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Unit of Business and Administration, Kuopio

ENTERING THE RUSSIAN MARKET: RECOGNIZING THE PATTERN OF
INTERNATIONALIZATION.

CASE: RAUTAINEN SAVO PALVELUT PROJECT, NORTHERN SAVO

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Abstract

The objective of this thesis was to determine the approach to the internationalization process applied by MSMEs from the Northern Savo area to Russia. The study was commissioned by Ylä-Savon Kehitys Oy, a development company, which aims are to increase the economic success of the Upper Savo region based on the needs of technology industries. The reason for conducting the research is a rising significance of MSMEs in the global arena and the importance of understanding the process of going international. In addition, practical advices on how to develop first contacts with the potential Russian partners were in focus.

The research approach was qualitative. The main method used was a case study of Rautainen Savo Palvelut project launched by the commissioning company and its particular part of assisting Finnish companies to enter the Russian market. The techniques of data collection were the semi-structured interviews and a participant observation. The theoretical framework was designed based on the theories and dimensions of internationalization.

The study results revealed that the MSMEs follow the network theory logic. Creating a viable network of partners is the primal goal for the companies that are interested in success in the foreign market. It eliminates knowledge gaps and helps to gain the experience and confidence to continue the international integration. First stage of internationalization assumes presence of assistance, e.g. consulting companies, that facilitates the creation of a new network of customers and partners.

Keywords

internationalization, network theory, Russia, MSMEs, Rautainen Savo Palvelut project, Northern Savo, Pohjois-Savo

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1 INTRODUCTION

An internationalization process is nowadays an integral part of companies operating in the limited markets due to e.g. a unique product or a limited number of customers or pursuit for growth, which is why companies try to expand their business operations.

Doing business internationally is different to what companies are used to in their domestic operations, which is mostly a routine. Going international is close to starting a new business as a different country means different customers, competitors, laws, culture or even demands (Czinkota et al. 2005, 355). There are plenty of aspects to consider starting from choosing the target country and to organizing the process.

In economic literature concerning the internationalization the common model used by corporations is widely presented, where marketing departments allocate significant resources to prepare reports for decision-making persons. This is quite understandable as in big companies the questions of internationalization is also a question of huge investments. Nevertheless, it is obvious that the process differs when SMEs or even MSMEs are in question (explained in chapter 2). The dissimilarity is not only the resources for starting internationalization process, but also the different decision making process which obviously influences the whole process and its speed significantly.

There are certain preconditions that a company should consider before going international, which means that the company should realistically estimate its readiness to go international and availability of the resources it plans to involve. It is seen that the preconditions for a big company may be different for a MSME (Axinn et al. 2002).

1.1 The thesis idea and the research questions

The thesis was commissioned by Rautainen-Savo Palvelut (RSP) Project launched by Ylä-Savon Kehitys Oy. The idea of the project is to help, give consultancies and services to technological enterprises based in the Northern Savo (Pohjois Savo) area. The main aims of the project are: improving the competitiveness, increasing the number of work places in the field, increasing the turnover, developing investment projects and R&D, promoting the creation of new companies in the area and developing skills of the staff (RSP 2010).

As a part of a project, companies may be assisted in the internationalization process, which means they can get the primal knowledge of the countries they target at as well as get the contacts with potential customers/partners. The author was involved into the part of the project dealing with the Russian market “Contacts from Russia”.

The idea of the thesis came and was supported by the RSP project. Finland and Russia historically have strong economic connections, so the need for information on how to succeed in the Russian market has risen drastically. Questions like how to start, how to search for and contact customers, what assistance Finnish companies can count on are of high interest, especially, for MSMEs, when the resources are limited, but expanding to new markets is a vital move in today business environment. The researches on business cooperation between Finland and Russia have already been conducted. Nevertheless, the author would like to present some findings revealed during the working process for the project concerning the internationalization pattern of MSMEs from the Northern Savo to Russia based on the theoretical framework of the thesis.

In compliance with the thesis idea the research questions are seen as following:

How can micro, small and medium-sized companies from Northern Savo enter the Russian market?

What pattern of internationalization is used?

What are the crucial aspects to be considered to succeed during initial steps of penetration to the Russian market?

The first research question aims to show the approach of the Finnish companies from the Northern Savo area to the internationalization process in Russia. Answering the first research question will reveal the steps taken by the companies to start the business expansion. The sub-question should specify the pattern used by the companies emphasizing either the importance of a network in a foreign country or the adoption of gradual development.

The second question will give an overview of more specific and practical matters which each company faces when trying to get first contacts from the new market. It covers only the initial actions, but still very important ones for the very process to happen.

By finding the answers to the above-mentioned research questions the author will try to make a picture of the internationalization process of the Finnish micro, small and medium-sized industrial companies from the Northern Savo region to Russia on the first stages of it. Additionally, the conclusions from the research might serve as guidelines for the Finnish companies interested in establishing their business connections with Russia.

1.2 Rautainen Savo Plavelut project “Contacts from Russia”

The RSP project “Contacts from Russia” started in early June 2009. The author was involved as an international trainee. She was seen suitable for such kind of work based on her education and language skills as well as the knowledge of the Russian and Finnish culture. The main responsibilities were to make customized marketing research for the companies, build the list of potential customers/dealers/distributors and contacting them to discover their interest in the Finnish firms and their intention for further cooperation.

The process was divided in two parts. Ten companies participated in the first phase from June to August 2009 (see Appendix 1). Due to the limited time (2,5 months) and the number of companies the author was working in cooperation with the trainee from the Kuopio University during the first stage.

Preliminary meetings with the companies’ representatives were held in June 2009 to acquire the knowledge about their business and interests in entering the Russian market. In addition, more specific information on the needs was gotten for the customized marketing research. The rest of June, July and August were spent on preparing the reports, which included the information requested by the Finnish companies and a list of potential partners. The end of August was spent in the Saint-Petersburg office of ISBE (Business Representative Office of Eastern Finland). The project manager trained the RSP trainees on telemarketing and, particularly, how to make calls, which will establish the first contact with the Russian companies.

The first phase resulted in ten customized report, which besides the marketing information included the list of 628 potential customers, 136 competitors, 136 potential dealers, 28 exhibitions in total for the Finnish companies from the RSP project. Moreover, a list of most interesting and potential contacts was made from the general list

from the reports. All of the Russian companies from the new list were contacted during the time in Saint-Petersburg, which was one working week.

The second phase was planned for the September – December 2009. Seven out of ten companies started the project decided to continue further. The main responsibilities of the author were to organize the negotiations for the Finnish companies in Saint-Petersburg with the help of ISBE office and to guide the match-making trip.

The Finnish companies were divided in two groups. During the September-October the author was contacting the Russian companies, updating information and organizing negotiations for the first group of four Finnish firms. The trip was made in the end of October. Fourteen (14) negotiations in total were held during one and a half business days in Saint-Petersburg.

The same process occurred during November-December 2009 for the group of three Finnish companies and the trip was made in the middle of December consequently. Seven (7) negotiations in total were held during one and a half business days in Saint-Petersburg.

The results of the RSP project provoked more interest for the Finnish companies to continue developing the Russian market with the further phases of the RSP project, which were not the part of this study.

1.3 Thesis structure

The thesis is divided into seven chapters. The current chapter explains the idea of the thesis, defines the research questions and describes its structure.

Chapter 2 provides the information on key concepts of the internationalization from earlier studies in the field. The scope of the thesis is identified by giving the definition to micro, small and medium sized enterprises. The network theories of internationalization are studied, their influence on the developing of international entrepreneurship is explored. The revisited Uppsala model is presented in comparison with the traditional one.

Chapter 3 explains four main dimensions of internationalization, which are the essential aspects of analyzing the process of going abroad. These are the operational mode, the target market, the product and the organizational capacity. The choice of the operational mode and the foreign market is presented applying the network internationalization theory.

Chapter 4 is the summary of the theoretical framework (chapters 2 and 3). It highlights the main concepts which supported the research and gave the variables for the study.

Chapter 5 deals with the methodology of the research. The study process is described explaining the reason for choosing qualitative approach. The selection of a case study as research method and observation and interviews as data collecting techniques are clarified.

Chapter 6 presents the research results. The first part concentrates on the pattern of internationalization of MSMEs from the Northern Savo region to Russia. The second section points out the important aspects to remember when starting expanding to Russia.

Chapter 7 deals with the main conclusions made by the author during the research process and after analyzing the results. Furthermore, the limitations of the study are discussed and the ideas for further investigation are offered.

2 OVERVIEW OF INTERNATIONALIZATION STUDIES OF SMEs AND NETWORK THEORIES

2.1 Definition of micro, small and medium sized companies

Nowadays micro, small and medium sized enterprises (MSMEs) start playing significant role not only in their domestic markets, but on the global arena as well. Europe numbers over 20 million of MSMEs and they have been in the center of attention of the European Commission for quite some time. They offer two thirds of the private sector jobs and count for more than half of the total value-added produced by the businesses in the EU (European Commission 2010; Eipascope 2009).

It is important to define MSME to be able to scope of the frame of reference. According to the EU updated definition, MSMEs are divided into three categories starting from January 1, 2005 as presented in table 1.

Table 1. *MSME definition (Commission recommendation 2003).*

Enterprise category	Headcount	Turnover	OR	Annual balance sheet total
Medium-sized	< 250	≤ €50 million (in 1996 €40 million)	OR	≤ €43 millions (in 1996 €27 million)
Small	< 50	≤ €10 million (in 1996 €7 million)	OR	≤ €10 million (in 1996 €5 million)
Micro	< 10	≤ 2 million (previously not defined)	OR	≤ 2 million (previously not defined)

Not only Europe has significant amount of MSMEs (micro, small and medium sized enterprises) and sees the importance of their development. Researcher from FUNDES organization Oswaldo Segura (2010) claims that MSMEs account for 98% of the business population in Costa Rica. He states that the MSMEs need protection and strive for developing, which he sees particularly in internationalization as a part of the strategy (Segura 2010).

Thus, a lot of attention to the internationalization process has been paid recently because of the globalizing economy. MSMEs understand that acting in the international

market should be an integral part of their business operations making them more competitive with multinational corporations (MNCs) (Segura 2010).

2.2 Review of academic sources on internationalization

Regardless the high attention at the present time to the topic the purely academic studies on international process of MSMEs are hard to find. The presented articles and works are based mostly on the certain business cases of a particular country and industry. There is no general concept developed in comparison with the MNC internationalization processes which can be found in multiple books about international business and marketing. Nevertheless, attempts to study and understand the internationalization process in MSMEs are being done by researchers.

The most accepted definition of internationalization is presented by Luostarinen and Welch (1993, 249) as a “the process of increasing involvement in international operations”, which is applied to MSMEs as well. Etemad et. al. (2003) mentioned that the extensive study of internationalization process of SMEs started in late 1980s and 1990s, and the field of research was called International Entrepreneurship. The contemporary explanation of international entrepreneurship can be found in McDougall and Oviatt (2000) work, which gives the following definition of international entrepreneurship: “a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations”. This definition reflects the idea of a proactive motive of internationalization process, whereas many studies consider it as a gradual practice. Especially, such approach is seen in sequential theories of internationalization like in traditional Uppsala model (Johanson et al. 1977). The supporter of non-sequential international development Osarenkhoe (2008) claims that the conventional model does not suit all the SMEs’ patterns and highlights the role of networks. Many MSMEs skip the stages of internationalization offered in e.g. the Uppsala model (see chapter 2, subchapter 2.3.) and strive to international operations (Etemad et. al, 2003). Admittedly, that the authors of most cited conventional Uppsala model revised it mentioning the great role of networks (Johanson et al. 2009).

An important notion derived from the international entrepreneurship theories is the factors resulting the success of MSMEs in their early stages of internationalization.

Based on their research, Kundu et. al. (2003) stated that personal characteristics of an entrepreneur/owner (e.g. experience, education) play a far greater role than those of the firm. In the later stages of internationalization company characteristics of the enterprise start to play a major role as a new personnel is hired and the company is reorganized. Further, Kundu et. al. (2003) made a connection between the company's resources and success in the international arena. Particularly, the education and the previous experience would lead to a higher performance in exporting, which then consequently would be followed by a greater interest and commitment to develop this path.

An interesting phenomenon discussed in the frame of international entrepreneurship is born globals. There is no one widely accepted definition of born global MSMEs and every author tries to add something new to it. A born global can be defined as "a company that, from its inception, discovers and exploits opportunities in multiple countries" (Melén & Nordman 2009).

Born globals are usually perceived as companies showing significant pace of internationalization throughout their life cycle. Nevertheless, Melén & Nordman (2009) suggested based on their research that the quick internationalization leap does not necessarily mean the same tendency later on and the process might slow down with the changing resource commitment of a company.

It is significant that Gabrielsson & Kirpalani (2004) mentioned networking as an integral part of born globals' success.

Even if the company does not experience international cooperation from the moment of its establishment, it is easier for it to become successful in the international markets if it starts trying going international on its early stages. Then with gaining experience and knowledge the firm makes itself more perceptive to learn new technologies and expand its network, thus opening new opportunities for itself. (Osarenkhoe 2008).

An important aspect to mention is that many scholars refer to the export operations as one of the most widely used operational method by companies starting their international business. Johanson and Vahlne (1977) developed their theory using exports as a starting point of the internationalization process. Other ways of entering the foreign market are cited far less in the scholar sources.

2.3 Network theories of internationalization

This chapter is meant to reveal the network approach to the internationalization process. The scholars through out time have developed numerous models reflecting the patterns of their time. In most cases, they all have different variables explaining the internationalization process at the certain period of time, which might change according to the environmental transformations. Among those are historical models tracing back to the time of popularity of mercantilism, the theory of absolute and comparative advantage. Then one can find the traditional (e.g. M.E. Porter, C.W.L. Hill, P. Hwang and W.C. Kim, J. Johanson and J.-E. Vahlne), resource-based (e.g. P. Ahokangas, K. Fladmoe-Lindquist and S. Tallman), network (e.g. J. Johanson and L.-G. Mattsson) theories and a growth model (e.g. L. Greiner). (Ahokangas & Pihkala 2002).

The most conventional one and cited the most in academic articles is the Uppsala model. It assumes rational behavior of management which tends to expand company first to physically close markets and going farther with the gain of experience and knowledge. This is true also to choosing the operational mode from less demanding to more resource involving. This theory was presented by Johanson and Vahlne in 1977 and has been gone through numerous critical reviews, extensions and updates (Johanson & Vahlne 1977). The emphasis was made on the incremental development of the international operations. The model includes two state aspects and two change ones. Figure 1 shows the traditional Uppsala model. The model have following assumptions according to Johanson and Vahlne (1977): the company management is interested in long-term growth and willing to take low risk.

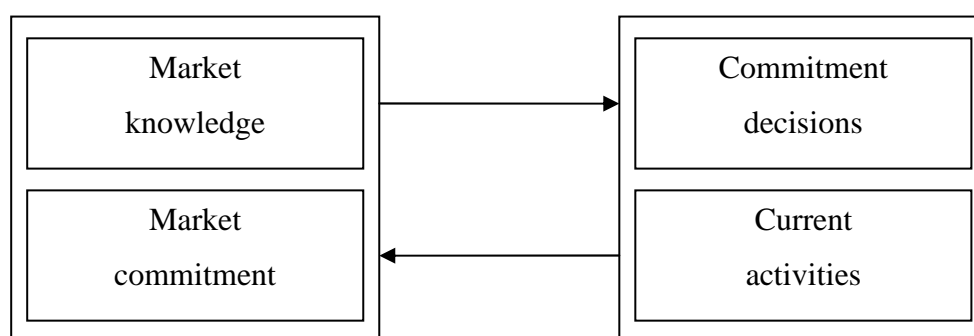


Figure 1. *Uppsala model of internationalization (Johanson & Vahlne 1977).*

As Johanson and Vahlne (1977) described their model, the market knowledge (mostly experiential from the operations performed) and market commitment (amount of re-

sources committed and degree of commitment) influence the commitment decisions and current activities, which then influence the state aspects back.

This explains the gradual internationalization of a company. It starts with the countries it has more knowledge about - usually close physically - with irregular exports. Then with the more knowledge gained and positive operations performed company starts to experience regular export. After having successful business through sales subsidiary, company may start its own production in a foreign country as shown in the figure 2.

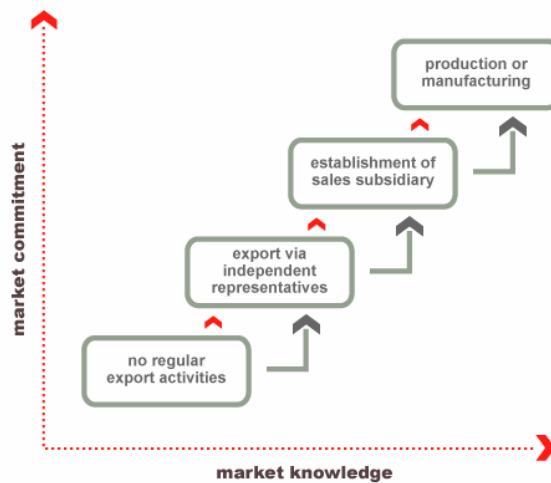


Figure 2. *Internationalization process of a company based on Uppsala model (ProvenModels 2010).*

The theory is very logical and many companies followed it in their internationalization process. Nevertheless, not all of enterprises replicate it simply skipping some of the stages, e.g. born-globals, companies using e-commerce, which is why the Uppsala model has gone through severe criticism.

As an alternative to consequent theories came a network model developed on the base of Uppsala model (Ahokangas & Pihkala 2002, 74). It has its roots in the late 80s after the work of Johanson & Mattsson (1988) was published. The idea behind their model is that the company which has started the internationalization happens to build its network little by little by interacting with others. Growing commitment to the foreign market as well as a network helps the company to develop the network more and as a result penetrate the foreign markets. Then using existent network company can gain international integration developing its network even further in different countries. All

the time the company's bonds may change, develop or even brake, because the firm tries to create the network, which will provide access to the important resources and ensure long-term development (Johanson & Mattsson 1991). Authors then introduced an important aspect – the network position, which becomes company's market assets. The position in the network changes through out the time and where the company is in the network defines its access to the resources and consequently outlines possibilities and constrains. This situation happens, because the company is in constant interdependence with the other actors of the international business (Osarenkhoe 2008).

Ahokangas and Pihkala (2002) list three possible options how a company can gain international penetration and then integration, which are expanding the network (creating new contacts), deepening the network (exploiting already existing contacts within the network) and integrating with other networks.

Further Johanson & Mattsson (1988) distinguished four situations, in which a company may occur in their struggle in being international, which are the early starter, the lonely international, the late starter and the international among others. They are based on the degree on internationalization of both market and a company.

Figure 3 shows that the “early starter” is a company, which has just started its international operations in a market, which is also not internationalized. In this condition company has few contacts abroad meaning that its network is still undeveloped. Company tends to cooperate with intermediaries, which can assist in entering the foreign market, e.g. agents, dealers, distributors. (Johanson & Mattsson 1988).

The “lonely international” is a company, which already has a great experience in doing business abroad, more resources, thus a developed network. Operating in the market, which is not internationalized, gives a company advantage over its competitors and more chances to succeed. (Johanson & Mattsson 1988).

The “late starter” is a company which tries to penetrate highly internationalized marked. The reasons for the later internationalization may be different, but it is much harder to enter the existent network. Company needs to find ways to establish itself by being more specialized or working in a niche, a large domestic company may try to form a joint venture to succeed. (Johanson & Mattsson 1988).

The “international among others” company is in a situation when it itself as well as the market are highly internationalized. The company has enough resources and its network is profound. Exploiting its contacts the firm can find more opportunities and internationalize even further, thus to gain the international integration. The company may need a local subsidiary to manage its foreign business. (Johanson & Mattsson 1988).

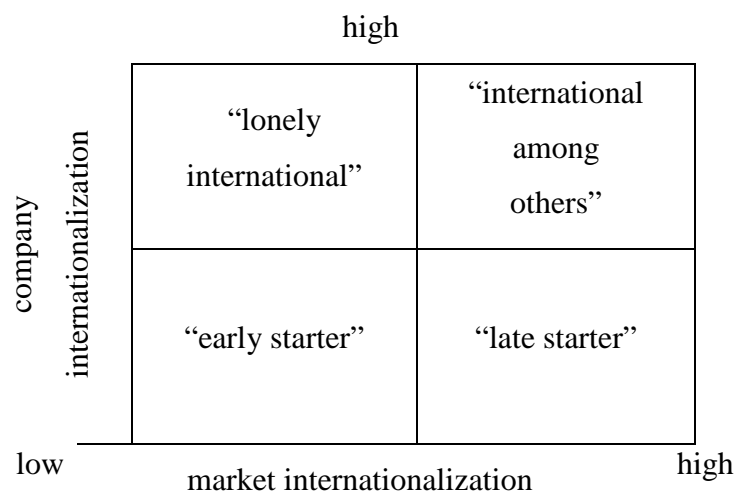


Figure 3. *Company’s position depending on its and market’s degree of internationalization. Adoption from the network theory (Johanson & Mattsson 1988).*

Lately with the popularization of network theory the authors of the Uppsala model made the revision of it in 2009. The idea is that the internationalization process is no longer seen as “an overcoming barriers, but strengthening the firm’s position in the network” (Johanson & Vahlne 2009). It is clear, that the network is now an integral part of internationalization. The decision which market to enter is not based on the physical closeness of the market, but on the opportunities that are or can be developed in the market, which becomes possible as a result of the cooperation with the partners, i.e. network (Johanson & Vahlne 2009). That means that company will internationalize to the market where it has good network. Physical closeness will probably facilitate the process, but does not guarantee the identification of the opportunities.

Looking at figures 3 and 4, we can compare the earlier model with the revisited one. As seen from the figure 4 the model 2009 looks similar to model 1977. It is still dynamic and state aspects influence change aspects and vice versa.

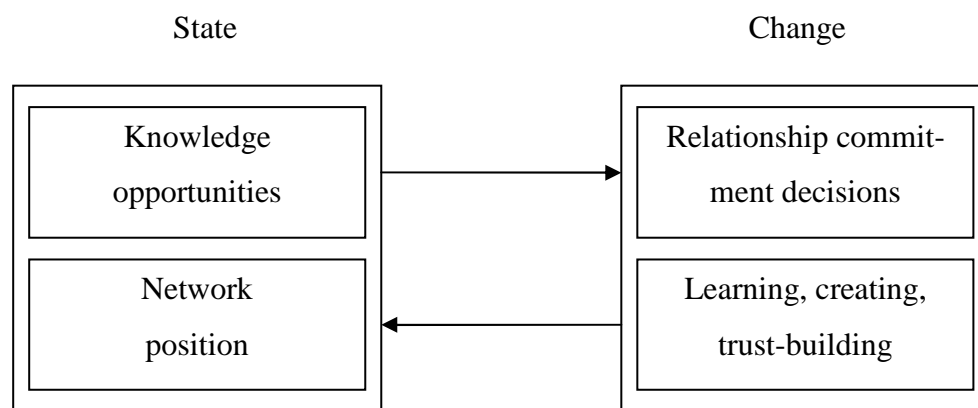


Figure 4. *Revisited Uppsala model (The business network internationalization process model) (Johanson & Vahlne 2009).*

The very aspects have been revisited. For example, instead of market knowledge appeared knowledge opportunities. Johanson and Vahlne (2009) explained that exactly opportunities define the process of internationalization. This dimension also includes other relevant clusters of knowledge as needs, capabilities, strategies and networks.

Network position substituted market commitment from the original model. This is to emphasize that the internationalization process happens within the network and depends on company's position in it. Johanson and Mattsson (1991) mentioned the company's position in the network creates opportunities or constrains for it.

Learning, creating and trust-building dimension reflects the earlier "current activities". The authors believe that current activities is the most valuable source of knowledge and experience, thus in a new version they emphasize the process of experiential learning.

The last dimension in a new model has an added word "relationship". Johanson and Vahlne (2009) highlighted that the company now decides whether to commit to the network or not. The degree of the firm's commitment will be reflected by its business operations, e.g. increase/decrease of sales, open/close subsidiary.

The recent adjustments to the Uppsala model made it applicable to the early phenomenon of born globals – companies which apply quick internationalization approach. The answer to the question where will company go has a new answer "where the focal firm and its partners see opportunities" (Johanson & Vahlne 2009).

3 INTERNATIONALIZATION PROCESS

Chapter 3 tends to describe the dimensions of internationalization, which are to be considered by every company regardless its size or working area. As shown in the figure 5 the dimensions consider every important company's inside characteristics, which should reveal its readiness to internationalize, as well as the decisions influencing where, how and what. All of these are studied in more details in this chapter.

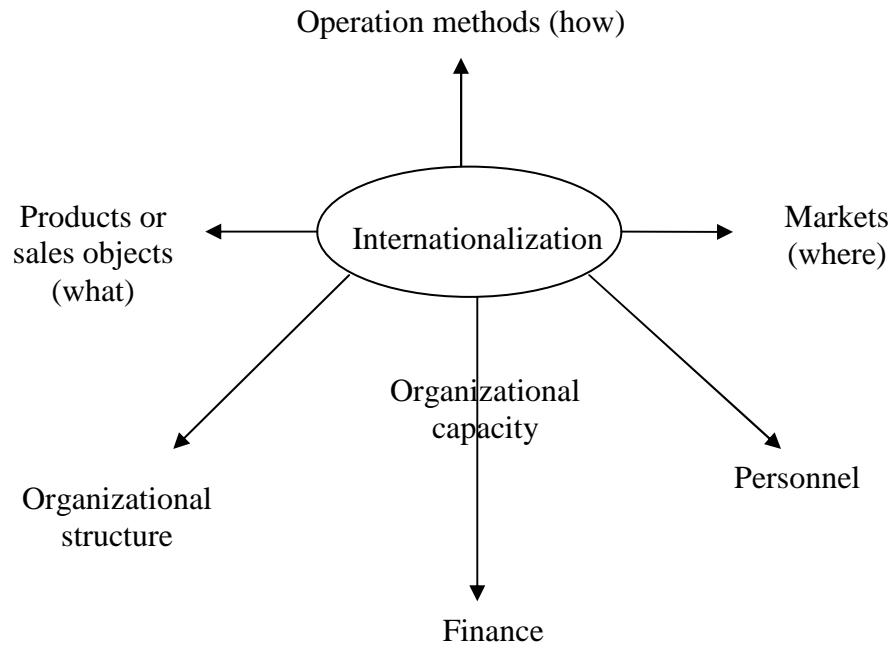


Figure 5. *Dimension of internationalization (Luostarinen & Welch 1993).*

3.1 Operation methods

Operation method is very important for the success of internationalization (Gabrielson & Luostarinen 2002), still it can be changed during the development of the business or several of them can be used at a time.

The choice of the operation method is based on the conducted research and obviously the results gained. In the academic sources all nowadays possible methods are described in details, showing pros and cons as well as the best application of each. The choice of operation mode shows what relationship company has with its foreign partners and customers, the division of risks and also the amount of the resources company involves into the process (Owusu et al. 2007).

Companies trying to create the beneficial network for them may apply different modes. In the beginning of internationalization firms are looking for the partner, which can fulfill the knowledge gap concerning the target market. Later on company may experience joint venture or alliances, which demands a great commitment from both parties.

It is important to notice that the more profound operational mode is the more knowledge and experience a company should have and more it receives from experiential learning, which gives the base for important decisions to make – relationship commitment decisions (Johanson & Vahlne 2009).

3.1.1 Export operations

Export operations are considered to be the most common method in the early stages of internationalization. Thus exporting seems easy and natural for the company which would like to internationalize without demanding a lot of effort as well as investment (Darling & Seristö 2004). Obviously, such approach will lead to unsatisfied results, which is why “success in export markets requires discipline and strategic planning” (Darling & Seristö 2004).

Three kinds of exporting are identified:

1. indirect export – firm is involved into international business through a middlemen and company does not take care of exports (middleman in the home market does) (Czinkota et al. 2005, 357; Luostarinen & Welch 1993, 21).
2. direct export - producing company takes care of exports and in direct contact with middleman in the target market (Luostarinen & Welch 1993, 25)
3. own export occurs when no middleman appears between the company and final customer (Luostarinen & Welch 1993, 27)

It is important to state that export is practiced by beginners in international business as well as by experienced companies, using different patterns. Nevertheless, less direct the involvement less knowledge and expertise the company gains. (Czinkota et al. 2005, 357). The company should remember that if it wants to develop in international market, it should constantly learn from its current activities, thus it should be striving to learn from experience, involving operational modes which demand more responsibilities (Johanson & Vahlne 2009).

All of the above mentioned forms of exports have certain features. For example, the company-beginner in internationalization may choose indirect export as it requires minimum knowledge about exporting. This form considered to be as domestic sales as the company delivers goods to its partner inside the domestic market. Certainly this kind of cooperation will give minimum of information about foreign markets. (Luostarinen & Welch 1993, 22). Nevertheless, to SME with not enough resources to commit for developing new directions itself it can be useful to get new foreign opportunities.

To sum up, indirect importing is more suitable for the beginning of internationalization or for small companies.

Direct exporting also supposes the middlemen, but the difference is that the intermediate company is situated in the target country. This form of export assumes more knowledge of the target country as well as some expertise in dealing with exports meaning billing, logistics, etc. Moreover, at this stage of involvement company should think about its human resources. It is supposed to have an export manager with corresponding knowledge, who is capable of dealing with exports routine. But which is more important the exporting company starts to think about cultural diversity and differences between home country and target. Here one can say about language and product adaptation.

This form of export is obviously more profound and can be utilized by companies of different size as well as at different stages of internationalization. Company needs to find and choose the right partner overseas who will be responsible and interested in promoting/selling the products.

The most developed form of export, which demands profound knowledge about target country, customers, is own export. It assumes the absence of an intermediary both in home country and in target country (Karhu 2002, 110). This type of export is very demanding as the exporting company ensures all the logistics, customs clearance, risks besides marketing operation like creating customer base, promoting, advertising, which means that the company's network should be extensive (Johanson & Vahlne 2009; Luostarinen & Welch 1993, 28; Johanson & Mattsson 1988).

Even though export operations are considered to be as a first step in internationalizing by many companies, the success depends on the management and its ability to handle logistics, supply chain relationships as well as integration plus create its network (Lorentz 2008).

3.1.2 Licensing

In Deardorff's Glossary of International Economics the following definition of licensing can be found: "Granting of permission, in return for a licensing fee, to use a technology. When done by firms in one country to firms in another, it is a form of technology transfer" (Deardorff's Glossary 2001). This definition does not entirely embrace the idea behind licensing as in today's reality licensed property can consist of patents, copyrights, technology, know-how, or even specific business skills (Czinkota et al. 2005, 364).

Ahokangas and Pihkala (2002, 34) mention that the role of licensing as an operation mode has grown drastically during the past years, which also proves Gabriellsson (2002, 107). Famous examples of licensors in Finland are Outokumpu Oy and Valio (Valio 2010).

Karhu (2002, 173) depicts three types of license agreement according with the goals of licensor:

1. product license
2. technology license
3. representative license

As licensing concerns the transfer of technology/intellectual property without abandoning ownership it seems to be a very appealing mode of entry to the technological companies, which have know-how, patented technologies, etc. and are ready to start internationalizing.

A great advantage of licensing in the first stages of internationalization is that it does not demand any capital or need to be involved in cooperation with foreign customers. (Czinkota et al. 2005, 365). Still it can be utilized during different steps of internationalization (Luostarinen & Welch 1993, 41). Figure 6 shows licensing as an operational mode to use on different stages of internationalization.

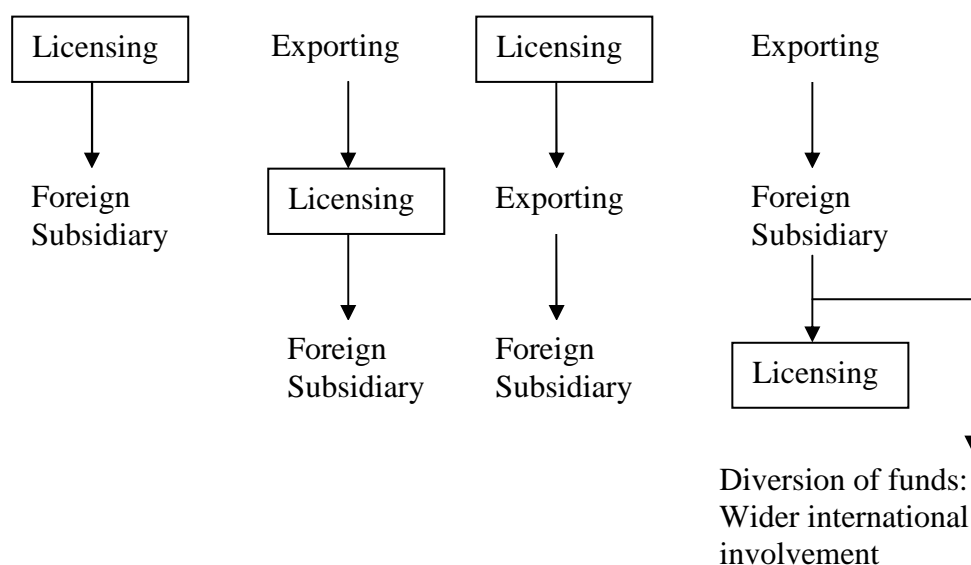


Figure 6. *Licensing as a stepping stone (Luostarinen & Welch 1993, 41).*

Many SME's use licensing before exporting as a first step to internationalization as all the crucial matters of marketing the business relies on the licensee (Czinkota et al. 2005, 365), thus company may apply licensing before it will gain enough knowledge. Nevertheless some authors claim that licensing in the beginning of internationalization is more suitable for standardized product, otherwise it should be used much later (Rugman & Hoggetts 2003, 41). Moreover, licensing does not assume lots of risks. Probably, the most significant one to be is that the licensee may become a future competitor by learning the e.g. technology itself within the network (Gabrielsson & Luostarinen 2002, 108).

3.1.3 Franchising

Franchising is a form of business organization in which a firm which already has a successful product or service (the franchisor) enters into a continuing contractual relationship with other businesses (franchisees) operating under the franchisor's trade name and usually with the franchisor's guidance, in exchange for a fee (InvestorWord 2010).

Franchising can be employed in deferent ways which is why it may be hard to define it exactly. Moreover, in some literature it is possible to see the interchangeability of the terms (Luostarinen & Welch 1993, 73). Franchising in the meaning of licensing

was only in the beginning of the concept developing. Still, in some cases franchise can be considered as licensing because technology is also transferred.

Obviously, that company should develop a very unique products plus a certain amount of standardization to offer otherwise franchising does not work (Czinkota et al. 2005, 366)

Franchising gives more control to the parent company as certain criteria are expected to be fulfilled by franchisee. Moreover, franchising assumes some training of a franchisee and provides it with a package of know-how, equipment, etc. In addition to lump sum licensee also pays royalty to a licensor.

It is important to admit that franchising is mostly developed in such business areas as consumer goods/services or retail (Luostarinen & Welch 1993, 69).

3.1.4 Cooperation between companies

With the deepening of internationalization, company starts to seek for a more profound and beneficial operation modes. Patterns of cooperation are exploited often by mature companies with strong international position and thus profound network of partners, customers, suppliers. The reasons of cooperation differ a lot in accordance with company's needs: market development, defense of home markets, blocking competitors and so on (Czinkota et al. 2005, 368).

The types of interfirm cooperation can be studied from the figure 7. It depicts the different involvement of the company and the degree of the control distributed between the partners.

Informal cooperation

Informal cooperation is very basic agreement between partners based on trust. The core idea of this type of cooperation is exchange of information. Sattler (2002) claims that this channel is one of the most important in exchanging the information, which made successful e.g. Silicon Valley in the US. Nevertheless, it is important to remember that the exchange of information is a two-way process: from one company to another, which means that some of the shared information loses its uniqueness, but in

return company gains new useful knowledge. Noticeably, that such exchange may occur even between competitors if employee who shares the information expect more valuable and useful information in return for the company (Schrader 1991).

Equity	Number of Partners	
	2	>2
None	Informal Cooperation	
None	Contractual Agreement	Consortia
New	Joint Venture	
Some	Equity Participation	

Figure 7. *Forms of interfirm cooperation (Czinkota et al. 2005, 369).*

Contractual agreements

Strategic alliances are used to conduct joint research and development, marketing or production. Contractual agreements may be presented by different forms of its exploitation. The most common ones are contract manufacturing, management contracts and turnkey operations. The connections within the network are tight, assume constant knowledge exchange and involve high commitment from both sides.

Contract manufacturing assumes outsourcing of production from foreign countries, which technically means private label manufacturing by a foreign company (Lamb et al. 2008, 123). Usually this type of cooperation utilized when the company tries to reduce costs (e.g. Asian countries – cheap labor costs) or it is focused on other company's operation like marketing or R&D. Moreover, company can penetrate foreign markets without direct investments into manufacturing equipment. This type of cooperation is very flexible, because it allows amending the production regarding demand changes without long-term capital investments or increase of labor costs (Gooderham & Nordhaug 2003, 16). Still, it is necessary to admit the disadvantages/risks of contract manufacturing. First of all, it is important to find the right contractor as there have been cases of violation of contracts. For example, Unilever claims that one of their Chinese contractor made excess cases of soap and sold them directly to the re-

tailers (Lamb et al. 2008). Secondly, the quality control is more demanding from the company's behalf, especially, when we are taking into consideration short-term contracts (Luostarinen & Welch 1993, 123). Also we can mention the risk that contractor will develop into the competitor not only in the foreign market, but in the domestic as well.

Management contract is “a form of contractual agreement which enables a firm with capital and personnel but limited management know-how to seek managerial expertise and developmental support from another firm in specific areas of its operation, for a fee” (Monye 1997, 60). In the case of operation mode it means that the company manages a foreign firm or part of its functions. Usually this type is used with other forms of entry mode such as licensing or project deliveries. It is supposed to guarantee the satisfactory implementation of the operations. Obviously that management contract brings in not only management skills, but also valuable contacts for the managed company. There is a common opinion that management contracts are interesting for the developing companies. Nevertheless, it is quite widely used. (Luostarinen & Welch 1993, 93-109; Monye 1997, 61).

Project operations mean the delivery of the whole project (or its part) like design and construction of the building or factory by contractor. The customer is the owner of the project and responsible for managing it after it has been launched.

For example in Taiwan turnkey projects are seen as a very important operational mode for SMEs. Thanks to the promotion and assistance of the Small and Medium Enterprise Administration of the Ministry of Economic Affairs of Taiwan (SMEA) which started in 1995 led to significant results: growth of businesses from 300 to 825 and the business geography counts for 75 countries in comparison with 21 countries in the beginning of the program (SMEA 2010).

Equity participation allows companies to acquire some ownership in the foreign companies which have strategic importance or may give access to significant market opportunities in the future (Czinkota et al. 2005, 371).

Joint venture is an enterprise formed by two or more companies, which “contributes assets, have some equity and shares risks”. The reasons to start a joint venture may be

different, but the main are the political or legislative matters and some need to combine each partner's skills or assets. This form is suitable for different sized companies to benefit from this cooperation. Still to be successful in joint venture companies should be able to understand what they are aiming to get from the cooperation and the partner company wants the same. Mutuality of business goals of the involved parties is the clue to the resulting collaboration. (Czinkota et al. 2005, 371).

For example, many Finnish companies use joint venture as a middle stage in their internationalization process: export, joint venture, and then fully-owned facilities. Yet, less than 10% of Finnish companies do business in China exploiting joint ventures. (HS 2006).

Consortium is the organization formed by companies with the main target of conducting mutual research and in many cases commercialization of the technology or project developed. Some examples of consortia: Sematech (SEmiconductor MAnufacturing TECHnology) performs basic research into semiconductor manufacturing and counts for 15 members; the Open Group is a vendor-neutral and technology-neutral consortium has more than 200 members (Sematech 2010; Open Group 2010).

Each internationalizing company chooses the operation mode based on their needs, size, position in the network and current situation. Many companies may use few modes at a time and variant them at different stages of their international operations (Petersen & Welch 2002).

3.2 Selection of the foreign market

According to the network theory approach, the selection of the target market will be based after all on the network company already has or where it is easier to establish it. Nevertheless, the company needs all sorts of information to be able to recognize the opportunities in the foreign market (Johanson & Vahlne 2009).

Usually the choice of the target market starts with the preliminary screening of the market. The environmental aspects are being studied like political, economic, social, technological, cultural, environmental and legal factors. The company would also need more specific information on the industry it works in, product potential information or infrastructural facilities, market risks and barriers. The research can be done by

company itself or it might use the assistance of specialized companies, e.g. Fintra in Finland, which helps the Finnish companies to be successful in the international arena. Moreover, governments and authorities publish a lot of useful statistical data, which can be used in making evaluations of the market.

The difficulties of conducting such a research by the company itself are obvious – lack of cultural knowledge, language barriers or access to the data sources. Even multinational companies with big marketing departments may do mistakes. These marketing blunders prove once again the need of studying, learning, understanding a different market. Probably the most famous confusion was made by GM marketing their Chevrolet Nova in Mexico and Venezuela. The story says that it turned out that “no va” in Spanish means “doesn’t go”. Still there are many rumors going around this urban legend as well as Coca Cola’s “Bite the wax tadpole” in China. (Wilton 2004).

The international marketing research tends to gain the standard marketing information the company would need but with the remark that the country is different and what is clear and familiar in the domestic market can be absolutely the opposite in the foreign one.

The company’s researchers usually prepare profound information about the target country. Technically the amount of information can be very vast from the basic knowledge about the target market to specific one concerning the industry. The most needed information concerns competitors, potential customers, products, prices, legal requirements, and trade barriers. These all aspects are familiar to the researchers and they were taught to use different techniques/methods to get reliable results. But speaking about international research all the data gained should be seen in the light of the culture (cross-cultural equivalence) (Polsa 2007). It has been said and written a lot about the importance to learn and understand the culture of the target country, but when it comes to practice, there are always some problems to arise.

The international cross-cultural research can be a real challenge to deal with. In some countries there is lack of understanding of the importance of the research, which is why it may be difficult to find a professional local researcher or interviewer. Moreover, some countries have lack of secondary data to collect like statistical reports, because of inadequate infrastructure. Moreover, social and educational development and

gathering primary data may be too expensive. All these matters should be considered before planning the research.

It is important to remember the purpose of the research and its role in the decision making. Based on the data gathered decision maker should answer certain questions and decide whether the company is ready to internationalize and how it is going to be implemented.

The collected data quite usually is analyzed by SWOT analysis, which is easy to understand and apply. It is cited in many works and studies and has many fields of application. Technically, the SWOT analysis is a matrix having as its variables strength, weaknesses, opportunities and threats. The reliable results occur when the user can clear define the opportunities and threats coming from the external environment of the company and strengths and weaknesses from the internal one. There are different ways to analyze the matrix, but in the result the researcher should have country/s, which become targets to expand to.

3.3 Product concept

One of the decisions after choosing the target market is what product company is going to launch in a new foreign market: adapt existing ones or produce new. Mostly, companies choose the first option to economize on R&D.

US governmental portal about trading offers the basic export guide, where one of the chapters is devoted to exporting products. Basically, it states that “a U.S. company may have to modify its product to conform to government regulations, geographic and climatic conditions, buyer preferences, or standards of living” (Export 2010). Of course this is applicable to any company in different countries, which is about to start to trade abroad.

For example, the following questions have to be considered before starting the successful export (Export 2010):

- what product company is going to offer overseas
- what needs of foreign customers it is going to satisfy
- what product characteristics are crucial for the foreign customers (e.g. color, design, package, brand, warranties), etc.

There are two strategies which company can apply in the global market: standardization and adaptation. Standardization offers similar product in every market whereas adaptation assumes some modifications to it to better suit the new market and includes the whole range of issues: quality and appearance of products, materials, processes, production equipment, packaging and design. Nevertheless, these strategies can be combined.

These two approaches have been discussed a lot in the literature studying the most famous example of McDonalds. The slogan “Think globally, act locally”, originated in town-planning in 1915, was transformed to a term “glocalization” which means adapting a global product to fit a local market.

Ideally, based on the research the company should make a decision concerning the probable modifications it might need to perform with their products, but in the real world it is quite often that the companies first launch the product in the new market and if the sales are not satisfactory they start analyzing what is wrong with the product. Even having taken into consideration the results of the research and having modified the products it will likely need further adjustments after being tried by locals.

As a matter of fact, standardization is very appealing as it helps to reduce costs in production and marketing a lot and it can work actually in the local markets but with some constraints. Basically, the less product is culturally grounded and more industrial or technology intensive the less it would require adaptation. (Czinkota et al. 2005, 308-310). Moreover, the impact on competition should be studied, if standardization will make hard to compete, obviously, managers will think about adaptation. The company may succeed with the standard product plus gaining the benefits of standardization by identifying similar markets worldwide.

Still even if the standardization strategy is attractive there could be factors which make the managers switch there mind towards adaptation of a product. Czinkota et. al (2005) generalized and described in details three categories of factors, which affect the decision concerning product adaptation:

- regional, country or local characteristics
- product characteristics
- company considerations.

3.4 Organizational capacity

Luostarinen and Welch (1993) mentioned that the readiness of a company is not described only by decisions it makes like where to go, what to sell or how to do it. A great role in succeeding plays the organization capacity of the very company. The opportunities in the foreign market may be appealing, but the company's management should make sure that the company will cope with internationalization. Luostarinen and Welch (1993) offer to study closer the organizational structure, personnel and finance.

Organizational structure

If company starts internationalization gradually, e.g. from irregular exports, the company's management would not probably change the organizational structure at all assuming that the domestic sales manager will be able to cope with the operations. In this case international business is seen like additional and the commitment of the company is rather low.

When the international operations become a significant part of the business, the separate department, which takes care of the entire international business form one center, is assigned (Rugman & Hoggetts 2003). Depending on the organizational structure within the company, the international department can be in different position, subordination and have various functions.

Each company may apply various approaches to coordination of international operations. For example, a company having a special international division in its structure gives it all the responsibilities to handle international operations within all the products groups. Another option is global product structure. In this situation each product division is responsible for all arrangements concerning its product domestically as well as internationally. (Rugman & Hoggetts 2003).

The decision concerning the international activities and what place it has in the company is decided based on the existent structure of the organization and role of the international operations in the company's business.

Personnel

It is very likely that in the first stages of internationalization the company is trying to cope with the human resources it already possesses. Training may be of great assistance for the person who handles the international operations. Nevertheless, it happens quite often that the first knowledge is gained from the first experiences of foreign arrangements (Luostarinen & Welch 1993; Johanson & Vahlne 1977).

With gaining the international penetration company may be in need of the new trained personnel and educate further the existent employees. Moreover, Luostarinen and Welch (1993) mentioned that the human resources should be educated and trained one step ahead of the current internationalization position to ensure company's capability to adequately handle international operations.

It is assumed that English is the international business language, but in some countries knowing the local language is vital, which is why language training is important if the company thinks of a long-term commitment. A very close, yet vast aspect of training is cultural. Habits, business style, communication patterns and other related issues should be studied and analyzed. Knowing the culture and people helps in succeeding in the international market. Cultural awareness increases the trust within the network and facilitates the communication.

The company may enjoy numerous training and educational techniques to commit to the foreign operations.

Finance

Finances are important to make the whole internationalizing happen. Even if company sees an opportunity in a foreign country all its movements should be supported. Going international is like starting a new venture, there are risks that should be considered. Many companies prefer the low risk taking operations to perform like exporting or licensing. Once the market is proven to be advantageous the funds can be invested further, e.g. starting joint ventures.

It was mentioned earlier in this paper that the more commitment is involved the better results company will get (Johanson & Vahlne 1977). Thus commitment includes also financial aspect. Depending on the company's interests and motives to develop internationally, it makes a decision concerning the investments it is ready to make.

4 SUMMARY OF THE THEORETICAL FRAMEWORK

This chapter summarizes the main concepts and ideas presented, which guided the research process. The theoretical framework was designed to provide the support for the analysis as well as to help to identify the variables, which are subject to study.

Chapter 2 provides the information about theories of internationalization. The most applied are the network theory and the Uppsala model. The emphasis is made on the non-sequential model opposing to gradual one, because it is more applicable to explain the internationalization process of MSMEs. The conventional model of Johanson and Valhne (1977) is presented with the further purpose to make a comparison with the revisited one, proving the dominance of the network approach nowadays. The new model provides the crucial aspects of the internationalization pattern: the base (knowledge, opportunities and network position) needed to start the process and which determines the decision to commit and factors influencing back (is constant experiential learning).

Further the dimensions of internationalization developed by Luostarinen and Welch (1993) are presented in chapter 3. Four dimensions are studied, namely, operational mode, target market, product and organizational capacity, which is further were subdivided into organizational structure, personnel and finance. The aspects of internationalization give a perspective on the range of decisions have to be made by a company concerning internal changes and strategic decisions.

There is made an attempt to analyze the dimensions of internationalization concerning the operational mode and target market from the network perspective. The operational methods presentation is emphasized, because it explains the company's approach to the network building and its commitment to it. Thus, companies in many cases start with the exporting through the dealer or distributor in the target market. The local partner eliminates the knowledge gaps for the focal company concerning external environment including customers, competitors, legal and cultural issues, meaning everything, which is important and may influence on the success of the business operations.

Should the company be more interested in further market penetration it might consider more commitment demanding operational modes like own export or joint ventures.

The research data are also analyzed from the perspective of the networking and partner finding. It helps to get the overall picture of changes the company undergoes during the process of internationalization and what its decisions are based on.

The results of the research can be seen in chapter 6.

5 METHODOLOGICAL APPROACH

This chapter aims to describe the methodology used by the author to achieve the thesis goals.

To suit the thesis's purposes best the qualitative approach to the research was chosen. The main reason for this choice is that this study is searching for answers based on people's decisions and actions. Particularly, the qualitative research methods help to unveil the motives that lie beneath the actions and understand them. Moreover, the qualitative research shows some degree of flexibility in conducting it unlike the quantitative one. As a matter of fact, this aspect is a great advantage for pursuing the thesis's aims. It means greater variability in setting questions and consequently finding clues.

As a method a case-study fitted the nature of the research. A case study can be defined as an in-depth examination of a specific real-life situation for the collection and presentation of detailed information and conclusions. Yin (2003) points out three aspects which identify the use of a case study:

1. the "right" research question, particularly, "how" or "why"
2. little or no control over happening events
3. "contemporary phenomenon in a real-life context"

All of above mentioned suit the research conditions for using case study as a research method. The second point may seem misleading as the author was a project worker. Nevertheless, the information gained through this project did not depend on her and was a reflection of actions performed by people involved into the process, e.g. contact persons from the companies participated in the project and those, who were contacted in Russia. The actions of the author influenced the end result of a project, namely, the organization of match-making trip to Russia, but in no way she could manipulate the decisions made by people involved, which is, actually, what is studied.

The case study for the thesis should provide the author with the specific information on how the Finnish companies act having the aim to expand their business operation to Russia and what actions might be performed to succeed, which subsequently should be presented to the readers.

The case of this study is the Rautainen Savo Palvelut project “Contacts from Russia”, which was ongoing during seven months in two stages. Ten micro, small and medium sized companies (please, look for the definition of MSMEs in Chapter 2) took part in the first stage of the project, which provided the information about the companies, intentions and expectations and partially revealed the motives of the expanding to Russia. The second stage involved eight companies and was a source of in-depth information about the degree of the commitment of the companies as well as the practical matters of making contacts with Russian partners/customers, mostly concerning communication pattern, business styles and cultural issues. In the Appendix 1 the short description of the companies participated the project can be found.

According to Yin’s classification (2003, 89-95) two main sources of evidence were used, namely, interviews and participant-observation.

Observations

Observation, particularly, participant observation has been used for obtaining the majority of the primary data.

Participant observation is a method of collecting data where “the researcher is fully involved with the participants and the phenomena being researched” (Collis 2003 et. al, 171). This method of data collection came naturally as the author was a part of a project and thus had an opportunity to study the process from the inside.

The data gained through the observations are primary observations as well as experiential (Delbridge et. al. 1994). Basically, the first type of data consist of the noticing everything what has happened, has been said, how has been done. The experiential data represents “the perceptions and feelings during the process of research” (Saunders et. al. 2003, 227), which came across during the project.

In accordance with Saunders’s et. al (2003) list of roles, which can be performed by the observer, the *participant as observer* role suits the author’s part the best. It assumes that the fact that the research is being done is revealed. It means that during the whole duration of the project the information has been observed and collected and

then analyzed. The knowledge of the essence that the study is going on let the author do the interviews with the companies' representatives later on.

During the observation the field notes were produced, that is all the aspects of the project process were written down and further analyzed. The field notes were taken on the daily basis and transformed into field notebook (Mack et. al 2005). Based on the frame of reference and the thesis research questions a particular attention has been paid to the information concerning the dimensions of internationalization, pattern of internationalization as well as the approach to the first steps to internationalization. The data presented in the field notebook was textual. Short hand written notes were taken during the observations and then transformed into sentences to create an account later on the same day.

As it has been mentioned earlier in this chapter, besides the direct observations of the events and happenings, the people's interaction was explored. It means that the reactions, behavior and body language of people that the author interacted with were studied.

A very crucial issue concerning conducting the participant observation is the identification of the key informant – a person who can facilitate the research process by providing important information which helps to understand the studied phenomenon and detect the important matters to take into account. (Mack et al. 2005) In the case of this thesis the key informant was the author's supervisor in the project. She facilitated the process of integrating into the project and thus establishing the connections with the participants.

On the early stages of the "Contacts from Russia" phase key informant/supervisor organized the initial meeting with the companies' representative, which provided the data on the companies themselves as well as the needs and demands concerning the project. The information written down served not only the aims of the RSP project, but also the goals of this research. Ten companies were interviewed to obtain the information (see Appendix 3).

Later throughout the process she was the advisor and reviewer of the ideas and thoughts. Moreover, the supervisor checked all the reports for their eligibility to be presented to the companies.

Interviews

Interview as method of data collection was chosen as it was advantageous in this particular study. It gave an opportunity to obtain deeper knowledge on the subject studied. For the same purpose semi-structured interviews were used. The unstructured interview would probably provide extremely valuable information, but as long as the certain subjects were in question, the author considered semi-structured interviews suit better. The use of this type allowed to control the flow of the interview meaning the right questioned were aroused and, on the other hand, gave a certain amount of freedom to express ideas, opinions, describe experience to the respondents. Obviously, the questions were open-ended, that is no options of the response were given to the interviewees.

The examples of the interview questions/themes can be seen from the Appendix 2.

The total number of interviews was five. Four interviews were done face-to-face individually; the fifth was a group interview with two interviewees. The reason for such decision was caused by the similar business fields of respondents, which helped to provoke discussion on certain issues, which will be presented in Chapter 6.

The participants from the project were asked to participate in the interview to provide the representative results. All of three CEOs have had a previous experience in cooperation with Russia, but on different scale. Nevertheless, having some knowledge about doing business with Russia let the respondents share realistic propositions, not just guesses and expectations. Furthermore, the high position of the interviewees gave very reliable information concerning decision making process and motives. Moreover, the time for the interview was chosen after the certain project results were performed. It helped to obtain even more specific contemporary information on the studied subject.

In addition, independent (not connected to RSP project) specialists were interviewed to provide broader and deeper overview of the research question. They, having significant experience in the Finnish-Russian business cooperation, gave a point of view as the detached observers of the internationalization process.

First of them has been working for decades in Stockmann plc., including some years of experience as a manager of company's Moscow department, now working as an independent consultant on the Russian trade issues.

The second representative is a project manager of a Finnish company (Russian department) offering the whole range of services for the Finnish enterprises aiming to the Russian market. As a project manager respondent has been working in numerous projects involving cooperation between the Russian and Finnish companies. Interview gave a point of view from the Russian side, which is important for understanding and analyzing motives, opportunities and possible threats.

From table 2 can be seen that the main interview language was English as the majority of the respondents were representatives of the Finnish business environment and one interview was conducted in Russian.

Table 2. *Characteristics of the interviews.*

	Position	Language of interview	Time of interview
Company 1	CEO	English	Autumn 2009
Company 2	CEO	English	Autumn 2009
Company 3	CEO	English	Winter 2010
Consulting company	project manager	Russian	Autumn 2010
Stockmann	former administrative manager in Moscow	English	Autumn 2009

Analysis

The analysis is made to provide the readers with the conclusions that the author resulted from the study. It was held from the very beginning of data collecting for the

study. This approach helped to reveal on the early stages of the research the most appropriate methods of data collection. Thus the observation was utilized as the main source of information as it resulted in a valuable cluster of knowledge about the research questions of the thesis. Interviews were used as a supportive source of information to confirm the conclusion made by the author during the research.

Besides the field notes and interview records the following sources of data were used for the analysis produced by the Rautainen Savo Palvelut Project:

1. the interviews conducted on the initial stages of the project transformed into data base of the companies participated on the project (see Appendix 3)
2. daily “skype records”, which reflected every Russian company and a contact person from each, who were contacted by the author
3. tailored marketing reports made for each company

The data gathered were categorized under common themes for the better analyses purposes. The coding was conducted based on the criteria derived from the frame of reference and thesis aims, in particular, the author tried to distinguish the data concerning the dimensions of internationalization (e.g. operational mode, market, product, organizational capacity), the pattern of going abroad (e.g. partners, cooperation, networks, aims of internationalization) as well as the approach to making first steps to penetrate the Russian market (e.g. language, decision-making, business style, communication). Technically, the data were sorted and arranged in files according to the codes/indexes.

The research methods produced exhaustive cluster of knowledge. However, the data, which were not relevant to the research questions, were omitted in order to keep the results and conclusions of the research clear. Obviously, that the data collected could have served other purposes if the research questions would have been formulated differently (Ryan 2006). As long as this study alerted the recognition of the pattern of internationalization of the Finnish companies to Russia and consequently the focus was made on the aspects related to the topic.

The critical literature review was performed to get the reliable information on the studied subject. The review helped to obtain the already existent facts about the topic and to examine the contemporary knowledge. The results are presented in Chapter 2.

As a source of such information all types of data were used including books, journals, reports, theses, the Internet and so on.

6 RESEARCH RESULTS

This chapter is aimed to reveal the results gained during the research, which would help to answer the research questions, namely, to discover the pattern of internationalization and the information concerning the practical aspects of first stages of internationalization to Russia will be presented.

Results are derived from the variety of data collected during the observations and interviews described in chapter 5.

6.1 Approach to internationalization

Target market

The project dealt with the Russian market as a target for the companies. Russia is a close physically market to Finland, but it is not the first market to internationalize to. The reason is the undeveloped network of the companies and scarce or uncertain knowledge about the country, which was mentioned by all of the companies' interviewees. According to them it is difficult to make a decision about relation commitment unless the right partner, a dealer or distributor, is found. The doubtfulness concerning the level of commitment was also seen during the observation. Unless the company is more or less sure about the positive reaction to it no further steps are taken. Nevertheless, most of the companies having previous experience in dealing with Russia see the opportunities and continue building the network.

Nine out of ten companies were interested in the whole area of Russia, one company mentioned Saint-Petersburg as a target area. Nevertheless, three respondents from the Finnish companies mentioned Saint-Petersburg and the Leningrad area as the most interesting part of the country followed by Moscow and the Moscow region. The same scope of geography was proved during the observations. The first is explained by physical closeness and also by contacts of different kind. Moscow as a huge commercial center is appealing due to existent demand, purchasing power and developed infrastructure. The rest of Russia is interesting from an opposite point, in particular, the low quality products and huge demand give various opportunities to explore, but the poorly developed infrastructure is seen as an obstacle. Customs and all sorts of government regulations add uncertainty. Appealing factors are developing economy and

business climate. It was noticed that the idea behind the Russian market is the big size means lots of customers.

The decision concerning target market was based on the marketing research as well as previous knowledge. The observation discovered that the choice of target market was informal. Significantly, that two interviewees based their interest of the Russian market on the general knowledge and intuition.

Product

Based on the results of the project it turned out, that highly specialized companies with narrow assortment occurred in the situation when their establishment in the market takes more time and effort. The reasons may be different either the applicability of a product due to different technologies or compatibility or simply long life time of a product.

The companies do not eager to adapt their products during the initial steps of internationalization. Nevertheless, one of the companies has adapted its products to the Russian reality before in cooperation with its previous partner from Russia.

All of the Finnish firms from the RSP project were aware about the Certificate of Conformity – the Russian standard of quality and safety. The observation showed that the approach to getting the certificate varies according to the product manufactured. Companies with “smaller” products like e.g. spare parts or components would prefer the Russian partner to solve the issue, whereas the MSMEs producing the Finnish industrial product were interested in obtaining the certificate themselves.

Operational mode

The operational mode thus to mention is direct or own export. None of the companies during the project questioned the more risky and resource demanding approach. Nevertheless, some of them were aiming to establish sales subsidiary or own export later on. Admittedly, that companies which revealed their decision for further commitment had a positive balance of current activities in Russia (Johanson & Valhne 2009). As

an option for some companies due to the specifications of their activities contractual agreement was in question.

The main aim of the companies was to find the reliable partner to work with or an end user. It turned out that dealing with an end user is more difficult and demands even more commitment than working with e.g. a dealer.

Two companies already have dealers in Saint-Petersburg area and one – an agent. Five out of ten companies experienced irregular export to the Russian dealers/companies. Three companies had a purposeful interest in the Russian market and consequently looking for partners, while other two responded more to the inquiries from the Russian side.

Organizational structure/personnel

There is a wise approach among the Finnish companies participated in the project, that the assistance in making the first steps is needed. The main reasons are as have been mentioned many times the lack of knowledge (including language) and the need of the responsible person in the company. In the first steps of internationalization the international operations are not the prior activities at the time being and there is no assigned person to handle it. As a reasonable option companies prefer to outsource the expert services when necessary to take care of international operations with Russia.

Nevertheless, none of the companies had an employee with the Russian language skills and the need in extra employee was not seen, unless, as one interviewee mentioned, the course “Russia” is really developing. Most of the companies admitted that it is easier to outsource the service of handling the irregular contacts with the Russia partners/customers.

6.2 Language

Being close to Finland Russia is a very different country in many ways. It is important to know the differences to be able to avoid misunderstandings and instead benefit from the mutual co-working.

One of the main obstacles is a different language. Russian language is spoken throughout Russia and is an official language of the country. The ability to speak English as an international language may be experienced not in every Russian company. The company must provide itself with a Russian speaking professional to deal with Russian partners/customers.

The Russian language is vital in making the first contacts. Later on there will appear an English speaking person to handle communication, but in the beginning the message should be addressed in the native language to avoid misunderstanding and confusion of data.

The Russian language is very formal and demands knowing the right sentence construction as well as the correct use of terms. This is applicable also in writing e-mails or letters.

Another important aspect concerns the marketing material. All of the material should be translated into Russian and proofread by a local person to avoid confusions. This is extremely important especially when some technical translations are in question. The direct word by word translation of terms is not reliable and instead of valuable information the results can be unsatisfactory.

The above mentioned was proved by the observations. Some misunderstanding arose because of the wrongly used terms or a different use of a term. The absence of marketing material in Russian caused some times the loss of interest from the Russian party.

6.3 Communication patterns

The main important characteristic of the communication is that the e-mails, so popular and wide spread in Europe, rarely work in Russia alone. The first contact with the person making decision must be always conducted by phone. Nevertheless, the further communication is easily handled through e-mails and even preferable as it allows sending different documents or technical specifications.

Successful communication demands some sort of knowledge from the employee. Technically, the aim of first contact is to arouse awareness and interest which is close to the telemarketing. Thus the person conducting first contacts should be a profes-

sional. This includes being able to find the right contact, get through to the contact (using techniques of passing the secretary if s/he blocks the communication), having knowledge of business correspondence. The best methods and approaches can be studied from the correspondent books, which offer practices of telemarketing. It is worth mentioning that successful sales managers may fail in sales via phone. The main reason is that one can never know who will pick up the phone, the non-verbal communication is disrupted, mimics and gestures are not seen. The only tool is voice and intonations to work with.

It was noticed that it is easier to communicate with the Russian company of the same size, when CEO does the same functions as CEO of the Finnish company, so the trust can be built easier and cooperation move to informal direction. On the contrary, dealing with bigger companies from Russia turned out to be more difficult and demanded much more commitment. Technically, big companies as huge potential customer have lots of commercial offers per day and dozens of calls, which is why it is crucial to be unique and noticeable.

6.4 Business style and decision making

The most important thing to do is to establish a person who makes decisions. Depending on the matter in question different people can be in charge. The best option is CEO or, how the position is called in Russia, General Director, Technical Director is responsible for the technical area and so on. Every company may have the different position titles, so technically it is important to know who makes decisions concerning particular questions.

The characteristic of business style in Russia is value of time, the decisions are made quickly. Often when the company has asked to provide with some additional information and set a date by which it should be delivered, the delay might provoke incuriousness and basically disinterest.

The purchasing power in many Russian industries is limited, which is why the price list should be ready before the potential partner has asked for it. Technically, it is the first thing to request from the Russian side. The main point for the Russian company

is to be able to evaluate the price range and make a decision. Quality is important, but the average customer will choose cheaper product.

The high-quality expensive products will demand different strategy including extensive promoting of a product. In this case the Russian company is not ready to invest own resources to support Finnish merchandise alone, usually 50%-50% approach is applicable.

All offers made to the Russian company should clearly state what precisely company offers, what services or products as well as further action. The very common question from the Russian party: "What exactly do you want from us?" The company needs to understand whether the product needed or not. If the accurate information is not provided in the first hand, no one will bother to make further research.

Important thing to remember is that the agreement is in force after it is signed, verbal promises do not have a binding force. If some arrangements are planned it is worth getting a written confirmation. On the other hand, the Russian party will be waiting a confirmation call a day before the meeting, otherwise it is likely not to happen.

6.5 Initiative and follow-up

Proactive behavior is a key to success in forming networks. Many companies' representatives had some prior knowledge about Russia, but all of the really practical and useful information is gathered experientially. Experience is gained by trying. Successful company in the domestic market constantly take actions to compete better, to enlarge market share, which require a lot of effort. When speaking about the foreign market such actions should be doubled or even tripled. The risk of failure in the first time is high, but trying further will pay back consequently.

Acting initiatively will help to build the network. For example, speaking with a specialist of a certain sector of the industry in Russia may reveal a whole new perspective what is really going on, so called learning-by-doing approach. Some Russian companies would like to meet not to buy a product, but to make a contact for the future and share their opinion on the better options for the company.

Moreover, the company which initiates the communication should remember that it needs this contact, not vice versa. Sometimes, one follow up call may develop in a new beneficial cooperation. As one of the respondents said that “trying more is the best way to do and find out”.

7 RESEARCH CONCLUSIONS AND DISCUSSION

This chapter describes the major findings of the research as well as conclusions. It should reveal whether the research questions were answered and the research methods were good enough for the purposes of the thesis. In addition, the author tried to review the process of this study and make suggestions for the further research.

The purpose of the thesis was dual. The first part was to recognize the approach applied by the micro, small and medium sized companies in their internationalization process, and second aim was to distinguish important aspects in the first stage of internationalization, more specifically making first steps in building the network.

The research showed that the internationalization pattern of MSMEs can be explained easily by the network approach. Despite the closeness of the Russian market and Finland and historically economical relationships between the countries, it is far not the first market to expand to.

Technically, the main reason is the lack of knowledge and undeveloped network. The role of networking cannot be underestimated. Contacts established today will bring the opportunities tomorrow. The main characteristics of the network are trust and information exchange, which enable companies quickly find partners and thus create competitive advantage. The obvious aim in the first stage of internationalization is creating a working network of direct business contacts, enabling the company's integration into business environment.

It is an important aspect to remember that building relationship with a potential partner needs time and effort. The results are suspended in time forming the "lag between most current activities and their consequences" (Johanson & Valhne 1977).

The right partner (dealer, distributor or wholesaler) during the first steps of internationalization may fulfill the knowledge gap, including assisting in dealing with authorities. The process of the contact building in unknown environment demands more time, which is why companies used the benefits of participation in the project. Project provided tailored information about the crucial aspects of the Russian market in the certain field for each company with a list number of potential partners to consider.

The network which starts to form has very low trust, which is why companies try to prevent themselves from possible problems. The trust is gained through time and based on the experience based on successful cooperation.

This research showed that the first pool of partners includes consulting organizations, which are the initial experts of the market in the beginning of the internationalization process. They provide primal information and help to establish the second pool of partners, e.g. distributors, dealers or agents. When company's confidence and knowledge are enough to work with the end users, it may create a third level of partners – direct customers. This situation occurs when company's commitment is high and opportunities are prospective. The development of contacts can be seen in the figure 8.

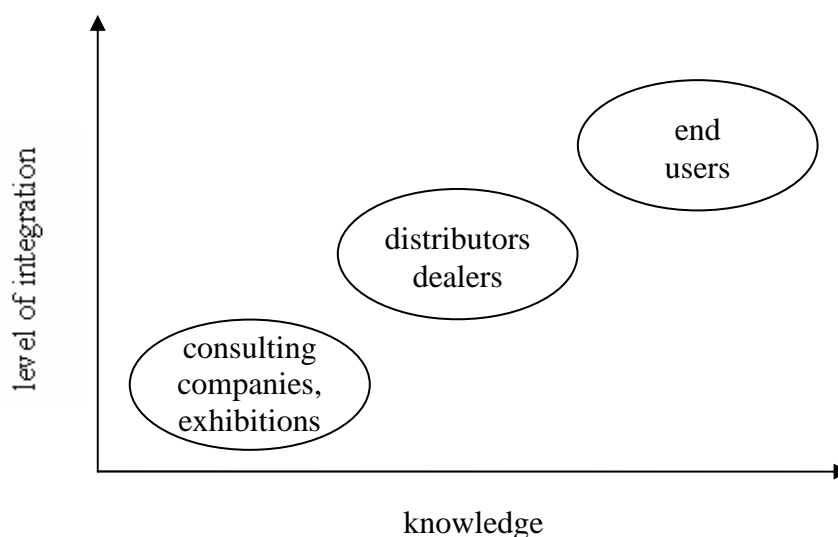


Figure 8. *Basic model of networking development.*

The knowledge involved is mostly experiential and based on the learning process from current activities (Johanson & Valhne 2009). The level of integration aimed at is decided by the decision making person and may be influenced by the success of current activities.

It is hard for an MSME to have vast network through out the world. Being an international among others in the Scandinavian market makes a company a later starter in the e.g. Russian, where it has to invest resources, e.g. time and effort, to create a new

network. Which is why companies try to find some assistance in e.g. consulting companies, which being a part of the network, help to create a new network of customers and partners. Direct export still remains preferable mode of operation as company does not want to risk and having own export is hard due to undeveloped network.

It is worth mentioning that the skills of the Russian language are essential for setting the links for the first time. In addition, the person conducting the initial contacting should know the techniques of telemarketing. All the marketing materials should be translated as well checked for the translation equivalence (Polsa 2007).

The popular method of communication in Europe – e-mailing – should not be applied as means of setting the first contact. Nevertheless, electronic communication after the contact has been set is preferable in communication with partner from abroad.

The important thing to remember is that the decision making person should be identified and all the information should be addressed to him/her or to a responsible person assigned for taking care of cooperation. Unless it is not applied, none of the messaged will be given chance to be received.

The reaction to the requests from the Russian side should be quick. Otherwise the loss of the initial interest is very probable. As soon as the first contact is set and interest is identified it is essential to maintain it. It is not the other side which started communication, thus initiative and activeness proves the interest in cooperation.

Reflection

The work is finally completed and can be critically reviewed. The process was not smooth and inspirational days took turns with the dull ones. The main problem which the author was struggling with was the endless amount of information, which all seemed extremely important and interesting. The best attempts were made to identify the most relevant and up-to-date sources.

The second concern which arose was how to combine both educational purposes of the study and client organization's ones. As a result the practical results concerning the contact finding supported the research and added experiential edge to the research.

The value of these data is seen in the simple conclusions made. Every MSME may follow them to start its own network building in Russia avoiding common mistakes.

The cultural aspect was omitted intentionally. The reason is that too many works and studies have been already conducted, so it is hardly anything could be added as this research did not emphasize the cultural differences.

It is important to notice that the data collected reflect the internationalization pattern to Russia by the micro, small and medium sized companies from the Northern Savo area and cannot be generalized to the companies from other regions or as well as approaches used to expand to other countries. This is one of the limitations of this thesis created by the research method – case study. On the other hand the practical results may be applied by the companies from any country, which see Russia as a target market.

The results would be more reliable if more companies would have been studied in the research, but the number of firms involved was provided by the project.

Further research suggestions

The first suggestion comes from the limitation of the study. As long as the results cannot be generalized to whole Finland a set of similar researches may be conducted. The model of internationalization of Finnish MSMEs can be derived from the comparison.

The further suggestions concern the network approach, more precisely the network building. One interesting topic to study is how networks develop within each operational mode. The aspects of trust, number of contacts, and flow of information may be analyzed, thus comparing the role of networks in the different operational mode applied.

The stages of network development were presented in the discussion section depending on the level of the company's international integration and the amount of knowledge clusters involved. It could be interesting to develop this theory analyzing the "quality" of partners, types of partners or interrelations between them.

Final words

As a result of the thesis the aims set in the beginning of work were achieved: questions answered and results received. The opportunity given to the author playing an active role in Rautainen Savo Palvelut project cannot be underestimated both for the study as well as for the professional development.

The topic of the networking in the internationalization process is now on the rise. Hopefully, some of the conclusions and themes mentioned will give an inspiration for the critical minds to continue research.

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Appendix 1 Short description of the companies participated in the RSP project “Contacts from Russia”

Table 3. *Companies participated in RSP project*

Company	Description	Number of employees	Enterprise category	URL
E-Avenue Oy	Manufacturer of residential electricity distribution centers	130	medium-sized	www.eavenue.fi
Ecomet Oy	Subcontracting engineering company specializing in welded steel structures.	19	small	www.ecomet.fi
Elsor Oy	Designs and manufactures LED lighting applications	2	micro	www.elsor.fi
Is-Vet Oy	Specializes in teaching equipment and laboratory furniture for the natural and technical sciences	35	small	www.isvet.fi
Kome Oy	Manufacturer of trucks and trailers	more than 70	medium-sized	www.kome.fi
Lametal Oy	Develops, manufactures and markets the STARK tools for property maintenance machines, tractors and wheel loaders	30	small	www.stark.fi
Montonen Tools Oy	Manufacturer of fixture and clamping products for the metal industry and tooling products for the plastic- and toolmaking industry	3	micro	www.dmttools.fi
Oplatek Oy	Specialized integrator and expert in optic, fiber optic and mechanical assemblies	35	small	www.oplatek.com

Piippo Hydraulic/ Metallikoneistamo Piippo Oy	Manufacturer of valves for different purposes and needs of machinery and mechanical engi- neering industries	less than 5	micro	www. piippohydraulic. com
Salli/Easydoing Oy	Manufacturer of Salli Saddle Chair®	19	small	www.salli.com

Appendix 2 Semi-structured interview questions/themes

Interview with companies' CEOs

1. Name, company, position
2. Have you had any experience before dealing with the Russian market?
3. Was the previous experience positive/negative?
4. Why Russia was chosen? What factors influenced your decision?
5. What opportunities do you see in Russia?
6. Do you feel that extra resources should be involved to proceed with the Russian market? What kind of resources?
7. Do you consider companies like FinPro or Chamber of Commerce can be a good assistance? Do you feel the need in such kind of assistance?
8. What operational mode would you consider to enter the Russian market? What is the most suitable way of entering the Russian market: dealing directly with end-customers or with intermediary (e.g. dealer, wholesaler)?
9. What differences do/have you find/found between the Finnish and Russian business styles?
10. Do find it easy to communicate with Russian partners (culture, language, etc.)?
11. Further comments

Interview with experts

1. Name, company, position
2. How many years of experience dealing with the Russian market do you have?
3. What opportunities/threats does Russia present for the Finnish companies?
4. Is it easy to make first steps: finding customers and contacting them?
5. What companies usually ask for assistance
 - a. Size
 - b. Field of business
6. What aims or priorities companies, which ask for your help, have?
7. How large is interest from the Russian side?
8. What aspects should be paid attention to by the Finnish companies concerning the Russian business style?
9. What operational mode is in question?

Appendix 3 The company data sheets

A1		Company										
	A	B	C	D	E	F	G	H	I	J	K	L
1	Company	Company 5										
2	Contact person	Contact person 5										
3												
4												
5	Products	Optical fiber, fiber optics, moulded optics										
6	pricelevel	Depending on the coplexity of the order and R&D process										
7	competitors	Number 1 in Finland										
8	production volume	small production only on order										
9	lead time	about 4 weeks; depending on the demand										
10	certificates	ISO 9001:2008, ISO 14001:2004										
11	Customers											
12												
13	Possible application areas	pulp- and paper industry (testing equipment)										
14		clinical chemistry										
15		telecommunication										
16		security (alarm systems)										
17		cabel TV										
18		medical and surgery equipment										
19		dentical equipment										
20		underwater optical datavay										
21		petroleum chemistry										
22		foodprocessing chemistry										
23		lightning										
24												
25												
26	Current agent in Russia	No										
27	Current dealer in Russia	No										
28												
29	Aim for this project	list of customers and distributors										
30		manufacturers of optical cable in Russia										
31		application areas										
32		market info concerning optical fiber, cable in Russia										
33												
34	TIME SPENT ON THIS COMPANY											
35												
36	Findings, contact proposals											
37												
38												
39												
40												
41												

Figure 9. The example of the company's datasheet derived from the primal interviews.