstede, 1984):

- Power distance
- Individualism vs collectivism
- Masculinity vs femininity
- Uncertainty avoidance
- Long-term vs short-term orientation
- Indulgence vs. restraint

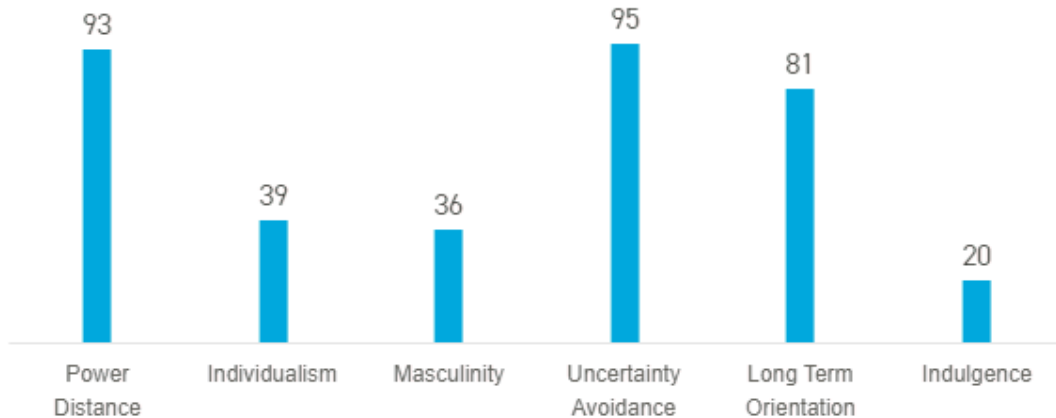
As seen from the Figure 6, Russia has very high levels of power distance (93) and uncertainty avoidance (95).

Power distance is defined as an “extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally” (Hofstede Insights). High power distance is inherent to the Russian business culture like to the Eastern one. Being very centralized, 2/3 of all foreign capital is invested in Moscow, where around 80% of all financial economic monetary capacity is centralized (Hofstede Insights). Power inequality is common in all the aspects: in everyday life and business relationships; it is culturally established and people are accepting high power distance without questioning it. In Russian society people are ranked by clearly stated roles and everyone knows his/her place in the community. Another examples of high power distance are: high dependency on the boss, expectation of getting directions and tasks from the boss, authoritarianism of governance to people from lower levels, humility of subordinates with regard to the leaders (despite of mistrust for the governance) (Gavrilenko, 2014). In the Russian companies it is common that leaders controls everything and everyone. Status is quite important and people desire to hold certain status (e.g. get higher position or some other privileges). The successful leader in Russia will be a person with strong, dominant personality and charisma as people only recognize strong and authoritarian leadership style (which has been present in the county throughout the history), (Fey & Shekshnia, 2008). When it comes to the business meetings, normally the first meeting you will spend with middle managers, not CEO, especially if it is a bigger company. Middle managers may have some effect on the final decision of CEO, thus, their role should not be underestimated.

Normally, in the cultures with high power distance, the level of individualism is lower - meaning that people’s self-image is defined as “We”, not “I”. In the case of Russia, individualism scored 39 points; people tend to link themselves to the groups and be loyal and supportive to the members of these groups. It is even reflected in the language: for example, when a person wants to say that he and his colleagues found a new solution to the problem, he/she would say: “we with colleagues”; in English one will say “I and colleagues” or “my colleagues and I”. However, according to Gavrilenko (2014) nowadays especially in the megapolises the individualism characteristics are noticeable. Especially younger generations in big cities want to rely only on themselves, not count on someone’s help, etc. But in general, Russian people tend to be referred to the collectivism. In the Russian companies employees cohesion and solidarity is often found. It refers to mutual help and support, existence of collectivist traditions and so on.



Figure 6. Six cultural dimensions of Russia



source: Hofstede insights <https://www.hofstede-insights.com/country-comparison/russia/>

As it was already said before the level of uncertainty avoidance is high (95), and it means that Russians are less tolerant to uncertainty and unstructured situations, thus, trying to illuminate it through regulations, high level of hierarchy, norms, variety of formal and informal rules and other tools. That explains high level of bureaucracy in the country. Important to note that Russian tend to rely on “unwritten rules” (Lebedeva, 2001) due to the inefficiency/incompletion/contradiction of formal regulations and lack of respect towards these regulations . Often it is possible to come up with different interpretations of certain regulations and sometimes it is impossible to follow all these rules together. Also interesting fact that formal regulations are perceived by Russians as external limitation but not as a rule that needs to be followed in order to processes to function. In the mindset of Russian people it is much easier to go around the regulations rather than try to resist them (Radaev). As a result, the rule is followed “by the ability” or depends on the situation, so the rule starts to “adjust” to the business practices. Thus, formal rules are often considered as something that needs to be “worked on” and “corrected” according to the business practices and situations. Moreover, according to the research based on 1200 respondents - representatives of SMEs in Russia, conducted by Russian Public Opinion Research Center (VCIOM) (2010), Russian entrepreneurs prioritize accepted in business environment “rules of the game” (69%) rather than law (20%). In contrast, the year earlier these indicators showed 41% and 45%, respectively (Table 1). Most of respondents (58%) evaluated system of laws and regulations that regulates their business as “below average” and 41% of SMEs entrepreneurs graded it as “above average” which means that laws in Russia need significant improvements.



Table 1. Results of the VCIOM questionnaire of Russian entrepreneurs, 2007-2009

Question: In your opinion what is more important for a company nowadays: following the law or “rules of the game” accepted in the “business society”?			
	2007	2008	2009
Following law	36%	45%	20%
Following “rules of the game” in the business society	51%	41%	69%
I do not know	12%	14%	11%

Made by the author based on VCIOM results, source: VCIOM, 2010. <https://wciom.ru/index.php?id=236&uid=1947>

In author's opinion, foreign companies should know about this aspect of culture - perceptions of laws and regulations by businesses in the country, and be ready to face it if not immediately but soon after they enter Russian market.

It is important for Russians to have trust to the potential partner. It proves the fact that Russian people tend to avoid uncertainty. In author's experience, Russians already before meeting an European partner have certain expectations and trust, as they know that in Europe, especially in Finland, quality is valued and followed; besides, there are many European companies that are successful and Russians try to learn from them the best practices. So, Russians will most likely have respect for the Finnish company before meeting its representatives. Of course trust and reliability is very important for Russians, but this trust is being formed not by talking but by doing business responsibly and solving customers' problems.

In Russia relationships are quite important for getting information, being introduced or getting successful negotiations (Hofstede Insights). Relationships have to become personal before one can benefit from them. However, if you are meeting Russian partner/client for the first time, the communication is going to be very formal and distant; this formality shows respect to the other party. Formal communication refers to the usage of “te” (Fin) form - in Russian: “Вы”, which is the polite version of “you” (in plural). Informality (talks regarding other topics than business) will take place mostly in the beginning in order to establish personal and emotional connection.

Russians are very long term oriented (81 points) who are focused on the future and are very pragmatic people. That proves the fact that Russians find partners with who they want to maintain long-term relationships and Finnish companies have such reputation in Russia.

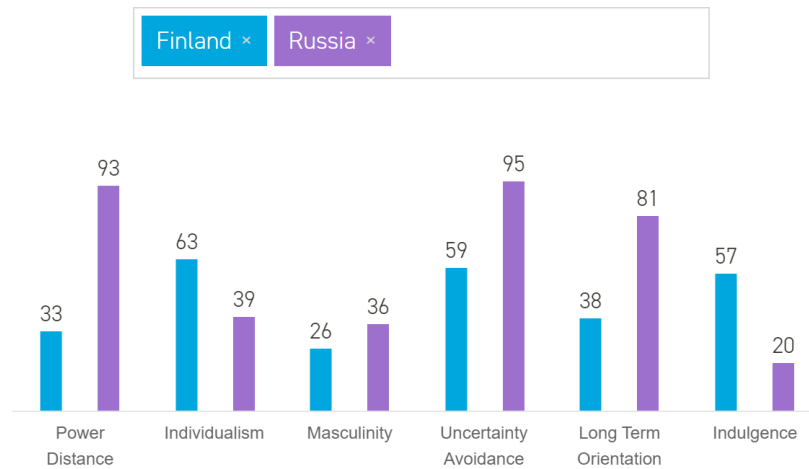
The masculinity dimension refers to the culture with highly competitive environment with differentiated gender roles, ambitious behaviour, strive for the success and acquisition of wealth. According to Hofstede, in case of Russia the masculinity was granted 39 points. He explains it with the fact that Russians

are quite modest about their achievements and capacities, sometimes even can underestimate their skills, when meeting people. Besides, he claims that dominant behavior is not common when talking to peers; it only accepted when bosses are communicating to lower-level workers. In the author's opinion, this score is quite low. People intend to follow traditional gender roles - that is why men are still the "bosses" in the family, and women are taking care of house and growing up children. However, more and more women are aiming to be independent, to become leader, to gain material goods, etc.

Russian business culture differs from Finnish one in several aspects. For example, while Finnish people prefer not to spend a lot of time on negotiations, but go straight to the point, in Russia it is better to be ready for long and detailed negotiations due to hierarchical company structure where people with leading positions make decisions. It is also important to note that personal and informal relationships will play an important role in Russian business culture. When you know "right" people, everything is possible; connections and "personal services" are very common. Sometimes connections can be crucial for dealing with Russian tax authorities, customs offices, the banking sector and regional administrations. Besides, there is specific attitude to power and legislations: people tend to not follow the rules and laws, whereas in Finland companies and people are following the rules and regulations because they think that rules are meant to support and structure both everyday and business life. Additionally, high level of adaptation and quick reaction to the changes in external environment are inherent to the Russian culture. Through the history, Russian people are used to "survive", live in constant stress and tension, and this is the reason that Russians are "inventive" in their own way - they are able to get out of almost every difficult situation. In the business life, ability to adapt to the "rules of the game" is one of the success factors of Russia entrepreneurs in Russia and abroad (Gavrilenko, 2014). Finally, Russian entrepreneurs tend to risk: situation in which Russian business is developing gives entrepreneurs inevitability of high levels of risk. Russian managers and entrepreneurs start big projects without detailed planning and preparations (Gavrilenko, 2014). In Finland, this behaviour is totally opposite.

As opposed to Finland, Russian culture possesses much higher power distance: while in Russia power holders are very distant in society, in Finland hierarchy is more flat and people are considered equal (Figure 7).

Figure 7. Difference in Hofstede dimensions of culture between Russia and Finland



Source: Hofstede Insights. <https://www.hofstede-insights.com/country-comparison/finland,russia/>

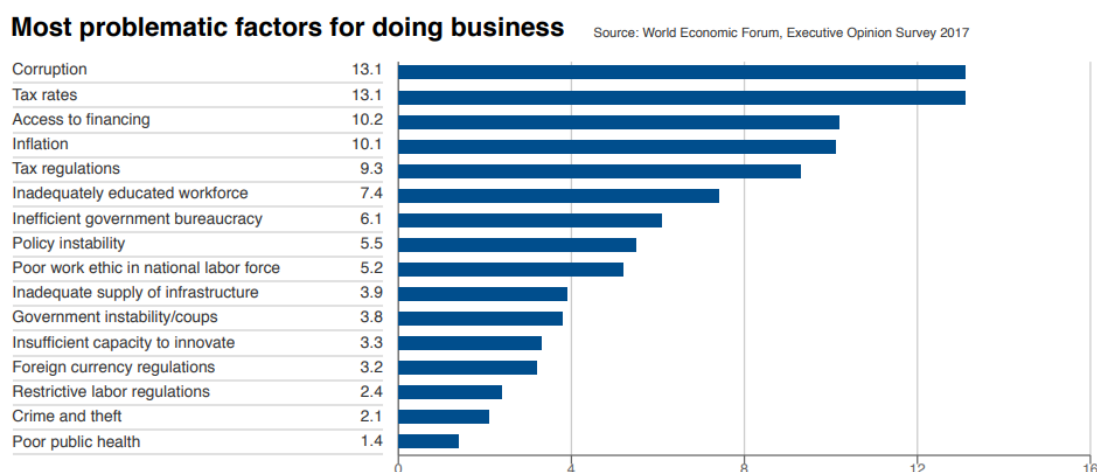
Second big difference between Russian and Finnish cultures is that Russian people are considered much more pragmatic and future-oriented, while in Finland the thinking is more normative: they expect traditions, think about future, but care more about the day they are living at the moment. Another big difference between Russians and Finns is in uncertainty avoidance: in Finnish culture people prefer to avoid uncertainty, at the same time in Russia this index is extremely high, which means that people feel threatened by ambiguous situations.

#### 2.4.2. Corruption and bureaucracy

According to Global Competitiveness Report 2017-2018, corruption remains one of the most problematic factors (Figure 8) for doing business in Russia, especially in the judicial system and public procurement (Russia Corruption Report, 2017). Besides, VCIOM published the results of the study (VCIOM, 2010) on barriers to business by SMEs and entrepreneurs. They concluded that Russian entrepreneurs perceive bureaucracy and administrative pressure as the main and unaltered barriers for opening business in Russia. Another questionnaire among representatives of SMEs and individual entrepreneurs, that was conducted in 2017 year by Russian government and Federal Protective Service showed that bureaucracy and corruption were among top 3 problems for SMEs in Russia (RNS, 2018).

Russia has active Federal Anti-Corruption Law that requires companies to actively implement anti-corruption compliance programs. However, in practice these laws are not followed as they are supposed to.

Figure 8. The most problematic factors for doing business in Russia (2017)



Source: Global Competitiveness Report 2017-2018

According to Transparency International, that annually publishes Corruption Perceptions Index of the countries, in 2017 together with experts and professionals ranked 180 countries by their perceived levels of the corruption of public sector. The scale is from 0 to 100, where 0 is very corrupted and 100 is very transparent. This research also proves that Finland and Russia have high corruption level between them as Finland got third position, while Russia was ranked 138th (Transparency International, 2018). To say more, Finland has improved its score since 2016 with 4 points, while Russia lost 1 point during 2017 (Table 2).

Table 2. Corruption Perceptions Index (Russia, Finland), 2012-2018

		Corruption Perceptions Index						
Rank	Country	2012	2013	2014	2015	2016	2017	2018
3	Finland	90	89	89	90	89	85	85
138	Russia	28	28	27	29	29	29	28

Source: Transparency International, 2018

Fay and Shekshenya (2011) conducted a research among 36 foreign firms doing business in Russia and found that business practices that are considered corruption related in Europe are very spread in Russian Federation. Therefore, foreign companies must take proactive actions in managing such business practices in order to keep competitive in the market. The authors formulated four strategies/behaviour models for foreign firms to follow when facing corruption.

1. Delegation of dealing with situations potentially connected with corruption to Russian individuals or companies.

Karhunen (2013) found that in order to confront corruption, Finnish SMEs tend to hire Russian manager or middleman, who will deal with maintaining relationships with potentially corrupt authorities and partners. First, it helps Finnish firms to avoid problems that may occur in such a corrupt environment. Second, the firm can avoid spending time and resources on losing deals and experiencing delays in administrative processes.

2. Proactive suggestion for working on foreign enterprise's rules and conditions,
3. Suspension of market penetration when facing corruption,
4. Rejection of the deals that include corruption.

Despite enhancements in legal frameworks, enforcements still remain inconsistent. For these reasons research and experience show that above described strategies are followed by Finnish companies when doing business in Russia.

### **2.4.3. Currency fluctuations**

Since year 2014 the relationships between Russia and Western countries have been politically difficult due to the Ukrainian crisis and mutual sanctions. This situation has has an effect on businesses, including European companies doing business in Russia as well.

This crisis made an impact of the Russian currency as well. Russian currency is Russian ruble, that has been redenominated in 1998 preceding the financial crisis from the fall of Soviet Union. Increasing prices for oil between 1998 and 2014 has kept Russian ruble stable and created profits from Russian exports. However, the fall of prices for oil as well as economic starting from 2014 resulted in Russian currency crisis due to the reliance of Russian ruble on oil prices because Russian ruble tends to move in line with crude oil price. From June 2014, when the price for barrel of oil was around 114 U.S. dollars it dropped significantly to the level of 46 U.S. by January 2015 (Figure 9). The prices reached its bottom on 20th January 2016 and was traded at a price of 27,1 U.S. dollars (Macrotrends, 2018). Together with falling oil prices, economic sanctions harmed the economy and had an influence on the Russian currency.

Figure 9. Brent Oil Prices (2013-2018)



Source: Macrotrends (<http://www.macrotrends.net/2480/brent-crude-oil-prices-10-year-daily-chart>)

This devaluation of Russian ruble caused the outflow of private capital from Russian as well as freeze of new inflows of foreign direct investments. Before the crisis almost 75% of FDIs had been coming from EU countries. In connection with sanctions and due to a reduced outlook at Russian economy the FDIs declined by 30% in 2014. In 2015 the decline was even deeper when it reached 92%. (Central Bank of Russian Federation, 2016).

As it can be seen from the Figure 10, starting from February 2016 ruble started recovering and by the beginning of 2018 one U.S. dollar equaled to 58,2 rubles. In April 2018, Ruble again was affected by new sanctions by U.S. government (on the base on Russian debt and situation in Syria) went into force. Experts said that “The introduction of sanctions drastically raised uncertainty for the business environment in the Russian economy. Threats of counter-measures also contribute to this” (Reuters, 2018).

Figure 10. Russian ruble/U.S. dollar exchange rate (2013-2018)



Source: <https://www.xe.com/currencycharts/?from=USD&to=RUB&view=5Y>

Therefore, while the level of uncertainty is so high and the political situation is incandescent, currency fluctuations will remain present for the near future and possess one of the challenges for the foreign companies doing business in Russia.

## Concluding remarks

Internationalization theories began with studies about multinational corporations and later expanded to small- and medium-sized enterprises due to the fact that SMEs pose different managerial style and processes, ownership, size of operations, interactions with external environment, business structure, limited financial, human and information resources and so on.

Researchers have divided SMEs to service and manufacturing companies: service SMEs, their internationalization and how this process differs from international expansion of manufacturing SMEs have been under active discussion for the past two decades. Although some researchers believe that the motivational factors and ways for entering foreign markets are the same for service and manufacturing companies (e.g. Agarwal (1992) hasn't found any differences between manufacturing firms and equipment-leasing service providers), another group of researchers claim that while international development of product-based enterprises relies on economies of scale, firms offering professional services need other solutions as they are very dependent on their knowledge intensity and customer interactions (Abecassis-Moedas et al., 2012). After studying internalization of advertising agencies, Terpstra and Yu (1988) found that the main reason for internalization among these firms is following existing customers or demands of the potential/existing customers to

provide the service not only in the domestic market, but also internationally. Another reason of going international for service firms is when domestic market is not big enough, so that firm is actively looking for potential markets abroad to expand (Erramilli, 1990). Nowadays with advancing technology, opportunities are also opened up also for service SMEs that are limited in resources: with the help of the Internet, small companies are able to reach potential customers all over the world.

The author of this Master's thesis concluded that service and manufacturing enterprises should not be generalized: internalization of some services may be very similar to internalization of manufactured goods due to the fact that, for example, some types of services do not require firms to be permanently present in the foreign market; however, many services carry intangible characteristics and require the processes of production and consumption to be simultaneous. That claim is partially supported by the study of Erramilli (1990), who broke down services to hard and soft services. Hard services require temporary, limited or no presence at all in the foreign market as production and consumption of such services can be separated. The examples are: architecture, engineering, insurance, software, etc. SMEs that offer hard services can send employees to the foreign market when there is a need only; by doing that it is possible to go international even when the company holds limited resources. Soft services, in turn, combine production and consumption processes, as due to the specifics of these services, these processes have to be happening simultaneously. Therefore, these types of enterprises have to be present locally continuously; good examples are health care, catering services, events, etc). The reason why it is partly supporting the author's view is that there are many companies that offer physical products and are referred as manufacturing companies, but this products are customized and designed to meet customers' needs, or another reason is that many purely manufacturing companies are widening their offerings and provide services as well as after sales services are often offered by manufacturing companies. For these reasons, the line between service and good providers is blurry; moreover, nowadays the knowledge of how to manage manufacturing and service firms are merging (Grönroos, 1999). There are more and more enterprises that are becoming services and service industries and that are in need to understand how to manage services and how to correctly make them international. (Grönroos, 1999).

Researchers have been applying internalization theories, initially designed for bigger corporations, on SMEs and trying to explain internalizations patterns of smaller companies by the using these theories. Thus, "stage model" suggests that international expansion of firms is influenced by "learning", therefore, companies start their international activities with psychically and geographically close markets that possess lower risks (Johanson and Vahlne, 1977). After first expansion, firm gains international knowledge and experience and is able to apply this knowledge into penetration of other markets. Finally, when knowledge is enhances, firms tend to increase their commitments to more "distant" countries. Another area of internalization research highlights the



importance of interorganizational and interpersonal relationships, that influence company's learning and choice of markets (Johanson & Mattsson, 1988). Third commonly researched international model describes more flexible type of the companies (International New Ventures) that become international from inception. Usually such companies are led by internationally minded people who have sophisticated knowledge and experience about other markets (Oviatt & McDougall, 1994). During the learning process, author of this thesis realized that these models describe different perspectives on the firm's internalization process and often it is possible to observe that companies, especially SMEs, might not follow strictly just one of the models: a good example is that nowadays with the power of Internet, firms don't necessarily gain the knowledge about the markets only through the experience. Therefore, SMEs often might combine the behavior that can be inherent to several models at the same time. Specifically, in author's experience smaller companies often combine characteristics of stage model and network theory. For this reason, when studying internalization of SMEs, researchers should not only study and apply these models and theories individually, but rather more holistic approach is needed, as often these theories might complement each other. Author found the support for her thoughts from studies by Coviello and McAuley (1999) and Coviello and Martin (1999), who proposed that researchers should integrate several areas of the literature when studying smaller firms.

The choice of entry mode when planning an internalization strategy is one of the most important decisions. When making a choice what mode of entry to undertake, service firm needs to give answers for two main questions. First, how much of the capital firm is ready to invest to the expansion of its activities (what is the level of resource commitment)? This step requires the research and the analysis of the target market. Often companies skip market research claiming that it is not so valuable process that requires quite a lot of time and other resources to complete. However, without a proper research the company might face larger losses over time. Second, what degree of control the service firm is ready to possess over its international operations. On this step, SME should study the amount of assets and resources it is involving to the internalization process. Therefore, the completion of these analyses and answer to these questions will help the service SME to find the most suitable form of entry and eliminate the risk of undesirable dissemination of knowledge and expertise (Pla-Barber, 2010). The main entry modes that service SMEs are studied to be undertaking are: exporting (including "project works" abroad: relocating required personnel to the foreign country temporary (for the time of the project), strategic alliances, and sole ventures. Exporting often is the most common entry mode chosen by service SMEs (Coviello and Martin, 1999) due to the fact that it possesses low risks and commitments.

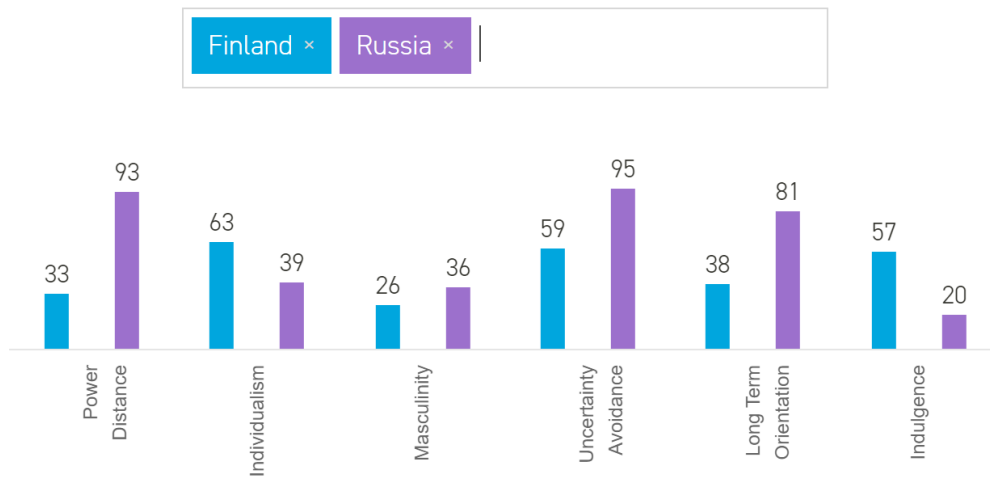
When SME goes international, challenges of target market are topped up to the issues that the company is usually dealing with in the home market. Therefore, apart from internal/organizational challenges (e.g. lack of financial and other resources, constrained managerial capabilities and international experience, etc.) and liabilities (especially liabilities of newness and foreigners

that are especially inherent to SMEs) that SMEs should cope with when going international, there are many external challenges associated to the market SME is targeting. In author's opinion, challenges that influence firms externally are very important for companies to be aware of. While SMEs are able to have effect on internal challenges of internalization, challenges in macro level are extremely hard to influence.

Even though Russia is a neighbor country for Finland, there are many differences in doing business in these countries. Apart from differences in language and culture, the main challenges of internalization to Russia include: corruption, bureaucracy, economic and political situations as well as currency fluctuations. As service SMEs do not offer physical products and do not need to invest in production facilities or warehouses, such companies do not face customs and property rights challenges. However, for service SMEs language barrier is likely to play an important role due to the fact that most Russian people do not speak English and are not willing to consume services in language other than Russian.

For any company entering Russian market, the understanding of Russian culture and how it influences the business processes and relationships is crucial. The main differences between Russian and Finnish business cultures are seen in power distance, uncertainty avoidance and long-term orientation (Figure 11).

Figure 11. Hofstede's cultural dimensions of Russia and Finland



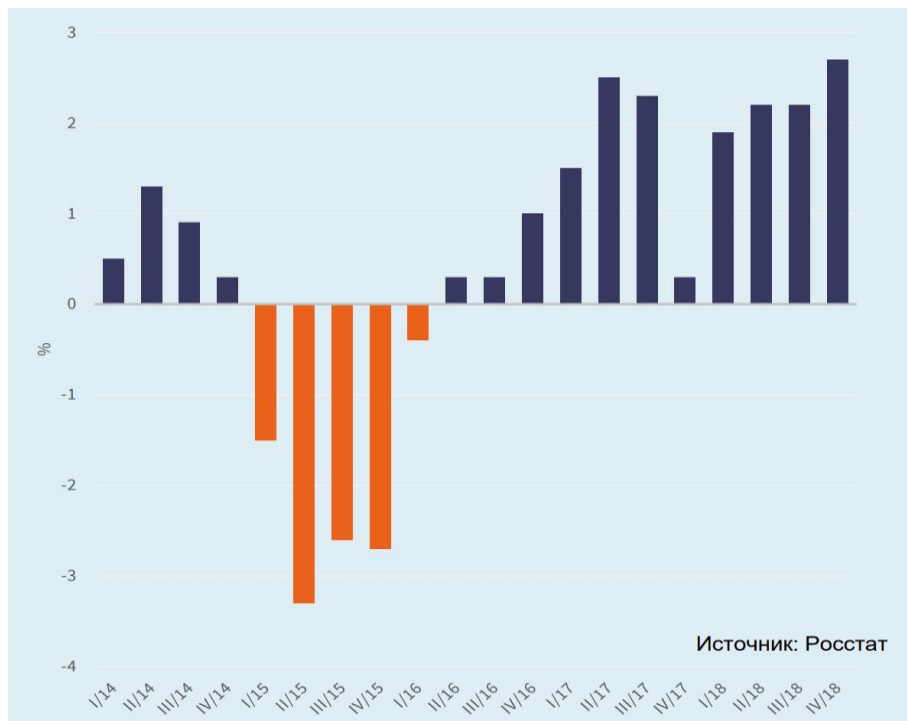
Source: Hofstede insights <https://www.hofstede-insights.com/country-comparison/russia/>

Finnish companies looking for potential customers or partners should keep in mind that in terms of power distance, Russian culture is totally opposite to their own culture: vertical hierarchy is inherent to this culture, power and authority are centralized, and subordinates comply with leaders, not able to make decisions. For this reason, it is often very difficult to reach out to decision makers, and all decision making and other processes in Russian companies might take months. Moreover, many executives may not speak English as

people in such positions are usually from older generations. Another important point to consider is that Russians are much less tolerant to uncertainty and unstructured situations than Finnish people. These specifics of Russian culture explain high level of bureaucracy as Russian people try to illuminate uncertainty through regulations, high level of hierarchy, norms, variety of formal and informal rules and other tools. In addition to that, Russian people are long-term oriented, which means that they often look for long-term business relationships that are based on trust. Therefore, relations building processes may take longer time than in Finland.

Apart from above described specifics inherent to Russian culture, Russian market is characterized by macro challenges that international companies are facing when entering and doing business in Russia. These challenges include corruption, bureaucracy, economic and political situations as well as currency fluctuations. Russia is still living through the consequences of political crisis in 2014. Even through Russian economy stepped out from the recession during 2017-2018, and showed progressive increase in 2018 (Figure 12), this market carries perceptible constraints. There are a number of risks that may slow down the growth of Russian economy: increase in inflation level, continuation of reduction in real purchasing power, raise of VAT from 18 to 20%, reinforcement of new sanctions against Russia (BRE review, 2018). The official forecast assumes an increase in GDP by 1,3%(Rosstat, 2018).

Figure 12. Russian GDP by quarter, % (2014-2018)



Source: Rosstat, 2018

The complex sanctions and the threat of new ones have weakened the Russian rouble, and this is seen directly in the reduction of export by Finnish

enterprises as well as the willingness to invest. Moreover, corruption remains one of the most problematic factors for doing business in Russia (Global Competitiveness Report, 2018). Besides, SMEs and entrepreneurs (that are accounted only for 20% of GDP) perceive bureaucracy and administrative pressure as the main and unaltered barriers for opening business in Russia (RNS, 2018). Foreign companies willing to invest in Russia, have to be aware of these challenges in order to undertake the most suitable strategy of market penetration and mode of entry.

Despite the fact that political tension, instability of Russian economy, weakening demand of Russian consumers amplified uncertainty and weakened the prospects of the foreign companies, most of Finnish entrepreneurs are not leaving the market and believe that Russian economic climate will remain unchanged or even has possibilities for growth (Barometer of Finnish Russian Chamber of Commerce, 2018). Many of Finnish SMEs believe that the winning strategy nowadays is to stay in the market and strengthen their positions.

### 3 METHODOLOGY

In this section, the methods and the data that were used by the author for conducting this study are shown and explained.

#### 3.1. Research method

Since the main objective of the study is to get an understanding how Finnish small- and medium-sized enterprises providing professional services internationalize to the Russian market, qualitative case study, specifically multiple case study, was chosen as a methodology of the research.

Qualitative research covers a very broad range of approaches and methods that are “linked to different beliefs about what there it to know about the social world and how to find out about it” (Ritchie, Lewis, Nicholls & Ormston, 2013). Denzin and Lincoln described qualitative research as a “set of interpretive, material practices that make world visible. These practices transform the world. They turn the world into a series of representations, including fieldnotes, interviews, conversations, photographs, recordings and memos. Qualitative researchers study things in their natural settings, attempting to make sense of or interpret phenomena in terms of the meanings people bring to them” (Denzin and Lincoln, 2000). Bryman (1998) highlighted the importance of phenmenas inside people’s social worlds and identified qualitative research as “the way in which people being studied understand and interpret their social reality is one of the central motifs of qualitative research”. In contrast, Strauss and Corbin (1998) in their definition noted what qualitative research is not: “By the term 'qualitative research' we mean any type of research that produces findings not arrived at by statistical procedures or other means of quantification” (Strauss and Corbin, 1998).

Nowadays qualitative research is widely adopted across social sciences. In contrast to quantitative research, qualitative studies aim to answer to “what”-, “why”- and “how”-, instead of “how many”- questions. Therefore, people’s experiences, perspectives and histories are usually studied in qualitative research (Ritchie, Lewis, Nicholls & Ormston, 2013); also, social life is studied as a process, not as a static term. So, qualitative research concentrates on meanings that individuals assign to different things in their lives, how they think and act in their everyday lives. Qualitative studies are conducted in a real-world environment, not in experimental and prior established settings (Ritchie, Lewis, Nicholls & Ormston, 2013). Unlike quantitative approach, qualitative research practices aim to generate hypotheses based on data analysis, rather than building data analysis on hypothesis and theories. Therefore, qualitative studies are usually bring inductive approach, where researchers aim to develop concepts, unique characteristics and understandings

from patterns in the data, not other way around (Taylor, Bogdan, DeVault, 2015). Qualitative researchers usually follow a flexible research design that is based on the ongoing data collection and analysis (Taylor, Bogdan, DeVault, 2015). So, qualitative researchers undertake flexible research strategy that is based on recommendations and guidelines, not strict rules. Even though qualitative research is framed within the theoretical frameworks, and the researchers should aim his study to fit data to the theory. During the research, the understanding and perspectives on the studies phenomena might slightly change, which can influence the research design. It is important to note that all the perspectives coming up from the study are worth of analyzing and taking into consideration. Qualitative studies often deal with such data as words and photographs, rather than numbers. This data comes from observing humans in their natural settings, listening to their opinions, talking to them, finding out the reasons for their believes and looking to the documents that are producing. A result of a well conducted qualitative study usually comes in a form of in-depth and interpreted understanding of the topic.

Qualitative research is highly associated with interpretivism: it claims that natural sciences cannot be applicable for social research as social world is not guided and controlled by regulatory laws (Ritchie, Lewis, Nicholls & Ormston, 2013). Therefore, the development of qualitative study was heavily based on believes that it is highly important to gain an understanding (which, in turn, is attached to people's experiences) of human behaviors inside the social and material contexts (Ritchie, Lewis, Nicholls & Ormston, 2013). The early adopters of qualitative methods are Immanuel Kant (1781) and Wilhelm Dilthey (1860s-1870s). In his study "Critique of Pure Reason" Kant argued that besides direct observation, there are other ways to learn about the world: human interpretation that is based on one's understanding that comes from reflections on particular situations, knowledge and experiences. Therefore, Kant highlighted the importance of human interpretation (both participant's and researcher's) on the phenomenon that is being studied. Dilthey drew special attention to "understanding" and people's experiences that "occur within a particular historical and social context" (Ritchie, Lewis, Nicholls & Ormston, 2013). He emphasized the importance of studying the experiences in order to acknowledge the links between social, cultural and historical aspects of people lives. Moreover, knowing and understanding the environment and context the participant is living in helps to make more accurate and descriptive conclusions.

Qualitative approach strengthened its applicability by the 1970s when quantitative research was criticized for inability to solve several theoretical challenges. Some of these challenges included: the fact that quantitative research is able to "control" variables in experimental social research involving people to achieve unambiguous results; doubts that studying phenomenon without contextual variables might cause unfaithful results; criticism towards the fact that quantitative studies exclude the meaning and purpose of behavior. Qualitative approach seemed to overcome the challenges and limitations that quantitative research was not able to deal with.

Qualitative research always has a clear goal and research questions that are aimed to be answered. The research method for qualitative research is very dependent on the specific questions and goal of the study. There are several qualitative research methods that are widely used by researchers. These methods involve close contacts between the researcher and the people/groups being studied as well as these methods are sensitive to the social context (Ritchie, Lewis, Nicholls & Ormston, 2013):

- One-on-one interviews
- Focus groups,
- Ethnographic research and observation
- Case study (studies),
- Biographical methods (e.g. life stories and narratives),
- Analysis of documents and texts.

One-on-one or individual interviews are the most commonly used research method in qualitative studies. Interviews give an opportunity to get a deep detailed understanding of the individual, his personal experiences and perspectives, unique social environment this individual is located in. With understanding of these phenomena, the researcher has an opportunity to gain the detailed subject coverage. Focus groups differ from one-on-one interviews by the fact that they bring together a small group of people in order to discuss the research topic. Focus groups are argued to be not as focused as individual interviews; however, they are anyway able to provide social context for the research. Interviewer has an opportunity to learn they ways people think and discuss the topic with each other, how their believes are shaped, changed and improved during the process of discussion with other respondents (BERG, 2001). These discussions help to reflect respondents' understandings and give them an opportunity to deepen their insights on the topic. Ethnographic research relies heavily on personal experience and possible participation, not just observation. The ethnographic research is conducted in natural settings and everyday concepts of studied people (usually a small group or even an individual), not in experimental conditions. Data in ethnographic research is usually collected from different sources but the main data collection methods as interviews, observations and documents (BERG, 2001). The data analysis is based on interpreting the collected data, human behaviors and reasons of human actions; the results are mainly carrying descriptive and explanatory pattern. As a result of an ethnographic research the researcher has in-depth understanding, detailed insights and perspectives of chosen phenomena inside the studied group. (M. Hammersley, 1990).

Case studies involve systematic gathering of information about the individual/group/community in a particular social settings in order to get an understanding of how it operates and functions (BERG, 2001). Case studies usually include in-depth interviews, observations, documentations and life histories. Case studies can be individual or multiple. This thesis undertakes the method of multiple case studies. This research method allows the researcher to understand the differences and the similarities between the cases as well as to

analyze the data both within each situation and across several situations (Baxter & Jack, 2008; Yin, 2003). Therefore, multiple case study helps to explain the phenomenon of internalization experiences of companies as well as differences and similarities between the experiences of different organizations. One more benefit of multiple case study is that when a new theory or results of the study are based on several cases, the study becomes more convincing (Gustafsson, 2017). Usage of both single and multiple case studies are common in business field as these types of studies help to complex matters by examples in real cases. Therefore, multiple case study gives a wider examination of the research questions (Eisenhardt & Graebner, 2007) and new evidences to the literature by providing insights from several cases. It also often provides practical solutions and guidance for businesses (Eriksson & Kovalainen, 2008).

For studying the internalization process of Finnish service SMEs to Russia through multiple-case approach, 9 Finnish companies (5 service SMEs and 4 experts in the field) were chosen as targets for this research.

### **3.2. Data collection**

Primary data was collected from semi-structured interviews with Finnish companies that already have operations in Russia as well as with consulting companies/individual consultants/experts that have expertise in Russian market and are helping Finnish companies to internationalize to Russia. Moreover, companies' data have been analyzed.

For studying internalization process through multiple-case approach, 9 Finnish companies (5 service SMEs and 4 experts in the field) were chosen and interviewed for the study. Although the case companies and their answers don't represent the ultimate truth and can reflect subjective opinions, the aim is to find general challenges of the Russian market, differences in culture and business environment between Russia and Finland as well as their experience in entry mode choices, and give other Finnish companies making a decision to penetrate Russian market useful advices and interesting points to think about before going international. The case companies were chosen based on several criterias:

1. The company is small or medium in size.
  - Chosen definition of SME for this research states that it is a company that has fewer than 250 employees (Statistics Finland, 2017).
2. The company is providing services in B2B sector.
3. The company is originally from Finland.
4. The company has/had experience in the Russian market, regardless if this experience was successful or not.
5. The annual turnover of the company is not exceeding EUR 50 million (from the definition of SMEs chosen for this study).



SMEs were chosen as a case companies due to the significant role they play in Finnish economy - 98,8 % of all firms in Finland are SMEs employing less than 50 people, and 93,3 % of Finnish companies have fewer than 10 employees; moreover, SMEs are responsible for more than 16% of Finland's export revenue (Yrittäyät, 2016). Using just Finnish companies for the research bring geographical context to this study. Service sector companies were targeted due to the fact that most of the existing studies are describing and analyzing manufacturing companies.

The interviews were conducted by face-to-face meetings or through Skype during June-July 2018, and the average time spent for one interview is one hour. The questions for semi-structured interviews were prepared in advance and this type of interview was chosen in order to give interviewees freedom to express themselves in their own terms and it helped both the interviewee and a researcher to stay in the scope of the topic. Because semi-structured interviews contains open-ended questions and discussion order did not always go according the the plan that the researcher created, the interviews were recorded and then transcribed to the text format for analysing. Moreover, the researched had a chance to listen to the tapes several times to make sure that no detail is missed.

The collected data includes two types of data: the in-depths interviews and observations formed primary data; the secondary data consists of official websites of the case companies, official authorities, reports, public information and interviews, and other relevant materials. The primary data and secondary data were combined together for ensuring the data triangulation - for cross verification of collected data and improving credibility and validity (Breitmayer, 1991).

The anonymity of the case firms and experts was ensured in the Master's thesis: companies and experts are referred as Company A, Company B, Expert G, Expert I, etc.

### **3.2.1 Interviewees' overview**

In the tables 3 and 4, case companies and experts are presented in order to provide a visualization of interviewees; overviews of each case company are then presented.

For each organization the following information is provided: industry/sector the case company is operating in, the position of the interviewee, number of employees in the company, annual turnover (year 2017) and whether it is separable or inseparable type of the service. As it was highlighted and described in the chapter "Theoretical Framework", service firms in recent studies have been divided into separable (when production and consumption of service are separate processes) and inseparable (production and

consumption always happen simultaneously). It has been argued that each type of the service companies carries unique characteristics in internalization process: for example the nature of each type of the service firms, driving forces for internalization, choice of entry mode, significance of business and personal networks, challenges and much more. More detailed distinctions between separable and inseparable service firms can be found in chapter 2.

*Table 3. Basic information about the case firms*

	<b>Industry, sector</b>	<b>Position of the interviewee</b>	<b>Number of employees</b>	<b>Annual turnover, eur (2017)</b>	<b>Type of the service firm</b>
Finnish service SMEs					
Company A	Surface treatment	Managing Director	15	2,3 million	separable
Company B	Consulting services: accounting	Managing Director, Owner	20	0,5 million	inseparable
Company C	IT software (Medical sector)	Export Sales Director	100	6,6 million	separable
Company D	IT software (Transportation)	Managing Director, CEO	15	250 000	separable
Company E	Logistics	CEO	20	1,5 million	inseparable

*Table 4. Interviewed Experts*

Experts		
	<b>Industry, sector</b>	<b>Position of the interviewee</b>
Expert F	Consulting services	Managing Director, Partner
Expert G	Education, Consulting services	University professor, Consultant, Venture owner
Expert H	Consulting services	Owner, Entrepreneur Consultant
Expert I	Foreign Trade services	Senior Advisor

## **Finnish small- and medium-sized service enterprises:**

### Company A

Company A is a family-owned service provider operating in the sector of professional surface treating that currently employs 15 people and gained EUR 2,3 million of turnover in the year 2017. The enterprise was found in 1992 as a result of the merge of two family-owned firms. The company is proud of its heritage, history and unique know-how, passing it through to the next generations; and even the name is formed as a result of combining together the names of merged enterprises back in 1992. Company's main production facility is located in Finland. The basic business process that Company A has in its operations is the following: customer sends its parts that need surface treatment to the facilities of the Company A, where it proceeds with the coating services of the received parts; after that Company A sends customer's parts back.

Throughout the history, Company A has always had some small projects internationally, it also used to have representatives in Sweden, Germany and Estonia in 90s. Due to the specifications of the business, where the transportations are involved, Company A prefer to serve closest markets in order to keep prices competitive. The firm had to terminate operations in Germany due to the strong competition and inability to be competitive in terms of price for the service. Currently it is conducting several projects in Sweden through sales representatives and operations in Russia are done by a subsidiary opened in the year 2012.

The interviewee is a managing Director of the company who is aware of company's operations in the Russian market starting from the idea of penetrating this market as well as who has an understanding about Russian market, culture and challenges.

### Company B

Company B has been providing accounting, legal and administrative consulting services since 2010. The firm provides its services mostly for Finnish and other foreign SMEs who want or already operate in Russia. The main competitive advantage that Company B possesses is providing reporting for mother entities in English or Finnish in a form customers require. The firm has subsidiaries in Moscow and St. Petersburg where it employs local specialists. There are 20 professionals working in the company: 10 of them work in the office in Finland and 10 people work in Russia. Russia remains the main market, thus, the main part of turnover comes from Russian entities and mother

enterprise (a holding company) is located in Finland where some services in accounting for Finnish and Russian-speaking customers are provided. Last year turnover reached EUR 0,5 million.

The interviewee is a founder and a managing director of the company with an extensive background in Russian business and culture. He used to live permanently in Moscow and worked for the Finnish company there in a similar field that his company is operating now.

### Company C

Company C specializes in the software development of information systems in the field of oncologic screening and is present in the market since the year 1989. The firm doubled the amount of employees since 2016 when it employed 50 people; currently the number of workers is 100 people. The first international market Company C penetrated was Germany (2004), after that England, Sweden, Norway, Estonia, Kuwait followed. The firm started the process of entering Russian market in end of 2013-beginning of 2014. Russian customers show interest towards the company's solutions but the financially the process of internalization is not yet considered as successful. There is one person who is responsible for business development in Russia and currently this company representative is constantly travelling from Finland to Russia. Company's turnover amounted to EUR 6,6 million by the end of 2017.

The interviewee is an Export Sales Director who is a half-Russian, half-Finnish citizen.

### Company D

Company D was founded in 2013 and it is working in a mobility-as-a-service sector, specializing in ticketing as a service as well as related payment methods. The SME follows B2B model and targets cities/municipalities that have public transportation and transportation operators inside the cities (e.g. metro, trams, taxis, etc.). Company D started a significant growth almost straight after launching and currently covers such regions as Scandinavia, Europe, Middle East including North Africa, Russia. Moreover, this year an expansion to Asia (Japan, China, Vietnam) will be executed. There are two fully-owned subsidiaries: one in Stockholm, Sweden and one in Moscow, Russia. By that moment Company D has closed 50 deals where the revenues are constantly coming from. Last year group's turnover (including the subsidiaries) exceeded EUR 250 000.

The interviewee is a Managing Director and a CEO who is running the

whole operations in the company. Prior coming to the Company D, he was working for an American firm and was responsible for business development in Russia, starting from the set-up to building professional service and customer support systems. Therefore, he got familiar with the country and its culture and built his network there.

### Company E

The history of Company E starts from the year of 1959 when it was originally formed as one of the departments of a big corporation. After several separations, changes of the owners and acquisitions, the company E as it is known today, was found in 1994. It is an independent consulting engineering firm that specialising in logistics planning for industry, trade, ports and the public sector. The SME is referred to a knowledge intensive business service as it offers purely intangible services. The firm's customers are normally large or medium-sized companies and public sector organisations. Nowadays the firm employs 20 professionals and is owned by company's consultants. Internalization activities of the enterprise started already in 70s and currently there are several big projects for Russia, quotations for India, Belgium and Ukraine. The SME is doing its operations from Finland and does not aggressively market its services outside domestic market. The turnover in 2017 accounted for EUR 1,5 million.

The interviewee is a CEO of the firm who is dedicating most of his time inside the company to consulting tasks, marketing and sales.

## **Experts**

### Expert F

Company F is a consulting company that helps Finnish SMEs in internalization process and international business activities. The services it offers include market research, evaluation and implementation of different market entry strategies in practical coaching, and management training. Among the clients, Company F has enterprises from different sectors, but most of them are companies that have their own products in B2B sector (industrial SMEs that want to sell their product to Russia); however, Company F has also served firms providing professional services such as education, retail, IT applications, business consulting, etc. The firm has been operating for almost 5 years now and apart from the main office in Finland, the firm has a subsidiary in St. Petersburg, Russia. Russia was the first market the Company was offering its services for and still remains the market where nowadays the most projects are

coming from, even though the company covers 16 countries.

The interviewee have been working in the Company F for 4 years and got a wide knowledge about Russia, it market and business culture. Prior that the interviewee was working at the Regional Development company for almost 9 years where she was helping Finnish companies to internationalize to Russia. Her present title is Managing Director and the Partner; she is responsible for managing company's projects - starting from taking care of the projects when the company gets a deal, leading and coordinating a project team in operational and long-term tasks as well as she is acting as a link between a client and a project team and making sure that the client gets services the Company F promised to deliver.

#### Expert G

The Expert G has a diversified background and career. The majority of his time he spends on teaching executive education, being a professor and a business trainer at one of the Finnish Universities. Moreover, about 40% of his time is dedicated to investing to different projects and providing consultancy on exports. Furthermore, he is an owner of the Finnish company; together with his partner he build a factory in Russia and Bulgaria. Additionally, he used to work as a consultant, helping Finnish companies enter Russian market but due to the lack of time he is not doing that on a permanent basis anymore.

#### Expert H

Expert H is an entrepreneur-consultant in a Finnish consulting company; she is working with local subcontractors, and helping Finnish companies to internationalize to Russia and other CIS countries. The majority of the customers are Finnish small- and medium-sized companies; most of them have some physical products but several companies providing professional services have been and are among her clients in the company. Moreover, she is working within a global network of consultants where they are educating, training and consulting Finnish companies regarding doing business in Russian and CIS markets. Before joining this network Interviewee H has been conducting Russian business culture training for Finnish and international companies for over 10 years already.

#### Expert I

Company I is a non-profit organization whose mission is to promote companies' business and competitiveness as well as economic relations in Russia and Finland. By providing various services in the fields of market research, company operation, export promotion, training, information, and consultation for over 70 years, Company I serves companies of all sizes, two thirds of which are small- and medium-sized enterprises. In 2017 Company I had 700 members.

The interviewee has been working in the Company I for over 5 years and currently holds a position of a Senior advisor. The majority of his clients are companies making first steps to the Russian market.

### **3.3. Data analysis**

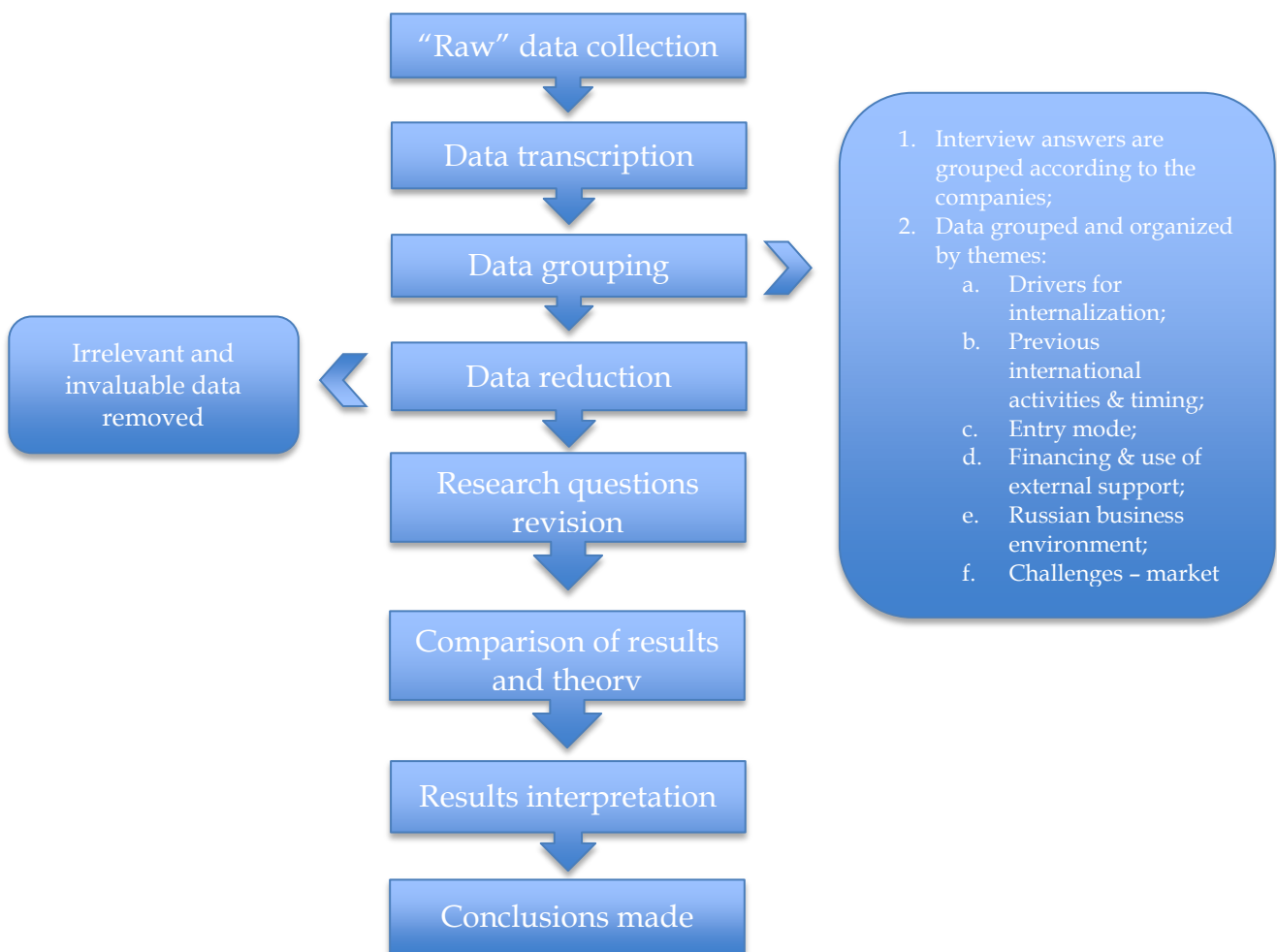
In the qualitative studies theory and previous theoretical contributions play an important role. When carrying deductive reasoning, data collection is done after the theory is recognized and understood. For the inductive approach, hypotheses and conclusions are made based on empirical data and bring the empirical generalizations for the researcher. However, this Master's thesis is utilizing abductive reasoning, where the researcher goes back and forth between key concepts and theories as well as the results from the semi-structured interviews with Finnish SMEs and Consulting companies.

First, the researcher gained the general understanding on the phenomenon of internalization of service SMEs, main theories, concepts and limitations of current studies based on the most cited books and research. Second, the author was able to presume preliminary research questions for the study and start carrying first case studies. After several interviews have been conducted, the researcher went back to existing theories to research more in detail on certain parts of internalization process. When all the interviews were carried out and results have been described, the need for research question adjustment appeared due to the specifics of the collected empirical data. As so, initially the author intended to study how entry mode selection of service SMEs differ from product SMEs; however, during the interview data gathering, the author gained an understanding that the internalization process is a dynamic process that includes constantly intertwining elements and processes. Therefore, separate and isolated studying of just element of internalization process can result in incomplete and false understanding of cause-effect relationships between the elements and the processes as the whole.

The interview materials were collected, transcribed and grouped according to the most relevant for the study topics. Because semi-structured

interviews have been used, the transcripts of the interviews were quite massive and needed to be shortened and structured in order to conduct data analysis out of collected material. For this, content analysis as a technique was used (Miles & Huberman, 1994). After all the data was collected and transcribed to the written format, the researcher performed data reduction: she carefully selected the most useful and relevant for the research data and organized it by topic and subtopics, cause-effect and chronological orders (Miles and Huberman, 1994). This process is repeated until there are no new concepts that appear. Grouped data was structured and organized to themes. The themes were connected to evaluate the value of the data in comparison to the existing studies. Persistently going back and forth between the data and the theories helped the author to reduce the data to its most important themes and strengthen it though supporting information found from the collected data (Miles and Huberman, 1994).

Figure 13: Data analysis process



As seen from the Figure 13, the process of data analysis was as following:



1. Data collected through the semi-structured interviews with Finnish service SMEs, and consulting companies/individuals (experts),
2. Collected data from semi-structured interviews was transcribed,
3. Answers were grouped according to the companies, content analysis technique used,
4. Collected data was grouped and organized by themes,
5. The most relevant, valuable and interesting to the research data was selected,
6. Research questions were adjusted based on learning process,
7. Empirical data was compared to existing theories,
8. Interpretations were made,
9. Conclusions were made, research questions were answered.

## **4 RESULTS AND FINDINGS**

In this chapter the findings related the internalization of Finnish service SMEs resulting from the data obtained from the qualitative interviews will be presented.

### **4.1. Process of internalization**

#### **4.1.1. Motivation for internalization**

Before the results regarding the motivational factors for choosing Russia as a target market for case companies and service firms in general will be presented, the author was interested to understand whether Russian market was one of the first markets Finnish service SMEs try to penetrate or they tend to choose Russia when they have enough experience doing international business.

Among the case companies, Russia wasn't the market of first choice for four firms. Thus, Company A attempted to internationalize to German (90s), Estonian (90s) and Swedish (90s) markets before they entered Russia in 2013. Sweden was "an obvious choice" due to the similarity of development stage of the industry and possibility to replicate the way of doing business in Finland to this market. First international market of Company C was Germany (2004) followed by England, Sweden, Norway, Estonia and Russia (2014). Company D first went international in 2016 to Russia and Sweden at the same time and for a short period of time it became global - Company D currently covers Russia, Scandinavia, Europe, Middle East including North Africa. Moreover, this year it is going to expand to Asia, specifically firm is looking for business in Japan, China and Vietnam. First projects of Company E started already in 70s and the interviewee didn't remember exactly where the company went first international but Russia was not one of the first markets that Company B penetrated. However, Russia was the first international market for Company B due to the specification of business and services that are designed specifically for the Russian market.

Most of the experts agreed on this question and claimed that the majority of Finnish SMEs are active in Swedish and German markets before they internationalize to Russia. Besides, they said that there should be a strong reason (for example, specification of the service or background of a decision maker) to have Russia as a first-choice market to internationalize. However, not

all the companies try to start with the markets that are “easier” or less distant - such SMEs look for such factor as a potential.

*Usually Finnish companies start with neighborhood countries. They can choose Russia as the first market if there is a demand (e.g. from the existing customers). There should be a reason why Russian market should be first. But otherwise it is easier to start in Nordics. - Expert F*

*Many companies go to Sweden first because it is more similar. But not all the companies do so, some of them have different approach - they look at the market that brings more opportunities. - Expert H*

*From my experience the majority of Finnish SMEs are active in Swedish, German, UK markets before they go to Russia. Imagine if you are a Finnish company and you want to go international, of course you will go and try first Sweden or Germany, these markets are in EU, they have got plenty of clients and money; they are easier to penetrate. I would say that Russian market is the second round to go international - Expert I*

In order to understand case companies’ motives for choosing the Russian market as a target market for penetration as well as to understand the international pathways of the service SMEs in general, the motivational factors of penetrating Russian market were discussed with all the interviewees. The reasons for internalization vary from one company to another.

*Table 5. International activities and motivational factors for internalization of case companies*

<b>Case company</b>	<b>Founded in</b>	<b>First international activity</b>	<b>Russian market penetration</b>	<b>Motivation for internalization</b>
Company A	1992	1990s (Germany)	2012	<ul style="list-style-type: none"> <li>● Suggestions from suppliers (partners)</li> <li>● Following the customer</li> <li>● Business training and suggestions from experts</li> <li>● Market potential</li> </ul>
Company B	2010	2012 (Sweden)	2012	<ul style="list-style-type: none"> <li>● Relevant background of decision maker</li> </ul>
Company C	1989	2004 (Germany)	2013	<ul style="list-style-type: none"> <li>● Russia is a big attractive market</li> </ul>
Company D	2013	2016 (Russia)	2016	<ul style="list-style-type: none"> <li>● Relevant background of decision maker</li> </ul>
Company E	1959	1970s (not known)	1970-1980s	<ul style="list-style-type: none"> <li>● Russia is an interesting and attractive market</li> </ul>

As seen from the Table 5, Company A had a combination of motivational factor for market penetration. First, suggestions from the suppliers gave an idea that Russia can be a potential market to take into consideration:

*“A couple of our big suppliers of raw materials have always been discussing about Russia as the mysterious market without a big competition. So they gave us an idea that this market could be potential.”*

Second, their existing client in Finland that was interested in consuming services of Company A in Russia, but wasn't ready to collaborate unless Company A had a local office in Russia. Having a local unit helped Company A to be closer to the customer and provide their services as fast as local companies do:

*“One of our clients had presence in St. Petersburg and they wanted to get our services there but they didn't want their equipment being constantly moved from Russia and back”*

Third, first two factors made Company A to investigate the opportunities and attend the training dedicated to doing business in Russia. Fourth, the recognition of market potential and stable financial situation gave a final impulse for initialization of internalization process:

*“We went to Finnpro's training concerning making business in Russia where we recognized that the market has potential for us. We were financially stable, thus, we were ready to invest”*

The main motivational factor for penetrating Russia market of Company B and Company D was the background of people responsible for internalization process.

*“I have been permanently leaving in Russia for about 5-6 years. I am currently living in Finland but I am continuously traveling to Russia”, - Company B. “So starting this company was related to this background”.*

*“I was working for an American company before where for the last 4 years I was responsible for Russian operations. Therefore, I was familiar with Russia and its business culture as well as I had my network there. I knew how Finnish people could do business there”, - Company D.*

By the time Company C decided to internationalize to Russia, it was one of the leaders in the industry in the Finnish market and had stable positions there. Company was looking for opportunities for expansions and found Russia as a huge potential market where the target client base is much bigger than in Finland, and that this market might bring profit quite quickly.

*“Initially company thought that the market had a huge potential and was expecting to gain profit from there quite fast”, - Company C.*

Company E found Russian market interesting and attractive with a lot of big potential clients.

*Table 6. Motivational factors for internalization of Finnish service SMEs (Experts' view)*

<b>Experts</b>	<b>Motivation for internalization</b>
Expert F	<ul style="list-style-type: none"> <li>● Market size</li> <li>● Positive previous experience and attitude</li> <li>● Existing clients are present in Russia</li> </ul>
Expert G	<ul style="list-style-type: none"> <li>● Market size</li> <li>● Neighborhood country</li> </ul>
Expert H	<ul style="list-style-type: none"> <li>● Market size</li> <li>● Neighborhood country</li> <li>● Positive previous experience and attitude</li> </ul>
Expert I	<ul style="list-style-type: none"> <li>● Market size</li> <li>● Neighborhood country</li> <li>● Existing clients are present in Russia</li> </ul>

As from consulting companies' and experts' point of view (table 6), two main motivational factors for Finnish service SMEs to start finding opportunities in Russia are market size and its location. Russia is a neighborhood country with almost 150 million inhabitants with different business opportunities and market niches:

*“Most of companies understand that Russia is a big market with big opportunities. There are a lot of people living there and there are a lot of money in certain sectors”, - Expert F.*

*“The main reason for going to the Russian market is: Russia is a big neighbor country with 140 million people (Finland has around 5 million), so Finnish companies look at the market size. If Finnish company wants to grow, it should look outside of Finland. Then at first they want to internationalize to neighbor markets like Russia”, - Expert H.*

*“It is obvious. The main point is that it is the big market close to Finland. Finnish companies are not scared to go to the Russian market because they have got long history of working with Russian people”, - Expert I.*

*“Everybody goes to Russia for obvious reason: there is no secret that it is a big country, St. Petersburg alone is a size of Finland and it is only three hours away by Allegro train”, - Expert G.*

Furthermore, attitude and positive previous experience with dealing with Russians (regardless of situation: business or personal) plays a big role for deciding to start operations in Russia:

*“If they had earlier experience in Russia and they are ready to start again, or if they have good attitude and they understand that we help with bureaucracy issues and avoid big risks, they are ready to start something there”, - Expert F.*

*“There are companies that have prior experience with Russian market (maybe they had some small activity there or they imported before but they were not happy with the performance) and considering doing business again because they want to know more about the culture, rules of the game and so on, - Expert H.*

*“Another big thing is company's attitude: Are they ready to investigate Russian business opportunities? Do they have positive ideas or experience of Russian people and business? are they interested in starting business there? So, I think attitude plays a big role in the question whether or not Finnish SMEs are ready to do something in Russia”, - Expert F*

On the other hand, negative perception of Russia, its culture and history between Russia and Finland may prevent some Finnish companies from considering Russian market as potential:

*“But there are people in Finland who only remember Russian- Finnish history and they are not ready to do anything with Russians”, - Expert F.*

*“They may have heard some “horror” stories about Russia”, - Company H. There are these companies that do not do market research and observe the situation by only what they hear or read from the paper”.*

Another reason for choosing Russia is presence of the existing customers in this market. That is often a case with service companies as they tend to follow their customers abroad.

*“There are cases when they go to the Russian market because there are customers that they serve in Finland”, -Expert I.*

*“One our client identified that in the Russian market there is already a lot of Finnish companies, so they understand that they can provide educational services for these companies. So they make a conclusion that there are Finnish companies in the Russian market, who value Finnish education system and who are ready to buy them”, - Expert F.*

Combining together case companies' and experts' opinions, the main reasons why Finnish service SMEs are choosing Russia as a target market for penetration are:

- Market size,
- Market potential,
- Previous experience (usually positive) with Russian market and/or culture,

- Following the customer.

#### 4.1.2. Market research

A special emphasis was made by the respondents towards the importance of market research before starting Russian market penetration, especially by the service firms. When a company has a physical product, it is fairly settled frame in terms of what the product is, who the target customers are, who the competitors are, etc. For firms offering services it is often more difficult and tricky to investigate who is the customer, what is firm's competitive advantage and so on. For better understanding, let's take an example. When a company is exporting vacuum pumps it is easier to find out what other companies are present in the Russian market and what their competitive advantages are. However, if there is a company that is servicing vacuum pumps, it becomes more difficult where you are compared to other players. For this reason, there should be more attention paid to the completing market research in a service sector.

Some interviewees pointed out that often SMEs do not do the market research and try to penetrate market without proper knowledge; quite often such companies fail:

*"Ideally SMEs should do the market research, but they are not willing to spend so much money on that" - Expert G.*

*"Usually market investigation is required but not everyone does it. Some companies want to go directly to the stage: "find us a partner". In my opinion it is quite dangerous to pursue this pathway". - Expert H.*

One of the benefits of doing a market research is the following: market research can prevent bigger losses in the future. Because SMEs have limited resources and it can turn out to be more expensive and resource-intensive to start market penetration without a completed market research. That's due to the fact that the costs of market research are much smaller than costs related to internalization: finding partners, doing marketing, hiring new personnel, travel expenses, etc. Therefore, almost all interviewees pointed out to the importance of market research for service SMEs as it will provide all the necessary information about the "rules of the game", opportunities and challenges on time, before the main investments are made.

*"First you have to understand the market, what are the legislation, competitors, current service providers. Then decisions can be made regarding the entry mode. Because establishing a company (including hiring personnel, making mistakes, registering*

*business) in Russia will cause much more expenses. Even hiring management in Russia is so much different due to the culture differences” - Expert H*

*In the beginning I collected the information from the Internet, Social media and governmental portals. After that I communicated with important people in the field who could provide me with relevant information. Only after I had the whole picture, we started trying to start selling the service”. - Company C.*

*“We did a market research and It turned out that there were not so many competitors at that time, so it gave us one more push towards internalization to Russia”- Company A.*

*“The company expected to get fast profits from this market but when we started researching it turned out that Russian market wasn’t ready for the technology and there is so many work to be done before we start getting profits from there” - Company C.*

*“The advice I would give to Finnish SMEs is to do their homework, find big players in the market sector, all the competitors, target customers and their needs, as well as industry regulations” - Company D.*

*“In my opinion, they have to do their homework to understand the rules of the game and what services are demanded in Russia” - Expert F.*

Moreover, conducted market research can also expose some facts or circumstances that may have an impact on the internalization strategy. Besides, completed market survey may reveal certain factors that may not only make it more difficult to enter the market, but make it even impossible:

*“One of our clients was a swimming school. During the market research that found out that in Russia they need to have a certain paper from doctor to be able to attend the swimming classes. This fact found from the market research changed their understanding of rules of the game” - Expert F. “Another thing that is revealed through market research what is the price level in the market before starting selling process”.*

*“The market research completed for one of our clients gave them a clear picture of a market situation and showed that it wasn’t a good time for them to enter the market” - Expert H.*

*“Another case that we had was from healthcare and nuclear sector. Because the buyer of the services was a state-owned company (monopoly), Finnish company had to have certain type of license, had to store data on the Russian side (regulation how to provide service in this field). So it was impossible to enter Russian market for this company. In this case market researched saved a lot of time and money for this SME”. - Expert F.*

*“Some services are such that require licenses and that’s one reason why market research should be done: can you provide this service in Russia? Or does the Russian company need to be established? Or do you have to have a partner?” - Expert H.*

Third, it is important for SMEs to allocate their resources correctly as they usually do not have a chance to make mistakes. Therefore, conducted market survey will guide the communication with potential customers. Once



the research is made, the company should be able to determine the most effective ways to communicate to its customers, to find best marketing channels and suitable sales processes.

The interviewees suggested conducting market research in one of three ways:

- hire a professional (consultant)
- do it yourself
- hire a project worker (e.g. student)

Hiring a professional has its benefits: consultants usually have their network already, they speak not only the language, but they also know the culture, they have previous experience and knowledge and much more. Sometimes foreigner that speaks Russian language may not bring as good results as it would be a native speaker. The reason is in cultural aspect - you may speak language but it does not guarantee you will fully understand what Russians are meaning. Another reason is the language itself - foreigners that learn Russian may not understand certain phrases Russian people use as there are many phrases that may be interpreted differently.

*“I think that for organizing negotiations and meetings companies should hire a professional, for example, consultant. he knows the business environment and the culture. because sometimes companies think that they can go on their own and hire someone who speaks the language who can translate and interpret things. but it happens that this person can't help with cultural differences and business issues. you should also have the business knowledge because it's different than in Finland so you can miss a lot if you go in your own. - Expert H.*

*“In my opinion, if a Finnish company does not have a trustworthy Russian person who is willing to assist them, it may face big issues in Russia” - Company C. “If they are not native in Russia and they are trying to connect with Russians through a call with poor quality, they will lose major details in the conversation, I am sure... Russian people have a special connection and they will trust each other much more than to a foreigner, they will feel more free” - Company C.*

*“Finnish SMEs quite often use somebody to help them in approaching customers. In Finland you would take a call and talk but in Russia you will probably never get through to the person you need to reach. You have to know the system. Many companies use an assistant, consultant or they hire someone for the project work” - Expert H.*

Another benefit is that consultants have a wide portfolio of different projects and they know how the business in Russia is done, what are the best ways to find potential customers or partners, they often have a network of people/companies that they trust and that they can recommend for contacting.

However, there are so many consulting companies and private

consultants that promise to bring you to the market, find partners and clients; however, it may be difficult to find a trustworthy provider.

*“There are so many consulting companies who promise to bring you to the market but in my experience they cannot guarantee that they will provide you with the best strategy and contacts. Besides, among there service providers the quality varies. So, if you are a company that wants to use such service, it may be very confusing and the main question that you will ask yourself is: who should I use? - Expert G.*

Moreover, the price of professional services may be too high for SMEs. Therefore, Expert I suggest to do the research by yourself, specifically visit Russia and meet potential clients and partners in order to get relevant information from them:

*“First the market should be checked: is your offer competitive, can you position yourself there, is your price competitive, is there any demand, etc. There are many questions that sometimes can't be answered even by deep market research. If you buy a deep research it will cost you 10-20-30 000 euros; it is much cheaper to go to Russia for a couple of days and have 3-4 meetings a day. It is totally possible in St. Petersburg and after 10-15 meetings you will have a deep understanding, you will answer all these small questions” - Expert I.*

*“Many of the companies just go to the market and try. The cheapest thing to do is to go to an exhibition and see the situation and build an impression (is there a potential or not)” - Expert G.*

Sometimes SMEs due to the limited resources are willing to do the market research by themselves. In this case, experts suggest doing the market research by going to Russia and talking to right people there. They say that by spending several days in the market, the company can find out more up-to-date information that by looking up in the Internet databases and other sources.

*“Exhibitions are the good place to meet people from the same industry during couple of days and you can find new facts and knowledge about the industry and legislation, for example. If you talk to people, people will tell you a lot. You can make a very good market survey there” - Expert H.*

*“From my experience, the best way to test the market is to come to the market and meet potential clients, companies in your field, speak about market situations. These discussions will help Finnish SMEs to understand the market situation and to answer the question, whether there is a space in the market for the Finnish company or it is not a case” - Expert I, - “It is much cheaper to go to Russia for a couple of days and have 3-4 meetings a day than buying a market survey from an outsider. After 10-15 meetings you will have a deep understanding, you will answer all these small questions.”*

Another way to complete a market research is to hire a project worker, for example a student who is a native speaker. It can be considered as quite a cheap option which will bring the company a starting point for internalization process. However, it is possible that this worker will not provide a fully

informative result, so that a company will have to start all over again. Important to note: market research should be done in Russian as without language skills there is a high chance to miss important information.

Three of the case companies did not do a proper market research (Companies B, D, E). The main reasons for Companies B and D were in their backgrounds: both of them had previous experience with Russian business, gained their networks and had an understanding about how to do business in Russia.

*"I didn't do any more research because I would have been in this Pacific Market and sector for many years and I knew the price levels, even though it also changes from year to year depending on the basic economic situation and exchange rates" - Company B.*

Company E did not conduct market research as they were doing projects for customers in Russia if they approached the company themselves, as well as the company was not willing to spend time and other resources on this activity.

#### **4.1.3. Use of outside experts**

When a company, especially small- or medium-sized, decides to do international business, quite logical question is asked: do we have enough expertise to execute the internalization process by ourselves or do we need to hire outside professionals? are we able to afford such services?

Going international requires quite wide knowledge of the language, culture, customers and their behaviour, regulations in a host country, rivals and much more. There are many consulting companies and private experts who are ready to help companies in market penetration. The case companies were asked whether or not they used help of outside experts and if yes, what services they used.

Company A participated in a training organized by Finnpro (now Business Finland), that was educating SMEs about doing business in Russia. It not only participated in the training but also kept in close contact with the teacher which followed by not only consultations after training but also by opening a joint venture with him. Company C addressed Finnpro and Finnish-Russian Chamber of Commerce (FRCC) in order to find contacts of right people. Company B chose a private consulting firm to help them to do a market research. Company E also tried to use help of Business Finland but this collaboration did not bring much of a success.

Three case firms used legal and accounting services in order to cope with official and legal matters in Russia. Some experts also said that SMEs are often

in need of a person who will check administrative queries.

*"We hired a finish law accounting firm in Russia to take care of our bookkeeping and accounting operations, papers and regulations" - Company A.*

*"I used help of a legal advisor from my network" - Company B.*

*"Sales agreement checkings are in great demand. Moreover, we quite often check legal framework for the business." - Expert F.*

Because of the lack of language proficiency, many service firms are trying to find individuals who can help them with issues where language barrier is high: negotiations, translating website and other commercial materials, creating agreements, going through officials, finding potential customers, etc. For this reason, translation services are in demand among SMEs; however, translators often turn out to be inefficient and time-consuming. One of the issues with using services of a translator is his/her lack of knowledge of a business and technology which causes wrong interpretations and misunderstanding between parties. As a result, translators may bring more harm than use.

*"Sometimes I was involved in the negotiations where companies were using translators who did not understand about the business itself at all so they were interpreting something very wrong" - Expert H.*

*"Some customers prefer Russian as a language of communication, so we had to use translators but it is always slower and the meaning is lost. We noticed that translators sometimes are not such a good option" - Company E.*

*"There are a lot of companies that try to provide services through translators but it is slower and inefficient" - Expert F.*

Another service that Finnish SMEs use is assistance during the meetings/negotiations, mostly when such companies do not have any previous experience in dealing with Russians. Moreover, Finnish SMEs contact experts to help them find right people (partners, clients, etc) and make a first contact with them.

#### **4.1.4. Financing internalization**

Another important aspect in the internalization process is its financing. There are three main sources of financing the process of going international for Finnish SMEs: own funds, subsidies from certain organizations, whose aim is to motivate Finnish companies to go international, or obtaining a loan.

It has been found that many Finnish services take an advantage of governmental financial support. One of the most common providers is Business Finland; it is the biggest organization that funds and helps Finnish companies

grow quicker and develop their innovations to become global. Specifically, it offers funding for research, product development, and many kinds of business development needs, especially for small and medium-sized companies (Business Finland, 2018). Another example of a financial provider is Finnvera that strengthens the operating potential and competitiveness of Finnish firms by offering loans, domestic guarantees, export credit guarantees and other services associated with the financing of exports. Therefore, the risks included in financing are shared between Finnvera and other providers of financing. Finnvera gives guarantees against political or commercial risks associated with the financing of exports (Finnvera, 2018).

Four out of five case companies used primarily own funds as a source of financing the process of internalization.

*"We didn't think of taking a loan because we covered all the expenses from our own funds" - Company A.*

*"We didn't use any outside financing, it was purely from own equity. Starting such a small company does not require such a big investments that's why we didn't use any governmental financial support in the beginning" - Company B.*

*"We did not use any financial contributions except our own funds" - Company C.*

*"Many companies go to Russia when they are financially stable and can afford this process of market penetration" - Expert F.*

*"If the company cannot cover at least the beginning of the process of internalization (e.g. market research) with its own funds, it should consider whether they should go to the market at all, because there's going to be much more expenses later on" - Expert H.*

Experts agreed that many Finnish SMEs try to use the opportunities of governmental subsidies and such services are in-demand in their companies. Besides, it is quite easy to apply for the financial support, which makes this option even more attractive. When it comes to case companies, three out of five service SMEs applied for a governmental support to cover their costs of internalization to Russia.

*"When I started a second subsidiary, I participated in one financing program. Finnvera offered us a state subsidy to help us enter the market of St. Petersburg" - Company B.*

*"We had an arrangement with business Finland organization that was helping us funding our international plans. Business Finland has been helping us quite a lot in terms of financing." - Company D.*

*“Companies can get compensation up to 50% of the project costs from Business Finland. It is quite easy to get if the company is ready to apply, make project descriptions and so on. Usually we help get the financing and SME are usually interested” - Expert F.*

*“Quite often small companies take advantage of export funding. It's quite often Business Finland organization who has the programs for such companies that want to go international and part of their expenses can be covered” - Expert H.*

*“TEKES and Yli keskus are the main sources of funds to go international. Finnish SMEs use it a lot” - Expert I.*

Throughout this research, loan was not stated to be a source of financing of the internalization process of Finnish service SMEs. Both, companies and experts believe that this source of financing is quite risky as there is always a chance to fail in market penetration.

*“In my practice, there was no service companies that took loan to cover costs of internalization” - Expert H.*

*“In my experience, loans are not considered as a way to finance the internalization” - Expert I.*

#### **4.1.5. Entry mode selection**

As it can be seen from the table 7, two out of five case companies (Companies B and D) started market penetration with opening local offices. Company B opened a local office immediately due to the specifications of the services (services are created and consumed simultaneously) by forming joint venture with one entrepreneur.

*“When we decided that we needed to provide these local services in Russia we had no choice than to establish this local company. We needed to hire local accounting and other specialists as well as to have local invoices to provide our services. So it was obvious from the start that we needed to have the subsidiary” - Company B.*

*Table 7. Entry mode selection by case companies*

<b>Case Company</b>	<b>Initial entry mode</b>	<b>Entry mode changed?</b>
Company A	Sales Representative	Yes, to subsidiary (through joint venture)
Company B	Subsidiary (through joint venture)	No
Company C	Export	No, planning to open

		subsidiary in the future
Company D	Subsidiary (through acquisition of the local company)	No
Company E	Export	No

Company D found out that opening a local office would help to get partnerships and sales more successfully as well as to decrease the amount of bureaucracy. Besides, according to Company D, dealing with governmental organizations is hard if a firm is present in the market as a foreign company (in terms of bureaucracy connected to making commercial contracts, stamps, etc.). Therefore, Company D acquired local company and settled a local office in Moscow.

*“After analyzing business opportunities we noticed that it would be easier for us to have the fully-owned Russian subsidiary in terms of concluding Russian commercial contracts and stamps. Furthermore, making contracts with cities or partners is easier when you have your own office in Russia, it complicates quite a lot doing business if the agreement needs to be signed between Finnish and Russian companies. Another important point is that Russia is a country that has more favorable taxation arrangement with Middle East countries than Finland does, so we opened more business opportunities through Russia. So, we purchased a small local company” - Company D.*

Whereas Company A opened a subsidiary within two years by forming a joint venture with entrepreneur, as they found their initial entry mode selection not efficient enough due to several reasons:

- they would not be able to satisfy customers’ needs if they continued to do business from Finland;
- there were too many issues to deal with when trying to serve customers from abroad;
- their sales were not sufficient enough as they had more potential interest in their services than they were actually earning;
- they wanted to be close to the customer.

*“We started with hiring a local salesman, whose contact came from Finnpro. We were naive and thought that we could just transport parts between Finland and St. Petersburg easily by ourselves but it was not the case. The export manager was not able to successfully deal with customs and other issues, so we noticed that it required much more work. Besides, our Russian customers wanted their parts ready in days, not weeks; however, we could not make that happen due to the custom bureaucracy. Finally we noticed that we had interest towards our service but we did not have so much sales. Due to these reasons we decided to open a local office in Russia” - Company A.*

Company C is currently finishing the stage of market research and starting bringing its first sales. Company initially entered the market with export (sales were done by permanent employee, he is doing “project-travels”); however, discussion on opening a subsidiary in Russia is ongoing. The reason Company C started with sales representative is to try market with lower costs as Company C (like a normal SME) had limited resources.

*“I think that opening an office in the target country is necessary. At the moment the question regarding opening a local office is under discussion. One of the main reasons is a requirement of product and other legal registration” - Company C.*

Company E started and still operating in Russia through exports as they preferred to follow the passive sales strategy where their potential customers would contact them first. Moreover, the Company did not have enough volumes for opening a local office in the Russian market - it was not economically efficient. Employees are doing project travels when necessary.

*“Our company is doing its operations from Finland. We do not have clear strategy, we do not make direct marketing outside Finland. Normally we have cases that start from the fact that the company which is operating in Russia has some connection to Finnish people (e.g. big Finnish company that has a daughter company in Russia). Another situation is when there is a big planning corporation who needs subcontractor in its big project (lead consultant gets a project from Russia and we become a subcontractor). It can also be later on that the Russian client can contact us directly. Another possibility is when the foreign potential customer is finding us (via the Internet or recommendation)” - Company E.*

In summary, most of the service case companies opened a subsidiary straight when entered the market or after a few years of operations in Russia, either through a joint venture or acquisition. The reasons for opening local offices vary but most of them are due to the desire of eliminating or overcoming certain challenges that the market is carrying. One case company has been operating in Russia through exports all the time due to the lack of clear international strategy.

Experts came to the conclusion that nowadays due to the current economic and political situation Finnish service SMEs are trying to be careful with the market and are not opening a subsidiary if there is no strong need. The decision to open a local office can be a big step for a small company which brings a lot of practical questions and difficulties. They also mentioned that Finnish service sector is not so strong internationally, therefore, there are not so many service firms present in the Russian market.

*“It is a very big step for a small company to open an office in Russia as there comes a lot of small practical problems. First they will need a director, then comes a big question: who will be this director? Is it the Finish person? will it be expensive then? does he*



*... speak Russian? if it is a Russian guy can you trust him? They will have to pay attention that he will be working from a distance and controlling will turn out to be not very easy” - Expert G.*

*“When just trying the market and its opportunities: why would you spend money and time for opening the subsidiary or office if you don’t have clients yet. First the market should be checked” - Expert I, - “Finnish SMEs are not obsessed with opening an office in Russia, they do it only in there is a strong need for that. Opening a local office doesn't mean that you will not ever need to travel to Russia. This decision should be financially wise and thought trough because if you have an office, you need permanent employees who require paying them a salary, 40% of social payments, etc.”*

On the other hand, having an office in Russia helps to be close to the customer, localize business operations and services (which is very important in the Russian market), and serve customers more efficiently. Usually service companies open subsidiaries in Russia if they are confident about the market, have enough business there, and/or if they believe that Russian market will boom in the near future, so that they are localized by that time and will concentrate mostly on selling the service aggressively. As it will be discussed later, localization of business operations and service offering are crucial in the Russian market especially in the service sector. Opening a local office helps to do the process of localization consistently and effectively.

*“If they have already business in Russia, they need to think how to develop it. If the Finnish company has enough business in Russia and it wants to hire local personnel and director it is suggested to localize and open an office in Russia” - Expert F.*

*“We feel like this this political situation will not last forever and I think that the market will boom. Our strategy is to be there even though it has been difficult to be there this years and be ready to sell when the boom starts. We perceive it as a very long-term investment” - Company A.*

In some cases, having an office in Russia can be necessary. In service sectors it is connected to the way of doing business and delivering services or regulations in the industry.

*“Sometimes opening an office is a must for service companies. One company I worked with is only serving Russian market. So they established an office in Russia and have mostly Russian employees” - Expert H.*

So what are the entry modes that Finnish service SME undertakes in the beginning of market penetration? Experts say that exports, partnerships and project travels are the most common way to understand the market and demand, test the service, gain references and build company’s image.

*“Before opening a subsidiary my case companies often start travelling to the market project by project” - Expert H.*

*“Usually companies start with exports which breaks down to two ways: directly to end-client or through distributor/representative (middleman). The most common questions*

*are: how to find good partner in Russia?; who can represent the company and who has already networks in the industry? As it is not easy to sell directly from Finland to Russian customers it can be easier if you find a good partner who can take care of sales activities” - Expert F.*

*“Because opening a company in Russia can be so much time- and resource consuming, I would suggest first to go to the market and talk to people there in order to understand the needs and demand there. I would say that it is a very typical way” - Expert H.*

*“I would say that the most effective ways to enter the Russian market for Finnish service SMEs are to open a local office or find a partner” - Expert H.*

Experts have highlighted that partnering with a local company can be one of the best ways to enter Russian market especially in the certain industries/sectors. There are many advantages of getting local partner, some of them are: if partner is a local person or company, he is a native Russian speaker and he is aware of the culture and ways of doing business in the market, he may also have valuable networks and is ready to deal with daily business processes, he is able to open doors and contact potential customers, he is a of the market situation and changes in the regulations, he will be able to localize the service to the market’s requirements and much more. Partnering up with a local person or company can be a good idea for Finnish SME that does not have previous experience in the Russian market, does not have enough resources of doing business by itself, wants to try market without huge investments or if there are market requirements when foreign company needs to cooperate with Russian entity.

*“Definitely for service sector you will need to have a local partner who is dealing with these issues every day and who is aware of the changes that are happening. This is the minimum level in many case” - Company B.*

*“Anyway when you go to a new market, you have to have someone local there. If you are trying to do a service business in Russia without a Russian, it is almost impossible” - Expert H, - “Unless you do it in a way that you operate from Finland and you are having some cloud service for example that everyone wants to have, then you don't need local presence. But probably you are not really established in the Russian market then because you will have not so many Russian clients (not so aggressive sales).”*

*“If in Russia your meet top management first it's much easier to do the business, it is harder if you do through the departments. So you have to find someone (partner, valuable network) who will open the door in Russia on the top level” - Company D, - if you do not have direct contact to the right person and you try to contact the general number you will not get to it most probably. If you are a small company, first thing you need to do is to find the local person or small company who can start looking and opening the doors for you.”*

*“Partners and local people who are aware of the situation and processes, market and its development are very important for Finnish firms” - Company E.*

*“Finding a partner is important so you don’t need to build the brand and network from the scratch” - Expert F.*

*“We had one customer that provides lightning design services and they also have some equipment that should be installed for each client. Somebody actually needs to do the measurements and calculations in the customer premises. So they actually had to go there and have a partner who will do that for them” - Expert H.*

*“Another reason for getting a partner in Russia is that Finns are not so risk taking and they do not have so much money. So it is better to start with the partner and see how things go. If business goes well and Finnish player is aware of the market, rules of the game and others, it would be possible to establish an office in Russia by themselves. Finns tend to learn from experience and take small steps” - Expert H.*

Therefore, finding a local partner can be a suitable entry mode for service firms when internalizing to Russia. It can be one of the first steps in market penetration as local people have their networks and knowledge of the market, culture and language. However, finding a partner can be a big obstacle. In the first glance, getting a local partner sounds like a perfect idea, but, according to case companies and experts, it can be tricky. Challenges connected to finding a partner were mentioned by most of the interviewees. They will be discussed in the section “difficulty to find reliable partners”.

*“Finnish SMEs always try to find an easy way out: they wish to find some mysterious Russian person-partner who will find and deal with customers, bring them orders and profit. So the first time they try to go to Russia, they try to find the partner who will do all the work for them. Then they eventually get disappointed because of the wrong perceptions, beliefs and expectations” - Expert G.*

## **4.2. Challenges and ways to deal with them**

### **4.2.1. Cultural differences**

#### **4.2.1.1. Building relationships and networks is a key in a high level uncertainty culture**

Even though Russia is the neighborhood country of Finland, and 33% of interviewees agreed that Russian business culture, especially in the North-West region, is getting closer to the Western one, there are still perceptible cultural differences and the ways they do business. One of the aspects that many interviewees mentioned is the propensity of Russian people for building personal relationships. While in Finland business partners start the meeting with a small talk about weather and then proceeding to a business talk shortly,

in Russia it is important to start building relationships. It eventually is more time consuming but without building relationships it will be difficult to do business successfully. So, getting to know each other is crucial if a Finnish company wants to be successful in the Russian market.

*“Finns are more facts- and product oriented than Russians. One of the examples is: when Finnish people start the meeting, they introduce the company quickly, mention that they are from Finland and present the service they offer. However, Russia characterizes with collective culture where you have to establish relations first” - Expert H.*

*“There are differences in approaching Russian customers: in Finland you greet, say about weather and go straight to the business while in Russia we had to establish relationship first, asking about them and their company, telling about us, getting to know people” - Company A.*

*“One of the main specifications of the market is informality of communication... Business in Russia is tied up to the personal relationships” - Company C.*

*“In the beginning people are always very formal. It is a little bit difficult for Finns to understand that you have to be quite formal in the beginning and you can proceed to more informal communication after you create trust. If you have this trust you are likely to be successful with the business as well” - Expert H.*

Personal contacts are also useful for Finnish SMEs because they can help with opening business opportunities, getting right contacts, suggesting potential customers and so on.

*“It was partly my connections that I heard about potential customer from. It was also very important that we are helping each other out with partner organizations or companies that are in different sector than us” - Company B.*

One of the reasons why Finnish SMEs should build relationships and trust in Russia is that Russian people are characterized by uncertainty avoidance and they tend to not trust strangers as cheating may take place. Russians have more careful approach in business than in many other countries, including Finland. While in Finland people are very trusty to strangers, in Russia people are likely to use this “overtrust” for their own benefits. Several interviewees mentioned that one of the problems of Finnish people doing business in Russia is that they tend to trust all people and they often get disappointed when doing business in Russia. Therefore, it is important to always check all the papers and agreements especially in the beginning of the business relationships.

*“I would definitely recommend to have at least a translator or a person who you can trust so he will check the papers and make sure that I side write papers and so on” - Company A.*

Every interviewee pointed out that networks play a huge role in the Russian market: Finnish companies need the right contacts to carry internalization plans through. It takes time for Finnish companies to build trust with Russian people and start doing mutually beneficial business with them. It may be quite difficult for Finns as they are used to doing business straight away and trust to other people is always present in a Finnish culture. So how to make Russian people trust you? First, Finnish companies and Scandinavian countries have a little benefit as, like each interviewee pointed out, Finnish products and services are automatically considered to have good stable quality level by Russians, especially in St. Petersburg. This has been formed throughout the history of mutual relationships between Russian and Finnish people; besides, Russian people nowadays travel quite much to Finland and they are familiar with the country and Finnish quality of goods and services. In St. Petersburg there are Finnish businesses that have good reputation among people.

*“I think that Russians have a perception that finished service is constant and good. They can trust and think that it's the good level”- Company A.*

*“In many cases we find that Russian like Finnish planners (they prefer us among German and Swedish companies). They have this perception, I guess” - Company E.*

*“I think the biggest advantage of Finnish service industry is trust. While product is very straightforward: you make the payment, I ship you the goods and everyone is happy. However, services are pretty much about trust which Finnish companies definitely have” - Expert G.*

*“Russian people have a good perception of Finnish products, services and experience” - Company C.*

*“If you go to St. Petersburg then people have this good perception. Maybe in some other regions as well because people remember Nokia, for example, Finnish goods from Soviet times. However, in Moscow where main offices are initially are, it doesn't play so big role. The competition is so tough and there are companies from all over the world. But I think that Scandinavia and Europe have an advantage; Finnish products and services are considered as reliable and working and Finnish people are seen as trustworthy partners” - Expert H.*

*“In Russia the chance to be cheated by service company happens is high. In Finland no service company will cheat you, so trust and overall quality and sustainability are the biggest advantages of the services from Finland” - Expert G.*

One of the forms of uncertainty avoidance is that Russians want to see the references, so Finnish companies are highly recommended to tell about previous projects and feedback from existing customers, especially in service sector as it can be hard to evaluate the quality of service before it has been provided. Moreover, because Finnish SMEs are small in size and rarely have a

well-known brand, references of previous work will play a big role. Some interviewees mentioned that having references from Russia increases chances for success; however, if Finnish SME does not have projects in Russia yet, it is still crucial to show the references.

*“References should be always presented no matter if they are from Russia or other country; it is the key to success. However, they get more interested if you already have experience in Russia” - Company D.*

*“We showed the references and examples of hard work and projects. It is a big thing that we noticed when doing business in Russia: they really appreciate recommendations” - Company A.*

*“Give examples how your solution helped to some customer, give price estimates and be ready to bargaining” - Expert I.*

*“Russians want to see references” - Company E.*

*“ It (reference) is very important; if you have references from Russia it is much better” - Expert G.*

*“Russian people want to hear if you have any Russian projects, they make them more interested. Quite often if you go to the customer outside Moscow they will probably ask you if someone from Moscow has already bought your service?” - Expert H.*

*“If you just set it up it might be difficult to appear as a reliable and a partner for this potential customer” - Company B.*

*“Russian companies always ask for references” - Expert F.*

When Russian side is interested in the service of Finnish company, they will ask very detailed questions. Finnish company has to be ready for that as it is a good way to show that it is an expert in its field and way to increase trustability. Therefore, respondents said that it is often managing director of SME who is travelling to meet Russians and present company's services because he/she is the one who is aware of every aspect of the business and service. Besides, it gives a picture for the Russian people that Finnish company has serious intentions towards them. One interesting aspect was raised during several interviews: it gives a good picture if there is more than one person from the Finnish side.

*“Usually the owner or top manager travels to the market, as he knows about the company and is ready to answer questions right away, not saying: I will go back to you later via email. They should be ready to spend their time and make effort to enter the Russian market” - Expert I.*

*“It's important to say to Russians how much they will save in money and time. They want to hear facts, they want to know exactly how much they will save and other benefits” - Company A.*

*“You have to be ready to answer questions. Russians have high uncertainty level and they will check every detail. If you go to the Western countries, for example, they probably don't want to be so much in detail but in Russia you have to have all the technical details. You have to proceed from general to details” - Expert H.*

*“When these guys think that this is a good product/service they usually present it themselves inside the company, ask detailed questions” - Expert F.*

*“I would say that you should take at least two people to the meeting because from the Russian counterpart you might have from three to five people speaking to you. If you are alone and Russian people are interested in the service, they will ask a lot of questions; they will probably have some technical and other specialists asking specific questions and quite often it can be difficult as the one person to answer everything” - Expert H.*

*“If you are more than one it makes a good impression on the Russians for sure” - Expert G.*

Another good point that was raised during the interviews by interviewees is that Russian partners and customers often want to get to know Finnish company better: visit the Finnish facilities, see how the company is operating and talk to main people of the firm:

*“It is more about building relations and in many cases they (Russian people) want to go and see how we are operating, talking to key people in the company. They have more careful approach than somewhere else” - Company D.*

*“Russians love when they are invited to Finland” - Company C.*

*“We tried to travel to Russia and do the meeting stairs and many times Russian people want to visit our offices in Finland” - Company E.*

To sum up, Russian people would rather do business with their friends and try to not do business with people they do not trust. So, Finnish companies should aim to become these friends. Getting to know Russian colleagues and business partners personally can help you ease into the Russian market. As soon as foreign company has reached good relationships, the business side will proceed as well. Russians will open up more and communication will be more informal.

*“Informality may take place usually when you have good relations” - Expert F.*

*“When you get more informal with your Russian partner then you're not you're getting there with the business as well. Then they become nice to you and informal. But if you are just communicating with Russian in the formal level, it will probably not lead to much of a business” - Expert H.*

*“If there are no concrete negotiations on business offer but it is more about discussion on general topic, it is better to make a meeting in a more informal atmosphere, for example, in restaurant. People will meet with you with pleasure” - Company C.*

#### **4.2.1.2. Hierarchy is complex**

Another important aspect of Russian culture is the level of hierarchy: it is much higher and heavier than in Finland, so it is important to build a strategy in service sector accordingly. The differences are more noticeable when doing business in B2B sector. From the interview answers, author came to the conclusion that hierarchy level is based on two dimensions: authority (How much attention is paid for the status and rank in Russia? How much respect this status usually possess?) and decision making (How is the decision making process in Russia: who makes decisions - bosses individually or employees collectively?). Combining these two dimensions together helps to assess the hierarchy level in-depth.

While in Finland there is a belief that people are equal regardless of the position a person has, in Russia people that hold higher position in the society and business world are usually hard to reach, and normal workers are unlikely to have a chance to communicate with them. Director in Russia is viewed as a boss not a facilitator.

*“In Russia if I'm a director and you are a manager and you send me a letter I will never reply to you because we're not in the same level” - Expert G.*

*“In Finland we're always speaking informally using the single forms of “you”. In Finland if I see a president I would probably approach him and talk to him but in Russia ordinary people will not be able to just approach president. That is because in Finland president is considered as a normal person. Then if there is a cleaning lady in the company, you can discuss with her and you will respect her opinion, what she's doing because she is a normal person like everybody else. That is the thinking in Finland” - Expert H.*

Such a cultural difference in leadership style is a reason for confusions and misunderstanding of Finnish parties. Because the hierarchy is quite complex in Russia, it slows down the decision making process significantly. Russia has a top-down decision making culture where decisions need to be coordinated with upper-level managers and directors. Decisions in Russian companies are also usually subject to changes as new argument or input come up.

*“Process usually takes quite long time because of the decision-making process (they want to change something in the order form or requirements, they want to change the time for meeting, etc.). So you don't get the deal straight in the first meeting, you have to really show that you are an expert in the field, you can bring extra value” - Company F.*



*“Russia has its own hierarchy, they way you do business and make agreements especially in the governmental organisations. There are so many names that are signing the contracts that’s why this process is very long. You might need from 5 to 10 names from several departments and managers; and when people are travelling it becomes very time-consuming” - Company D, - “The decision making process is at least twice longer than in Finland: I would say that it is between 6 and 12 months at least in governmental companies. In the private companies the owner can make the decisions and a process can be shorter while in the governmental companies you will have to make a presentation in front of the board of the decision-makers before we can get the contract. There are extra layers when you're dealing with the governmental organizations.”*

*“The business cycles in Russia are really long. Let’s say if I call today to unknown Russian customer, our conversation starts and goes on, then it will take at least 1-1.5 year from now until I start delivering my services while in Finland the negotiation process usually takes around 4 months” - Company E.*

*“Getting approval from top management who makes all the decisions is quite difficult. In Finland decisions can be made in much lower level because they have their responsibilities and certain freedom to make decisions, so in the end they just inform the management. However, in Russia everything has to be approved” - Company A.*

*“Nothing happens quickly. Decision making process is quite slow” - Expert G.*

*“It depends. If you happen to be in the right place and in the right time it can happen very quickly but normally you have to be quite patient. You need to communicate and negotiate about different details and it can take around 2 years. I would say that a year is something that you have to expect from getting a deal is for sure. Also, if you don't get that meeting with the decision maker the waiting time will prolong as well due to negotiations and decision making process inside the company” - Expert H.*

Moreover, unlike in Finland where lower level managers have certain level of responsibility and ability to make certain decisions without discussing with bosses, Russia has a top-down decision making culture where decisions need to be coordinated with upper-level managers and directors. Some respondents paid an attention to the fact that due to this factors, Finnish companies should be aware of such a cultural difference and act accordingly: send top management or director to the meeting, if there is a lower-level employee, experts suggest to introduce this person as a head of a department so that Russian side will be taking Finnish firm seriously (one of the experts said that Russian decision maker may reject the meeting with an “assistant” or “trainee”).

In Europe if person’s title includes the word “manager”, it refers to person with higher rank and set of responsibilities while in Russia it does not mean that a person holds higher position: sales manager is just a consultant in the shop, marketing manager can be a person who is following instructions of the higher level manager and does not make any decisions in the company. It

makes it harder sometimes for Finnish companies to identify decision maker and therefore get quicker results.

In order to speed up the business cycle, interviewees recommend to meet decision makers rather than reaching other workers who will connect you to the key people in organization.

*“If in Russia you meet top management first it's much easier to do the business, it is harder if you do through the departments” - Company D.*

*“Usually we try to organize meetings with decision-makers (e.g. managing director, development manager, head of development sector). When these people think that you have a good service, it means that you are close to the success” - Expert F.*

However, it is often hard to reach a decision maker as, especially in the bigger companies, they have assistance/secretary that acts as a first contact point and one of their responsibilities is to filter people that can actually get a chance to speak to a decision maker. So it getting a direct phone number of person you would like to talk to will most likely increase chances for success.

*“If you call to a general number you will never connect because the main function of the secretary is to filter requests that are coming to the general director. She decides who gets access to the director” - Expert G.*

*“In Russia you have to aim high, if you want to reach a decision maker, this person is usually in a very high level in the company. There is the secretary who is protecting this person. You have to be very well prepared to get through to explain somebody else why you should get to the right person” - Expert H, - Especially in the big company it is likely that you will not even reach the person who's important in the company”.*

*“It depends who you know and how important the project is for them. If it's about the minor parts then they don't care but if it's the big project it's a different story”.*

However, it can sometimes be extremely hard to get in contact with decision maker if, for example, the project or a service is not significant for a Russian company. If the project is truly important for the company, then it is more likely that decision maker will participate in the conversation. However, if the project is minor, the meetings will be probably hosted by lower level managers, who, in turn, will present your service themselves internally afterwards which definitely slows down the selling process.

*“It depends who you know and how important the project is for them. If it's about the minor parts then they don't care but if it's the big project it's a different story” - Company A.*

*“When these guys think that this is a good product/service they usually present it themselves inside the company” - Expert F.*

*“If you don't get that meeting with the decision maker the waiting time will prolong as well due to negotiations and decision making process inside the company” - Expert H.*

Another characteristic of Russian business culture and a market in B2B that partly comes as a result of a complex hierarchy is unpredictable demand. Several interviewees pointed out that atmosphere can be quiet or harsh: Russians either want something and want it immediately or they are not in a hurry to get a service. Such decisions are coming from higher levels and bosses tend to give orders to the employees to get services/products that must be received quickly. So, for Finnish people who are used to work by certain processes and reglaments, the confusion in understanding the time arises.

*"We don't also have visibility: what is going on with customer, some point it is in a hurry or can be very quiet. It is hard to predict what is going to happen" - Company E, - When you are contacting people, they tend to give you information and updating you about status. In Russia there is either rush or silence."*

*"Russians have two conditions: they either do not need anything or they call you on Wednesday and say that they need your service delivered by Friday. That is completely different from Finish way of working, because in Finland there is own understanding of what is the average speed of business processes and everything that does not match with Finnish understanding is not acceptable. However, Russians cannot understand that; their logic is the following: if I want something and I am ready to pay (even extra), why you cannot deliver it in 3 days? So this cultural difference is very often the problem between Finnish and Russian people" - Expert G, - "Either you get lucky and you find Russians in the moment when they need something by tomorrow or then you find them in the moment when they are not in a hurry and you will be frustrated how long everything takes."*

To sum up, level of hierarchy in Russia greatly differs from the flat hierarchy in Finland which often causes misunderstandings. Such heavy hierarchy slows down business cycles, makes it difficult to reach decision makers and makes Finnish companies adjust their strategies of approaching Russian clients accordingly.

#### **4.2.2. Language barrier**

Language barrier was discussed as an issue that service SMEs are always facing when internationalizing to Russia. National language is Russian and not so many people speak or willing to speak English. While in Moscow and St. Petersburg it is possible to find companies to negotiate in English, in smaller cities chances are decreasing. There are younger people who are able to speak foreign languages than older generations due to the specifications of education in USSR and openness of national borders for people to freely travel to other countries. Because older people are normally in charge and holding higher positions, thereafter are decision makers, it might be close to impossible for foreign company without language proficiency to reach decision makers. Another determining factor is nature of the industry Finnish company is operating in. In more technological fields, people's language skills are usually

better than in traditional sectors.

Moreover, people may understand English but not willing to speak it because they are not confident about their language skills as well as they want to understand everything fully and not have misunderstandings about the company, product and business collaboration. Furthermore, many people expect companies that come to Russia and do business there to be able to speak Russian. So, they might get questions like: is this company serious enough about doing business in Russia if they are not willing to communicate in Russian? We are located in our home country, why should we adjust, not a foreign company that penetrates the market? Therefore, if a foreign company is able to communicate with Russian people in Russian, it will reduce misunderstandings between Russian and Finnish sides, widen the list of the clients/partners/people foreign company will be able to approach, increase trustworthiness of the foreign company from Russian point of view and study local rules and regulations from the original source.

*“Russians prefer communications to be in Russian. We work in the traditional industry and even though they speak or could speak English they are not willing to speak because they want to make sure that they understand everything correctly. So, they expect you to communicate in Russian. I would say that you cannot go there just with English. In my opinion it would be very difficult try to sell in English.” - Company A.*

*“My knowledge of Russia had vital importance. If you want to operate in the Russian market successfully it's important to know the language” - Company B, - “Language barrier can be a issue for finish service companies”.*

*“You will have to hire Russian speaking person at least in the beginning. It may be possible to communicate in English when you have the agreement signed, when there are certain arrangements and they are in written form. When doing market research, looking for right people and companies to talk to, knowledge of culture and language are essential” - Company C.*

*“Sometimes it is hard to find people who speak English” - Company E.*

*“If you go to the potential customers and try to speak English, your chances are 50/50” - Expert G, - many Russians when they say that they speak English, it is normally not the best quality. It might not be the English that you will have the meaningful conversation.”*

*“You are the Finish company, and you only speak English. When you are calling to Russian customers, how do you know that somebody there speaks English? - Expert H, - there is always a language barrier if you're trying to operate in English. In my opinion, customer can expect to get everything in his native language.”*

One of the logical solutions that may come to mind in order to eliminate this challenge is hiring a translator: it is quick way to get a person who will be a bridge to the Russian customers, this person does not need to be employed in

the company - translators are outsourced. However, all interviewees pointed out that using translators usually brings more problems than solutions.

*“Nowadays it may be possible to manage by knowing English, but from my experience working from translators is very heavy and is not very effective” - Company B.*

*“Some customers prefer Russian and we use translators but it is always slower and the meaning is lost. We noticed that translators sometimes are not such a good option” - Company E.*

Another way to reach language proficiency is to hire an employee with this knowledge. However, for SMEs it might be a big investment and if there is not enough projects, it may become economically inefficient.

*“I would recommend that your company speak Russian but for small companies it is difficult to make it economically efficient” - Company E.*

*You come to another problem: we do not have anyone in our company who speaks Russian. You either need to rely on this consultant or you need to find a Russian person*  
*- Expert G.*

*“There is a big possibility that you will need to have someone to do calls in Russian” - Expert H.*

One expert pointed out that hiring a student may be quite a cheap way to get language proficiency. However, hiring student does not guarantee that the quality of work will be high enough to meet company's expectations.

The ideal situation is when a Finnish director has someone with knowledge of Russian language and culture who he can trust. This way, SME can be sure that there will be minimum misunderstandings and unpleasant situations. Moreover, finding a local partner may solve language issues. Partnering-up with Russian company, its advantages and disadvantages will be discussed in next sections.

*“My financial assistant has been living in Russia for 15 years, so she speaks in Russian and she has been helping me a lot as I do not speak the language good enough to conduct negotiations” - Company D, - “Nowadays sometimes it's not necessary in the government but otherwise speak good English so you may not need to have Russian speaking person.*

*“I did business development in Russia myself because I speak Russian, have my networks there and I am aware of how business is done in Russia” - Company B.*

*“With some customers we negotiate with English but some customers prefer Russian and we use translators but it is always slower and the meaning is lost. We noticed that translators sometimes are not such a good option” - Company E.*

*“I would definitely recommend to have at least a translator or a person who you can trust so he will check the papers and make sure that you sign right papers and so on” - Company A.*

Of course due to the specification of business some companies may be able to manage with English in some situations.

*“I did a presentation in English and translation was done after that but many people understood English. Speaking may not be good but reading is good. We can manage with English presentation but sometimes we need to do a translation work afterwards”*

If a company decides for one or another reason (company is testing the market, company is not ready to invest so heavily in the market, etc.) to start doing business in Russia using English, interviewees gave several advices on how to make it work. First, Russian people will either ask to send materials of the company and service in Russian to the email, or Finnish company should send these materials themselves before the meeting.

*“If the company can't provide services in Russian, they will need to think of the costs of the translator and other related costs to internalization. The potential costs have to be thought in advance so that the process is moving faster” - Expert F, - “They should make marketing materials for their services and service packages, together with very clear description of what they are offering. They cannot think that they can use the same text and description than in Finland. They have to really explain what they can provide, what is the price structure, references and their descriptions”.*

*“Usually Russian companies ask to send the material via email and it should be in Russian” - Expert F.*

*“The presentation should be sent in Russian before the meeting” - Expert I.*

*“When it comes to the presentation often it happens that they do the presentation in English and they have a translator who will translate into Russian. In my opinion, you should also have handouts in Russian. Usually management in company does not speak English, but they would like to understand something” - Expert H.*

Besides, website should be translated to Russian and optimized to the Russian market as potential Russian customers would like to see it after Finnish company contacts them or if they are searching for a service they need themselves.

*“If Russian companies are searching for something, then they can find you if you did website optimization. But if you make a cold call, then potential customer will go to your page and there should be very good description” - Expert F.*

*“It is very important to translate a website, and it has to be translated by a native speaker” - Expert G.*

*“First thing they needed to consider is language: the website has to be at least in English, or even in Russian if possible. No need to translate the whole content, but some*

*info about the company, product and contact details to make it easier for Russian client to check the page and get understanding of the company and offering” - Expert I.*

*“It is important to translate the website into Russian, but if the Finnish company is in the first stage of trying the market, English should be OK” - Expert F.*

Therefore, it is up to every company to decide how to overcome a language barrier. If company has serious intentions for the market, it should consider finding a person who speaks Russian. It will make negotiation processes move faster as use of translators often tend to be slow and inefficient. Moreover, it will be easier and more efficient to make first contact to potential customers as well as doing sales in the market.

#### **4.2.3. Control issue**

Another cultural difference that was raised by interviewees during discussions about entry modes is issues connected to differences in understanding of control by Russian and Finnish people. While Finns trust other people and expect people to take their responsibilities, they are convinced that there is no need to daily control of employees/managers, in Russia controlling refers to caring. If boss is controlling performance of his personnel, it means that he cares about this work and its results. If a Finnish company opens local office, it is important to check often enough to keep Russian personnel on track. If Russian people feel that they are not controlled enough, they may not put as much effort as they could, they might do their own business and spend company’s resources on outside of the business purposes.

*“In Finland it is insulting to always ask from manager about everything and not trust him in his decisions. In Russia you just cannot take everything for granted and you cannot trust everyone. So lack of control has been a problem for many Finnish companies. In Russia if you do not control, it means that you do not care. Finns do not go to Russia, do not ask people, do not contact Russian office often enough, do not check papers on so on. For the Russian manager that would feel like you do not care and then people will start doing their own business. I have had these cases that management of the local office did own business or used company’s resources for their benefits because no one was controlling them” - Expert H.*

*“You need to pay attention that he (Russian director of the Russian unit) will be working from a distance from you. Controlling is not very easy. I will give you an example: Imagine you have a director in St. Petersburg, you ask him to go to some big governmental organization and ask if they are interested in our service. Then he will tell you that he talked to them and they are not interested. You can either believe it (in Finland they believe each other), but that’s not the case in Russia, so what do you do? You call to this organization and ask whether they had your director in Russia about our service? That is not the case, because you will look unprofessional.” - Expert G.*

Such a cultural difference can bring misunderstandings and other issues between Finnish entity and Russian management. One of the examples such misunderstanding is coming from Company's A experience:

*"We have limited resources so we are strict about our expenses. Because of that we had a misunderstanding with our first director in Russia. He said that he wanted to buy some furniture for the office found customized furniture from one company in Russia. I told him to go to IKEA and get the same furniture that he needs but with much lower price"*  
- Company A, - *"So that is what you need to be careful about. Russian directors or managers can be quite liberated about the expense: they want to be a big director even though they run a 5-person unit. So I needed to control his actions. Control is important especially in the beginning."*

It is understandable that setting up a system of control is not an easy task but the one thing is clear: Russian directors and management need to be controlled and their business and results should be constantly checked in person and by modern communication channels. It is very important to visit Russian subsidiary frequently, especially in the beginning. Ideally, the post of a director of a Russian subsidiary should be occupied by the person Finnish company trusts, so that possible misunderstandings can be prevented.

*"We still communicate with them (Russian office employees) each level because we have an experience and expertise. However, our goal was always to make them independent and without the need for us to run the company from Finland. We support them as much as we can but they would be a separate unit"* - Company A.

*"I always tried to hire experienced good local specialist, many of those I know for many years already, especially the key persons who are responsible for this offices. Then they hire their team members. I knew from the beginning that I could operate in the modern way that I do not need to be present every day and look over their shoulders over what they're doing. They are good teams of professionals in both places, and I can manage it from the distance through Skype and traveling. Control is not the problem, it is more a problem relating to how to organize the sales and acquisition of new customers which you can't do from the distance"* - Company B.

#### **4.2.4. Difficulty to get reliable partners**

As it was discussed earlier, strategic partnership with a local player is often one of the best ways for service SMEs to enter and do the business in the Russian market. Partnering with reliable and trustworthy local person/company can bring various benefits to Finnish service SME: opening the doors, sharing networks, bringing language proficiency and knowledge of the culture, localization of the service and other advantages. However, interviewees claimed that getting truly reliable partner might be extremely challenging and there are several reasons.

*"The challenge is in finding reliable partners and having a network you can trust"* - Company D.



First, cultural differences are still present: Russian people have different mindset, cultural background and they are used to different ways of doing business. Therefore, it can be hard to find a partner with whom there will be mutual understanding and no conflicts to do business with. Second, lack of direct control that Finns often favor, as well as possibly that partner's goals may differ from Finnish company's can bring big issues. Third, the level of commitment from a Russian party may differ from the expectations of a Finnish firm. Fourth, cheating takes place in Russia; there is a chance that chosen partner may be dishonest. If a Finnish company decides to trust part of their business to the Russian party, the relationship should be built on trust and clearly defined responsibilities, but nobody is secured from being cheated. If a Finnish company, for example, have a unique service or a technology, Russian partner may become a competitor in the future after he feels that he fully learnt the know-how.

Before starting looking for a partner, Finnish SME should determine what amount of work and what responsibility it wants to transfer to the Russian partner. However, at the same time it can be difficult to find a partner who will have required expertise.

*“Partnering up is another option of market penetration that Finnish SMEs constantly try to analyze and understand. It is a logical point to think about: can I do it myself or do I need a partner? Partnering is not so easy. You deal with different people, mindsets, who you don't know and it can be tricky. So Finnish companies first tend to see if they can do it themselves” - Expert I.*

Therefore, planning and decision making should be done together with the future partner, all the responsibilities should be determined in the beginning in order to be prepared for different situations. “Things can go wrong” (Expert H): according to experts H and G, this potential partner may already have other businesses he works with and the business of SME can be too little scale in comparison to other business of this partner, so it can turn out that he is not putting as much effort as Finnish SME expects. In this case, experts recommend finding several partners and choosing the best performing one in order to not be dependent on one party. Moreover, they suggest to Finnish SMEs looking for partner to not assume much, as it is extremely hard to find a “perfect” partner.

Expert G claimed that many Finnish service firms are trying to find a “mysterious” partner for Russian market penetration. They believe that it is not so difficult to find a suitable partner who will take care of the business of the Finnish firm without any extra costs and with a great enthusiasm. However, expert G witnessed many Finnish SMEs fail this attempt and usually next step is ask a professional consultant to find them a better partner. Thus, many Finnish companies are trying to find a partner by themselves but eventually get disappointed due to the wrong perceptions and expectations. Partnerships should be built on trust and mutual benefits, that both parties are interested in such collaboration.

It is only in the beginning, partnership with local person/company may seem to be of the best ways to enter the Russian market. But experts and case companies mentioned that finding a truly reliable partner is a big challenge. Therefore, some Finnish companies prefer to proceed with internalization by themselves even though it may require more resources and commitment.

*“Finnish companies might go with the partner if there is a strong need for this.  
Example: due to the policies and regulations” - Expert I.*

#### **4.2.5. Localization: is it only the price that needs to be adjusted?**

The most interviewees acknowledged the challenge that is directly inherent to the service sector is necessity for localization. Service firms that want to successfully serve Russian market have to adjust not only service itself to the demand and specifications of consumption of these services in the market, but also the business processes themselves, for example, in terms of service delivery, pricing, marketing, etc.

*“The main challenge in service industry is adaptation of the service and business to the local environment. You cannot expect doing everything the way you do it in Finland, so you have to do a lot of good planning for adaptation. There will be something that you have to do differently, some part of the service or legislation, paperwork contracts” - Expert H, - “The service can be done differently due to the legislation or customer preferences.”*

Russian market is a competitive market with much lower price level than Finland. Even though Russian customers in B2B sector are not as price sensitive as private users, and ready to pay more for sustainable quality of the service and its delivery, before launching the internalization process, Finnish company has to find out whether it is possible to adjust the price to the competitive level that Russian customers are ready to pay for. Many Finnish firms had to leave the market due to the fact that they were not able to adapt their pricing. Case Company E has been also experiencing this problem: it has been difficult to lower the price for their services as the engineers were employed in Finland and were much more expensive than the Russian alternative firms.

*I think that Russian customers want quality and they are quite price sensitive so they know what the price should be and every if it's too high they will not even talk with you” - Company A, - “So, you have to understand what the price level is and adjust your offerings.”*

*“Of course our potential clients know the price level very well and it cannot be manipulated a lot. So, in my opinion, it has to be a combination of service that they need and the reasonable price level because they can always find a cheaper provider if your price is too high” - Company B.*

*“... Services needed to be adjusted locally” - Company D.*

Marketing adaptation for Russian customers should be taken into consideration for Finnish service SMEs, as due to their resource constraints it is very important to correctly and efficiently focus their marketing and sales efforts. The adjustment of the marketing processes should be done according to how Russian people want and used to getting information. Company should go through all the 4Ps of marketing mix (Price, Place, Product, Promotion) and adopt them to the conditions of the Russian market. One of the examples: emails as a marketing channel are not efficient at all in Russia, while in some countries it is one of the channels companies reach their potential customers.

Another important point is that Finnish service SMEs have to take into consideration is the educational level of Russian people in the technology Finnish firm provides. If the awareness of the topic is not good enough, first Russians need to be educated. One of the good examples was shared by one of the experts:

*"We had one customer that offered professional education for adults and professionals. They organized educational sessions in Russia for Western-based companies but the participants were Russians. The topic was related to energy efficiency in buildings. Finland is more developed in this area than Russia. Thus, for Russians you have to explain this topic from scratch. There must be deeper description of the processes and why energy efficiency should be used. So they had to understand what Russians already know and give them the value they needed" - Expert F.*

Russian customers in B2B sector have their expectations how certain service should be and how it should be delivered. They often want some processes to be done in their way and they may not accept the ways foreign providers are suggesting.

*"You usually do not happen to come to the market where there is no competition, there is players who have already created system there, so the customers expect to get something and you have to understand this" - Expert H.*

*"Russian customers always want to adjust the service according to their national and their specifics" - Company C, - "One of the example is one project in St. Petersburg: from the beginning they were trying to enforce their specificity, they wanted to change well-formed Finnish processes for the system of St. Petersburg".*

It is not only about the mentality but also legislation and regulation in Russia that often requires Finnish service companies to adapt the service is the legislation and regulation in Russia.

*"One client provided IT software for energy measurements of houses. They heard from somewhere that in Russia new legislation that each house needs to have an energy certificate came into force. Local legislation played a huge role: it changed the way the process has to be executed and then every house needed to have a certificate. Because Russian people are used to do this procedure manually and slowly, it is logical that there is a potential for this company. But what happened is: there was an interest in Russia and Russian service providers were really interested in using the program. But*

*it turned out that if you do not have a certificate, the fine is so small that people just pay it and they did not do this energy inspection” - Expert H.*

Company C is currently seeing the necessity in opening the local office due to the requirement of all the companies in the industry to proceed with a services and products to be registered and other legal aspects. Moreover, in certain industries it can happen that Russian-made products and services are preferred. So that Finnish companies are not able to sell anything to the Russian companies. As an example: in a public tendering process where public money are involved, they demand to be have a certain percentage of an ownership by Russians to be able to take part in this tender. Company D had to adjust their service by integrating Russian payment providers into their system as Russian consumers are used to pay in different ways than users in Finland.

It is not even under the discussion that the service has to be delivered in Russian. If there is a competitor that offers the same service in Russian, foreign company will unlikely to get a deal.

*“Translation to Russian is a must as well” - Expert H.*

*“Price sensitivity is related more even to the service sector because services are typically locally-produced” - Company B.*

*“When you provide services, Russian customers probably demand that they are in Russian” - Expert F.*

*“Our expenses are much higher and Russian customers can find same services produced in Russia with much cheaper price. Our cost level is too high” - Company E.*

To eliminate this challenge, Finnish SMEs should do market research before market penetration in order to understand how the service needs to be adjusted (e.g., if there certain legislations that regulate the players in the industry, price level is sufficient or if the behaviour of the Russian potential customers differ in certain ways). Secondly, based on the results of the research, the sufficient entry mode can help to eliminate certain challenges connected to localization: local partner can help with bringing in language proficiency, knowledge about how the service needs to be localized, he also can help with promotion of the service and the company and much more. However, it will not give a Finnish company a 100% control of the business operations and the process of choosing a right partner can be tricky. On the other hand, by settling the local office Finnish company will remain the total control of the business as well as hiring local employees will lower the price level as a result of savings on labour costs and local production of service; it will also bring the localization of the business processes of the Russian branch.

#### 4.2.6. Difficult economic situation and weak ruble

Since the crisis hit Russia in the end of 2014 and repelled foreign investments due to the sanctions set by European countries and USA against Russia, its economic recovery continues nowadays. The decrease in purchasing power was significant during the past four years; however Russian economy returned to the growth stage in 2017 after a long period of recession. Russia's growth is expected to be modest during 2018 - 2020, between 1.5 and 1.8 % (World Bank Group, 2018). However, short-term forecasts vary due to the uncertainty associated with oil prices that affect country's revenues from oil. Moreover, deceleration of recovery and negative effect on investment to the economy may occur due to the risk that major economies will accelerate trade tensions and restrictions. Such an uncertainty in political and economic situation as well as weak Russian Ruble were referred as two main challenges of the Russian market for Finnish service SMEs. For these reasons Russia often is not in the list of the attractive markets for many Finnish companies.

*"It is not so popular nowadays to go to the Russian market due to the current political and economic situation. Rubble is now weak and Finns understand that their services can be quite expensive" - Expert H, "If the purchasing power in the country is not so good then it's not the first market they put their efforts to."*

*"Currency (weak ruble rate) is the biggest problem of the market" - Expert F.*

*"Mostly the exchange rate of the Russian ruble, not a political situation, is a challenge for us as we have to buy materials from abroad and sell in Rubles" - Company A.*

Because Russian ruble is weak, foreign services and goods become more expensive for Russian buyers and Russian providers become more affordable. As a result Russian market is seen by interviewees as a competitive market with low price level.

*"From Russian point of view they are quite expensive" - Company E.*

Moreover, price sensitivity is a more perceived as a challenge in the service sector because services are typically locally-produced. Therefore, the importance of the market research should be highlighted again in order for a company to understand whether or not it is able to compete with local players and price they set as well as with current instability of the exchange rate. Producing the services locally may help a Finnish company to set the price level closer to the average. However, opening an office is not required if the company can find consumers who are not as price sensitive and value quality more. Company D pointed out that while in product industry the price is one of the most important criterias, in the service sector quality and safety is one of the

keys things, and price is not the only thing customers are considering. Another good point is: if the service is unique Russia can be a very interesting market with high potential.

#### **4.2.7. Bureaucracy and corruption**

Complications with bureaucracy were not considered as global challenges of the Russian market by respondents even though all the case companies referred to the issues that appear due to the heavy bureaucracy level. The reason for that is possibility to accept/get used to the way how administrative procedures are done and follow it. While getting an actual deal in Russia is seen as much more complicated and challenging process. Moreover, corruption was not considered neither by case companies nor experts as a challenge of the market for small and medium service enterprises from Finland.

*“I do not perceive bureaucracy as a global problem” - Company C.*

Paperwork in Russia is quite heavy and many Finnish firms are getting surprise when they starting operating in Russia. World Bank and International Finance Corporation (IFC) calculated that it takes nine procedures in average and over 23 days to start a business in Russia.

*“When are myself faced the situation when I needed to open the office I was very surprised how heavy paperwork was” - Expert G, - “One of the examples is one document that needs to be signed before customer pays us. In this paper customer says that he is happy with our service. I think this is completely absurd.” - Expert G.*

*“Finnish companies get disappointed about the level of bureaucracy. They are surprised how much paperwork they have to do, how many documents they have to write, and each of them needs to have a stamp, how many papers and permissions need to be done” - Expert H.*

*“Bureaucracy level is higher in Russia” -Expert I.*

Interviewees agreed that there is a lot of room for improvements of the processes that nowadays burden companies with the huge amount of paperwork. They said that Russia has been very slow in adopting changes in the bureaucratic processes, concentrating mostly on small and unnecessary improvements whereas Russia should concentrate on bigger issues regarding accounting systems and regulations. Every case company had to deal with heavy paperwork or other bureaucratic procedures. While in Finland most of the processes are done electronically and all the instructions are clear, in Russia the system is so complicated that often even the governmental representatives get confused and in the most cases the processes are executed in person; modern technology is now being utilized but still quite poorly. Company A gave an example of registering a subsidiary in Russia and how difficult and confusing this process was:

*“For registering subsidiary I had to be present at the registry office as a director of the company. It was me, director of the local office, lawyer and an official translator (it was required). The translator had to read me the papers in Finnish, so I understand the meaning. We started the process of translating and signing papers and then the lady said that we had a problem: she was not sure should the signature be in the left or in the right corner. I had to wait for 1 hour to make it solved. Then they asked me to write my name in Russian but I could not and I asked if somebody else could write it for me. It took 1.5 hour to answer this question. All in all, the whole process took almost 4 hours”*  
- Company A.

On the other hand, Company B said that registration of the subsidiary is not a big deal for the foreign companies anymore.

*“Difficulties with administrative factors in opening an office in Russia are not problems anymore. They go very smoothly and almost never this part is the big problem. Neither opening an office nor getting working permits, even though sometimes they can be very unnecessary difficult and bureaucratic, are problems”* - Company B, - *“These processes are very straightforward and can be dialed with”*

Another interesting point that was raised by respondents is that in Russia every company is required to have a stamp. In Finland there are no regulations on this topic. Interviewees suggested for Finnish companies to just buy one in order to fit to the requirements.

*“Another thing I faced there was when the lady asked me if I brought the stamp with me. I did not know that I needed one because we do not have that in Finland. So I had to call to the stamp manufacturer and order one”* - Company A.

*“It (system) is quite far away from what we have in Finland, without any reason to have a stamp with certain words which for us sounds ridiculous”* - Company B.

*“In every International setup you have two choices: either to educate them that in Finland we do not need stamps, but they don't want to be educated. Another version is to play the game: go and buy a stamp from the shop”* - Expert G.

Company E claimed that in their experience, they have not faced any problems in term of content of the work; however, misunderstandings in administrative processes have been rising constantly.

*“We see that when we are sending invoices, we never have problems with content of the work. The problem with invoice is that we do not have some stamps or administrative papers. The bureaucracy is terrible there, because it has nothing to do with the project (e.g. stamp should be round shape and so on). They are more bureaucratic in Russia than in Finland”* - Company E.

Moreover, if dealing with governmental companies, there is much higher level of bureaucracy than in the private sector as everything has to be declared in written form with several signatures from different departures.

*“If you provide service to state owned companies/authorities it has high level of bureaucracy. Within private sector – easier” - Expert F.*

Dealing with the Russian customs is always a pain for Finnish companies that have anything to do with physical details/products/goods. There are service companies that might have physical goods involved, who have to take into consideration the work with the Russian customs. First, regulations and laws are constantly changing, so it is impossible for the SME to keep track on them all the time. Second, the amount of different documentation that needs to be done is huge, so this takes a lot of time and resources. Third, there is a possibility to hire a broker but volumes of SMEs are often less than they have to but for broker’s services.

*“One of the biggest challenge came in the face of Russian customs who basically said that even if we had one small part that needs to be sent to Finland for servicing and then sent back to Russia we needed 14 documents on the way to Finland and 18 documents on the way back to Russia. Dealing with customs efficiently was not possible for the small company as us by ourselves. We had a choice of hiring Russian customs brokers but they have a minimum fee of \$1,000 and they are not willing to do anything for less than this” - Expert G.*

*“Customs are quite hard to deal as well if you have a physical product to move. And customer regulations also change quite often” - Expert H.*

Because Company A had to move parts from Russia to Finland and back in order to serve customers, opening a local office helped to overcome the challenge of dealing with Russian customs.

Overall, the only recommendation that experts give when dealing with bureaucracy in Russia is to be open-minded and be ready to deal with this problems as Finnish SMEs cannot affect this issue anyhow, and improvements will come with time.

*“You have to be prepared for dealing with that and spending a lot of time and resources for such procedures if you want to do business in Russia” - Expert F.*

*“This is something you have to get used to it and organize it. When you have done all the documentation once, then it's done and you do not need to do it again” - Expert H.*

*“I think that soon it will change and I prefer to think positively, that many issues will be much easier to deal with but for some reason it goes quite slowly” - Company B.*

Concerning the corruption, respondents said that they have not faced these problems, even though they know that corruption is present in Russia. Finnish companies decide to not get involved in that.

*“We made a decision if we meet corruption issues, we don't go to that. In Finland we follow the legislation and we wanted to do the same in Russia. I think that if you do it once you will lose the control over it and over financial figures. And that is something that we are not comfortable with” - Company A.*



*"I have been faced with such issues surprisingly rarely: just a couple of cases for these 10-20 years of operations. I do not think that general statistics lie about these issues, it is a huge problem there and there are huge amounts of money changing hands in different ways. In today's business that we are doing we are dealing mostly with the foreign companies and neither we nor they want to deal with corruption. We want to work according to the book, we do not go to the any gray zones" - Company B, - "In most of the cases with Finish companies I think they just don't participate in such situations."*

*"Finnish companies will face it (corruption) but, in my opinion, they should not go for it. You will not have a lot of business but you will not have troubles as well" - Expert G.*

On the other hand, there can be situations where Finnish company can be forced to the situation involving bribery.

*"If you establish your office in Russia and some official party demands some money from you, I think you do not have so much choice if you want to operate there. If you're forced to this situation you don't have a choice. That is one of the reasons why Finnish companies do not want to establish an office in Russia as they might have to deal with the corruption with authorities" - Expert H.*

For these reasons Finnish companies often try to find a Russian person who will deal with such situations and a partner.

*"Often Finnish companies try to find the Russian person who will handle these situations." - Expert H, - I think it's safer to start to operate with the partner who can take care of all these things and you do not have to get involved and even know about that.*

Knowledge that corruption is present in Russia may help a lot to the Finnish companies: before dealing with a certain firm, it is recommended to make a pre-check of the background of this firm in order to identify if there can be any potential problems. Furthermore, finding a local representative or a partner who is able to take care of the situations that may include corruption issues can be a good idea to deal with this challenge.

## **Discussion**

The theoretical framework of this study consists of the main SME internationalization theories and models (stage model, network model, early internationalization theories, and international new ventures) and entry modes that are normally used by SMEs when going international. Initially, the author wanted to study entry mode selection and how it helps Finnish service SMEs to overcome challenges they face when penetrating Russian market. However, by studying the above mentioned theories, preparing interview questions and

conducting first interview, author realized that entry modes could not be examined and analyzed separately; also, there was a blurry zone whether certain challenges can be overcome by choosing certain entry mode or by having right contacts in the market or manager's previous experience, for example. Internalization is a dynamic process that consists of interconnected components influencing each other, that is why they are difficult to study separately. For these reasons, research questions have been adjusted and author decided to focus on experiences of Finnish service SMEs in the Russian market, how and why they decided to start business in Russia, which path each of them undertook, what challenges they were facing on the way and how they were dealing with them.

The chapter of Results and Findings addresses in detail the results of the nine interviews (five Finnish service companies and four experts) by grouping interview answers together in subgroups and providing citations of the respondents in the topic. The results have highlighted the most important stages of internalization process and their specifics for the Russian market as well as gave new perspective to the challenges that foreign SMEs should consider when entering and doing business in Russia.

Two out of five case companies initiated penetration to the Russian market within three years from company's foundation mainly due to the reason that decision makers had previous experience with the Russian market; for three companies it took 20 years or more to start business activities in Russia; however, international activities of these firms started within 10 years from establishment. It was found that Russia has not been a country of first choice for four out of five case-companies: before penetrating Russian market these firms first developed their businesses in European countries (Sweden, Germany, Estonia, etc.) as these markets are easier to internationalize in terms on legislation, customs, language and culture distance. Most of the experts also claimed that Finnish service companies tend to try German and Swedish markets first, while there should be a strong reason for Russia to be the market of first choice. When Finnish service firms finally decide to target Russian market, the most common motivational factors (according to case companies and experts) are: market potential and its geographical closeness, following existing customers or suppliers and relevant background/previous experience of the management with Russian market and/or culture. This confirms findings of Coviello & Martin (1999) and Sharma (1988), who claimed that internal characteristics and firm resources are more influential than external stimuli as a driver for internalization (both, decisions in initial and subsequent stages); client requirements/followership being the most consistent external stimuli. Experts have highlighted that in their experience foreign market selection and entry initiatives often come from opportunities created through formal and informal networks; it is also proven by two case companies for which networks played a vital role in the process of internalization. To say more, existing and newly gained business networks not only influenced internalization processes of service SMEs but also facilitated firms' international growth; findings also show that often networks become enablers of internalization. This finding is

highly supported by earlier studies of Bell (1995) and Coviello & Munro (1995, 1997). Another strong driver for internalization that came out of this research is knowledge, background and previous experience of managers and employees (in accordance with Bell (1995), McDougall, Shane and Oviatt (1994) findings).

Globalization, small domestic market size, shortened product life cycle and high costs for start-ups force companies to go international soon after their establishment to be able to survive in such competitive environments (Oviatt and McDougall, 1999). Therefore, stage model of internalization may go against company's will to grow and be competitive as in a rapidly changing environment, time is critical and many opportunities can get lost if firm develops step by step. SMEs usually do not have such a luxury as extra resources to internationalize or unlimited time for resources acquirement, so such companies are not able to follow gradual process of internalization as stage models propose. For this reason, for many modern SMEs Uppsala model may be time-delayed and bring no desirable outcome for survival and growth (Ratten, Dana, Han, & Welp, 2007). To overcome resource constraints and specifications of the target market, case companies were not following only one model of internalization but were combining/integrating several models. While incremental learning process (starting international activities in Nordics or Germany) was noticed in international activities of three firms, the usage of existing contacts and active expansion of existing networks were observed in all the companies also due to the fact that Russian culture is characterized as collective. This supports statements of Sharma and Johanson (1987), Johanson and Mattsson (1998), and Johanson and Vahlne (1992) about formal and informal networks having major influence on internalization process: for instance, market selection of case company A was driven by an opportunity that emerged out of a network relationship. Moreover, to overcome psychic distance, SMEs leverage network relationships, and/or recruiting employees that have background in the distant market rather than following the incremental learning process described in stage model. It has also been found that when management has relevant background/market knowledge/previous experience with the target market, it is unlikely that companies with such decision makers will follow stage model of internalization; instead market selection will be influenced by their experience and existing networks. This is supported by the study of Fontes & Coombs, 1997 who analyzed internationalization process of Portuguese young IT firms. Moreover, two companies went international almost straight after their establishment: that, according to theoretical framework, characterizes them as international new ventures whose existing networks were one of the enablers for market penetration (same patterns found by e.g. Coviello & Munro, 1995). An interesting fact is that these firms are less than 10 years old and have been established in global business environment; one company belongs to technology-intensive industry another firm is operating in highly consumer-oriented service industry.

No matter how internationally active and which path each of the case companies undertakes, the importance of the market research (especially for the

service firms) was highlighted as most of the interviews raised this conversation by themselves. Because market potential and current situation in service sectors may often be more complex to evaluate than for product industries, market research has been pointed one of the most important processes in market selection and preparations for international expansion. Not only Russia has very different ways of doing business, Russian market has been quite unstable for the past five years. Conducting market research prior the market penetration can save to SMEs so valuable resources: time and money. Market survey will uncover all the necessary information about the “rules of the game”, challenges and opportunities before the main investments are made, especially when service sector is trickier than manufacturing sector: competitive landscape might be evaluated improperly due to the sector’s specifics. So, important facts and circumstances that may affect the process of internalization will be exposed and SME will have a change to better allocate its limited resources. “As the world marketplace is becoming increasingly more global, firms need to invest in learning about their foreign markets” (Zahra et al., 2001). There are several ways to conduct a market research: hiring a consultant, doing it internally or hiring a project worker (e.g. student). Another possible way of conducting a market survey that was suggested by three respondents is travelling to Russia for several days and talk to the right people there. Every option possesses its pros and cons; therefore, every company should find the most suitable way considering the aspects of time, costs, and internalization intensions as results may vary.

When it comes to internationalizing to Russia, the help of outside experts might be needed not only for conducting market research but also for other purposes. Thus, three of five case companies used legal and accounting services to ensure that the official, administrative and legal matters are solved successfully. Moreover, four studied firms referred to the consulting organizations for finding right contacts in the market and dealing with language barrier. However, it has been pointed out that translators can often be very unofficial and slow when dealing with Russian customers or partners.

As for financing the internalization activities, Finnish service SMEs prefer to use their own funds (four out of five case companies) and/or apply for subsidies offered by the governmental organizations (three out of five case firms).

After the market research is completed and the necessary funds for starting the process of market penetration are found, it is the time to decide on the entry mode. Unlike manufacturing SMEs that tend to internationalize to Russia by exporting their products, service SMEs start partnership collaborations or open subsidiaries if they have serious intentions for the market. Therefore, two case companies opened local offices through joint venture straightaway or soon after the market penetration, one case company opened a subsidiary in Russia by acquiring a local company, one company started with project travelling but planning to open a subsidiary in the near future. The reasons to open subsidiaries were mainly localizing business, and being close to the customer (as a result serving clients more efficiently). The

results of this study support observations of Dunning (1989) and Erramilli & Rao (1993) that service firms characterized by high degree of consumer and/or producer interaction will prefer a “fully integrated mode of international operation” (e.g. setting a subsidiary, mergers & acquisitions). Cutting expenses was not mentioned as one of the main reasons for opening a subsidiary, while for the manufacturing companies costs play the vital role in making this decision. At the same time, experts claimed that due to the current economic situation not many service SMEs are willing to invest to opening local offices but project travels and partnerships with local person/company are the most common in service sector. According to experts, partnering with local party brings a lot of benefits and helps to overcome many challenges that Russian market brings. The findings of this study about preferred entry modes contradicts the results of Halbrich and Perry (1986) that exporting is considered the most suitable for services.

There are a lot of challenges that Finnish service SMEs face when entering and doing business in Russia. Among the hardest challenges, according to the interviewees, are: cultural differences, specifically building relationships with Russian colleagues, high level of hierarchy and language barrier; language barrier; challenge associated with certain entry modes - control issue for opening a subsidiary, finding reliable partners for partnerships; localization of the business and services; and unstable economic situation. Surprisingly, respondents have not indicated bureaucracy and corruption as hardest challenges as many official sources did (e.g. EPRS, VCIOM, Federal State Statistics Service, World Bank). Moreover, most of the sources that highlight mainly uncertain political and economic situations, weak rouble, corruption, poverty as challenges of Russian market (Barometer, 2018 & 2019). No doubt, current economic situation is unstable and risky, so it plays major role in market selection for many companies. However, microeconomic challenges associated with starting and maintaining business should not be ignored and firms have to be aware of them before initiating market penetration. This study has revealed several challenges of Russian market; some of them have not yet been noted by other authors. Before actively starting doing business in Russia, foreign SMEs should bear in mind strong differences in hierarchy structure, specifics in approaching customers and decision makers, necessity to build relationships with Russian side, length of business cycle, quality and quantity of bureaucratic procedures, specifics of controlling local branch and personnel, and finding suitable local partners. Interestingly, corruption has not been pointed out by any of the interviewees. The ways how to deal with the challenges that Russian market and culture possesses, are described in the subchapter “Managerial Contributions”.

## 5 CONCLUSION

To get an understanding on how Finnish small- and medium-sized enterprises providing professional services internationalize to the Russian market two subquestions have been answered.

### **I. Why service SMEs chose to target Russian market and how they tend to approach market penetration?**

As opposed to manufacturing companies who are driven by economies of scale and cost reduction, the most common motivational factors for Finnish service SMEs to target Russian market are:

- Following existing customers or suppliers;
- Desire to be close to the customers to serve them faster;
- Market potential and its geographical closeness;
- Relevant background/previous experience of the management with Russian market and/or culture.

Due to the nature of services, internal characteristics and resources have been found to play a greater role than external stimuli.

It has been found that not only Finnish service SMEs rather incorporate patterns of more than one models of internalization to fit their needs/goals and available resources, also their strategies are diversified due to the different types and nature of services they offer. First, it was found that Finnish service SMEs tend to choose Russian market as a target market for internalization while already being present in Germany and/or Sweden (these markets are the less psychic distant for Finnish firms). Its location and market size attracted all of the companies. This corresponds with the stage model of internalization and psychic distance. Second, for all the case firms networks appeared to be either facilitators or enablers for internalization, in certain cases ruled the strategic decisions and played an enormous role when doing business in Russia. This proves strong visibility of Network theory of internalization. Third, two out of five SMEs initiated Russian market penetration in less than five years from their foundation, which characterizes them as highly entrepreneurial international new ventures. Furthermore, the role of decision-maker's background, experience and knowledge has been highlighted in this study: founders/directors of these two internationally active from establishment service firms had broad international experience with existing networks, including one in Russia. Awareness of the market, ways of doing business and existing contacts facilitated choice of the target market as well as rapid growth in the market.

These findings indicate that traditional view of internalization using a single theoretical framework is not able to describe modern companies' decisions inside international activities. Therefore, new, hybrid models, that

examine internalization process as a combination (integration) of several existing theories, should be built.

Despite the uncertainty and difficult political situation at the time when case companies were initializing Russian market penetration, opening local subsidiary (either through joint venture or acquisition) turned out to be the goal of the service SMEs that had serious intentions for this. Setting up a local entity was the first choice for market penetration for two companies, one firm opened a subsidiary after unsuccessful exporting through sales representative, and one company seeks to establish subsidiary in a near future. Being able to serve customers quicker, localization of a business, brand and service offering, overcoming certain challenges that market is carrying, were pointed out as crucial reasons for opening local office in Russia. It is important to highlight that in some cases having a subsidiary in Russia can be necessary (for some sectors/industries, it is impossible to do business in Russia as a foreign entity).

If service SME is able to serve Russian customers from abroad, but is not fully confident about market potential, does not have enough knowledge about the specifics of the market, is not yet ready or able to invest in setting up a sole venture, exports, partnerships and project travels are considered the most favorable entry modes in the beginning.

The most frequent types of services that Finnish SMEs use for support in Russian market penetration are:

- Consultants (for market research, negotiations, finding potential partners and customers (opening doors), administrative and legal support, translation of materials);
- Employee with native language skills, background and knowledge (for market research, contacting potential partners and customers (opening doors), sales, business development);
- Trainings provided by side companies and organizations.

Translators were mentioned to often be inefficient and time-consuming due to their lack of knowledge of a business and technology; for this reason, wrong interpretations and misunderstanding between parties are likely to take place.

Four out of five case companies used primarily own funds as a source of financing for the process of internalization. Unlike manufacturing companies, services usually do not require heavy investments for opening local office or exporting due to the fact that the main assets of service providers concentrate in human capital (so, switching costs are much lower); also, usually SMEs do not have big scale of operations. Finland offers great support for SMEs doing business internationally, so there are several governmental financial programs that SMEs can take advantage of.

## **II: What are the main challenges of the Russian market Finnish SME's providing professional services face when entering and doing business in Russia?**

This research has identified numerous challenges inherent to the Russian market and due to the fact that SMEs have limited resources, they do not have such a luxury as "second chance". For this reasons, such companies should be aware of the challenging they are more likely to face when starting doing business in Russia.

Among the strongest cultural differences complex hierarchy, building relationships/networks with Russians and language barrier have been indicated. Russian culture has been identified as collective, with high uncertainty avoidance; therefore, importance of business and personal contacts cannot be undervalued. Business in Russia is tied up to personal relationships: they not only help to succeed with business but also help solving problems, extend contact base, open doors and much more. Building trustworthy relationships takes time in Russian culture, and while building personal relationships, to not get into trouble foreigners should remember: in one hand, Russians have more careful approach in business and tend to not trust strangers, so cheating may take place; in the other hand, Russian people might use "overtrust" of Finnish people for their own benefits. Hierarchy is complex in Russia and while it is very challenging to get in contact with decision-makers (they are the ones who should be aimed to get in touch with), they might not speak or willing to speak languages other than Russian. In case the contact of decision maker is not found, the business lifecycle will extend even more as employees usually do not have power to make decisions by themselves. There are several recommendations for Finnish companies on how to overcome these cultural challenges, and they can be found in subchapter "Managerial contributions".

Apart from cultural challenges, there are challenges associated with certain entry mode: controlling local personnel and finding reliable partners. If Finnish SME opens a subsidiary in Russia and hires local employees, it is important to bear in mind that monitoring and controlling them constantly is necessary as lack of control will be seen as weakness and disinterest. Most of the case firms found it quite challenging to find reliable partners who share the same interests, act responsibly and not cheat.

Another challenge that Russian market and service sector possesses is necessity for localization of business operations and offerings. Apart from obvious language localization, service offering (both price and available services) and marketing activities (same principles as in Finland will definitely not work) have to be adjusted. Moreover, educational level and topic awareness of potential customers as well as existing legislations have to be taken into consideration.

Uncertain economic and political situations are challenges that cannot be ignored. Due to the fact that Russian ruble is weak, foreign services and goods



become more expensive for Russian buyers and Russian providers become more affordable: so, Russian market is seen competitive market with low price level. Besides, with all the sanctions against Russia that EU countries and USA has been setting, regardless opportunities this market can provide, Russia has not been as attractive with foreign SME as before. Moreover, reinforcing import substitution program, Russian government has set more barriers to entry for foreign players in many industries. Therefore, companies that already have operations in Russia are leaving the market or stick to “temporizing” strategy and many other firms refrain from entering this market.

Bureaucracy and corruption that are mentioned in most of the resources as the main challenge of Russian market, have not been confirmed in this study. Even though bureaucracy is heavier in Russia than in Finland, respondents claimed that, in comparison to other challenges, it is something that foreigners should accept as characteristic of this market; besides, it is believed that this issue is improving year by year. As for corruption, none of the case companies has faced this issue; however, they are aware that corruption is present and they stick to their principles of avoiding and not step in the situations involving corruption.

## **5.1. Managerial contributions**

Findings of this Master’s thesis hold implications for, and raise intriguing questions about the ways in which European SMEs will manage internationalization to Russia in the future. The results suggest that SMEs need to be aware that the internationalization process is a dynamic process that includes a lot of learning. Hence, when planning to enter Russian market, SMEs should conduct market research and build networks though developing contacts with business partners that are considered one of the most important assets when doing business in Russia. Market research will help to:

- understand if target market is “ready” for the service SME is offering and prices it is setting,
- whether target market has favorable conditions for internalization and how the industry is structured,
- make sure that there is no blockers (e.g. legal) that can prevent the internalization,
- uncover specifics of the industry and to allocate SME’s limited resources correctly,
- determine the most suitable entry mode and penetration strategy, etc.

The market research can be done by (1) professional (consultant), (2) SME itself, (3) project worker (e.g. student). This decision should be made based on company's available resources, intentions towards the market, desirable outcome.

In correspondence with Coviello and Munro (1997) this Master's thesis finds networks to be one of the most important enablers for the internationalization of Finnish service SMEs to Russian market, as four case companies had prior market relationships (one firm found a partner with an existing network base to initiate the internalization process to Russia). Therefore, managers should focus on systematically increasing the amount of external contacts as, according to the results of this study, it brings faster and more efficient learning about market and culture, opens up opportunities and may help with dealing with challenges the market possesses.

Finding and reaching potential customers in Russia were pointed out to be a very difficult process due to the fact that Russia has a top-down decision making culture where decisions need to be coordinated with upper-level managers and directors. Moreover, it can be extremely difficult to reach out to top management as contact information of decision makers is not in open access; their assistants are meant to be the first contact who "filter" incoming offers. To make first contact to potential customers as well as doing sales in the market, Finnish service SMEs should aim high and always try to get in contact with decision makers; contacting the company through general number or email are unlikely to bring results. It was suggested to go to exhibition only as part of a market research, but not for finding potential customers - usually decision makers are not present there and companies are focused to sell their own products/services. Most of the interviewees advised to approach special Finnish organizations that can facilitate the process of getting right contacts (e.g. Finnish-Russian Chamber of Commerce or Finnpro). When contacting potential Russian companies, especially distantly, language proficiency is crucial (Russian decision makers, especially in a big traditional corporations are unlikely to speak English), so if the firm does not have a person who is able to communicate in Russian, it is advised to find one. Preparing materials about the company and its services in Russian for the meeting as well as translating the website into Russian language will be very beneficial.

After first contact is made successfully, foreign firms often get confused that dealing with Russian people is very different than in their home country. When dealing with Russian partners/clients, it is important to remember that Russians have more careful approach in business than in many other countries, including Finland. Russian people would rather do business with people they know and trust. It happens often than strangers can get cheated, so, managers should be suspicious and careful especially in the beginning of relationship building and check all the papers and agreements; oral agreements might be mistreated. To win over Russians, to reach informal connection and make them trust you, it was suggested by the interviewees to:

- Prepare and show references (especially from projects Russia),
- Send more than one person, including one with “higher” position, to the meeting,
- Invite Russians to Finnish facilities, show how the company is operating and talk to main people of the firm,
- Be ready to receive detailed questions and answer them straight away,
- Be ready to adjust the service to the target market.

It is important to remember that it takes time for Finnish companies to build trust with Russian people and start doing mutually beneficial business with them. As soon as you have reached good relationships, the business side will proceed as well. However, interviewees pointed out that decision making process is at least twice longer than in Finland and Finnish firms should save some patience.

As official and legal matters in Russia can be quite heavy, it is recommended to get legal and accounting services, especially if there is a plan to open a subsidiary. However, if Finnish SME plans to do business in Russia through exports and project works, having a trustworthy person who will check administrative queries can be beneficial, unless there are partners that can help with these matters. Using a translator can be doubtful, as they may not know about specifics of the business, so misunderstandings and misinterpretations may take place.

When choosing subsidiary as an entry mode, Finnish managers should keep in mind that the understanding of “control” by Russian and Finns is different. Local personnel have to be checked and controlled frequently (in person and by modern communication channels) especially in the beginning due to the following reasons as Russians see the lack of control as lack of care, so they might lose the interest to do the best for the company as well as Russian managers may be overuse their authority and power.

Partnerships were announced to be one of the most suitable entry modes for service SMEs as getting an experienced partner who will share company’s interests may solve many challenges starting from cultural and language differences to localizing both, service and business activities, from dealing with red tape to opening up opportunities in the market through their existing knowledge and connections. As networks were pointed out to be one of the main enablers for internalization and doing business in Russia, right partnership can help SME to achieve results in this market faster and more effectively. However, finding a suitable partner who will share the same interests, have same level of commitment and not have mercenary interests usually becomes a challenge. Therefore, if Finnish SME decides to partner up with a local player, the responsibilities of both parties have to be agreed and clearly defined before doing business together. Another advice for not getting into trap of dependency on a partner is to find several partners and chose the best performing one.

Companies selling services, not products often face a bigger need for localization of the offerings and business processes than product firms when entering Russian market.

Due to the rapidly changing economic situation inside and around Russia, triggered by the crisis five years ago, Finnish SMEs should make sure that there are no “dead-end” barriers (impossible conditions to enter the market by foreign entities e.g. due to the certain laws and regulations, or monopoly in the industry) that are currently being reinforced as Russia aims to achieve “import substitution”. In case Finnish SME decides to enter the market, it is recommended to be patient as the payoff of such a market penetration will most probably be a long-term investment. However, the interviewees of this study have positive expectations about how the market will change in the near future and they see growth and advancements (e.g. in digitalization) in many industries and procedures and they believe that this difficult conditions will not remain forever and nowadays it is very important to be in the market to be ready when the market booms.

## **5.2. Critical examination of the study and future research suggestions**

As with the majority of studies, the design of the current study is subject to limitations. First, even though the researcher was able to deeper and in more detail analyze the stories and answers of the case companies, this study is lacking the interviewed material as only 9 interviews were conducted, among those only 5 of them were the service SMEs internationalizing to Russia. It was a challenge to find SMEs that are doing business in Russia in a good scale (several potential interviewees refused to participate because they did not have enough experience in the Russian market or failed with international activities there). Obviously, broader amount of interviews and stories of case firms would have given more information to be able to make generalizations on the topic and give more practical outcome reinforced by real examples. Second, case firms were from different service sectors and industries, therefore it is difficult to generalize the internalization process of the Finnish service SMEs. So, each case is unique and all the Finnish SMEs do not face the same challenges ((e.g. for high-tech industries language barrier can be mild in comparison to traditional industries) or succeed with the same recommendations. However, based on the stories described regarding internalization process, motivational factors, difficulties, entry mode selection, doing business in Russia, etc., lessons can be learnt and practices can be applied in the future attempts to penetrate and succeed in the Russian market. Third, due to the fact that author used semi-structured interviews and most of the questions required an “open” answer, next limitation is objectivity. Interviewees were giving their personal opinions so they might pointed out the facts (e.g. challenges) that are important to them

but not necessarily applicable for every SME. Fourth, the interviewer has Russians nationality and even though interviewees were asked to answer honestly, especially about the cultural differences, the answers might be not “full”.

Eriksson & Kovalainen (2008) claims that basic (classic) framework for the evaluation of qualitative studies is built upon three main evaluation criteria – validity, reliability and generalizability. Validity might be tricky to assess as qualitative research is subjective by nature and includes interactions between humans. One measure of validity can be asking questions, e.g. “can I trust these findings?” or “are conclusions giving an accurate explanation of the situation?” Validity is a concept that aims to prove to readers and the researcher that descriptions and explanations are correct, so it is very important that findings should be certain and be based on evidence (Eriksson & Kovalainen, 2008). Two groups of interviewees helped to gain different perspectives on the internalization process. First, co-founders/CEOs or main decision makers for the process of internalization acted as representatives of the case companies. These people are the ones who not only know all the processes but also were the ones knowing at first hand why and how all the decisions were made. Second, consultants that have vast experience and insights from this field supported respondents’ points of view. Moreover, the researcher was using credible and reliable data that comes from official sources and databases. Topics selected for the discussion of the results were based on the theories presented in the theoretical background as well as recurring themes that were coming up frequently by the interviewees. Besides, topics that were initially intended to be studied were actually studied as author aimed to gain perspectives and experiences of real companies with internalization process to the Russian market.

Reliability makes sure that another researcher is able to replicate the study and find similar conclusions (Eriksson & Kovalainen, 2008). Because only nine case companies were studied, it is possible that other researchers might get slightly different results and descriptions; however, author of this study found several studies about internalization of European SMEs to Russia and many observations are similar with current study; furthermore, the same patterns are seen between the answers of case companies and experts. Therefore, if the same study is set, it is unlikely that it will bring exactly identical findings to the current research, but it is highly likely that similar results will be discovered.

For the future research, it would be curious to make a research using bigger number of case companies structured by service sectors and industries, so that intra-industry differences would be taken into consideration as well as analyzed how these differences could impact the internalization process of these firms. Moreover, future research could examine, in more detail, what models of internalization and entry modes certain services follow. Another point is that further studies can focus on the individuals influence and their networks in the process of internalization. Furthermore, it would be worth studying Scandinavian service SMEs as they have a lot of similarities with Finnish firms. Also, future research may build on the findings of this study by

finding how certain entry mode help to deal with the challenges inherent to the Russian market.

## REFERENCES

Abecassis Moedas, C., Ben Mahmoud-Jouini, S., Dell'Era, C., Manceau, D., & Verganti, R. (2012). Key Resources and Internationalization Modes of Creative Knowledge-Intensive Business Services: The Case of Design Consultancies. *Creativity and innovation management*, 21(3), 315-331.

Agarwal, S. (1992). Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internalization Factors. *Journal of International Business Studies*, 23(1), p. 1.

Akinyode, Babatunde & Khan, Tareef. (2018). Step by step approach for qualitative data analysis. *International Journal of Built Environment and Sustainability*.

Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and propositions. *Journal of International Business Studies*, 17(3), 1-26.

Andersen, O. (1993), "On the internationalization of the firm: a critical analysis", *Journal of International Business Studies*, Vol. 24 No. 2, pp. 209-31.

Andersen, O. (1997). Internationalization and Market Entry Mode: A Review of Theories and Conceptual Frameworks. *Management International Review*, 37, pp. 27-42.

Association of European Businesses (2017), THE AEB GUIDE TO INVESTING IN RUSSIA. Accessed on 2.05.2018 from [https://www.bruckconsult.com/n\\_files/userfiles/how-to-invest-in-russia\\_2017\\_web.pdf](https://www.bruckconsult.com/n_files/userfiles/how-to-invest-in-russia_2017_web.pdf)

Baltic RIM economies (2018), BRE Review. Accessed on 16.05.2019 from [https://www.utu.fi/sites/default/files/media/drupal/BRE\\_4\\_2018.pdf?utm\\_source=emaileri&utm\\_medium=email&utm\\_campaign=The+latest+BRE+review&utm\\_term=Baltic+Rim+Economies+4%2A2018&utm\\_content=u-2968376-65934801-1716272-8](https://www.utu.fi/sites/default/files/media/drupal/BRE_4_2018.pdf?utm_source=emaileri&utm_medium=email&utm_campaign=The+latest+BRE+review&utm_term=Baltic+Rim+Economies+4%2A2018&utm_content=u-2968376-65934801-1716272-8)

Barometer of Finnish Russian Chamber of Commerce, spring 2018. Accessed on 15.6.2018 from <https://www.svkk.ru/wp-content/uploads/sites/2/2018/05/>

Barometer of Finnish Russian Chamber of Commerce, spring 2019. Accessed on 16.05.2019 from <https://www.svkk.ru/wp-content/uploads/sites/2/2019/05/Barometri-kev%C3%A4t-2019-RUS.pdf>

- Baxter, P., & Jack, S. (2008). Qualitative Case Study Methodology: Study Design and Implementation for Novice Researchers. *The Qualitative Report*, 13(4), 544-556.
- Bell, J. (1995). The Internationalization of Small Computer Software Firms: A Further Challenge to "Stage" Theories, *European Journal of Marketing*, 29/8, 60-75
- Blomstermo, A. (2006). Choice of foreign market entry mode in service firms. *International Marketing Review*, 23(2), pp. 211-229.
- BREITMAYER, B. J. (1991). Triangulation, in qualitative research: issues of conceptual clarity and purpose. *Qualitative nursing research: A contemporary dialogue*, 226-239.
- Bryman, A. (1988) *Quantity and Quality in Social Research*, London: Unwin Hyman
- Business Finland, official website. Accessed on 10.08.2018 from <https://www.businessfinland.fi/en/>
- Calof, J. L. (1995). Adapting to foreign markets: Explaining internationalization. *International Business Review*, 4(2), pp. 115-131.
- Campbell, A.J., & Verbeke, A. (1994). The globalization of service multinationals, *Long Range Planning*, 27: 95-102.
- Chen, H., & Chen, T. J. (1998). Network linkages and location choice in foreign direct investment. *Journal of international business studies*, 29(3), 445-467.
- Coviello, N. E. (1999). Internationalization of Service SMEs: An Integrated Perspective from the Engineering Consulting Sector. *Journal of International Marketing*, 7(4), pp. 42-66.
- Coviello, N. E., & McAuley, A. (1999). Internationalisation and the smaller firm: a review of contemporary empirical research. *MIR: management international review*, 223-256.
- Coviello, N.E. and Munro, H.J. (1995). Crowning the entrepreneurial firm: Networking for international market development, *European Journal of Marketing*, 29/7, 49-61.



Covin, J. G., & Slevin, D. P. (1991). A conceptual model of entrepreneurship as firm behavior. *Entrepreneurship: Critical perspectives on business and management*, 3, 5-28.

County profile (report) - Russia. World trade organisation. Accessed on 11.04.2018 from [http://stat.wto.org/CountryProfiles/RU\\_e.htm](http://stat.wto.org/CountryProfiles/RU_e.htm).

Daszkiewicz, N., & Wach, K. (2012). *Internationalization of SMEs: Context, Models and Implementation*.

Denzin, N.K. and Lincoln, Y.S. (eds) (2000) *Handbook of Qualitative Research*, 2nd edition, Thousand Oaks, CA: Sage.

Dubini, P. and Aldrich, H. (1991). Personal and extended networks are central to the entrepreneurial process, *Journal of Business Venturing*, 6/5, 305-313.

Dunning, J. H. (1973), "The determinants of international production", *Oxford Economic Papers*, 25:289-335

Dunning, J. H. (1989), "Multinational Enterprises and the Growth of Services: Some Conceptual and Theoretical Issues," *Service Industries Journal*, 9 (1), 5-39

Eisenhardt, K. M., & Graebner, M. E. (2007). Theory building from cases: Opportunities and challenges. *The Academy of Management Journal*, 50(1), 25-32.

Ekeledo, I. (1998). Foreign market entry mode choice of service firms: A contingency perspective. *Journal of the Academy of Marketing Science*, 26(4), pp. 274-292.

Ekeledo, I. (2004). International market entry mode strategies of manufacturing firms and service firms. *International Marketing Review*, 21(1), pp. 68-101.

EPRS (2018). Seven economic challenges for Russia: breaking out of stagnation? Accessed on 23.09.2018 from [http://www.europarl.europa.eu/RegData/etudes/IDAN/2018/625138/EPRS\\_IDA\(2018\)625138\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/IDAN/2018/625138/EPRS_IDA(2018)625138_EN.pdf)

Eriksson & Kovalainen, (2008). *Qualitative Methods in Business Research*. London: SAGE Publications Inc.

Erramilli, M. Krishna. (1990). Entry Mode Choice in Service Industries?' *International Marketing Review* 7 (5): 50-62.

Erramilli, M. K., & Rao, C. P. (1993). Service firms' international entry-mode choice: A modified transaction-cost analysis approach. *The Journal of Marketing*, 19-38.

Federal Anticorruption Law of Russia. Accessed on 04.05.2018 from [http://www.consultant.ru/document/cons\\_doc\\_LAW\\_82959/](http://www.consultant.ru/document/cons_doc_LAW_82959/)

Fey, C., Shekshnia, S. (2008). The key commandments for doing business in Russia. INSEAD Business School Research Paper, (2008/16)

Gavrilenko, O. V. (2014). Russia between West and East: Organization, culture, managerial practices and social inequality. *Vestnik Moskovskogo Universiteta: Seria 18, 3*, pp. 56-70.

Gnevko, V., Shahina, N., & Kirsanov, S. (2016). Implications of the Russian Federation's Accession to the WTO. *Procedia engineering*, 165, 1039-1045.

Gustafsson, J. (2017). Single case studies vs. multiple case studies: A comparative study.

Grönroos, C. (1990), *Service Management and Marketing: Managing the Moments of Truth in Service Competition*, Lexington Books, Lexington, MA.

Grönroos, C. (1999). Internationalization strategies for services. *Journal of services marketing*, 13(4/5), 290-297.

Harris, S. and Wheeler, C. (2005). Entrepreneurs' relationships for internationalization: functions, origins and strategies, *International Business Review*, 14/2, 187-207.

Hisrich, R. D. (2012). *International Entrepreneurship: Starting, Developing, and Managing a Global Venture: Starting, Developing, and Managing a Global Venture*. Sage.

Hofstede, G. (1984). Cultural dimensions in management and planning. *Asia Pacific journal of management*, 1(2), 81-99.

Holmlund, M., & Kock, S. (1998). Relationships and the internationalisation of Finnish small and medium-sized companies. *International small business journal*, 16(4), 46-63.

Javalgi, R. G., Martin, C. L., & Todd, P. R. (2004). The export of e-services in the age of technology transformation: challenges and implications for international service providers. *Journal of Services Marketing*, 18(7), 560-573.

Johanson, J. and Mattsson, L-G. (1988) Internationalisation in Industrial Systems - A Network Approach. In N. Hood and J-E. Vahlne (eds.), *Strategies in Global Competition*, London: Croom Helm, 287-314.

Johanson, J. and Vahlne, J.-E. (1997), "The internationalization process of the firm - a model of knowledge development and increasing foreign market commitments", *Journal of International Business Studies*, Vol. 8 No. 1, pp. 23-32.

Johanson, J., & Vahlne, J. E. (2003). Business relationship learning and commitment in the internationalization process. *Journal of international entrepreneurship*, 1(1), 83-101.

Johanson, J. and Vahlne, J.-E- (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies*, 40(9), p. 1411.

Johanson, Jan & Vahlne, Jan-Erik. (2015). The Uppsala Internationalization Process Model Revisited: From Liability of Foreignness to Liability of Outsidership. 153-186. 10.1057/9781137508829\_7.

Kairo, I. (2018). Finnish Business continues considering Moscow as one of the most interesting markets in the world. Finnish-Russian Chamber of Commerce. 1.06.2018. Accessed on 15.6.2018 from <https://www.svkk.ru/novosti/moskva-intersna-dlja-finnov/>

Kant, I. (1998). *Critique of pure reason*. Cambridge university press.

Karhunen, P. (2013). Strategic responses of foreign subsidiaries to host country corruption. *Critical perspectives on international business*, 9(1/2), pp. 88-105.

Kotomina, O. (2015). Interregional exchange of knowledge-intensive business services in Russia. *Regional Research of Russia*, 5(4), pp. 323-331.

Kusluvan, S. (1998). A Review of theories of multinational enterprises. *Dokuz Eylül Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi*, 13(1).

L BERG, B. R. U. C. E. (2001). *Qualitative research methods for the social sciences*.

Laufs, K. (2014). Foreign market entry mode choice of small and medium-sized enterprises: A systematic review and future research agenda. *International Business Review*, 23(6), pp. 1109-1126.

- Ledeneva, A. (2001). *Unwritten rules*. London: Centre for European Reform.
- Lehtinen, U. and Penttinen, H. (1999), "Definition of the internationalization of the firm", in Lehtinen, U. and Seristoe, H. (Eds), *Perspectives on Internationalization*, Helsinki School of Economics and Business Administration, Helsinki, pp. 3-19.
- Leo, P. Y., & Philippe, J. E. A. N. (2001). Internationalisation of service activities in the Haute-Garonne. *Service Industries Journal*, 21(1), 63-80.
- Loane, S. and Bell, J. (2006). Rapid internationalisation among entrepreneurial firms in Australia, Canada, Ireland and New Zealand, *International Marketing Review*, 23/5, 467- 485.
- Lu, J. W., & Beamish, P. W. (2006). Partnering strategies and performance of SMEs' international joint ventures. *Journal of Business Venturing*, 21(4), 461-486.
- Lu, J. W., & Beamish, P. W. (2001). The internationalization and performance of SMEs. *Strategic management journal*, 22(6- 7), 565-586.
- Majkgård, A., & Sharma, D. D. (1998). Client-following and market-seeking strategies in the internationalization of service firms. *Journal of Business-to-Business Marketing*, 4(3), 1-41.
- Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis: An expanded source book* (2nd ed.). Thousand Oaks, CA: Sage.
- McDougall, P. P., Shane, S., & Oviatt, B. M. (1994). Explaining the formation of international new ventures: The limits of theories from international business research. *Journal of business venturing*, 9(6), 469-487.
- McDougall, P. P., & Oviatt, B. M. (1996). New venture internationalization, strategic change, and performance: A follow-up study. *Journal of business venturing*, 11(1), 23-40.
- Miesenbock, K. J. (1988). Small businesses and exporting: a literature review. *International Small Business Journal*, 6(2), 42-61.
- MK-Law (2018). Accreditation Of A Representative Office Or Branch In Russia. Accessed on 18.6.2018 from <http://mklaw.fi/news/accreditation-representative-office-branch-russia/>

Ojala, A. (2009). Internationalization of knowledge-intensive SMEs: The role of network relationships in the entry to a psychically distant market. *International business review*, 18(1), 50-59.

Oviatt, B.M. and McDougall, P.P. (1994). Toward a theory of international new ventures. *Journal of International Business Studies*, 25/1, 45-64.

Oviatt, B.M. and McDougall, P.P. (1999) 'A framework for understanding accelerated international entrepreneurship', in R.W. Wright (Ed.) *International Entrepreneurship: Globalization of Emerging Businesses*, Stamford, CN: JAI Press, pp.23-40.

Pla-Barber, J. (2010). Investment and Control Decisions in Foreign Markets: Evidence from Service Industries. *British Journal of Management*, 21(3), pp. 736-753.

Preece, S. B. (1999). Explaining the international intensity and global diversity of early-stage technology-based firms. *Journal of Business Venturing*, 14(3), pp. 259-281.

PWC (2013). The Russian evolution: how can foreign businesses prepare to prosper? Accessed on 10.04.2018 from <https://www.pwc.dk/da/skat/assets/marketmap-russia.pdf>

Radaev. Lectures in economic sociology: How deformation of formal rules appear?, HSE. Accessed on 24.04.2018 from <https://www.coursera.org/learn/ekonomicheskaya-sociologiya/lecture/Ud3DX/kak-proiskhodit-dieformalizatsiia-formal-nykh-pravil>

Ratten, V., Dana, L. P., Han, M., & Welpel, I. (2007). Internationalisation of SMEs: European comparative studies. *International journal of entrepreneurship and small business*, 4(3), 361-379.

Reuters (2018). Sanctions to limit room for Russia's rate cuts, economic growth. Accessed on 29.04.2018 from <https://www.reuters.com/article/us-russia-economy-poll/sanctions-to-limit-room-for-russias-rate-cuts-economic-growth-idUSKBN1HZ0JC>

Reynolds PD. 1997. New and small firms in expanding markets. *Small Business Economics*, 9(1): 79-84.

Ritchie, J., Lewis, J., Nicholls, C. M., & Ormston, R. (Eds.). (2013). *Qualitative research practice: A guide for social science students and researchers*. sage. Accessed on 11.06.2019 from: <http://202.91.10.51:8080/xmlui/bitstream/handle/123456789/3722/Qualitative%20Research%20Practice.pdf?sequence=1&isAllowed=y>

RNS Information agency (2018): Abizov: bureaucracy and corruption have entered the top 3 problems of small businesses. RNS, 15.2.2018. Accessed on 04.05.2018 from <https://rns.online/economy/abizov-byurokratiya-i-korrupsiya-voshli-v-top-3-problem-malogo-biznesa--2018-02-15/>

Russian Public Opinion Research Center (VCIOM), 2010. Study: Letter of law or informal rules of the game: what is more important for Russian business?. Accessed on 04.05.2018 from official website of VCIOM <https://wciom.ru/index.php?id=236&uid=1947> and [http://vesti.karelia.ru/news/rossijskie\\_predprinimateli\\_rasskazali\\_chno\\_im\\_me\\_shaet\\_vesti\\_biznes/](http://vesti.karelia.ru/news/rossijskie_predprinimateli_rasskazali_chno_im_me_shaet_vesti_biznes/)

Russian Public Opinion Research Center (VCIOM), 2017. Study: Entrepreneurship in Russia: trust, barriers, success factors. Accessed on 04.05.2018 from official website of VCIOM <https://wciom.ru/index.php?id=236&uid=116444>

Russia Corruption Report 2017. Accessed 03.04.2018 from <https://www.business-anti-corruption.com/country-profiles/russia>

Ruzzier, M. (2006). SME internationalization research: Past, present, and future. *Journal of Small Business and Enterprise Development*, 13(4), pp. 476-497.

Sampson, G.P. and Snape, R.H. (1985), "Identifying the issues in trade in services", *The World Economy*, Vol. 8, June, pp. 171-82.

Sanchez-Peinado, E. (2007). Strategic Variables That Influence Entry Mode Choice in Service Firms. *Journal of International Marketing*, 15(1), pp. 67-91.

Sharma, D.D. and Blomstermo, A. (2003). The internationalization process of Born Globals: a network view, *International Business Review*, 12/6, 739-753.

Statistics Finland (2017) Concepts and definitions. Accessed on 18.11.2017 from [http://www.stat.fi/meta/kas/pk\\_yritys\\_en.html](http://www.stat.fi/meta/kas/pk_yritys_en.html) on 19.11.2017

Statistics Finland (2018) Service exports grew by 13 per cent in the last quarter of 2017. Accessed on 07.05.2018 from

[https://www.stat.fi/til/tpulk/2017/04/tpulk\\_2017\\_04\\_2018-03-15\\_tie\\_001\\_en.html](https://www.stat.fi/til/tpulk/2017/04/tpulk_2017_04_2018-03-15_tie_001_en.html)

Strauss, A.L. and Corbin, J. (1998) *Basics of Qualitative Research: Grounded Theory Procedures and Techniques*, 2nd edition. Thousand Oaks, CA: Sage.

TACC (2017), Russian-Finnish economic relationship, overview. Accessed on 2.04.2018 from <http://tass.ru/info/3418567>

Taylor, S.J., Bogdan, R., DeVault, M. (2015). *Introduction to Qualitative Research Methods: A Guidebook and Resource*. Accessed on 17.05.2019 from <https://books.google.fi/books?id=pONoCgAAQBAJ&lpg=PR11&dq=qualitative%20studies%20&lr&pg=PA43#v=onepage&q=qualitative%20studies&f=false>

Terpstra, Vern and Chwo-Ming Yu. 1988. "Determinants of Foreign Investment of U.S. Advertising Agencies." *Journal of International Business Studies* 19 (Spring): 33-46.

Toivonen, M., Tuominen, T., Smedlund, A., & Patala, I. (2009, September). Models and paths of internationalisation in KIBS. In 29th International RESER Conference, Budapest, September (pp. 24-26).

The Global Competitiveness Report 2017-2018. Accessed 03.04.2018 from <http://www3.weforum.org/docs/GCR2017-2018/05FullReport/TheGlobalCompetitivenessReport2017%E2%80%932018.pdf>

Transparency International. Corruption perceptions index 2017. Accessed on 24.04.2018 from: [https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2017](https://www.transparency.org/news/feature/corruption_perceptions_index_2017)

Weinstein, Arnold K. 1977. "Foreign Investment by Service Firms: The Case of Multinational Advertising Agencies" *Journal of International Business Studies* 8 (Spring-Summer): 83-91.

Welch, L. and Luostarinen, R. (1993), *Internationalization: evolution of a concept*. In P.J. Buckley and P.N. Ghauri (Eds). *The internationalization of the firm: a reader*. London: Academic Press, pp. 155-71.

Williamson, O. E. (1975). *Markets and hierarchies: analysis and antitrust implications: a study in the economics of internal organization*.



Windrum, P., & Tomlinson, M. (1999). Knowledge-intensive services and international competitiveness: a four country comparison. *Technology Analysis & Strategic Management*, 11(3), 391-408.

Wolff, J. (2000). Internationalization of small firms: An examination of export competitive patterns, firm size, and export performance. *Journal Of Small Business Management*, 38(2), pp. 34-47.

World Bank Group (2018). Russia Economic Report. Accessed on 18.09.2018 from <http://pubdocs.worldbank.org/en/162681527086868170/RER-39-Eng.pdf>

Yin, R. K. (2003). *Case study research: Design and methods*. Thousand Oaks, CA: Sage.

Yrittäjät (2016). The small and medium-sized enterprises. Accessed on 18.07.2018 from <https://www.yrittajat.fi/en/about-federation-finnish-enterprises/small-and-medium-sized-enterprises-526261>

Zahra, S. A. (2005). A theory of international new ventures: a decade of research. *Journal of International Business Studies*, 36(1), 20-28.

Zarkada-Fraser, A., & Fraser, C. (2002). Risk perception by UK firms towards the Russian market. *International Journal of Project Management*, 20(2), 99-105.

Zeithaml, Valarie (1981), "How Consumer Evaluation Processes Differ Between Goods and Services," in *Marketing of Service*, James H. Donnelly and William R. George, eds. Chicago: American Marketing Association, 181-90.



# APPENDICIES

## I. Interview questions for Finnish SMEs

### I. Interview questions for Finnish SMEs operating in Russia

#### *Background:*

- 1) What is your position and your main tasks in the company?
- 2) Could you tell me something about the company and its history?
  - a) When it was established?
  - b) What is the main area of business and main products/services?
  - c) Previous experience in international business activities: What markets it covers?
  - d) When did the company internationalized for the first time? Where and why?
  - e) How many employees works in the company?
  - f) Does annual turnover exceed EUR 50 million, or an annual balance-sheet total exceed EUR 43 million?

#### *Internalization to Russia:*

- 1) When did the company entered Russian market? (to which cities?)
- 2) What are the motivational factors for entering the market? Why the firm decided to internationalize? Why did the company find Russian market attractive?
  - a) Following the customer?
  - b) Market potential?
- 3) What were the goals of this internalization?
- 4) Describe the process of internalization to Russia? What were the stages?
- 5) What entry mode did the company undertake initially?
- 6) Has the entry mode changed during the operations in Russia?
- 7) Did the company use partners/experts/outside services for market penetration?
- 8) Did the company seek a financial or other support for the process of internalization to Russia? How did the company financed this internalization?

#### *Russian market:*

- 1) What is the business environment like in Russia? How would you describe Russian B2B?
  - a) Cultural differences/way of doing business in comparison to Finland?
  - b) Was there a language barrier when entering the Russian market?
  - c) How did the company approach Russian customers?
    - i) Marketing channels?
    - ii) Direct contact?
    - iii) Help from the partners/experts?
  - d) Do Russian people tend to value business relationships?

- 2) What do you think about Russians in the decision-making process? Do they more apt to make decisions as a group or as individuals?
- 3) How would you perceive Russians in relation to long-term thinking? Are they future-oriented or relationship-oriented?
- 4) What are the main challenges the company faced when entering and doing business in the Russian market?
  - a) What was the hardest challenge to manage?
  - b) Did the company try to eliminate/avoid these challenges? If yes, then how?
    - i) Language barrier? Do Finnish firms need to have language proficiency when dealing with Russian customers in B2B?
    - ii) Did the chosen entry mode help to overcome or avoid some challenges?
- 5) In your opinion, what is the most important knowledge about Russian market that the company has acquired already?
- 6) Is there plan for further expansion in Russian market?

## **II. Interview questions for experts**

- 1) What is your position and your main tasks in the company?
- 2) Could you tell me about the company and its history?
  - a) What is the main area of business and main products/services?
  - b) How does the company help Finnish SMEs to enter Russian markets?
- 3) Why Finnish service SMEs usually decide to internationalize to Russia?
- 4) Which entry mode do Finnish service SMEs are usually undertaking?
- 5) Do Finnish service SMEs in B2B sector tend to obtain partners when entering the market?
- 6) How Finnish service SMEs find customers and how they approach potential clients?
- 7) What are the most effective ways to approach potential customers in B2B?
- 8) What are the challenges Finnish service SMEs face when entering Russian market?
- 9) How to eliminate these challenges?
- 10) Do Finnish SMEs use networks when going to Russian market?
- 11) How would you describe Russian business culture and what are the differences between Finnish and Russian ways of business?
- 12) How much networks matter in the Russian market?
- 13) Is there language barrier for Finnish SMEs entering the market ?
- 14) What is in our opinion the bureaucracy level in Russia?