

Market research of window units and doors industry in Russia

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| <p>The purpose of this research is to analyze macro-environmental and competitive forces in the Russian market and to determine possible entry modes for a new company. Some practical information on legal issues and regulatory organizations is also included in the paper in order to create a comprehensive overview of any potentially influential factors.</p> <p>The conceptual framework is based on the macro-environmental market research approach, Michael Porter's five forces framework and international entry strategies. This theoretical framework was used as a basis for formulating interview questions in order to perform adequate qualitative, as well as quantitative, research. Quantitative data were collected from reliable sources and were primarily concerned with macro-economic factors. Interview questions were semi-structured and formulated differently for each of the three respondents, taking their field of expertise into account in order to get the best results possible.</p> <p>By the end of this research it was possible to conclude that economic and political forces are most influential ones that a company in the Russian market will face. The most important of Porter's five forces appeared to be direct rivalry and the distribution chain, the latter of which consists of the supplier, manufacturer and buyer. The overall situation in the Russian market for door and window units does not appear to be that clear at the moment; the same can also be said about the prognoses for the future. For this reason, and also because of the lack of data regarding the commissioning party's strategic objectives and assets, it was unfortunately impossible to formulate a clear plan regarding the development of strategy. However, this work offers ways of obtaining information for a necessary deeper market research, which is needed in this area.</p> | |
| <p>Key words market research, five forces, doors and window units, entry mode, Russia</p> | |

Table of contents

| | | |
|-------|---|----|
| 1 | Introduction | 1 |
| 1.1 | Aim of the study..... | 2 |
| 1.2 | Contents of the report | 2 |
| 1.3 | Commissioning party | 3 |
| 2 | Methodology..... | 5 |
| 3 | Current situation in Russia | 7 |
| 3.1 | Main macroeconomic facts..... | 8 |
| 3.2 | Trends and difficulties of the industry | 10 |
| 3.3 | SROs | 13 |
| 3.4 | Finnish business on the Russian market | 14 |
| 4 | Concepts of market research | 15 |
| 4.1 | Macro environment | 15 |
| 4.2 | Porter's five forces | 19 |
| 4.2.1 | Direct rivalry..... | 20 |
| 4.2.2 | Bargaining power of buyers | 21 |
| 4.2.3 | Suppliers..... | 22 |
| 4.2.4 | Substitutes | 23 |
| 4.2.5 | New entries | 23 |
| 4.3 | Risks of the new market entry | 24 |
| 4.3.1 | Political risk | 25 |
| 4.3.2 | Currency risk | 26 |
| 4.3.3 | Cultural diversity risk | 27 |
| 5 | Strategy development..... | 29 |
| 5.1 | Determining mission and objectives..... | 29 |
| 5.2 | Choice of entry mode..... | 30 |

| | | |
|-------|--|----|
| 5.3 | Monitoring the strategy..... | 33 |
| 6 | Competitive environment in Russia..... | 34 |
| 6.1 | Direct competitors | 34 |
| 6.2 | Extended competition..... | 36 |
| 6.3 | General risks..... | 38 |
| 6.3.1 | Political risks..... | 38 |
| 6.3.2 | Currency risk | 40 |
| 7 | Legislation issues..... | 42 |
| 7.1 | Visas and work permits for foreign employees | 43 |
| 7.2 | Taxation..... | 44 |
| 7.3 | Customs procedures legislation | 45 |
| 7.4 | Information sources | 47 |
| 8 | Results..... | 49 |
| 8.1 | Validity and reliability | 49 |
| 8.2 | Macro and competitive environment..... | 50 |
| 8.3 | Entry modes | 54 |
| 8.4 | Secondary findings..... | 55 |
| 9 | Conclusion..... | 57 |
| | Bibliography | 59 |
| | Appendices..... | 62 |
| | Appendix 1. Interview questions YIT..... | 62 |
| | Appendix 2. Interview questions Finpro | 63 |
| | Appendix 3. Interview questions FRCC | 64 |

1 Introduction

The research paper you are about to read is meant as a practical and guide for a Finnish company on what factors to consider when entering the Russian market. As the author of this work is of Russian origin it was natural to choose a topic that concerns Finnish-Russian connections. Main inspiration for the research question were comments of Finnish businessmen on problems that arise when Finnish companies wish to start operating in the Russian market. Russia has traditionally been a business partner for Finland so it is without a doubt necessary to develop intercultural relations between companies. Although there have been many successful attempts to embrace this subject they did not overview all aspects of business activities. Besides that, recent changes in world economy and their influence on all countries and almost all industries allow assumption that conditions influencing companies' performance needed to be revised. Despite the fact that many Finnish companies operate in the Russian market for a long time, among them construction related firms, there is no comprehensive literature available on macro-environmental factors, competition or entry modes for these firms. This research is an attempt to collect necessary pieces of information in order to put together a picture of what is to expect and to consider when entering the Russian market.

With formulation of the research question "What are the factors influencing performance of a company entering the Russian market?" it was easy to choose conceptual framework; it includes market research approach, Porter's five forces and international entry modes theory. Data collection was based on this framework and mainly consisted of qualitative methods, i.e. observation and interviews, and also supported by quantitative data. Interviews were constructed in a manner that allowed acquisition of most amount of valuable information from field experts.

Theoretical background was based on proven theories; meanwhile quantitative data of changing character was mainly extracted from articles of reliable organizations and periodicals. This was necessary for keeping the research information as much up to date and reliable as possible so that it could be used practically by the commissioning party. Reviews of such topics as economic, political, social and technological situations in Russia were included in this paper alongside with data on direct rivalry, suppliers, substitutes, buyers and possible new entries. The most real risks that a Finnish company can face in the Russian market, such as political, cultural and currency risk were also described in this paper. For even more practical use information on some legal issues

concerning registration of companies, taxation and customs follows the environmental overview. However, law regulations are not the main topic of this paper so they are not scrutinized.

Information analysis has led to pretty much expected conclusions and some recommendations. However, these results cannot be generalized due to the specifics of the industry, current changing global economic conditions and rather small sample of interviewees. Main purpose of the research was successfully fulfilled as the research question was answered and whole process of information gathering, structuring and analyzing was build logically and in a correct manner.

1.1 Aim of the study

The aim of this study is to perform a research of macro-environment and competition forces that influence the entrant-company's performance in the Russian market. This goal is achieved by using conceptual frameworks of market research, Porter's five forces and international entry strategies, and analyzing empirical data on their basis. The main research question is "What are the factors influencing performance of a company entering the Russian market?" Sub questions are the following:

1. What macro-environmental and competition forces have the greatest influence?
2. What entry strategy is appropriate considering these forces?

1.2 Contents of the report

First chapter of this report, introduction, is devoted to overall description of work being done during this research process. It tells about the background of the research question and aim of the study. After that, a short piece of information is given on a commissioning party, Fenestra Oy. Chapter 2 describes methodological approach, i.e. grounds for choice of qualitative and quantitative methods, data collection methods and issues that arose during this process.

Chapter 3 contains empirical information on current situation in Russia, such as GDP, inflation rates, unemployment etc. The scope is then being narrowed to recent changes and trends of the window units and door production industry, as well as Self Regulating Organizations as a regulatory organ created by most recent initiative. Ending this chapter are some facts about Finnish companies in the Russian market.

Chapter 4 opens the theoretical part of this paper by introducing concepts of market research, such as macro-environment and competitive forces approach by Michael Porter. This chapter first tells general facts about such macro economic factors as economic, political, technological and social ones. Porter's five forces approach is being described later in the chapter divided into sub chapters according to number of forces; direct rivalry, buyers, suppliers, substitutes and new entries. Closing part of this chapter is devoted to most common risks during the entry process such as political, cultural and currency risk. Milestones of strategic development for the company are outlined in Chapter 5, which contains the following parts: the mission and objectives, choice of entry mode and monitoring. Next Chapter 6 reveals some empirical data on current competitive situation in Russia as well as tips on information sources that a commissioning party could use. Its structure is based on earlier described Porter's model and general risks.

Chapter number 7 on legislation issues, overviews regulations on visas and work permits for foreign employees in the RF, including lists of some necessary papers. Besides that, this chapter tells about taxation and customs procedures legislation and some latest news about it. Chapter 8 contains the results of the research process; the analysis method, primary findings, i.e. answer to a research question and secondary findings. Finally, Chapter 8 draws the conclusion of the whole research as well author's personal comments.

1.3 Commissioning party

Fenestra Oy is one of the leading high-quality window and door solutions service provider in Finland and a major player in the Nordic countries. It was first registered at the National Board of Patens and Registration in 1917. Fenestra Oy produces annually more than 300,000 window units and approximately 400,000 doors. The turnover of Fenestra Oy is approximately MEUR 120, and the number of personnel is around 800 people.

Fenestra's business operation is divided into six different sectors: construction companies, high-rise renovation, house building factories, retailers, agents and export. Fenestra's headquarters is situated in Vantaa, Finland, but the company's production plants are located in Forssa (window assembly), window component production in Kuopio, production of exterior doors in Viitasaari, production of interior and special purpose doors in Alavus and production of door frames in

Posio. Fenestra also has sales offices in Tampere, Turku, Kouvola, Jyväskylä and Oulu. The entity also includes Fenestra Oy's so far only foreign subsidiary, Fenestra AS in Estonia that has a window factory in Tallinn.

Vision of the company for the year 2012 is to be the most desirable partner as a window and door producer. Fenestra's values are customers' satisfaction, productivity, continuous development, integrity and cooperation. Fenestra is a customer oriented company that promotes reliable delivery and zero error tolerance (Fenestra Ltd Company presentation 2010).

2 Methodology

Theory should proceed data observation in order to know what to pay attention to. Theoretical framework helps seeing the gaps in the information, the missing answers and thus to formulate the research problem (Ghauri & Grønhang 2005, 16). It is argued that this approach is more adequate with quantitative research, but at the same time it is believed that it is almost impossible to rely purely on qualitative or quantitative method in polytechnic research as both of these methods must be used at different levels of a research. At the very beginning of this work qualitative research was chosen as the most appropriate method because the purpose of this research is to find the case corresponding with conceptual framework; not to explain the nature of some event. Here it means that conceptual basis built up by macro environment, Porter's five forces and international entry strategy theories is being used throughout the research as a framework. Data collection and data analysis rely on this framework as well.

Qualitative approach allows a better understanding of the conditions in which market entry plan must be implemented, gives insights on phenomenon, which allows the construction of explanations. It also gives opportunity to embrace many sources of information on the existing and changing market factors by collecting data from actual sources and real-life cases and at the same time analyze these data. Besides, qualitative method has a more dramatic appeal to the reader because it concerns real phenomena and experience without binding borders of quantitative method. But in the course of data collection, application of quantitative method proved to be necessary as well as great deal of information concerning economic macro environment can be represented only in numbers and percentages, e.g. in Chapters 6 and 8. Quantitative and qualitative methods are thus both used in order to perform this research.

Research approach is descriptive because both exploratory and causal have no grounds for use; there is no search for the general explanation of the problem as well as no dependent variables to assess. First, general moments of the market are being described according to conceptual framework of macro analysis. After that the research proceeds with thorough overview of theories and successive presentation of empirical data. Preference in this paper is given to qualitative approach, and data collection method traditionally associated with it is observations and interviews (Ghauri & Grønhang 2005, 109). Collection of empirical data is done by means of reading and analyzing articles, official reports and documents as well as following the news, i.e.

observation. Interviews with field experts are used to reflect on the theoretical framework bullet points. Two of the interviews were e-mail interviews as it was more convenient for the respondents, but constant contact was maintained in order to avoid misunderstanding or misinterpretation of the written questions. It was done for making the interviewing process closer to a real face-to-face one. Interviews were semi-structured; the questions were strictly formulated, but no optional answers given because it allowed the respondent give more information on the subject, express own opinion. According to McQuarrie

...judgment samples are generally adequate for purposes of qualitative research, as long as there is reason to believe that judgment is available. (McQuarrie 2006, 103)

This manner of interviewing is justified here because: a) personal attitudes of respondents are of a value as far as they work in the researched environment daily in high positions and; b) the number of interviews is rather modest, so in-depth approach is justified and there is no danger of information overload or data structuring/classifying issues. Besides that, respondents are representatives of different fields and they were given different lists of questions to emphasize their expertise and not make them answer the questions they are not competent enough in. Interviewees were: Aleksej Leppänen, Senior Consultant at Finpro Oy (respondent A), Juha Rissanen, Vice President of YIT Moskovia (respondent B) and Petri Kekki, lawyer at Finnish-Russian Chamber of Commerce (respondent C). There were no difficulties in conducting the interviews. During the face-to-face interview with respondent A some questions had to be explained in a more detailed manner which is a usual case when interviewer and respondent meet personally and have opportunity for questions' and answers' alteration. Two other interviews, performed by e-mail, were flawless and the written responses were received on agreed time.

3 Current situation in Russia

Market research framework gives clues on how to look at the situation in a given country and what to pay attention to. The aim of this research is to overview the market and industry conditions that dominate business environment in Russia in order for the commissioning party to develop realistic strategy. To do this it is logical to start with macro economic factors, more precisely with numbers crunching. Empirical data in this chapter are meant to demonstrate overall situation in nowadays Russia, meanwhile theoretical analysis of macro economic conditions will be overviewed in the following chapter.

Currently there are 141.9 million people living in the Russian Federation (RF). Over 103 million live in the cities. Most of them work in public and manufacture sectors. In 2009 around 5.8 million people were registered at the Unemployment Office, i.e. 8.9% of active population; however, actual numbers of the Russian Federal State Statistics Service (RFSSS 15.01.2010¹) show that there were more than 6.1 million able men and women who had no job at the beginning of 2010. Most of the unemployed are of 15-19 years old, living in urban areas of Central, Southern, Privolzhskij and Siberian regions. The unemployment rate growth has reached its peak in February 2009; it was the worst for the last 5 years and drew up 9.5% of able-bodied population. According to seasonal factors, unemployment rate always goes a little bit down in spring and summer time, so it did that year too. Partial unemployment was also high by the end of the year; around 1.6 million people were in an unpaid leave or working reduced hours all over the RF.

According to the RFSSS (13.08.2009) average monthly wage in Russia by the end of 2009 was around 18 000 rubles (400€), which is around 3.6% less than ten months ago, but this number varies greatly throughout the country regions. For example, in Moscow area it reaches 37 000 rubles (822€) and somewhere in Kalmykia and Ingushetia it could be as little as 5 000 rubles (111€)². Wages also vary greatly from industry to industry; financial sector employees are in much better conditions than state ones such as teachers, collective farmers or social and medical workers. By the end of 2009 federal and company salaries debts together constituted 5 406 MRUB which means that nearly 0.3% ml people in the RF did not get their salaries on time and/or in full scale.

¹ Федеральная Служба Государственной Статистики

² Note that these are not the lowest salaries, but average ones.

3.1 Main macroeconomic facts

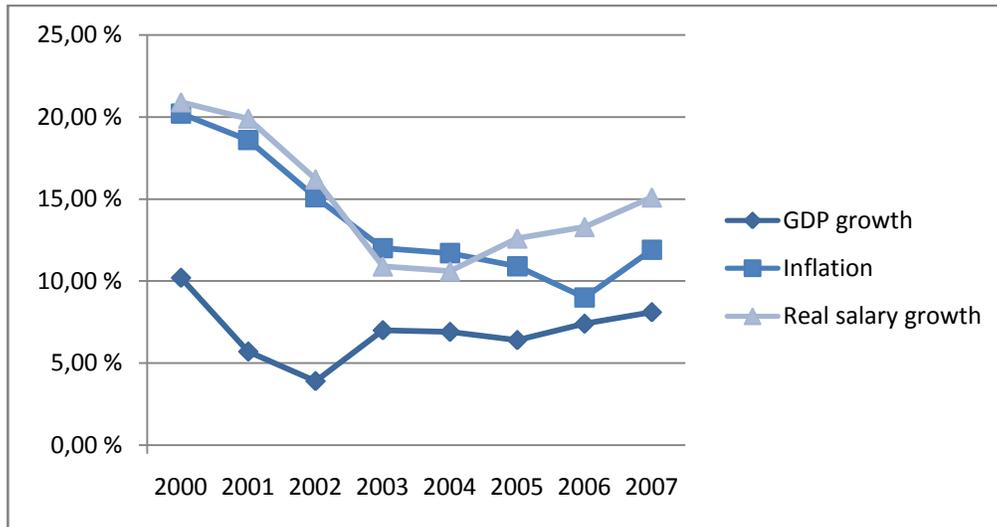


Figure 1. Change in GDP growth, inflation and real salary during Putin's presidency 2000-2007 (RFSSS 2010)

As Figure 1. shows president Putin's governance was marked with growth in Russian economy, especially in the later years of his rule. But the past few years have become challenging, very much due to the global economic crisis. Since 2008 inflation rate in Russia was greatly influenced by the global credit crunch. During the first quarter of 2009 rapid rise in consumer prices and depreciation of national currency were very noticeable. Second quarter of 2009 was characterized by a slowdown in pace of fall of consumer activity (still 8.1% rate from the beginning of the year) and at the same time in currency depreciation. Pursuing strong ruble and commercial activity in the country, the Central Bank has decreased its interest rates for 3.5% for organizations and banks, but not for the short-time individual credits. In 2010 many analysts predict both, the inflation rate growth slowdown as well as continuing consumer price rise.

Table 1. Main economic facts about Russia 2009 (CIA database)

| | |
|-------------------|---|
| Currency | Ruble (Rub) |
| Exchange rate | Floating, around 30 Rub / US dollar (Central Bank 20.01.2010) |
| Exchange reserves | \$439 034 |
| GDP | \$2.117 trillion |
| GDP per Capita | \$15,200 |
| GDP Growth YOY | -7.9% |
| Unemployment | 8.9% |
| Inflation | 11.9% |
| Inflation growth | 11.8% |

Table 1. demonstrates that GDP growth was negative in the year 2009 and amounted around minus 7.9%, however, this result was better than predicted by analysts. The decline was mainly due to cut in process industries production, and the positive effect was made by agriculture, mining and trade. Starting from June 2009 positive dynamics in GDP growth could be followed, though slow, but still drawing up to 0.3% monthly. Federal budget deficit in January – October 2009, according to the Ministry of Finance, was 1 506 billion rubles, which is 4.7% of GDP.

Slump in the process industries production and salaries level has led to lower consumer activity, which in its turn resulted in slowing down the inflation rate during the last few months of 2009. Because of the low demand, producers have to reduce their prices for many products. This coin, of course, has two sides: on the one hand it slows down the inflation rate, on the other it leads to even less salary levels and poorer demand. Overall yearly inflation rate for 2009 was 11.9%. One of the main positive contributions to situation improvement was the rise in oil price and as a result strengthening of ruble.

Concerning other changes that might influence construction related sector and foreign trade it is needed to note that prices for truck transportation have fallen for 0.9% from January till September 2009; meanwhile railway transportation prices have risen for 10.9% during the same period. According to the Central Bank annual report 2009, same period was characterized by fall in the prices of building material producers by 0.2% opposite to the dramatic rise of same period 2008, when the prices rocketed 15.8%.

In February 2010 Ministry of Economic Development of the Russian Federation (MEDRF) has announced that by that time there has been a GDP and manufacture growth in two consequential quarters as well as a slight rise in consumer confidence, except in Moscow and few other cities. This demonstrates, according to vice-president of the MEDRF, Andrey Klepach, that crisis in Russia is coming to an end. Big hopes are pinned on Russian banking activity. In 2010 Sberbank as well as some private banks have acquired shares of Latvian Parex Banka, Belorussian BPS-Bank (93%) and willing to take part in auction of Turkish Garanti bank (21%). Buying foreign banks' shares is kind of a trend at the moment, although experts believe it is not going to last for long. This trend can be sadly but truly explained by the fact that Russian banks are not willing to credit their native companies as they do not find them financially stable enough. In this activity Russian companies can go further than in acquiring, for example, industrial companies due to political reasons, so they are expected to bring some profit to the country at the end of the day (Izvestia 10.03.10).

3.2 Trends and difficulties of the industry

In 2008 around 8.1% of working population of the RF was engaged in construction sector, 7.3% in real estate and 17.7% in retail sales and service sector (RFSSS 2009). Construction sector balance demonstrates that 5.3 ml m² of residential area were produced in Russia in October 2009, which is 9.8% less than in October 2008. Investments in the sector amount 366.2 ml rubles from January till October 2009. The Builders' Association of Russia (BAR) claims that this is yet not enough and that around 70-80% of domestic construction companies were on the verge of bankruptcy and in great need of heavy investment.

During the third quarter of 2009 pace of decrease in manufacturing and building sector has slowed down. Comparing to 2008 volume of production in these areas has fallen for about 18.4%. According to President of the BAR, Nikolai Koshman (Press Conference 22.12.2009), no other area of Russian economy has suffered as much from the world credit crisis as construction sector, where all the financing is based on credit. As far as demand for real estate and building services has fallen down, banks stopped giving out the credits for building in same scales and on the same conditions as before, which had led to decrease in construction. Basically, building statistics of regions all over the Russian Federation reflect the work that continues from the previous years, i.e. more that 50 % of all ongoing projects have not been started in the year 2009. This also means

that there is no proper base for construction work in 2010. In addition to this the credit system will still continue to recover, and it will affect almost all building related companies, as far as only small amount of them are directly financed from the government budget (those that participate in Priority National Projects only).

Comparing prices for building materials from December 2008 and November 2009 there is a minus 8.5% change. However, the BAR experts claim that there will be no further decline in prices; on the contrary, there might be even a slight growth for certain materials, e.g. armature and cement.

Along the heavy construction sector, sector of windows and doors production and sales suffered some changes. As can be seen form Table 2., according to O.K.N.A. Media Group, price for 1 m² of a plastic window in Moscow has grown for around 3% during the period January – May 2009, which equals to almost 5 000 rubbles. All over other regions of Russia this growth was a bit less dramatic and constituted around 2.6%. Experts believe that this change in price was directly influenced by increase in float-glass prices and polyvinyl chloride (PVC) frames³ for around 5%.

Table 2. Window unit price fluctuation July – December 2009 across the RF (O.K.N.A. Media group marketing department)

| | Price per item in rubles | Growth rate % in rubles | Approximate price per item in € ⁴ |
|-----------|--------------------------|-------------------------|--|
| December | 3 869 | -1.3 | 88.26 |
| November | 3 921 | 1.6 | 90.93 |
| October | 3 858 | 3.5 | 88.4 |
| September | 3 728 | -2.9 | 83.12 |
| August | 3 841 | -3.1 | 85.18 |
| July | 3 962 | -0.2 | 89.33 |

Table 2. demonstrates price fluctuations for window units from July to December 2009. They are not very stable, but at the same time, difference in prices never became too dramatic during that

³ PVC became more expensive because of the rising oil prices

⁴ Average prices in Euros are calculated from the average Euro against ruble rate by the Central Bank and the price in rubles

period. This table embraces all of the segments of the window market including 80% PVC based windows, 11% aluminum constructions and 9% of wooden windows.

From 2005 till 2008 there has been a drastic increase in double-glass panes purchase. They were installed in newly built houses as well as in old "Khrushchev buildings". Firstly this was due to increase in personal income of the Russians before 2008; secondly, prices for plastic windows went down as supply still grew at a faster pace than demand. Considering Russian winters it becomes very clear why people want better isolation for their apartments. The greatest market increase was in 2006; it has grown for 47% from 2005. However, situation has changed in 2009 when market growth drew -33% due to global recession. Experts are not yet sure about their prognosis for aluminum or wooden panes but they expect PVC pane units' demand to increase for around 5% in 2010 mostly due to prices on oil and also other economic and political factors (O.K.N.A. Media Group 10.2009).

Lately there has been a strong tendency of regional companies coming into central area. This trend is partially explained by necessity; around one third of regional PVC-specialized companies were at the verge of bankruptcy in 2009. Economic efficiency of the business in the central area went down for 8-10%, and still newcomers from the regions, e.g. Saratov, make producers drop the prices even lower. This is a limited measure of course; it is possible only at the expense of non-customizing and cheaper accessories. The core price is still dictated by the currency rate as far as most of the profiles come from abroad. Some experts claim that most of the small and middle size firms will disappear as the consequence of the crisis, as well as those companies that were not reinvesting their capital and focused on the current cash flow only.

When it comes to demand and customer taste without a doubt the most popular window model for the middle class is so-called triple one, with two static panels on both sides and one that can be opened in the middle. It is the cheapest version and the most heavily advertised. In some areas it could be bought for around 50 US dollars, which is still a huge sum for many. Unfortunately, those people that dared to buy such products from unchecked retailers ended up with mass of complains and sometimes even physical damages due to improper condition of the product sold (OknaInfo 14.12.2009). But every bad story has its good side; it is now getting more and more popular to buy quality windows, even when counting every coin. Companies from the EU, especially from Germany, Finland and Austria have gained respect and good reputation for their

plastic and wooden doors and windows as can be concluded from advertising campaigns of retailers that always stress the European origin of their products.

3.3 SROs

One of the most recent trends in Russian business that cannot be unnoticed is development of so-called Self-Regulating Organizations (SRO). This system is basically the same as the one integrated in most EU countries decades ago. SROs are made up by professionals, who gather into noncommercial regulating organs in order to license and control the work of companies and entrepreneurs in one given area, e.g. construction. This became possible because demand for fast professional assessment and meaningful formulation of rules and regulations in some skill intensive areas was growing bigger with the market development; government interference made things slow going and frequently meaningless. It is now more than 50 SROs operating in building and construction sector; 19 of them are in Moscow and St Petersburg. In July 2010 it is planned to unite SROs into national sectors, but despite this change their mission will remain the same – licensing and controlling the quality. Presumably, any company that wishes to operate in the Russian market will have to get a license from one of the SROs at some point.

Starting from 1 January 2010 all previous building licenses were announced invalid and any company that was not a member of SRO could not operate legally. Some regions of Russia were late to organize their own SROs, e.g. Karelia. For that reason all the companies had to be registered in Moscow or St Petersburg organizations. In January there are still no SROs in Karelia which puts some companies under state pressure to obey ‘alien’ governance or stay with no job.

In order to enter the SRO of builders a company must be listed in the Integrated State Legal Person Register (ISLPR) and supply SRO with:

- certificate of the state granted registration number;
- taxpayer’s identification number;
- a company’s charter;
- constituent agreement;
- extract from the (ISLPR) not older than 1 month;
- report of the director general appointment;
- notice of the statistical codes assignment;

- professional certificates of the board of directors and engineers;
- papers confirming possession of necessary equipment;
- bank information and list of offered services.

All the papers must be either originals or notarized duplicates, each in two copies. Besides that there is single time, monthly and annual payments. The first is compensation fund payment, which is 300 000 RUB, entry payment of 30 000 RUB, and payment for the documentation package and necessary consultation during the entrance process, which constitutes 40 000 to 50 000 RUB depending on the amount of service units offered by a company. Monthly membership fee is 8 000 RUB, and annual liability insurance payment draws 50 000 RUB. Process of registration consists of five stages and lasts from 26 to 62 days (www.all-sro.ru 22.01.2010).

3.4 Finnish business in the Russian market

In the beginning of 2000 Russia was the major export market for Finnish companies. According to the Finnish-Russian Chamber of Commerce (FRCC) it is not though known what percentage of export sales actually stays in the country and what is a so-called re-export. However, for many small and middle -size Finnish companies entrance into the Russian market is seen as a very important and at the same time, natural step; for many, Russian and Baltic States markets are becoming something like a domestic market. Prices of products in Russia are dominated by oil prices, which strongly dictates currency rate and consumer confidence level, and suffer from recent credit crisis, but experts believe that even despite this, pace of Russian-Finnish trade is not likely to decline drastically.

In 2008 main group of imported goods from Finland to Russia were cars and machinery. Total sum of exported goods drew 7 618 MEUR (Statistics Finland 14.03.2010). The second largest group is food and cattle. To some extend this fact can be explained by the trust that Russian customers have towards Finnish products. This is an example of so-called competitive advantage of the country, which should not be confused with competitive advantage of a company. Due to a certain level of cost reduction prospective some companies try to move their manufacture to Russia for more efficiency. Erja Laakso, an international business consultant in the FRCC, has pointed that during the past couple of years focus of consulting has shifted from traditional export to entering the Russian market as a full-fledged member (FRCC Annual Report 2008, 23).

4 Concepts of market research

Company's successful performance in domestic or foreign market requires a reliable and realistic strategy. Management action should be systematical, based on proved data and analysis, just like a research (Ghauri & Grønhang 2005, 11). If the end goal of good management is creating and maintaining mutually satisfying and gratifying business relationships, strategic management has to deal with more narrow scope of actions and objectives; it is about exploring the changes in the business environment and competition, making a plan for the company to adapt and succeed, realizing and evaluating it. In cases of both domestic and foreign operations strategies are crucial for middle-size or large companies and it is important to remember that international strategy should not be a mirror reflection of a domestic one. Normally, large corporations establish whole new departments that deal with international marketing only; meaning that they identify the needs and wants of the foreign customer, make decisions on products and services that would create a differential marketing advantage, analyze most favorable entry modes and develop advertising companies and distribution chains (Bradley 2002, 13). In theory it means that strategy must be formulated in accordance with macro-environmental and competition factors of the industry.

For this reason the following conceptual framework was chosen for this research; macro environment analysis, Michael Porter's five forces model and entry mode strategies. Combined these theories allow a better grasp for market research and describe competitive factors that would influence a Russian market entrant, and what should be the strategy to follow in order to succeed in these circumstances. Market research and strategy development are mutually connected and one can follow the other, but normally the research comes first (McQuarrie 2006, 9).

4.1 Macro environment

Market research can be described as a process of data collection, planning, designing interview questions and, of course, analyzing results; it is an exploration of the market environment, which theoretically is divided into competitive and macro environment (Hague 2003, 1). This division is necessary to evaluate competition and factors that build it up as well as general conditions of the market that might influence a company's performance. Competitive environment, according to Porter's five forces theory, concerns direct competition, suppliers, buyers, substitutes and new entries.

When a company knows its objectives and has chosen the country of entry, it is time to assess the threats and opportunities of the market, relying on the data collected in the process of market research. Market research is a time and money consuming process. Company has a few options to perform it. First one is to collect all the needed information using own professionals, second is to hire some specialists from outside for this task. Both variants have positive and negative sides. Using own workers might not always be appropriate because they may lack the knowledge of the foreign market, culture or language and thus require expensive training or simply think narrow in terms of their company or department only. Hiring someone has its risks too because the outsourced marketing expert can be a great specialist in foreign market but he or she will probably be employed already or cost a lot to a new company, and might not integrate fully with the company's mission and vision. However, both of these two options can give great results when approached with care and can be even combined. According to the Senior Consultant of Finpro it is recommended to use help of the established companies; in case of smaller ones it is always necessary to demand list of sources they used to collect the market information for your company. This is simply a question of reliability of the data (Leppänen, A. 11.03.2010).

There are many frameworks developed for exploring macro environments, e.g. PEST, DEEPLIST, STEEP etc. With some variations they all include insight on social, economic, technological and political factors. They are sometimes hard to distinguish (Brennan and Baines 2008, 74). For example, current position of Russia concerning joining the WTO can be seen as both economic and political factor, agreements on seas pollution reduction are of environmental and economic character etc.

Economic situation analysis includes macroeconomic characteristics of the country, such as inflation and interest rates, GDP and its growth, currency rate etc. Inflation has traditionally been seen as one of the main factors for companies working in a competitive environment; it illustrates the rise in prices and, if wage increase is not at the same level in the country, it might put companies into difficult position of being unable to either raise wages or lower the product price. Besides the pure money issue it jeopardizes employees' commitment and general atmosphere in the firm. On the other hand, a country with lower level of inflation gets a competitive advantage against the high inflation state. Inflation is directly connected with the exchange rate or the currency value of the country. The latter can lead to vanishing of the whole range of companies from the international market due to inability of price based competition; changes in exchange

rate can literally eat up all the profits. Normally countries that have high level of inflation have high level of interest rate as well; simply because if the prices rise rapidly so does the price to be paid for using someone else's money; a creditor is naturally trying to minimize own risks. This factor is very important in construction related industries because people rarely build houses or buy apartments on their own money, they borrow, and if the interest rates are too high consumers will not be able to afford them. High interest rates also discourage company loans for the same reason, thus investments into R&D or modernization are postponed and reduced and the whole business suffers from underdevelopment.

Considering the age we live in, age of new technologies, technological environment plays important role in a company's life. Of course, not every industry is as influenced by new inventions or their spread as the others, but at certain extend everyone feels the pressure. Some authors name it the most dramatic force (Kotler & Armstrong 2008, 209). On one hand, technological development gives way to new improvements, on the other, it ends the existence of the old; 'video killed the radio star' effect. For this reason companies must follow the changes sharply. Even in such an industry as doors and window units production technological changes happen, slowly though; new plastic materials for frames and components are being developed, in some cases plastic replaces glass and the whole method of production changes with introduction of new, more efficient machinery. These changes have short-term and long-term influence. In a short term a company must adapt fast enough to keep up with the competition or even invest in own research and development programs. However, in future it will most likely mean that currently manufactured high-quality products will have a longer life cycle and may have an impact on the slowdown in consumer demand. As technologies become more sophisticated and people become more conscious about the products, more regulations are being imposed on materials used and production methods, which affect all manufacturers (Kotler & Armstrong 2008, 211).

When it comes to political influence it can be extremely strong in some industries, e.g. those that imply use of large quantities of natural resources or whose main client is the government. Political environment is constructed by local, state and supra state (e.g. the EU) authorities that effect operations of the company in one or another way. These ways include taxation, employment conditions regulations, competition legislation, fund spending, trade regulations, foreign agreements and access to certain assets (Porter 2004, 292). Using these tools policy makers can contribute into fair and healthy competition. Besides legal aspects, such issues as social

responsibility and professional ethics have come on stage of political environment some years ago (Kotler & Armstrong 2008, 211). The former is becoming more and more popular as organizations of entrepreneurs with social responsibility emerge in countries with developed economies like Germany. Unfortunately, it is sometimes hard to combine good deeds with making profit, but generally it can be seen as a promotion tool for a company or even as an investment. This trend is very weak in Russia yet. Partly this is due to economic crisis, partly to lack of habit of holding social responsibility. But thanks to its rarity every case attracts a lot of attention. It can be claimed for sure that Russia still remains a country with very strong political forces and both direct and indirect influence is definitely affecting every business, domestic and foreign alike.

And, of course, common information on foreign market should not be forgotten; it embraces physical and geographical features of the country, such as its location, prevailing landscape and weather conditions, natural resource possessions and physical borders with other countries and social structure. This kind of information is usually available from state databases and such reliable web sites as World Bank or CIA for free. Collecting all these data must be done with consideration of specifics of the industry and the organization. Information on purchasing power of a new market can be assessed by investigating foreign companies' turnovers and recent business history as well as average real income in the country and consumer index, depending on the kind of product a company wants to sell. Population statistics, or social factor, is usually seen as data on age and sex distribution, population growth, education level, mortality and disease as well as population density in cities that dictates trends for the construction industry; how many new houses and apartments will get into use and furnished, how much people are able to pay for their wants, how much they actually earn. Last but not least, environmental factor is starting to play its role finally in Russia too as it starts following the world standards on pollution and recycling (Ministry of Natural Resources and Ecology of the RF 03.2010).

In order to evaluate which of the macro-environmental factors plays greater which lesser role in own specific business it is good to develop an evaluation scheme. Each of the factors should be assessed on a scale from 1 to say 5, or 10 from the position of likelihood, impact on the company, urgency and then sum of these points. The higher the number is, the most obvious it becomes that this or that factor will play a major role and consequential management decisions must be taken in order to deal with it. From all the collected data most important pieces will comprise the

SWOT analyses dimensions. In SWOT analysis strengths (S) and weakness (W) can be seen as two ends of one dimension. They both include factors or characteristics of the company that are relevant to its main competitors; they are determined through the firm's assets and resources analysis. Example of strength could be strong brand, developed distribution channel and cash reserve; meanwhile weakness can be present in form of undeveloped communication system, poorly educated personnel or weak market position. Opportunities (O) and threats (T) lie in another dimension. These two are based on analysis of a company's business environment, i.e. factors that are not under its control. Opportunities normally come in form of increased income rates among population, opening of new markets or expansion of existing ones. Threats are usually unfavorable legislative or political interference, interest rates growth, new entrants etc. SWOT analysis should be brief, sharp and timely. To begin with a resource-based approach management points the angle at which to look at company's possessions; all internal resources of the company are seen as a basis of competitive advantage; the source must be appropriate, sustainable, preferably durable and unique (Brennan & Baines 2008.99). In case of Finnish company this could be a management network, distribution chains or access to banking and information resources unavailable to its Russian rivals.

4.2 Porter's five forces

Macro environment creates conditions at some extend similar to all industries in a given country. To evaluate competition one must look into the industry, which can be described as a

...group of firms producing products that are close substitutes to each other. (Ghauri & Grønhang 2005, 38)

According to Porter's five forces framework, a business does not exist in the environment of direct rivalry only, but also in conditions created by suppliers, buyers, substitutes and new entries or so-called extended rivalry (Porter 2004, 6). Every starting business has to invest first in order to have reasonable returns; competitive forces described by Porter and degree of their influence determines levels of investments and returns in an industry. Main idea of the five forces framework is to show that every business exists in environment that includes far more players than direct rivals only. A company must find its position in this system in order to assess existing threats, set the pricing and evaluate own prospective profit and loss.

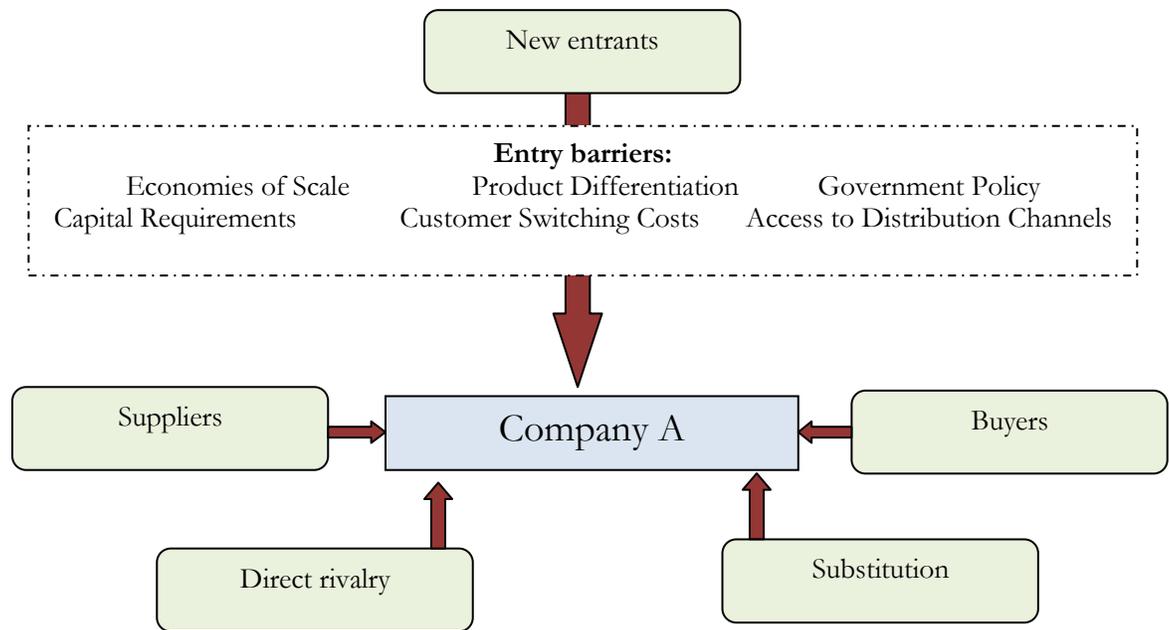


Figure 2. Porter's five forces model including entry barriers for new entrants

Figure 2. demonstrates relationships between the company and its competitive environment according to Michael Porter's vision. These forces; direct rivalry, bargaining power of suppliers and buyers, threats of new entries and substitution, determine the degree of competition in a given industry, which in its turn influences the choice of competition strategy and level of investments into industry. All the forces are overviewed in the following chapters.

4.2.1 Direct rivalry

Direct rivalry is a competition that comes from other companies operating in the same area and selling similar goods. It can sometimes be problematic to specify who are the direct competitors due to smaller or bigger differences in sorts of production or target groups. It can also be the quality or prices that put the rival away from your league. However, price competition, according to Porter, is not likely to last for long and rivals are normally able to catch up with a price cut leader (2004, 17). When competitive companies are known it is time to evaluate their performance and marketing strategy. Common strategy among several companies leads to more severe competition, especially in case when a firm has very few or single line of production. Other factors that increase competition are high level of investments and thus unwillingness of the rivals to share market returns; sometimes returns are not seen as money income only but also a brand

position and overall reputation of a firm. Slow growth in a given industry does not ease competition either; in mature industries there can be very little resources left for further development and expansion sometimes leading to a struggle for them. Industries with large number of players and/or lack of differentiation are as well characterized by volatile rivalry. If there is no monopoly or oligopoly situation, consumers win but it puts companies into position when they are forced to fight for their client with all means possible. Another sufficient determinant in the degree of rivalry is the following exit barriers: a) specialized assets with low liquidity value; b) fixed costs considered by labor contracts and others; c) interrelationships between company units that influence company's reputation and common assets; d) emotional barriers, such as management aspirations, loyalty or other non-profit related reason and; e) state and social restrictions that do not allow easy exit due to the following consequences that influence the community (Porter 2004, 21).

According to Brennan and Baines, rivalry can be even tougher between domestic and international companies. This fact is easy to explain; international companies can afford losses at a greater extend at the expense of another country's market; meanwhile home-based firms have no such compensation or back-up markets (2008, 66). In his Competitive Strategy book, Michael Porter claims that international companies can bring some diversity to the existing extended competitive environment as they might have other views on things, other understanding of situation and other circumstances to deal with (2004, 18). With or without international interference, factors influencing rivalry change constantly; when industry matures, new revolutionary technologies are been developed or state regulations, amended picture of competition changes with them.

4.2.2 Bargaining power of buyers

In case of a manufacturer its buyers are normally not the individual customers; most likely that they are companies or retailers. However, they possess the same buying power over the selling companies, i.e. they create demand, only with different accents. The main difference between individual consumers and retailers is that the latter can influence the choice of the former by promotion and advertising campaigns. Buyers influence prices and profitability levels to a greater or lesser extend according to the following factors. The fewer buyers there are, the more control they have (Brennan & Baines 2008, 68). If purchasing power is in hands of basically one or two

clients they can dictate their conditions to the seller with more effect than if the seller had multiple buyers. If buyers have to spend a large portion of their available resources on a product or if the products are not clearly differentiated and their quality is not important, it is likely that buyers will choose the least expensive option and cause price competition. Low switching costs also allow the buyer move freely between sellers, so if terms of one seller do not satisfy the buyer anymore the latter can simply go away with no losses. This is normally the case in low specialized and low binding relationships. Another threat that may come from buyers is a characteristic of retailers but not individuals; possibility of a backward integration by retailer puts the manufacturer into position of offering more favorable terms on demand or face the buyer entering manufacturing industry and becoming a direct rival. Besides that, backward integration interrupts the existing distribution chain. Nowadays distributors and retailers are a necessary part to almost any distribution chain; they provide cost-efficiency or on the contrary, can be ineffective (Hague 2003, 53). However, for becoming a credible threat a retailer must possess necessary information and know-how. This knowledge also gives a buyer an advantage of comparing prices offered to competitors, production costs etc. and thus demand better terms (Porter 2004, 26).

4.2.3 Suppliers

Suppliers provide materials necessary for a company's production. The degree of their influence depends on few factors that basically can be seen as a reflection of the buyers' power factors (Porter 2004, 27). First is the structure of the industry; if there is a monopolistic buyer supplier will hardly dictate its will to the only customer. If, on the contrary, suppliers are hard to find and clients are many it is more likely that buyers will become dependent. Another threat coming from suppliers is so-called forward integration, which can be seen as a phenomenon quite similar with backward integration because it reflects expansion to other realm; in case of suppliers the move happens in direction of establishing own retail chain and becoming a direct rival. This scenario is especially likely to take place in industries where it is more cost-effective to have own distribution chain and when reorganization is easy and relatively inexpensive. Suppliers' power over selling become more feasible if there is no need for them to compete with substitutes due to their lack or insignificance or if supplier's product differentiation and switching costs are high. All these factors put supplier in a superior position and leave buyers with less choice. However, if a buyer is very important for the supplier or does not see supplier's products as very important, the balance of power changes; in this case retailer can win the opportunity to demand certain quality or price.

4.2.4 Substitutes

As it was pointed earlier, according to Porter's five forces approach competition exists within a given industry. Substitution in an industry refers to products or services that share most common characteristics. Most illustrative example is probably threat of synthetic materials replacing natural components when possible due to higher price of the latter. Determining a substitute for one's product can be a hard task because it is difficult to evaluate the degree of similarity, the clientele response and credibility of threat. Twenty years ago no one saw the Internet as a possible substitute for printed periodicals or even books. Threat from substitutions is especially topical in industries connected with advanced technologies. The pace of development can produce a substitute in a manner of months. Normally, core competitive advantage of new substitutes is their price because of lower production costs, less labor or capital intensive production. At the end of the day it is a price-quality combination that makes a substitution a serious indirect competitor (Porter 2004, 24).

4.2.5 New entries

Threat of new entries comes from the companies that do not yet compete directly but might do so by introducing new line of production, refocusing on new target group, merging with other manufacturer. Main factor defining the level of threat from newcomers is the industry entry barriers (Brennan & Baines 2008, 66). Entry barriers can prevent a firm from entering at all or put it into competitive disadvantage; on the other hand, this normally works well for existing companies as their returns increase with fewer entrants. Sometimes these obstacles are created naturally, e.g. by high cost of raw materials; sometimes operating companies contribute into their reinforcement (Hitt & Ireland 2009, 49). Porter names six main entry barriers: economies of scale, product differentiation, capital requirements, switching costs, access to distribution channels, cost disadvantages independent on scale and government policy (2004, 7). First one, economies of scale concerns costs of a unit production and the absolute volume of production. Main danger for a newcomer in this case is that the entrance has to be made at large scale or, if in less significant scale, at cost of losing the cost advantage. Any of these two puts a business at risk. Second barrier is product differentiation. It occurs when there is a clear leader in the industry or strong brand with very loyal clientele. Overcoming this barrier takes a lot of time on building the brand/company identity in the eyes of potential buyers and a lot of money on promotion and

advertising. Third barrier arises from need for heavy investments and for that reason is called capital requirements. A company entering new industry might have to acquire costly facilities, e.g. factories or warehouses, machinery and equipment as well as run development programs or bare start-up losses. Switching costs barrier refers to costs connected with switching from one supplier to another, e.g. personnel retraining or equipment modernization. Basically this barrier is about challenge of adjusting to a new source in a most appropriate way. Fourth barrier, limited access to distribution channels refers to a struggle for a position in an existing distribution channel and thus attracting the partners, or for creating a new channel. This barrier is normally heavily influenced by existing companies, especially in case of long-term exclusive agreements between parties, e.g. in raw materials processing or aircraft manufacturing. Fifth barrier, cost disadvantages independent of scale, comes from existing companies that have gained cost advantage thanks to other than economies of scale source. Pretty much everything can become this source; it depends on the country, industry, requirements of production and sometimes just luck. However, main sources named by Porter lie in areas of technological advancement, raw material access, favorable locations and developing skills of personnel in labor intensive industries (2004, 11). Main characteristic of the source of cost advantage should be its unavailability to the competitions and new entrants. And finally, last barrier is policy of government which can close access to certain industries or limit it strictly. Influence of the state policies and risks that a company faces in that relation are overviewed more in detail in the following Political Risk Chapter. In order to evaluate real risks considering entry barriers it is advised to determine the entry deterring price, which is described by Michael Porter as

The prevailing structure of prices... which just balances the potential rewards from entry... with the expected costs of overcoming structural barriers and risking retaliation.
(Porter 2004, 14)

Calculating the deterring price assists in decision-making process and may even demonstrate that entry attempt in given circumstances will not be successful or justified.

4.3 Risks of the new market entry

It is argued that mostly companies go abroad not for the cheap labor or raw materials alone, but mostly for fewer risks (Brennan & Baines 2008, 216). Whether that is true or not in case of the RF, before investing into any kind of activity in a foreign market, it is vital to assess all risks in

order to decide whether it is worth getting into it and to develop the mechanisms of avoiding traps and dead-ends. These evaluations must be based on market analysis as they influence the choice and development of an entry strategy and risk management.

In order to protect oneself from political, currency and other risks at least at some extent a company must develop a risk management strategy. There are a number of insurance companies that deal with different uncertainties and can offer their service. Of course, company's size, host country, partner status and stakeholders' network play big role. The insurance companies can determine the area of their interest as well as price when they assess the readiness of a given company for the given market (Bradley 2002, 131).

4.3.1 Political risk

Political risk is any risk that is associated with politics, as can be seen from the name. In order to protect one's company from political risks it is necessary to evaluate the level of protection of foreign assets, efficiency of legal system as well as level of corruption and overall level of state interference.

Western business tradition very often sees government influence as interference. And it can be so when state plays the negative role by setting price controls for foreign companies, as well as quotas and tariffs, heavy taxation, slowing down the process of giving licenses and permits and interfering with the currency rates. A market with a high level of state control is normally a characteristic of a country with weak currency and high inflation rate. In this case domestic government promotes kind of a patronizing policy, which is of course illegal, but in fact often takes place. Protection of manufacturers' rights and products' authenticity should be taken into account as one of the risk factors because they play important role in yet developing markets, such as Russian one. Due to underdeveloped juridical system its efficiency can be jeopardized by corruption and dependency on the government.

Another political risk is nationalization of a firm's property. This is now rarely the case in developed countries but still can take place. Nationalization is a method of transfer of privately own possessions to the state for compensation. Normally, nationalization takes place when a firm

cannot fulfill its obligations towards its workers, or has a debt that puts it on the verge of bankruptcy (Connor & Milford 2008, 37).

Unwanted intervention from the officials can also come in other forms.

“Corruption could include organized crime, politically motivated damage to a foreign company’s assets, and the request for bribes from all levels of government, including the judiciary, the police, politicians, bureaucrats and social services.” (Brennan & Baines 2008, 219)

And finally, the last but the largest scale risk is general political instability due to weakness of the current government, wars etc. To companies this simply means potential shift in regulations and protection of foreign investments and intellectual property into unfavorable dimension.

4.3.2 Currency risk

International company has to deal with different currencies and thus puts itself at risk which arises from movements of currency values against each other. If sales operations proceed in different currencies, so normally do the revenue and cost calculations, debts and interest rates and returns on investments. Currency risk must be included in market research as a concept lying within the macro-environmental economic factors. Basically, currency risk is a concept connected with economic environment framework and can be described as a sudden unfavorable change in currency rate (Shoup 1998, 5).

Whatever currency risks are, they are to be taken into account. Risk management mainly deals with two types of currency risk; systematic, e.g. interest rate risk, inflation risk and others that influence all sorts of investments; and unsystematic, which mainly strike the industry and specific business. Needless to say, that in Russia both types of risks exist and demand effective risk management strategy. Risk management team has five main tasks to accomplish. First one is to recognize the risks, determine its type or types. Secondly, measurement methodology must be developed, i.e. the management must know at which extend which amount of currency is at risk. This task intersects with the third one which is measuring the exposure of each currency to risk in

a given country; here concrete numbers must be calculated already. And final two steps are choice of risk management strategy and hedge execution (Shoup 1998, 12).

4.3.3 Cultural diversity risk

Concept of cultural risk can be seen as a part of social environment framework. Business in Russia is still very often seen as business in terra incognita. Problems arising from cultural diversity had led to many companies' operation interruption in Russia on one hand, on the other they became the stimulus for exploring and studying the ways of international communication. With a little bit of patience and mind openness any cooperation can be successful. Probably each foreigner coming to and working in Russia faces cultural shocks; some because they think that business culture of European Russia does not differ a lot from European and find themselves in the wrong, others, because they do not know what to expect at all.

The most obvious difference between Western countries and countries like Russia, according to communication theorists, is a high context culture of the latter (Moran & Harris 2007, 50). Basically this means that if something is not said it does not mean that it is not meant to be heard and taken in consideration. For a foreigner it might seem a little awkward that he or she is expected to understand the blink of an eye or facial expression as 'yes' or 'no' or 'maybe'. This is, of course, a simplified example but the point is that non-verbal and intuitive communication is vital for those who want to build long-lasting relationships with Russian partners. A foreign entrepreneur should never try to talk business immediately; instead he or she should have a necessary small-talk with a Russian partner and thus build the ground for any serious discussion. There are known cases when business lunches have stopped before any business talk has started just because no proper mood was created and on the bases of few exchanged phrases interest in common business was put out.

Another important aspect is initiation, meaning that any newcomer, whether he or she comes into a working group or starts acting as a business partner, must be accepted by the majority. Successful business relations in Russia as in many Eastern countries is impossible without trust and feeling of 'one of ours'. That is why it is recommended for Finnish representatives to stress common traditions and character similarities of two cultures, not the differences. Building commonality will save lot of nerves and at some point even money while working in Russia.

Concerning this aspect of Russian business culture one should not forget about the first one; if manager of some Russian company says that they want to make friends with a Finnish company, it does not exclude the possibility that they also want to squeeze some money out of it. This is probably the most vivid example of reading between the lines in a high-context culture.

Hierarchy still plays important role in daily working life in Russia. Here in Finland it is common to call your superior, teacher or neighbor's parents at their first names. It is mostly unacceptable in Russia as it is in Germany or Japan. Foreign partners must really pay attention when somebody is introduced, because it is always better to remember first name together with father's name. Nowadays business etiquette changes rapidly and many Russian business men are used to being called at their first name or as *Gospodin Petrov* or *Gospozha Petrova*, i.e. using 'Mr' or 'Ms' and a family name. Together with their foreign partners they learn how to pronounce each other's difficult names, especially Finnish ones, as it is very topical. But even despite current changes, superiority and seniority are highly praised in Russia (Wilson & Donaldson 1996, 58).

Misunderstandings are unavoidable in intercultural communication but it is worth investing in studying each other's ways. It is up to a company's management to minimize the cultural diversity risk and consequences of unawareness. Face-to-face and personal contacts are the ground of proper business communication in Russia. And finally, some basic issues to remember are that Russians do not trust the deal which is not sealed with signatures, they do not follow the rules word to word and they expect understanding and mutual respect as well as other nationalities (Smith & Bond 2006, 40).

5 Strategy development

As it remains fair, market research is meant for structuring and guidance of managerial decisions, i.e. all the information that a company managed to get on the market, such as presented in Chapter 3, must be used to develop a strategy. Strategic marketing mainly concerns marketing effectiveness of a firm. Aim of a strategy is achievement of a competitive advantage by embracing own assets in given macro and competitive conditions, reinforcing it and keeping it. Competitive advantage is normally achieved by one of the main three strategies: cost leadership, differentiation and focus. First one refers to lowering the prices for customers usually by production costs reduction. Applying this strategy management must take care of most efficient facilities and machinery, all possible cost reductions at expense of e.g. R&D or qualified personnel. At the same time, cost leadership can provide protection from all competitive forces; economies of scale act as an entry barrier, low costs satisfy buyers, greater flexibility in relation to suppliers leaves the latter with less power and substitutes are normally unlikely to appear.

Differentiation strategy is basically about emphasis on one or several features of the product or service other than price; it can be a strong brand, high quality, excellent service or well established dealer network. Ideally, differentiation should promote customer loyalty, well above-average returns and thus strengthen a company's position against all forces of extended competition. And finally, focus strategy may embrace one of or both former strategies but stressing the selected target group, production or market segment. Focus strategy is not aimed at the whole industry or market; its effect can normally be seen within a narrow scope. Whichever strategy might seem more attractive for a company at a given stage of development it must be justified in terms of corporate and strategic objectives as well as assets and market conditions (Porter 2004, 34).

5.1 Determining mission and objectives

As a first step of strategic development a firm's management must decide on corporate objectives and mission they will pursue. For example, a company may determine that it is of most importance to differentiate its products from others, to achieve high sales numbers or to establish itself as a serious player in a new foreign market by gaining a certain market share; that would be an objective. The mission could be a much broader task; delivery of high quality products to new customers, developing the industry, becoming the most wanted partner or other general goal.

Objectives must state what the company wishes to achieve in a given period of time; strategic objectives are normally long-term and marketing ones consider product and certain market. There are arguments about characteristics of proper objectives; the SMART approach gives fine clues. S stands for specific, M – measurable, A – attainable, R –realistic and T for timely. Major point is that objectives must be realistic; otherwise company will find itself in a position of false forecasts and unexpected results. In order for the objectives to be real a company must put them in the context of current market situation, in other words, to perform a ‘situation review’. This includes marketing audit or research, SWOT analyses, competitive forces overview and development of assumptions (Brennan & Baines 2008, 102).

5.2 Choice of entry mode

Choice of entry mode depends on few variables; objectives of the strategy itself, company’s situation and conditions of the country of entry and of the industry. Most common modes are exporting, strategic alliances and foreign direct investment (FDI). Export can be performed by means of sale to foreigners that visit company’s domestic market, with help of foreign distributor or agent and finally via own subsidiary abroad (Bradley 2002, 245). Exporting normally gives the company necessary experience and offers certain limited degree of involvement. It is quite logical to start with exporting for most businesses for the reason of lower risk, lesser involvement and greater mobility. At the same time there are some disadvantages in exporting; it constrains the variety of operations, reduces level of control from the host country, keeps the company at the level of supplier only and currency rates influence the level of returns. It is normally preferred when dealing with similar markets and existing products.

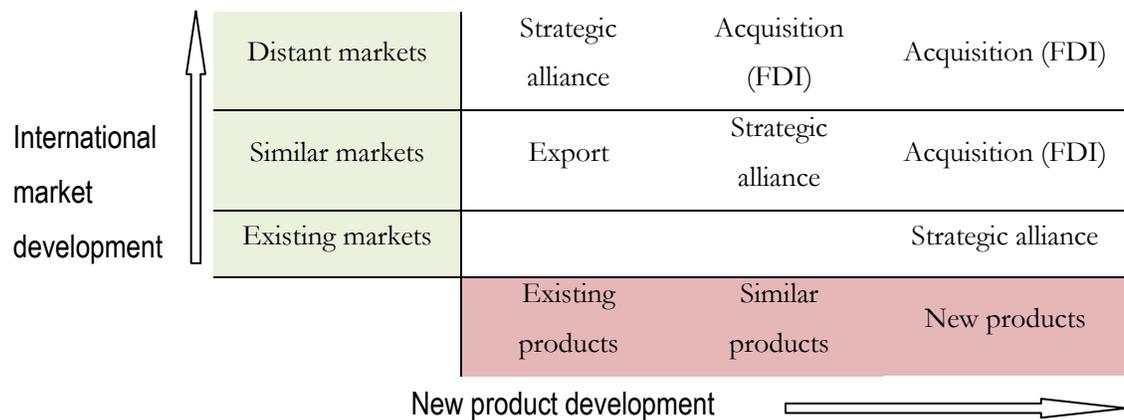


Figure 3. Modes of entering new business, adopted from Bradley, F. 2002

Figure 3. demonstrates how two key factors, market and product development, influence the choice of an entry strategy. The further we go from existing conditions the more logical it is to choose a more complicated entry mode, such as strategic alliance or foreign direct investment.

As it is often considered export can be the first step only in a foreign market, the next one would be to choose one, or several combined, of the contractual entry modes or strategic alliances; licensing, technical agreements, franchising, co-production agreements, acquisition or direct investment. The very first one, licensing, is basically buying or selling by contract of product or technology; it offers low-cost knowledge transfer and investment. Current global economic situation makes it a great advantage. Licensing gives a chance of relatively safe entry to the difficult and rapidly developing markets, such as Russia. It also offers a local partner as a sort of a guide and additional support. However, costs of adaptation of technologies and control can be quite high. Industries recovering from the economic crisis must be carefully examined in terms of costs and rewards. Besides, licensing is always risky from the point of opening up of the corporate knowledge and secrets. Sadly but true, fraud takes place often in Russia, so this risk must be seriously evaluated. The other side of this issue is 'promoting' possible perspective competitors. Even established partners must be reassessed if the owners or board of directors changes; the new administration might have different views on cooperation.

As can be seen form Figure 3., it is expected that company moves from less risky and simple ways of conquering foreign market to more sophisticated and demanding ones. Licensing and franchising might be enough at some point but it is likely that with further development of company's operations the strategy will change as well. Franchising can be described as a form of business where one company sells rights on its developed business model to another company, a franchisee, normally within restricted area and time frames. Franchisor is still the one that has to do all the market research and evaluations, but at the same time by franchising it gets a chance to exercise new opportunities (Spinelli & Rosenberg 2004, 3).

In a highly complex Russian market, a firm might also consider joint venture, or acquisition strategy. Basically, both seem appropriate for the commissioning party, but if the company aims at securing their product knowledge, reducing the risk of incompetent partner and has enough resources the management might prefer the latter option.

Foreign acquisition, one of the FDI forms, refers to the acquirement of a foreign company that has necessary assets such as established brands, information or distribution channels. This strategy allows instant possession of already made and used advantages and gives immediate share in the foreign market. This was the way chosen by such giants as UPM-Kymmene. Normally, best timing for it is when the currency of the country of entry is rather weak. It is an expensive venture so only wealthy companies can afford it. It is not only about funds; technical and marketing skills as well as technology transfer will generate costs as well. According to Porter, it is hard to make an acquisition profitable because the company that is being bought is in some kind of trouble already, which means that the buyer will most likely inherit it. The market for companies dictates prices, including the floor price, at which acquisition can be performed, which does not allow the above-average profit that often. That is why acquisition disappoints managers' expectation a lot and that is why the acquirer must be extremely good at operating the acquired business (Porter 2004, 352).

There are two main ways in which acquisition can be done; first one is complete legal integration, when all assets and liabilities are transferred to a new owner, board members change and management functions and R&D of the two companies are integrated. Second one is not that time consuming; ownership change allows both companies to exist as separate legal entities but often leads to decentralized management and complicated structure. It can be still stable and profitable and very handy in a way that Finnish and Russian legal systems differ greatly so two companies do not have to deal with legal issues changes that much. The greatest advantage of foreign acquisition is that it allows experience and information exchange between very different cultures, which invests into R&D of the companies at a high degree. Building material companies' acquisitions tend to reduce competition as the potential efficiency gains can still be low, but they can gain support from the state. Risks that Finnish acquirer must keep in mind are cultural diversity, very often unwillingness of local employees to work for a foreigner, misperception of the Russian market and high prices of synergy, much higher than for domestic buyers. The main challenges then are; evaluating the acquired firm's assets, finding compromise within management teams and choosing the right moment in time (Bradley 2002, 312).

In case of a smaller budget and wish for choice of location it is recommended to start a joint venture. Joint venture can be effective from strategic point of view because it makes use of separate business organization and thus allows common work with limited liabilities. Joint

ventures are widely used in products and service distribution to foreign markets (Gutterman 2002, 1). Though joint ventures are not burdened with reorganization issues, still all the establishing procedures and strategic decisions have to be handled with accuracy.

5.3 Monitoring the strategy

Final stages of strategic planning are resource allocation and monitoring. This means that by that moment budget must be cleared, numbers given for every resource and every segment of operation. All executive persons have to be appointed and detailed plan for the nearest year developed. It should include milestones considering which progress evaluation and critical analysis of objectives realization will be made. Monitoring is necessary for several reasons. First of all it demonstrates whether the company stays true to its mission and actually going to the planned direction. Secondly, it highlights the objectives that were set and either reached or not and at what cost. And thirdly, monitoring gives tips on what and how is in need of correction or development. It can be an early alarm for some malfunction or even can prove the whole strategy being inappropriate. Considering the seriousness and the scale of the issue in question it might be necessary to change tactics or whole strategy. The latter will of course demonstrate incompetence of those in charge of strategic development, but will help avoid trouble for the whole company. Monitoring allows not only insight on things going on within a company but on trends in competitive and macro environment. It is up to company's analysts to follow the changes in society and the industry; this can not only point new issues but also ways to use them. At the end of the day, monitoring should demonstrate whether company's performance is in accordance with changes around and within it and whether it satisfies the stakeholders (Hitt & Ireland 2009, 38).

6 Competitive environment in Russia

Research of competitive environment is based on earlier described Porter's five forces model. Macro-environmental factors are mainly overviewed in Chapter 3 and are not revised in this chapter. Empirical data for research were collected via observations and interviews. Research approach is descriptive as was mentioned in Methodology Chapter; the aim is to describe the phenomenon of competitive environment in accordance with theoretical framework but not to explain it or figure out the dependencies between possible variables. First part of this chapter is devoted to direct rivalry as research results stress its importance most. Buyers, suppliers, substitutes and new entries are united under one part because they currently play lesser role than direct rivalry in the industry according to the respondents and offer little empirical information.

6.1 Direct competitors

Companies producing doors and window units on the territory of Russia can be seen as direct rivals for the commissioning party. Their choice and specifications of products may vary but not greatly. To mention some concrete companies it is worth to demonstrate a table.

Table 3. Top 5 best window service companies by February 2010 (O.K.N.A Media Group⁵)

| Position | Name | Domicile |
|----------|-----------------|----------|
| 1 | Modeline | Moscow |
| 2 | EuroOkna | Moscow |
| 3 | Moskovskie okna | Moscow |
| 4 | Satels | Moscow |
| 5 | Kaleva | Moscow |

Table 3. shows top 5 of Russian companies that were named by managers of a 100 companies working in the same industry. Unfortunately, the turnover numbers are not publicly available because companies operating in Russia are not obliged to publish their annual reports and they normally won't do it voluntarily (note that companies mentioned in the table operate in other than Moscow region as well, the headquarters of top 5 happened to be located in Moscow).

⁵ Data is based on monthly survey among managers of top 100 companies

Besides companies mentioned in the table there are such giants as StroyMaster that can be seen as one of the strong competitors because their range of production is about the same as Fenestra's and their reputation goes a long way in Russia. StroyMaster's competitive advantage also lies in well-established distribution chain.

According to different sources, such as newspapers articles, the leaders of windows and doors producing and selling companies are only estimated. For example, Okna Hobbit (Окна Хоббит) is one of the leaders as they fit in top 5 window sellers of the Moscow region. They produce PVC window units with help of Italian and German machinery from VEKA profiles. Wooden and aluminum window panes are also in their line of production, as well as accessories. As many other firms they offer their own service for installation and maintenance.

EuroOkna (Евроокна) which takes second position in Table 3. is a well-known manufacturer of PVC and aluminum doors and window units. They have been on the market for around 15 years and gained their position in top 3 companies in private sector plastic windows' sales companies in Russia. The company offers production from European materials, stresses its quality and professionalism of all the workers.

And, of course, it is necessary to mention the Simpleks (Симплекс) company, which is currently often being named as one of the leaders of window manufacturing; they cooperate with Russian companies like Proplex and Realit, as well as foreign Coulisse, ROTO, Flexi Force, Sipar, Reynars. They are famous for producing high-quality standard PVC and aluminum based units as well as customized windows of unusual colors, shapes and sizes. This might seem superfluous in many countries but in Russia it is a good strategy because desire to show off and stand out are still pretty dominant. Gazprom and Lukoil can be named among their clients.

Finnish companies that can be seen as rivals operating in the Russian market are Lämmin Ikkuna Oy, which operates in St Petersburg, Moscow and Kazan', as well as Velux Russia that has been operating in the country since 1991 and has gained great reputation. M-Domus operates in Russia with domicile in Moscow and works as a subsidiary of Finnish Luontotalo; it offers mainly wooden houses in the Russian market but also window and door units. Companies like Hatrick Oy, which specializes on warm and fireproof doors and glass units can hardly be seen as direct competition company. Their line of production differs from Fenestra's main operations and thus

intersects only partially. When it comes to Russian based companies the rivalry is intense because window and doors manufacturers can be found in a great number throughout all Russian regions. Although many of these companies sell brands by, e.g. Tiivi or Veka, that have their subsidiaries and licensees in Russian production.

Currently there are 3 564 companies producing plastic doors and window units in the Russian Federation (RF), 264 companies producing wooden window units and 23 producers of wooden-aluminum and aluminum-wooden window units. Plastic-glass window panes are produced by 18 companies only, heat-insulating by 47 companies and sound-proof by 40 firms only. Mostly companies are concentrated in Central and Privolzhskij areas (O.K.N.A Media Group).

6.2 Extended competition

Buyers and suppliers together with the manufacturer very often constitute a distribution chain, although it is popular among large companies like Proplex to have own distribution chains within a firm. However, buyers as companies and individuals have changed since the collapse of the Soviet Union. Unlike in the early 1990's, when window and doors selling companies were few and could choose their client, current Russian market is characterized by rather healthy competition, when finally quality becomes the decisive factor. Such trends as customer loyalty or brand name were basically unfamiliar to the industry in the RF 30 years ago. In course of yet immature rivalry retailers have dropped their prices in order to attract a confused customer. However, market development law has taken its toll; the prices have reached their bottom finally in the 90's and whole sector had shifted to a customer-based model of operation. Despite the huge amount of retailers all over the country 75% of population of the RF, according to latest research (FasadInfo 08.2009), is still in the need of new window units, so there is a customer to fight for. This guarantees enough work for retailers and thus large amount of retailers all over the country. Unfortunately their exact number is not officially estimated.

When it comes to suppliers it is quite obvious that they very often dominate the level of competition in the industry, especially such a material consuming one as window and door production which demands wood, glass, aluminum, PVC etc. Talk about PVC deficit has started in Russia long ago. In 2006-2007 it was forecasted by experts that although all producers work at full capacity, production would have to be tripled by 2020. In 2008 Russian market consumed around 975 000 tons of PVC meanwhile only 579 000 tons of it were produced in Russia. Giants

as Sayanhimplast, Kaustik and Plastcard were determined to enlarge their productive outcome, but 2009 was also a year of PVC deficit although demand fell up to 40% comparing to 2008. PVC import was not a solution either; prices rise dramatically in that case. China and South Korea have the leading importer positions at the moment. Some producers plan to go further in their development. For example, Rusvinil is planning to build a new PVC factory near Nizhnij Novgorod, which will manufacture as a licensee of Solvay. This and other factors will play role in PVC pricing, but at the moment, import material constitute the price at a greater extend (BAR).

Table 4. Top suppliers of window and doors components (O.K.N.A. Media Group)

| Product | Glass | Profiles | Sealant components | Accessories |
|----------------|------------------------|-----------------|---------------------------|--------------------|
| | AGC | Rehau | Proplex | TBM |
| | Pilkington | Proplex | TBM | PROMA |
| | Siberian Glass Company | Profine Rus | Robitex | Vitrazh |
| | Modern Glass | Tatprof | Komplectservice | DoorHan |
| | Story Master | Deceuninck | Siberian Glass Company | OknaComforta |

Table 4. demonstrates variety of suppliers of products necessary for window units and doors construction starting from glass and ending up with accessories. Each group is represented by only five companies named by O.K.N.A. Media Group as top ones; most of them have production and sales facilities all over Russia. This fact must be taken into account because building up a distribution chain is a top priority for Fenestra. This process includes choosing supplier/suppliers on ground of their product range, proximity, reputation and prices; as well as finding retailers, if Fenestra will not retail within own company. Connecting these factors and criteria of their choice is the third one – logistics. Transportation companies like Abordaj, Russkij Transit, Translogist and hundreds of others can offer their service. Every region has own smaller companies, e.g. Karelia Tral, and representatives of such giants as Russkij Transit. Preferring one or another will depend on the scale of operations and range of cities (RZhD 22.03.2010).

There is another way too – organizing own logistic department. This option often seems less favorable mostly due to start up expenses; it is necessary to organize storage facilities, purchase trucks and trailers (new or used), hire personnel and save for technical maintenance. Besides that, it will require routes development, scrutinizing timetables and controlling demurrages (periods of forced idle condition of means of transportation) for better efficiency. Agencies like Concept

Logic can be used to assess profitability of own logistic operations and offer ways of rationalization (Foreign Business Support 2005).

In case of window and door production technological development and creating adequate substitute is unlikely. There are innovations in the plastic materials market but they are not developed nor spread enough to substitute e.g. PVC. It is hard to imagine a substitute for a door or window in a house; only smaller scale substitutes are possible now, mainly in accessories. These substitutes cannot be classified as credible threat.

And finally, entry barriers remain rather high in case of mass door and window units' production. High costs on raw materials, components, factory or other land rent, as well as economies of scale demand heavy investments. Complicated system of obtaining licenses and permits is also seen as a barrier in many regions due to bureaucratic procedures. Because of the recent economic crisis companies tended to leave the industry, move closer to areas of higher buyers' activity and merge. On one hand, it has made the industry harder to enter. On the other, as some experts assume, it has left 'empty spaces' which have to be filled in by new entrants.

6.3 General risks

Russia's economy has changed faster than any other economy during the last two decades (especially in areas of automobile production, agriculture, import of nuclear waste). Of course, this has caused dramatic changes in legislation, taxation, level of government interference and the very way business is done in the country. It is clear that any instability, even positive but not smooth and predictable enough, can be the reason of concern for foreign investors and market entrants. Finland has a long history of dealing with rapid changes in Russia and is probably one of the most cautious and aware partners, which gives Finnish companies advantage to others.

6.3.1 Political risks

Russia is a country with high distance between classes of society; this means great deal of likelihood that sudden and even violent political changes can take place. Under Putin's and Medvedev's government political arena of Russia has become more clear and stagnant, however, risks connected with political conditions are still very real for foreign companies. First and foremost, political course influences greatly economic situation of the country and its currency

rate. It would be enough to remember severe fluctuations during Yeltsin's late rule, which forced many companies to give up their operations and lose their investments. Besides that, Russia has rarely been good in keeping good relationships with the neighboring and other countries on a regular basis. Incidents in international partnership (e.g. Shell case⁶), or extradition cases (e.g. Litvinenko case) and other, all influence the goodwill of foreign investors.

Current government has been heavily criticized by domestic and international media for turning into dictatorship in many areas of public and business life. Whether that's fair or not, there is no deny that state and local interference can have serious effect on any business. Corruption is without a doubt one of the greatest barriers for foreign as well as domestic companies in Russia. This is mostly heritage from the past; the uncontrolled activities of party members and later the crime wave of the 90's, when every firm had to pay for extra protection to both criminal groups and the police. It is a widespread opinion that no business in Russia can exist without bribes at some stage of its development, although that is a matter of argue. However, it is hard to understand to most of the civilized world, but, unfortunately, that is the way it very often is, although current government had made great progress in fighting corruption. According to head of the Institute of Positive Development (IPD), Jakov Rezgo (Kreml Org Interview 22.10.2009), great amount of foreign companies leave Russian market because of being incapable of dealing with this darker side of the business. IPD is a state organization which task is to show the way of avoiding corruption traps and most common schemes to foreign companies. For example, the very 'popular' way to pinch from the companies is to arrest the company's assets on grounds of some fake acquisition for a couple of days. The problem arises when bailiff who has to cancel the arrest is simply nowhere to find. He is looked for for a couple of weeks, meanwhile the arrested assets get sold to another company as a compensation, or the arresting company get bankrupt and sells out. So by the time the bailiff cancels the arrest finally there is nothing left for the original owner and no one to be found to blame. Unfortunately, bailiffs are named the most corrupted profession among the officials (Rezgo interview 22.10.2009). Certain police departments also have bad reputation for bribes, e.g. Department for Fight against Economic Crimes⁷.

⁶ Tensions around the Royal Dutch Shell company case have started during Sakhalin 2 project on extraction of raw oil. Shell has been involved in the Sakhalin project since 1994. After few years of work it was practically forced into partnership with Gazprom (Connor and Milford 2008, 84). In 2005 Shell was offered a 50% shares package instead of 25%. Of course Shell's investments had to be increased considerably, which they were. Shortly after that, in June 2006, Ministry of Nature started a detailed inspection of the Sakhalin Energy, Sakhalin 2 operator, found multiple violations and stopped all the operations (Politics and Economics Journal 21.03.2007). It was highly complicated political case and resulted in losses for Shell.

⁷ ДЕФС - ОБЭП – Отдел по борьбе с экономическими преступлениями

Normally, companies entering the market have the risk budget. If the company sells goods, not service, risk becomes even greater as these goods can be confiscated or lost. Some cases show that this kind of risk management can come up to as much as 20% of the whole market entry strategy budget. Of course, normally this sum can be smaller and it should not be spent on bribes, but on paying the service of consulting companies which protect them from extra trouble like the snare crime schemes or ever-lasting official procedures. It is however strongly recommended to use the state service. So-called private protective organizations have to be very trustworthy; otherwise they might get their client even in worse trouble than corrupted officials.

6.3.2 Currency risk

All currency operations that involve import and export of goods and services as well as others must be registered and reported according to the Currency Operations Law (№ 173-FZ 10.12.2003). The main purpose of this law is to harmonize rules of currency operations; its main executive organ is Central Bank (Orlov 2010, 347). Being the main monetary body of the Russian Federation, Central Bank controls all decisions and actions concerning national currency – ruble. At the moment there are five official reserve currencies in Russia; US dollar, Euro, British pound sterling, Japanese yen and Switzerland frank. Although Russian Government tries hard to give ruble a status of international reserve currency it is still far from its goal, but negotiations are taking place between Russia and national banks of other countries.

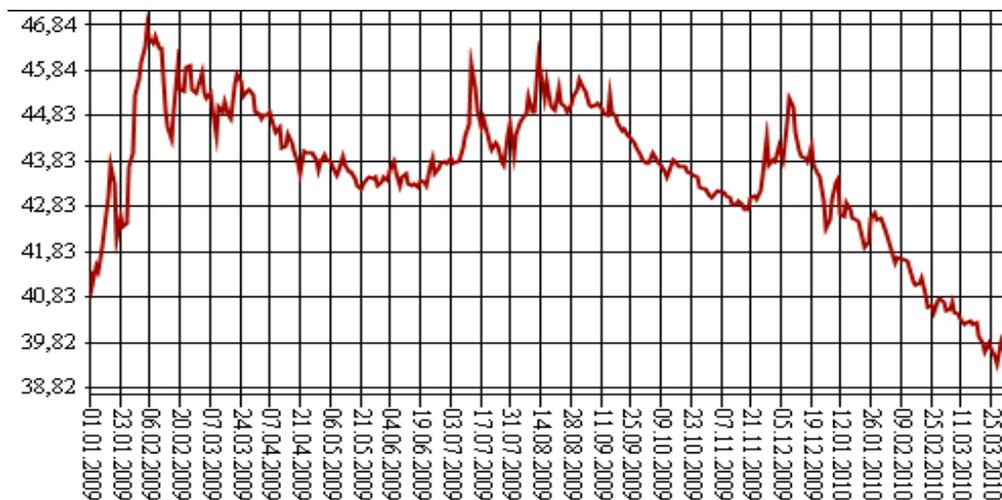


Figure 4. Euro against Ruble trend during period from January 2009 till April 2010 (Central Bank of the RF)

Figure 4. demonstrates fluctuations of Ruble since 2009 till 2010. Since 2007 ICAP started trading in Rubles. Rate of ruble against Euro at the beginning of 2010 was 42.78:1⁸ (Central Bank of the RF 14.01.2010) and it continues to fluctuate. There is a trend at the moment to pursue deals with invoices in rubles between Russian and foreign partners.

Despite the fact that ruble is Russian official currency, many large scale purchases and sales are done in US dollars, e.g. raw materials, land or large quantities of fuel. In the beginning of 2010 prices for means of production were finally denominated in rubles and investment into Russian market has reached its record high for the 1.5 years. According to Reuters (11.01.2010), flows into Russian equity funds have reached USD 244 million during last quarter 2009, which is more than flows in China, India and Brazil. Stock exchange level rocketed in January and has allured even more investors. Ruble had experienced the most dramatic daily increase in fifteen months for 2.6%. Ruble is getting stronger thanks to carious actions of the government, such as Ruble Stabilization Fund, but its value is jeopardized by the locals themselves. This fact had its most dramatic effect in the early 1990's when banks and individuals tried to buy as many US dollars as possible to secure themselves and made a huge impact in country's economic collapse (Connor & Milford 2008, 32). No one says it would not happen again one day, but there are signs of ruble strengthening throughout the time. Due to multiple trends Sberbank has stopped mortgage deals in any other currency but ruble to avoid high currency risk. Some experts believe that despite rather slow economic recovery, Russian ruble will continue to strengthen its positions against US dollar at least till the end of March, and will probably weaken in the second half of 2010 (Ministry of Economic Development of the RF 14.01.2010).

⁸Центробанк Российской Федерации

7 Legislation issues

Legislation environment of the country can sometimes be seen as a rather sovereign one, but most often as a concept within political environment. Legal issues forming that environment differ greatly in Finland and Russia. Law in Finland is descending from the Roman-Germanic legal tradition. After joining the EU in 1995 Finnish legislation has to be harmonized with the EC Company Law Directives. Whole system of business laws in Finland leans towards less legal rules and mandatory stipulations (Toiviainen 2008, 220). Although Russia follows the same Romano-Germanic tradition custom is seen as a source of law, a binding precedent and is still far from liberalization of business activities. In many cases interpretation of written laws is not obvious (Foreign Business Support 2005). Legal issues and complications remain one of the main concerns not only for the newcomers but also for experienced foreign companies operating in the Russian market. Juridical uncertainty gives floor to many violations by corrupted officials and dishonest firms as well as to costly mistakes done by the operating company itself. If any Finnish company wishes to do a research on Russian Company Law it is a laudable intention, but any specialist in Russia would recommend using services of professional legal offices. Normally they will help with everything starting from registration issues, to custom documentation to tax reporting terms.

Legislation concerning foreign entities' operations is being constantly developed in direction of common WTO standards, such as reciprocity, obligations of international agreements, their fulfillment and application of correspondent regulatory means that are meant to burden foreign companies at a lesser extent (Orlov 2010, 344). A foreign company has several options when choosing the type of legal presence in the Russian market: a representative office, a branch office, Limited Liability Company (OOO), joint - stock company (3AO) and partnership. Subsidiaries are the most common legal type chosen by foreign companies. Any of the subsidiary forms must be registered; representative or branch must get accreditation from local authorities. The same accreditation system works for the representative office employees, if no more than five people. Documents necessary for accreditation of Foreign Representative Office staff are: a letter from the representative office with request to grant accreditation, an autobiography letter, three colored photos against black background and one copy of a passport. After that a temporary accreditation is normally given for a period from three days up to three months (Chamber of Commerce and Industry of the RF 09.03.2010). It is to remember that in the case of representative office

liabilities go through the head office unlike in case of subsidiaries. Representative office or branch cannot generate own income and yet have to fill out quarterly and annual tax statements. Foreign company can be totally owned by foreigners except the case of unitary enterprises. In any given form, a firm's management, or special international department, should study the legislative regulations on foreign business in Russia and in their sector of economy, practicalities of establishing own office and preferably list of companies that offer legal advice services.

In order to register an office in Russia, a foreign company must acquire real physical address, i.e. premises other than residential apartment, which would be checked by the authorities and used for registration purposes. When it comes to board of directors or general director, a Russian citizen as well as a foreigner can be appointed. In case of latter a work permit must be granted first. An accountant or any person responsible for accounting and tax reporting must be designated as well as bank account opened. It is always a good option to have it opened in a foreign bank subsidiary and in the nearest or most convenient branch because operations between different branches of one bank can be complicated and in some cases impossible to perform (Federal Tax Service of the RF 2010).

7.1 Visas and work permits for foreign employees

Russian legislation rules labor relationships that happen on the territory of the RF; if a foreign employer hires a foreign employee but the work activity takes place in Russia it must be done in accordance with the Russian legislation. This means that contract and other documentation must be executed as if in case with native Russian employees.

Every foreigner coming to Russia from Finland must apply for a visa. In case of business activities such as company representation or negotiations, a person should obtain business visa. In order to get a short-trip business visa a foreigner should apply to the State Registration Chamber or to the Internal Affairs Department in order to receive an invitation from a named company. When invitation from a company is received next step is to apply for an actual visa at the Embassy of the Russian Federation, which is situated in Helsinki. It is important to remember to register at the arrival to Russia at the Internal Affairs Department and at the hotel.

If a person needs visa for a longer period, up to twelve months, to stay and work at a company's branch or representative office in Russia, the procedure becomes more complicated. Due to large amounts of illegal immigrants Russian officials are struggling to come up with clear and simple legislation, but have not succeeded yet. Currently, all foreign representatives fall under the rule of Representative Office and Branch. The office is granting accreditation cards and work permits for foreign employees (Federal Immigration Service 17.02.2010). The authority that a person wishes to work for must be registered at the Representative Office; then the employee can obtain an accreditation card, apply for a three month single entry invitation and a three month single entry Foreign Representative Office Employee visa. Only after that he or she can obtain a multiple entry one year visa. However, visa is not enough for working in Russia; work permit must be granted to avoid penalty or deportation. Normally work permit is given within three months as the procedure goes on simultaneously with visa execution. To avoid any misinterpretation or faults it is advised to use service of professional law agencies in visa and permit obtaining.

7.2 Taxation

Taxation procedures in Russia are carried out in rubles and no other currency. This is probably one unchanged and 100% clear thing about taxation in Russia. Developed from the Soviet system, current one was introduced in 2001 and is been altered ever since. Taxation is regulated by the Tax Code; however, regional authorities have the right to set their taxation rates within limits set by the Code.

Generally there are five types of taxes for the companies: corporate income taxes, indirect taxes, payroll taxes, property taxes and other taxes on specified products. First one constitutes from 9% to 24% and is imposed upon company's interest, dividend, rent etc. It is the major tax on company's activities that take place in the RF only, eg profit from sales or property rights, dividends and royalties or even compensation for losses, and must be paid monthly or quarterly.

The second, indirect tax is VAT. It draws 10% on the values of socially demanded goods and services and 18% on others. There are cases when VAT can be left out on the basis of a taxpayer's application accompanied by the proof of turnover of the company being less than 1 MRUB. VAT on imports is calculated same way as customs duties and is as well increased by excise taxes. If there is no customs border between exporter and Russia, tax must be determined

as the sum of the price of goods and excise tax (Federal Tax Service 2010). Companies operating with help of agents must be careful when making a contract; it should be clearly noted who and when can withhold compensation from commission, what are the parties' obligation in this case and dates of advanced payments. The problems appearing from unclear conditions of the contract cannot always be solved positively by court (Foreign Business Support 2005).

Payroll taxes are meant for employers only and include Unified social tax (from 2% to 26%) and Insurance against industrial accidents and deaths in the workplace (from 0.2% to 8.5%). This is valid for both, Russian nationals and foreign employees. Foreign employee, however, is obliged to pay from 13% to 30% personal income tax, depending on how many days has he or she resided in Russia during the past twelve months. According to tax legislation, foreign workers do not receive pensions or social security allowance thus the employing company does not have to pay insurance premiums for them.

The fourth, property tax, is regulated by regional authorities and thus its rates vary from city to city, but cannot exceed 2.2%. This tax is imposed on all kinds of motorized vehicles, estate and other immovable property. And other taxes include excises, custom and stamp duties, tax on mineral resources extraction, water tax and duty on the use of flora and fauna. Registration at the State Tax Inspectorate normally lasts around 5 to 7 working days.

General information concerning corporate taxes can be found on the website of the Federal Tax Service (FTS) of the RF. Unfortunately updates are not always current, e.g. "tax navigator" offers information from 2006. But such articles as 'newest in tax legislation' offer review of the latest changes twice a year. FTS recommends agencies that provide qualified service with taxation legislation and calculation, on-line consultation and technical support. Companies like Garant, Codex and Consultant Plus are named as reliable; first two offer information in English as well.

7.3 Customs procedures legislation

Russia is a member of the Eurasian Economic Community and thus shares no common membership with Finland. Although, there is a partnership and cooperation agreement between Russia and the EU. Customs work is regulated by the Customs Code that includes regulations on declaration and tariffs, customs crimes and proceedings. Customs Code allows virtually any kind

of legal import and export (Orlov 2010, 348). Foreign companies that work in Russia can import goods for their personal use on the basis of temporary importation regime contract; however, products for further sale in Russia must undergo other procedures. Normally, in former case importer can gain total or partial VAT relief and tariffs, if any paid, should be returned to the owner during the export of the given goods. Those goods that are imported as a contribution to the charter capital of the company must be exempted from the customs duty under the importation regime contract.

Any person has the right to move goods and means of transport via Russian customs, except the cases stipulated by the customs law, and pass customs control. However, if some transported article fails to fulfill customs regulations it will be either withdrawn or put in a customs storage facility at the expense of the owner (Customs Code, Part 1, Chapter 2). In case when a company wishes to export to Russia it might consider the most popular and probably the easiest way, i.e. using the service of local customs broker that will take care of all formalities for payment. With a copy of freight inventory and data on its weight customs duty can normally be estimated. Broker can even pay the duty to the customs beforehand on behalf of its customer if agreed so. Starting from 2005 it is also necessary to provide a Hygiene Certificate of imported goods in order to prove that they are safe for use.

Starting from 1 June 2010 new Law on Customs Regulations should be ratified due to the reasons that some issues were missed in the 2009 version of the current Customs Code. According to article 168 of a new proposed law it is suggested that customs officials will be granted access to confidential banking information and account transactions. It is explained by global trend and by complexity of a court procedure which is the only way now to grant access to account information of the companies. Work on specifications and amendments of this article is still going on, but the major concern now is the safety of this information; although any officials that have open access to confidential information are obliged by law to keep this data secret further on, numerous cases of leakage are known. For example, some agencies offer for sale lists that contain such information as passport numbers of individuals and sums at their deposit accounts. This is possible only through the officials' immoral behavior (Izvestia 12.03.10).

Any legal or physical person that has suffered from unfair decision or idle procedure of decision making by the customs has the right to apply in written or orally for explanation of these actions

from a certain customs office. The application has to be done within six months from the decision date or from the day when this person was notified about the decision. All legal information on customs acts must be provided publically and free of charge, besides that, head of the customs office is obliged to provide a consultation for those who require it (Customs Code, Part 1, Chapter 4). It is important to use all available sources of information when it comes to customs control and registration and to navigate them skillfully. One of the most challenging aspects of dealing with Russian customs is constant changes in regulations due to international agreements on one hand, and unofficial protectionism on the other.

7.4 Information sources

It is obvious that nowadays information sources are not books and periodicals only, but also the Internet. Most of the information from both official and unofficial sources can normally be found in two or more forms; printed materials, electronic and sometimes oral if we talk about word of mouth and expert consultations. There are some sources of information that are of great use to companies operating or going to operate in Russia. First of all, any foreign firm can request information in the Russian market from the Ministry of Economic Development of the Russian Federation⁹, the Foreign Investment Advisory Council (FIAC)¹⁰. The Ministry mainly assists exporting activities as well as foreign investments.

Finnish-Russian Chamber of Commerce (FRCC) is an organization that was created for purpose of supporting business activities between Russia and Finland in the first place. FRCC possesses full database on Finnish trade in Russia, even lists of companies operating at the time in selected cities, but this information is normally payable; up to 600€ per list. Membership in the FRCC can also be an option; company of a size of Fenestra would have to pay some 1 000€ as a membership fee per year if it wanted to use marketing research service of the Chamber, its informational support as well as possibility to participate in some of the fairs, seminars and trainings for all levels of employees. However, The FRCC operates only in four Russian cities: Moscow, St Petersburg, Ufa and Ekaterinburg, which narrows the scope of its data application, of course. By the end of 2008 821 member companies were registered in the Chamber, number of Russian base members has not changed during past few years and remains equal to 104.

⁹ Министерство экономического развития РФ

¹⁰ Консультативный совет по иностранным инвестициям (КСИИ)

Other official sources to remember are Russian Embassy in Finland, representatives of foreign companies in Russia and commercial marketing research organizations, which can easily be found in the Internet, can offer needed data to a Finnish company, such as Fenestra Oy. Russian government also tries to improve the entry conditions for foreign companies, especially those which bring investments into country. Ministry of Economic Development of the Russian Federation together with FIAC has developed an Investor's Guidebook to Russia which is useful to read; its aim is to support state and private economic activity of foreign capitals by clearing up legal issues and monitoring big projects. Companies like Finpro can offer individual approach in doing market research, industry overview and etc.

Professional construction industry related fairs, such as Mosbild, Stroisib or smaller ones that take place annually in different parts of the country, offer a chance to familiarize with new products and new companies. It is always useful to know who are the exhibiting companies and get in touch with their representatives before the actual fair. The event itself offers opportunity to observe potential partners or rivals in mass, so to speak, and gather some information.

When it comes to obtaining industry information from less formal sources, newspapers and websites of the Builders' Association of Russia or O.K.N.A. Media Group can be useful. It would be unrealistic to try to work in Russia operating with state proven, official information only. Newspapers and magazines, and most importantly, personal exchange of information between Finnish and Russian partners and just acquaintances are to be considered as a valuable source. Besides, it has been noticed by many domestic as well as foreign companies that it is sometimes difficult to get proper, up-to date statistical data on windows and doors sales in Russia. It is partly due to the 'bad habit' of not displaying real sales numbers by companies and entrepreneurs, partly due to underdeveloped statistical information gathering system in the RF.

In case of finding Russian native personnel it is appropriate to use personal contacts, i.e. ask friends and partners who they would recommend; it is usually the fastest and most reliable method. Local and foreign employment offices can also be of assistance to as they possess database of qualified workers. And finally, a worker can be found as in any other country – via newspaper advertisement. It is however, to remember to choose a reliable periodical and check the candidates thoroughly.

8 Results

To start data analysis it was first necessary to make a data reduction for the interviews. Two of the interviews were made by e-mail and thus contained difficult and long questions. One was a face-to-face interview and contained, besides core responses, a lot of information which is interesting and valuable but not relevant for this research. All three interviews were seen as single cases with no relation to each other and, as it was described in the methodology part, questions were opened and aimed at respondent's field of expertise. For this reason some reductions had to be made to answer main research question. The second phase of data analysis, display, included no categorization or coding. All three respondents had three different lists of question according to their field of expertise, with only few similar questions. And the last phase, conclusions, was performed with reliance on theoretical framework of the research in order to answer research question and sub questions. Some secondary findings were also extracted during the analysis procedure. In some cases qualitative data is supported by quantitative in order to sustain the general conclusion. For better comprehension research results are divided into four chapters; validity and reliability, macro and competitive environment, entry modes and secondary findings.

8.1 Validity and reliability

In order to keep the high level of validity in this research first, preliminary formulation of the research question was changed a few times during the course of work for better specification. Besides that, conceptual framework of the research was constantly used as a skeleton for all the data in order not to deviate from the main topic and research question as well as not to leave any valuable aspect unnoticed. For validity purpose interview questions were constructed in a manner that allowed the answers in a given framework. As a result it was possible to compare received answers with research questions. There were several questions that did not fit into main or sub questions of the research but they do not undermine the validity because they serve as a source of secondary findings which are not in contradiction with the framework.

Reliability concerns the repetitiveness of the research and its truthfulness. The latter can be claimed in this study as the research process was performed properly. Besides that, concepts used are established and proven ones. And finally, interviewees and other sources of data were scrutinized and found reliable. However, because of the nature of this research that concerns

given country in a given period of time with a given state of the window and door production industry, results cannot be generalized. Another reason for this is that one cannot normally make generalizations from qualitative research (McQuarrie 2006, 100).

8.2 Macro and competitive environment

The research question was “What are the factors influencing performance of a company entering the Russian market?” The answers can be listed as follows: bureaucracy, legislation, customs, corruption, infrastructure, world economy, local regulatory organizations, personnel and cultural differences as well as few minor ones. However, it is more clear and reliable to divide these answers in same order as conceptual framework, i.e. macro-environmental and competitive factors.

Following the first sub question it is easier to put the factors in order of their importance from respondents’ point of view. According to all three respondents political environment plays great role and has to be seriously considered when entering the Russian market. Legislation issues were characterized by respondent A and C as demanding and different from Finnish or the EU ones, but still rapidly developing towards European standards. Although Russian legislation remains more supportive of domestic companies according to respondent C, he claimed that giant leaps are done during the past few years in European direction. The main laws that Finnish entrant should pay attention to are Consumer protection law, tax laws, book-keeping legislation and Civil Code. Problems arise mainly because of misperception of Russian laws, e.g. when it comes to Limited Liabilities Companies that Finnish managers are almost unfamiliar with. Another source of difficulties is the actual application of laws which by themselves are quite supportive of business activities. Respondent A claimed that all legal issues in Russia are easy to solve by using service of legal agencies, their choice depends on the matter in question. Firstly it is recommended to cooperate with a Finnish agency that has subsidiaries in Russia and thus is acquainted with Russian legal system. In a while it might be clever to switch to a Russian legal agency or hire own lawyer. In two latter options it is though strongly recommended to use personal contacts in order to find a reliable worker or firm.

Other factors of political environment brought up by respondents were corruption, bureaucracy and double book-keeping, i.e. same as mentioned in Chapter 6.3.1. Although, all three respondents mentioned that corruption is not that much of a problem in Russia as many

businessmen abroad think. It exists, of course, but it exists in every other country. According to Ria News (19.03.2010) in 2009 Russia has occupied 15th position in the list of Eurasian countries that are seen as most corrupted by its own businessmen and experts. Generally the conclusion of responses on corruption and book-keeping topics can be drawn as such: it is a relatively new trend now, to do business one hundred percent legally, without bribes and double book-keeping, but companies are willing to follow it. Every player on the market must just build up one's business partnerships and distribution chains with companies that work with same principles. Bureaucracy is weakening its positions as well; currently business in Russia is not ran by the Soviet 'dinosaurs' only but also by the whole new class of young entrepreneurs that have graduated from universities of England and the USA and learned international manner of doing things, according to respondent A.

There is an ambiguity in research results concerning economic environment. On one hand respondent A finds economic situation favorable. He referred to the fact that European and Finnish markets are filled up, meanwhile the Russian market is just developing and its potential is great. It is as attractive to foreign investors as China, India and African countries. Construction related industries are no exception. This can be supported by figures by O.K.N.A Media Group (16.03.2010) and partly by respondent B.

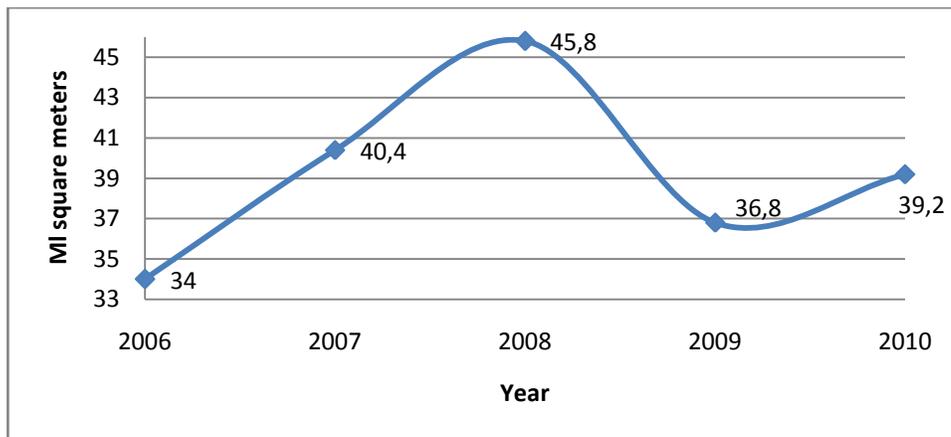


Figure 5. Forecast for PVC constructions market 2006-2010 (O.K.N.A. Media Group)

Figure 5. shows positive tendencies in PVC construction tendencies for 2010. PVC construction base window and door units are currently the most popular and wide spread in the RF (see Chapter 3.2). For that reason numbers in this figure are still valid despite the fact that they do not contain other types of constructions like aluminum and wooden. This figure is partly in synergy

with future prognosis by the Proplex joint-stock company's CEO. He has commented that their experts expect 5-10% rise in demand. Proplex experts also expect legislation changes that will include regulations on energy-efficient buildings which would be favorable for the industry (FasadInfo 16.11.2009).

But this, however, will not save the day according to the same Proplex' forecast; window and door companies simply produce too much and supply exceeds demand. Probably during the second half of 2010 situation will recover. Figure 6. (OKNA Marketing 16.03.2010) contains data showing negative development of plastic window units market in the RF that support the second part of Ploplex prognosis and the following data.

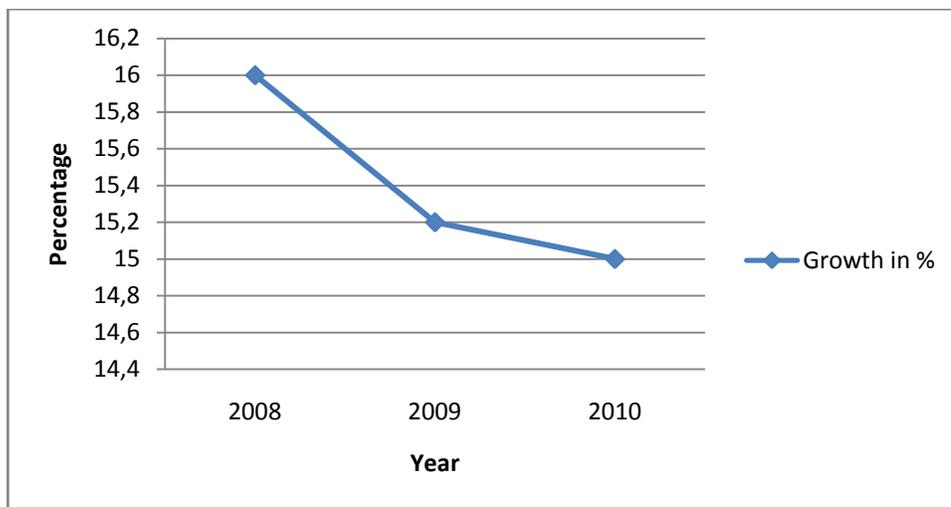


Figure 6. Forecast on growth rate of plastic window units' market (OKNA Marketing)

Current situation of the industry and economic situation in Russia dictates the likelihood of no or very few new entries in the window and door sector in the nearest years. Firstly, this is due to the lack of demand; although buyers' interest is slowly growing again it is not great enough yet. Secondly, prices on raw materials such as PVC and plane glass continue to rise and suppliers are unlikely to give discounts to newcomers. Even such giants as Rusal are forced to keep up with the price levels; besides, big suppliers always prefer state orders to private and smaller-scale ones.

Technological development cannot yet be seen as a decisive factor in window and door construction industry for the reason of slow pace as it was mentioned in Chapter 4.2.4. However, technological factors can be followed in changes of 'recipes' of profile systems construction like

“Green Line”. It uses Ca-Zn as its components and can be seen as more environmental friendly and safe during its production (but not in recycling). Another trend is gluing the plane glass into profile, which allows more light transparency (OKNA Marketing 19.03.2010). One of the recent innovation is a so-called spider system which avoids plastic or wooden frames for windows; the glass holds on to elements of the bearing structure of the building itself with help of spider-shaped fasts. This system allows more daylight inside the building and is easy to handle in case of necessity to replace a broken glass. However, use of spider systems is still underdeveloped and not wide spread (O.K.N.A. Media Group 18.03.2010). Companies that produce components for spider systems are currently actively looking for partners, which can be seen as an opportunity.

Social factors are mainly seen important in terms of determining existing and perspective clientele and as a cultural aspect, i.e. finding common language with Russian partners and colleagues. Respondent B claims that Russian key personnel is more committed to their work, they are often more flexible than fins, although, full commitment to work is lacking when it comes to project directors. “They simply hide if tasks are dragging” comments respondent B. Question of personnel is very topical, according to respondent A. There are many factors to be evaluated when the decision is made on whether to hire Russian or Finnish personnel. On one hand, when a firm hires Finnish employees to work in Russia, it has to pay them ‘Finnish’ salary, plus all the expenses on housing, transportation, insurance and even school for employees’ children. It is expensive, but thinking that Russian employee will be cheaper can be very wrong. According to respondent A, a good Russian manager in Central area can require up to 15 000€ monthly salary. Besides wages, there is also an issue of criminal character, known as “reidering” (рейдерство). This is a process of conquering a company against the will of its owner or director, very often performed by managers of the same company. Once again, according to respondent A, it is advised to hire Russian managers with reference on personal contacts and recommendations.

Together with macroeconomic factors competition ones have proved to be essential for a new entrant. Every entrant must evaluate whether current risks are comparable with profits that otherwise growing Russian market can bring (see Chapter 4.2.5). Respondent B claims that currently there is some unhealthy competition in the Russian market, which in the long run will lead to severe problems in housing industry. Some competitors tend to copy other’s business patterns. The respondent stressed that it would be nice to see more Finnish companies in the Russian market. To get more detailed and reliable information on competitive companies it is

better to follow Federal statistics, Central bank statistics and company's own sources, as respondent B stresses.

Analysis of supplier base showed that currently most popular suppliers of PVC and aluminum profiles and components are Korean based, international company LG Hausys; Maco with head office in Salzburg; VEKA, which is probably the most popular brand in Russia; Profine Rus (subsidiary of Profine GmbH); and also Deceuninck, CREON, REHAU, Roto, VITRAGE, BrusBox, KBE and Proplex. In Moscow region such suppliers as TBM, Firesa, BAJ Plast, Svjatok Profi or ARtek offer their partnership; in St Petersburg VBH or Russian Trade Company can be of service to the commissioning party. Finding both supplier and retailer of window and door units' components or even raw materials near Moscow or St Petersburg should not be a problem. According to respondent A, building a distribution chain is not that difficult but mostly labor-consuming process. Respondent B also mentions the necessity simply to pay attention to the differences of that process in Finland and in Russia. Many doors and window units companies now combine both production and distribution within one organization; they can be seen more as a direct rivalry in some cases. Otherwise no other threat from substitutes or new entries can be seen as critical.

According to respondent B, it is maybe not the best time now for new entries. Keep up and develop existing activities is more effective. Current industry situation cannot be evaluated as the most attractive for the newcomers; partly due to the barriers mentioned in Chapter 4.2.5. Partly because of the recent attempts of the existing companies to attract customers by lowering costs have already led to the price bottom situation and it is likely to remain such for a while. This circumstance creates unfavorable conditions for a new entrant. Respondent B also claims that domestic competition in the Russian market is very creative and tough, however, Russian rivals often do not pay as much attention to their brands or reputation, so that is exactly where competitive advantage of Finnish companies can lay if they chose to follow differentiation or focus strategy.

8.3 Entry modes

Second sub question of the research question concerned the choice of an entry strategy considering the above mentioned factors. Generally it can be concluded that it depends on objectives of the company and resources available. According to respondent A, basically

exporting can be seen as a first step for many companies, but sometimes customs tariffs or other legal regulations may force company to find a cheaper or easier option, acquisition of a factory, establishing new venture etc. It depends on scale of production and made for development of competitive advantage; sometimes forms of presence like factory acquisition can save money on logistics or reduce time of delivery to a customer. Management has to calculate, considering all conditions, which option would be the best. When deciding on entry mode first of all a company should find distributors and importers, which can be same or different companies, build a clientele base, consider entrance and membership in regulatory necessary organizations and then figure out what entry mode will suit best, according to respondent A. It is hard to estimate the general level of success of one of another mode, e.g. foreign acquisitions are very difficult to conduct and can lead to a failure; which can be said about franchising, licensing and others. Although, respondent C notes that the most common and easiest to register form of legal presence in Russia for companies is Limited Liabilities Company (OOO). It is necessary for Finnish managers to familiarize themselves with this form thoroughly and consider that there are normally more details to take into account when registering any form of legal presence in Russia than in Finland. It might be worth collecting information with help of professional agencies on general level of success of one or another form of legal presence. For example, franchising; it became known in Russia in the early 1990s; mostly it was used by foreign food chains like McDonalds and Pizza Hut. It was not until 15 years ago when Russian companies began to use the franchising approach in order to gain recognition over the country and increase profits; they were food chains as well, but also drug stores and retail chains. Normally, franchising in Russia is seen as profitable for several reasons. First of all, Russian customers tend to trust foreign brands and thus good demand is practically guaranteed. Secondly, this approach is useful within large territories. And finally, labor force is cheaper. The other side of the coin is poor protection of franchisor rights so it is recommended to cooperate with the Russian Association of Franchising, they can assist in many legal issues. Franchising is most developed in Moscow and St Petersburg areas. According to reports of The International Franchise Exhibition BUYBRAND, in 2005 there were 138 franchising brands registered in Moscow area (Franchise International 16.03.2010).

8.4 Secondary findings

During the process of data collection and analysis few secondary findings were made. First one concerns the SROs initiative. Basically respondents are still unfamiliar with it due to the fact that

it is a very new thing. It might be better for the entering company to look into this matter using own resources and with time familiarize itself with all advantages and disadvantages SRO membership can give in the future. Second finding is of a rather personal character, but as far as managers' aspirations play important role in foreign trade, it has to be mentioned. Considering all negative or burdening issues of doing business in Russia a manager that wishes to work there must remember that it is a kind of job for adventurous, daring and tough people. According to respondents A and B it is challenging and sometimes extreme, every next day brings something new, but it is very rewarding as far as one can do his/her job well. Being a vice president, respondent B comments

Take it seriously... It takes time and requires many cases serious investments. Invest into personnel and make your business to run locally. Business in Russia needs 100% commitment and presence at place, this business can't be remote controlled from distance HQ (Rissanen 15.03.2010).

9 Conclusion

The aim of this research was to overview factors of macro environment and competition in the Russian market in order to assist the commissioning party in situation analysis and choice of entry mode. This work was started by formulating the research question and sub questions to determine the way in which the research must be performed. Three main concepts were chosen to give a theoretical answer to these questions; market research, five forces approach and international markets entry modes. Based on this framework three interviews were developed. They were performed by e-mail and face-to face with experts in field of international trade and law. Their answers were used to analyze the validity of political, economic, technological and social forces as well as competitive environment forces and to and give answer to the research question.

During the analysis of collected theoretical and empirical data it became clear that among macro-environmental factor most important role for the commissioning party play political and economic factors. Not only are they strong forces but they are at some extend unstable in Russia. Due to this reason, it is recommended to perform very thorough market research before starting any business activity in the RF. Among Porter's five forces direct rivalry and supplier-manufacturer-buyer chain are of most importance in the industry. However, it was impossible to draw a clear conclusion on what entry mode would be the most appropriate for the commissioning party, because first it is necessary to familiarize with company's objectives and assets. Possible pitfalls and threats of every entry mode were introduced in order to form a general picture.

Such issues as membership in Self Regulating Organizations, Custom Code, taxation and registration of companies as well as possible general risks of the Russian market entry were looked through in the research too. This was done because otherwise holistic approach would be impossible and some puzzles would be left out of the picture. During the course of this work it became obvious that there are some issues that Finnish companies' managers are pretty well familiar with, some issues are being misinterpreted and some remain pretty much unknown. From the authors point of view this research brings the reader closer to understanding of market conditions, and more precisely of door and window units industry, in Russia and helps defining entry circumstances, strategic steps and management tasks before the Russian market entry.

This research was very fruitful from the author's point of view for several reasons. Most obvious one is that the research questions were mainly answered. The other result is gained knowledge on different information sources and data gathering procedures available in Russia. This work has shown that it is still sometimes impossible to obtain some data due to underdeveloped information system in Russia; Internet has proven to be useful but personal contacts and publications normally offered more comprehensive and full information. And, of course, personal experience gained by the author during the research process can be seen as a valuable result. Mostly the process was flawless and smooth; conceptual background was easy to formulate, interviewees were eager to answer the questions and results were somewhat expected. Main obstacles appeared, as was mentioned earlier, due to lack of available and free of charge information. Otherwise the research can be seen successful.

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Appendices

Appendix 1. Interview questions YIT

Haaga-Helia University of Applied Sciences
Respondent Juha Rissanen, YIT

04 March 2010

1. For how long have you been working in YIT Moskovia? In what position?
2. Do you find working conditions (communication within colleagues and with officials) different from those in Finland? Where do you see the biggest differences?
3. Are you familiar with the corporate strategy of YIT? Do you feel that it's fulfilled in everyday operations?
4. How often do you (your team) review companies' objectives?
5. Would you describe current construction industry situation in Russia as favorable for new entries?
6. Who do you think are you most serious competitors; Russian or Finnish companies operating in Russia? May be from some other countries?
7. Would you describe competition in the Russian construction market as severe?
8. Would you like to see more Finnish companies in the Russian market?
9. What is your opinion about SROs (Self Regulating Organizations)? Do they make your work easier or the other way round or do you feel any impact from them at all?
10. Does the relationship of YIT with retailers and suppliers differ from one in Finland from your opinion?
11. What is the most threatening or unpleasant issue in operating in Russia from your point of view?
12. Did you have to deal with fraud or unreturned debts from your clients? If yes, at what scale?
13. Do you see corruption in Russia as an extreme barrier for foreign business development?
14. Can you name any third forces that, from your point of view, influence the YIT business seriously?
15. Have you noticed any obstacles when trying to obtain necessary marketing information in Russia?
16. What sources of information in Russia you find most reliable and valuable?
17. What is it that you would describe as most rewarding in working in Russia?
18. What would be your advice to a manager of a Finnish company who wishes to enter the Russian market?

Appendix 2. Interview questions Finpro

Haaga-Helia University of Applied Sciences
Respondent Leppänen Aleksej, Finpro

11 March 2010

1. For how long do you work at Finpro/in your current position?
2. What do you find more effective in working environment in Russia, personal contacts or pure business approach?
3. What is it that you would describe as most rewarding in working in Russia?
4. Do you believe that Finnish companies' presence in the Russian market is important to Finland?
5. What international markets do you see as most perspective for Finland at the moment, in what industry?
6. Do you see exporting as suitable a first step in entering the Russian market?
7. What are the main obstacles that scare Finnish managers of the Russian market?
8. What entry modes in Russia are most popular among Finnish construction industry companies?
9. From your point of view, what are the main differences between entering Russian and the EU country market?
10. Do you see many companies leaving the Russian market now/during the crisis?
11. Is construction industry in Russia attractive enough for foreign investments at the moment?
12. What is the level of success of foreign acquisitions in Russia by Finnish companies?
13. How do Finnish managers prefer to deal with issues of Russian legislation?
14. Is it preferable to hire Russian employees or bring ones from Finland?
15. What is the general attitude among Finnish managers towards double bookkeeping?
16. Is the SROs initiative popular among Finnish companies working or entering the Russian market?
17. What form of data collection Finnish companies prefer; agencies, own departments etc?
18. What are the main complaints concerning distribution chains in Russia?
19. What do you think is the most common reason that makes Finnish companies leave the Russian market?
20. What would be your advice to a Finnish company manager who wishes to enter the Russian market?

Appendix 3. Interview questions FRCC

Haaga-Helia University of Applied Sciences
Respondent Petri Kekki, FRCC

12 March 2010

1. For how long have you been working in FRCC in your current position?
2. Is your specialty Finnish or Russian legislation, or both?
3. Do you think that Finnish companies entering the Russian market prefer legal service of the FRCC or of Finnish/ Russian legal agencies?
4. Does FRCC cooperate with any legal agencies or organizations in Russia?
5. Do you personally see legal issues of the Russian market as a real obstacle for Finnish companies?
If yes, at what extent?
6. Do you believe that recent Russian legislation developments are favorable to domestic and foreign business?
7. Can you name the laws (of both Russian and Finnish legislation) that are the most applicable in your work?
8. From your opinion, to which laws Finnish companies must pay most attention when operating in the Russian market?
9. What main differences in the corporate law of the two given countries are to be considered mostly?
10. Would you describe Russian 'business laws' as supportive of business initiative?
11. Does legal and public registration of business differ a lot in Russia and Finland?
12. What form of legal presence (eg Ltd or partnership) do you see as the easiest to register in Russia?
13. Have you heard many (if any) complaints from Finnish managers about indecent actions of legal agencies in Russia (eg about bribes, selling misleading information etc)?
14. If there was one big change that you could make in Russian business law what would that be?