

Saimaa University of Applied Sciences  
Business Administration Lappeenranta  
Degree Programme in International Business Management  
Russian Business

Mirva Malaki

## **Choosing suppliers in North-West Russia**

Master's Thesis 2013

## **Abstract**

Mirva Malaki

Choosing suppliers in North-West Russia, 48 pages, 2 appendices

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Instructor: Ms. Anneli Pirttilä, Rector, Saimaa University of Applied Sciences

The purpose of the study was to determine how to choose suppliers in North-West Russia. The aim was to find out whether textbook theories of choosing suppliers can be used as such to the business circumstances of North-West Russia or whether the criteria mentioned in textbooks need to be modified by taking the special features of the business culture of North-West Russia into account. Furthermore, the reason was to find out how to manage risks related to supplier choice.

This study was carried out by interviewing experienced business practitioners that have had strong background in business in North-West Russia. Qualitative approach was conducted in semi-structured interviews. Hypothesis of this study was that it is not possible to use purchasing books as sole source of information when choosing suppliers in North-West Russia.

Based on the findings of the study, purchasing books should not be used as sole source when choosing suppliers in North-West Russia. Choosing suppliers is not an easy task to manage and there are many different problematic items to handle. Risk management in North-West Russia is also challenging, but can be managed if there is total control of each step in the supply chain. Further study is required to find out how much the result would vary when taking into account a specific field of business.

Keywords: Supplier, supplier management, supply chain management, risk management, North-West Russia, supplier criteria.

## TABLE OF CONTENTS

1. INTRODUCTION .....	5
1.1 Study background.....	5
1.2 Research objective .....	6
2. RUSSIA AS A BUSINESS ENVIRONMENT .....	7
2.1 Russian demographical and economic environment.....	7
2.2 Area of North-West Russia .....	12
2.3 Special issues between North-West Russian and Finnish business .....	13
3. SUPPLIER .....	14
3.1 Supply chain management .....	14
3.2 Supplier management.....	17
3.3 How to choose new suppliers? .....	18
3.4 The criteria for choosing suppliers .....	21
4. RISK MANAGEMENT .....	22
4.1 Risk management.....	23
4.2 Supply chain risk and supplier risk.....	25
4.3 Country risk.....	27
5. STUDY – PLANNING AND CONDUCTING THE STUDY .....	29
5.1 Methodological choices.....	29
5.2 Data collection .....	30
5.3 Interviewee selection and data analysis.....	31
5.4 Reliability and validity.....	32
6. CRITERIA FOR CHOOSING SUPPLIERS IN NORTH-WEST RUSSIA – RESULTS OF THE SURVEY.....	32
6.1 Questionnaire and interviews.....	32
6.1.1 What are the factors that need to be taken into consideration when looking for a new supplier in Northwest Russia? .....	33

6.1.2 Why those factors are important? .....	34
6.1.3 Three most important factors? .....	35
6.1.4 Are there any special issues that are needed to be taken into consideration, because we are dealing with North-West Russia? .....	35
6.1.5 How to locate potential suppliers? .....	36
6.1.6 What are the risks related to choosing suppliers? .....	37
6.1.7 What are the potential risks regarding supplier search in Northwest Russia? .....	38
6.1.8 How to manage risks related to existing suppliers, in general? Are there any special characteristics in risks regarding North-West Russia compared to other geographical areas? .....	39
6.1.9 How to manage risks related to business in North-West Russia? ...	40
6.1.10 What kind of suggestions would you give for the final choice of new supplier? .....	40
<b>7. CRITERIA FOR CHOOSING SUPPLIERS IN NORTH-WEST RUSSIA – AN ANALYSIS OF SURVEY RESULTS .....</b>	<b>41</b>
7.1 How to choose suppliers .....	42
7.2 Risk management in choosing suppliers .....	44
<b>8. DISCUSSION .....</b>	<b>46</b>
8.1 Comparison to literature supplier choice theory .....	46
8.2. Recommendation for further study .....	47
<b>9. CONCLUSION .....</b>	<b>48</b>
<b>LIST OF REFERENCES .....</b>	<b>49</b>
<b>FIGURES .....</b>	<b>52</b>
<b>APPENDICES .....</b>	<b>53</b>
Appendix 1. Interview questions in English .....	53
Appendix 2. Interview questions in Finnish .....	53

# **1. INTRODUCTION**

This chapter describes the study background and also research objectives are presented.

## **1.1 Study background**

The author's interest to the subject of this thesis arises from work experience in a trading company doing Russian business. The idea for the thesis came up with discussions the author had with business practitioners in companies doing business in Russian territory. The issue seems to be difficult and interesting at the same time.

In business practice it is evident that all textbook theories and methods can not necessarily be applied as such to everyday business situations. There is a large amount of information on supplier management, supplier evaluation and other relevant related subjects to help business practitioners in choosing suppliers. Nevertheless, in some cases the characteristics of business in particular geographical areas make it difficult to apply general theories to decision-making in companies.

While working in Russian trading business, the author could clearly observe that it is obviously difficult to evaluate suppliers and make decisions on choosing suppliers by merely relying on supply management theory. Choosing suppliers in North-West Russia has special characteristics that at least can be assumed to affect a successful choice of suppliers.

To begin with, this thesis discusses general theories related to supplier management and risks in choosing suppliers. In the theoretical part of the study, risk management issues and also the usefulness of country risk assessment are discussed. In the empirical part of the study, a survey is made by interviewing business practitioners that have experience in doing business in Russia, preferably in North-West Russia. The aim of the empirical survey is to estimate,

whether textbook theories of choosing suppliers can be applied as such to the circumstances of North-West Russia or whether the criteria would be necessary to be modified in order to take into account the special features of North-West Russian business conditions.

This thesis is justified as providing information and a guidebook that any company can use when planning to search new suppliers from the area of North-West Russia. The author was unable to find any other study fulfilling this specific information need, even though a lot of information exists about suppliers and their evaluation. This thesis could also be used as a basic tool for a strategic decision-making regarding trading in North-West Russia, as this study gives a framework for any company in the decision-making process in choosing new suppliers in North-West Russia.

## **1.2 Research objective**

The main objective of this thesis is to find out how to successfully choose potential suppliers in North-West Russia and also to assess the risks involved. The aim is to present a comparison between the general textbook theories and the experience of business practitioners gained from interviews. This study will include discussion on several issues that are important when it comes to choosing suppliers and evaluating them. The thesis is covering information about the area of North-West Russia, supply chain and supplier management, criteria of choosing suppliers and risk management.

The results of this study will give management and business practitioners guidelines of the criteria to be applied in choosing potential suppliers in North-West Russia. In addition, this study answers to some extent to the question of how to manage risks in business in North-West Russia. Furthermore, the study also aims in assessing, whether there are differences in the guidelines that theoretical studies give and the experience of business practitioners that is gained from the empirical part of the study.

More specifically the research questions are:

1. What criteria to use in choosing new suppliers in North-West Russia
2. What are the risks in choosing suppliers in North-West Russia
3. To what extent can theories of supply management be applied to choosing suppliers in North-West Russia

This study is limited to choosing suppliers in North-West Russia and does not strive to assess supply management in other geographical areas having same types of specific features as Russia or other countries in emerging economies. Also, it must be emphasized that interviewees have been partly chosen from the work environment of the author and have not been fully selected among a wide selection of Russian business experts. However, the interviewees all have strong experience as business practitioners in North-West Russian trade.

## **2. RUSSIA AS A BUSINESS ENVIRONMENT**

This chapter goes through the demographics of Russia, demographics of North-West Russia, area of North-West Russia and special issues related to business between North-West Russia and Finland.

### **2.1 Russian demographical and economic environment**

Russia is a federal semi-presidential republic and it's the geographically the largest country in the world. Population in Russia is estimated to be 142,500,482 in 2013, according to the CIA World Fact book (<https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>, 2013). Major cities in Russia include Moscow (capital), Novosibirsk, Yekaterinburg, Nizhniy Novgorod and St. Petersburg, which is the capital of Northwest federal district.

Northwest federal district is covering nearly 10% of the area of the Russian Federation and the population is 9.5% (13 462 000 people) of the Russian population. 86% of those people are Russian and the rest are Ukrainians, Komy, Tatarians and Belorussian. There are 152 cities in the area and the area is divided to 10 federal subjects. ([http://russiatrek.org/north\\_west-district.](http://russiatrek.org/north_west-district.)) Northwest federal district covers 12% of all trade and industry in Russia.

Russian economy has gone through significant changes after the collapse of the Soviet Union. Especially, recovering from the financial crisis in 2008-2009 has had impact on the banking sector and the government. Russia has had significant help from the high oil prices and has therefore, been able to correct the budget deficit from the past years. Russia has a lot of natural resources such as oil, gas, forest and steel. These resources keep Russia competitive in the world markets and enable the growth in the economy. Russian GDP was \$2.383 (purchasing power parity) and the real growth rate was 4.3% in 2011. (<https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>, 2013.)

In the following figure 1, there is a comparison of GDP growth outlook of the BRIC-countries in 2012-2015.

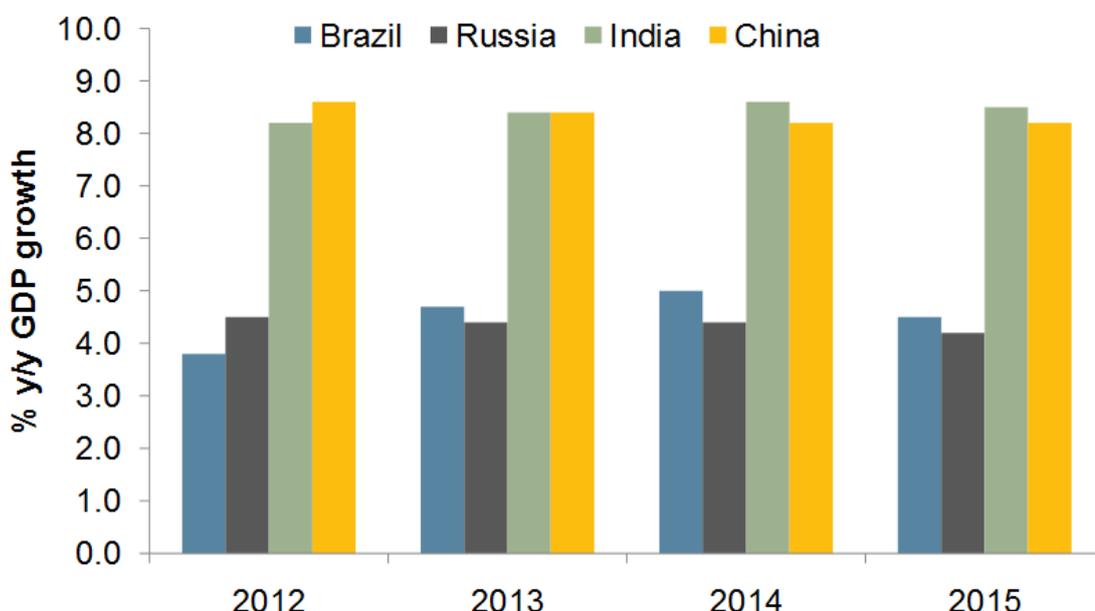


Figure1. GDP growth outlook (Export Development Canada. Russia country risk profile. 2011)

In 2011, there were exports worth of \$ 520.3 billion from Russia and import \$ 322.3 billion to Russia. Mostly exported items were petroleum and petroleum products, natural gas, metals, wood and wood products, chemicals and wide variety of civilian and military manufactures. Mostly imported items were machinery and vehicles, pharmaceutical products, plastic, semi-finished metal products, meat, fruits and nuts, optical and medical instruments, iron and steel. GDP is ought to remain on the current level. (<https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>, 2013.)

The Economist Intelligence Unit makes widely appreciated ratings of country risks and the ratings are listed in the Figure 2. According to the Economist Intelligence Unit (<http://country.eiu.com/article.aspx?articleid=1411154125&Country=Russia&topic=Risk&subtopic=Credit+risk&subsubtopic=Overview>, 2013), the risk assessment of Russia is as follows in 2013:

Sovereign risk BBB: Stable. Public sector external debt is low. Small budget deficit for years 2013-2014 suggest that there will not be high need to be financed externally in the forecast period.

Currency risk BBB: Stable. Currency risk improved in 2012 due to high oil prices and stabilization of some political factors.

Banking sector risk B: Stable. The ratio of non-performing loans has stabilized and the credit has begun to recover. Deteriorating global situation possesses a risk for the banking sector.

Political risk B: Though, Vladimir Putin has been re-elected, it is clear that his "reign" is coming to an end. There is a risk that discontent will spread in Russia.

Economic structure risk BB: The economy of Russia is still highly dependent of the energy exports.

Country risk BB: Stable.

According to ProQuests' country forecast, Russian economy should remain in current level. Inflation should have seen the highest peak already and it should slowly start to show signs of decreasing figures. Private consumption in the country is recovering and it should be increasing year-by-year. This is a result of recovery in the incomes and consumer credit, but also as private consumption is only up to 50% of the GDP, there is still scope for brisk growth.

The economist Intelligence Unit rating:

AAA = Capacity and commitment to honor obligations not in question under any foreseeable circumstances.
AA = Capacity and commitment to honor obligations not in question.
A = Capacity and commitment to honor obligations strong.
BBB = Capacity and commitment to honor obligations currently but somewhat susceptible to changes in economic climate.
BB = Capacity and commitment to honor obligations currently but susceptible to changes in economic climate.
B = Capacity and commitment to honor obligations currently but very susceptible to changes in economic climate.
CCC = Questionable capacity and commitment to honor obligations. Patchy payment record.
CC = Somewhat weak capacity and commitment to honor obligations. Patchy payment record. Likely to be in default on some obligations.
C = Weak capacity and commitment to honor obligations. Patchy payment record. Likely to be in default on significant amount of obligations.
D = Very weak capacity and commitment to honor obligations. Poor payment record. Currently in default of significant amount of obligations.

Figure 2. The EIU rankings

(The Economist Intelligence Unit Limited. Country risk service handbook, 2012)

In the following The Economist Intelligence Unit figure the sovereign, currency and banking sector risk scores are presented.

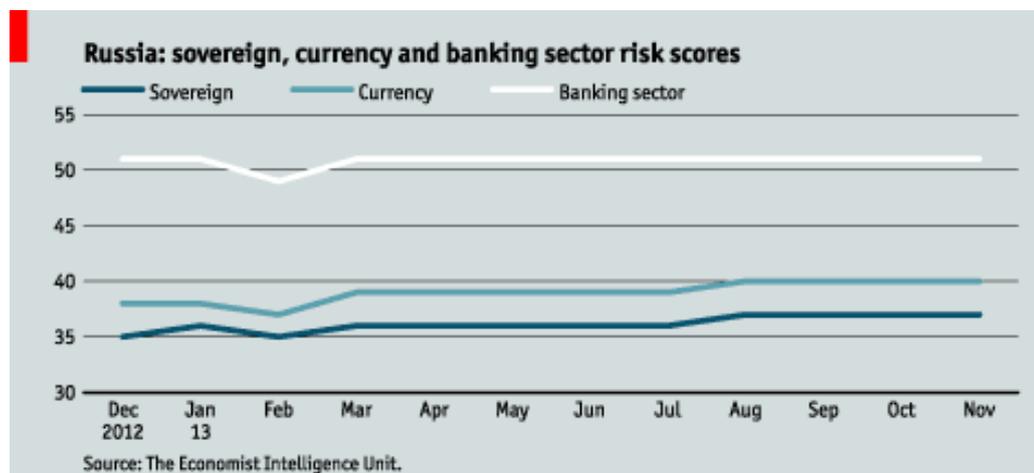


Figure 3. Risk scores of Russia (Economist Intelligence Unit, 2013)

The regulatory and market assessment of Economist Intelligence Unit implies the following factors:

- The privatization program planned by Vladimir Putin has continued to undergo revisions. The privatization of Aeroflot (Russian Airlines), initially planned for 2013, was postponed due to the company's growth and profitability, making a sell-off potentially detrimental to the economic recovery program.
- The government has made foreign direct investment a cornerstone of the country's economic recovery. After a decline in 2012, FDI (foreign direct investment) grew 63.2% year on year in the first quarter of 2013.
- A bill approved by the government on April 4th 2013 has partially eased some of the restrictions on foreign investment. Among other measures, it removes the requirement for foreign investors to get approval for deals involving federal subsoil deposits if these sites are either directly or indirectly half-owned or more by the state.
- In August 2012 the government introduced a law into the Duma (Russian parliament), which in effect bans the establishment of foreign bank branches by excluding branches from the definition of the banking

system in Russia. The law was adopted by the Duma on February 22nd 2013 and approved by the Federation Council on March 6th. It limits foreign banks to subsidiary operations and representative offices in Russia.

- In an effort to increase government transparency, a law was passed in May 2013 that bars officials from holding foreign bank accounts or financial instruments. The law applies to a wide range of positions, from local government to court officials.
- In June 2013 the Duma began to consider an antipiracy law designed to block websites from which music or films can be illegally downloaded. The first part of this law, due to come into force on August 1st 2013, deals specifically with film and broadcasting rights.
- An intellectual property court was formally instituted in February 2013, and started hearing cases at the beginning of July of that year. This is a part of a wider program to improve the protection of intellectual property rights.

(<http://country.eiu.com/article.aspx?articleid=1520832336&Country=Russia&topic=Regulation&subtopic=Regulatory%2fmarket+assessment>, 2013.)

Especially the restrictions eased towards foreign investment are encouraging for international businesses in Russia or for businesses planning to invest in Russia. Reforming banking sector can be very good action, at least the aspect of transparency, but it will remain to be seen whether the impact of the changes made are sufficient enough to reach their goal.

## **2.2 Area of North-West Russia**

The area of this study has been chosen to be North-West Russia, which is close to the Finnish border and is, thus, due to proximity the most interesting geographical part of Russia to Finnish businesses. Furthermore, as presented

in the previous subchapter 2.1, the density of population and especially the share of GDP in North-West Russia make it interesting as a business area.

Northwest Russia is restricted from the west by Finnish and Baltic borders. It includes the regions of Arkhangelsk, Kaliningrad, Karelia, Komi, Leningrad, Murmansk, Nenents, Novgorod, Pskov and Vologda. There is a picture of the area, in Figure 4, below.



Figure 4. Map of North-West Russia (Aalto University, 2013)

### 2.3 Special issues between North-West Russian and Finnish business

Nowadays, there are a lot of trade barriers, regimes, customs regulations and so forth, complicating trade between Russia and other countries. EU and Russia has now opened cooperation and are planning to aim for common European economic space (CEES). Especially, North-West Russia is interesting to Finland, but the economic situation and difference between living standards

are enormous. CEES project will also be influencing this situation, by trade and foreign direct investment. The question remains whether the economic integration is possible. (<http://www.aka.fi>)

The relations between North-West Russia and Finland are topical, since there is massive potential for trade clusters, such as forestry, metallurgical field, pharmaceuticals, food and beverage and others.

A research company called Deloitte, published an investment tax concession-guide in 2012, specialized in the investment taxation of North-West Russia. According to the guide, there are several concessions to be made in order to ease access to foreign investments. There are tools that are said to be very persuasive and effective for potential investor planning to invest in North-West Russia.

### **3. SUPPLIER**

The aim of this chapter three is to give a theoretical background to supplier management and supply chain management. Also theories of how to choose suppliers are discussed.

#### **3.1 Supply chain management**

According to Cousins, P. Lamming, R. Lawson, B. and Squire, B. (2008) the best definition of supply chain management is “the integration of business processes from end user through original suppliers that provide products, services and information that add value for customers”.

Due to global expansion in business and increase in competition, companies are bound to explore issues such as where the material comes from, how their supplier’s products and services are designed, produced and transported, how

their own products and services are distributed to their customers and what the customers and end-product consumers really want (Wisner, J. Tang, K. C. Leong, G. 2012). The meaning of supply chain can be explained in various ways.

Below are found a couple of examples from Wisner et al. (2012):

- The planning and management of all activities involved in sourcing and procurement, conversion and all logistics management activities. Importantly, it also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third-party service providers or customers
- The design and management of seamless, value-added process across the organization boundaries to meet the real needs of the end customer
- The coordinated set of techniques to plan and execute all steps in the global network used to acquire raw materials from vendors, transform them into finished goods, and deliver both goods and services to customers.

Wisner et al. (2012) present the important elements of supply chain management in Figure 5 below:

<b>SUPPLY CHAIN MANAGEMENT ELEMENTS</b>	<b>IMPORTANT ISSUES</b>
Supply	supply base reduction, supplier alliances, SRM, global sourcing, ethical and sustainable sourcing
Operations	demand management, CPFR, inventory management, MRP (material requirements planning), ERP (enterprise resource planning), lean systems, Six Sigma quality
Logistics	logistics management, CRM, network design, RFID, global supply chains, sustainability, service response logistics
Integration	barriers to integration, risk and security management, performance measurement, green supply chains

Figure 5: Important elements of supply chain management (Wisner et al. 2012)

Supply, logistics, operation and integration are all vital parts of supply chain management. It all starts with sourcing and finding those potential suppliers. All elements, though, must be considered throughout the process of developing the supply chain. Sourcing, logistics, finding perfect ERP models and defining and reducing risks, it all makes the supply chain valid and valuable.

## 3.2 Supplier management

According to Zhen, Y. (2013) supplier management is a new concept that derives from the supply chain management. As the rapid development of economy, the competition is no longer the traditional competition between companies, instead is between the supply chains. How to ensure the connection of the companies in the supply, and further the strategic alliance and cooperation are the key topics. The supplier management is usually divided into two parts, the selection and evaluation of suppliers and supplier relationship management (SRM). Supplier relationship management and supply management in general is presented below. Selection and evaluation of suppliers is presented in chapter 3.3.

Supplier management consists of:

- strategic bottle neck and leverage items
  - Make/buy/outsourcing decisions
  - Sourcing and appraising suppliers including global suppliers
  - Rationalizing the supplier base
  - Developing supplier potential
  - Easy supplier involvement
  - Negotiations
  - Supplier relationship including partners, co-makerships and supplier associations
  - Capital equipment purchasing
  - Benchmarking
  - Monitoring supplier performance
  - Ethical and environmental issues
- (Lysons, K. Farrington, B. 2012.)

To manage suppliers, a company is required to look into several issues and analyze them according to their need. What kind of product is needed and should there be make-or-buy-decisions made? Additionally, a tool to manage suppliers, would be to further analyze suppliers according to their potential and

to analyze the current relationship with them. Furthermore, there must be tools in order to monitor the supplier performance, in order to detect any hick-ups already before they happen. Nowadays, it is very important to take environmental issues into account, but the extent of it is to be determined by each company individually. Ethical issues are also popular and corporate social responsibility is part of supplier management. Weele, A. (2010) is showing a Carroll's pyramid of corporate Social Responsibility in his text. This pyramid includes:

- Philanthropic responsibilities: be a good corporate citizen.
- Ethical responsibilities: be ethical.
- Legal responsibilities: obey the law.
- Economic responsibilities: be profitable.

Along with these responsibilities, corporations usually have their own rules and guidelines to follow, also known as code of conduct.

### **3.3 How to choose new suppliers?**

Supplier assessment is one the key issues in finding new suppliers. The objective of this thesis is to provide guidelines for management to choose suppliers in North-West Russia to analyze whether the criteria discussed in general business literature are applicable to the economic, political and social circumstances of North-West Russia or whether unique criteria are necessary. There is plenty of literature on how to choose suppliers. In this sub-chapter, a combination of different types of criteria is presented based on literature.

Suppliers are evaluated based on cost/price, quality, delivery, responsiveness and flexibility, environment, technology and business metrics, but also certification can be requested. (Wisner et al. 2012.)

Criteria for supply selections were presented by Wisner et al. (2012).

1. Process and product technologies
2. Willingness to share technologies and information
3. Quality
4. Cost
5. Reliability
6. Order system and cycle time
7. Capacity
8. Communication capability
9. Location
10. Service

The criteria for choosing suppliers presented by Waters, D. (2009) indicated that the supplier needs to be:

1. financially secure with good long-term prospects
2. willing to develop and maintain long-term relationships
3. having ability and capacity to supply the materials requested
4. experienced and has expertise in their products
5. sending materials only with guaranteed high quality
6. delivering reliably on time with short lead-times
7. accurate in delivering ordered materials
8. quoting accepted prices
9. Offering good financial terms and total costs of acquisition
10. flexible to customer needs and changes to orders
11. having good reputation in the industry
12. historically successful supplier in the past
13. using convenient and easy procurement systems

(Waters, D. 2009.)

Furthermore, a list of criteria was presented by Lysons, K. and Farrington, B. (2012):

- Finance
- Insurance
- Productive capacity and facilities/services support capability
- Quality
- Health and Safety
- Environmental management
- Existing contracts held and performed
- Organizational structure and key personnel – resources
- Sub-contracting – proposed actions
- Procurement capability and supply chain management

Finance includes assessing the sales, financial profile and possibly checking also the supplier risk score. Also, it might be helpful to check the balance sheet and profit and loss ratio analysis. Nevertheless, due to taxations and fear of organized crime, firms might be not willing to show profitability in their operations (Toppinen, A. Toivonen, R. Mutanen, A. Goltsev, V. and Tatti, N. 2007).

Locating suppliers is not an easy task. Lysons and Farrington (2012) claim that the best way to locate suppliers is to search the Internet, look for special sites and databases, but it is also wise to be in contact with foreign embassies and trade associations. According to lecturer Sofia Rekord (2013), information search in Russia could be done via internet, consulting firms, exhibitions and forums, media and official consultants. Rekord introduced research claiming that most reliable resources of information are international financial institutions, other foreign investors in Russia, investment banks and analysts and also international business and trade organizations and associations.

### 3.4 The criteria for choosing suppliers

The author of this study has collected the criteria for choosing suppliers from literature and different textbook theories and collected them into the following table, where different tangible and intangible criteria are illustrated:

TANGIBLE CRITERIA	INTANGIBLE CRITERIA
Capacity	Service and customer relationship management
Quality of the product	Reliability
Logistical solutions	Flexibility
Price of the product	Cycling time and delivery speed
Workable order system	Information sharing
Environmental issues	
Technology	
Financial security	
Location	

Figure 6. Criteria for choosing suppliers.

The above table was created by the author by combining the textbook theories from literature and arranging factors by using the most frequently suggested criterion first. There are two different sub-categories, tangible and intangible criteria. With this allocation, it is easy to see the tangible issues that can be assessed easily, and the intangible issues that require some experience in order to make assessment based on the factors. It can be highlighted that factors such as capacity, quality of the product, service and CRM and reliability are the mostly mentioned in the literature and therefore, can be seen as being among the most important criteria when choosing suppliers.

There are plenty of criteria existing to choose suppliers, but as the research is limited, thus, from the criteria it must be chosen only those that have emphasis in nearly all of the literature mentioned and studied and analyzed by the author.

## 4. RISK MANAGEMENT

The definition of risk can be stated as “Risk is the uncertainty of future outcome(s)” (Olsson, C. 2002). This chapter discusses risk management, supplier risk and country risk. By defining these issues, it is possible to analyze the risk factors of sourcing in North-West Russia. Olsson (2002) has identified the business risk as is presented in the following Figure 7.

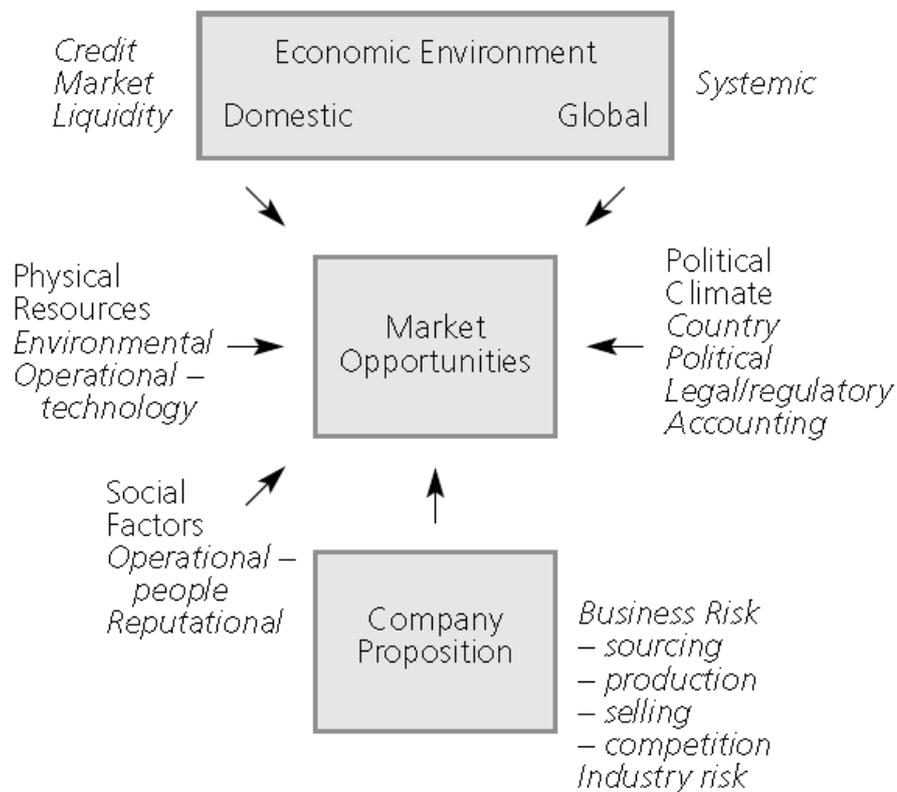


Figure 7: Risk identification (Olsson, 2002)

This thesis is focused on the company’s business risk rather than more general risks of economic, political or societal risk factors.

## 4.1 Risk management

According to Waters, D. (2009), the risk management is the process for systematically identifying, analyzing and responding to risks throughout the organization. Moreover, there are three steps in risk management:

1. Identify risks
2. Analyze the risks
3. Design appropriate responses to the risk

The risks are divided into two categories, internal and external driven risks. (Waters, D. 2009.)

According to Olsson there are several dimensions of risk and one way to analyze risk is to ask the following questions:

- How long will the risk be (time)?
- How big is the risk (size)?
- What is the probability of occurrence (probability)?
- How close to the expected outcome is the risk likely to be (volatility)?
- Is it a simple risk to understand (complexity)?
- How many types of risks are involved (inter-relationships)?
- Can I manage this risk (influence)?
- What the risk will cost (cost effectiveness)?
- How will the risk change over time (life-cycle)?

(Olsson, C. 2002.)

To manage risk, it is necessary to have further information about those risks. Otherwise, there are no possibilities to manage risks properly. Furthermore, measuring the risks is important, in order to understand the impacts that might occur for the business or for the company. After measuring the risks, there is need to manage it, by deciding the actions to take. In the end, there is need to monitor that the decision remains valid. In general, higher risk means higher sales and profits, increased share of prices and market shares, awards or

recognition and good reputation. Gaining the rewards mean that risk management has to be done correctly. (Olsson, C. 2002.)

According to Olsson (2002), managing risk needs three steps:

- a coherent strategy
- an effective risk management framework
- robust but flexible implementation

Coherent strategy is set in relation to external environment or market opportunities. The riskier the strategy the more pressure there will be. The riskier the strategy, the more risk management there must be in order to balance the scale. Flexible implementation means that it has to be monitored that the risk is kept in an acceptable level by adjusting the strategy or using more resources in managing the risks. Reviewing the risk management decisions is illustrated in the below figure.

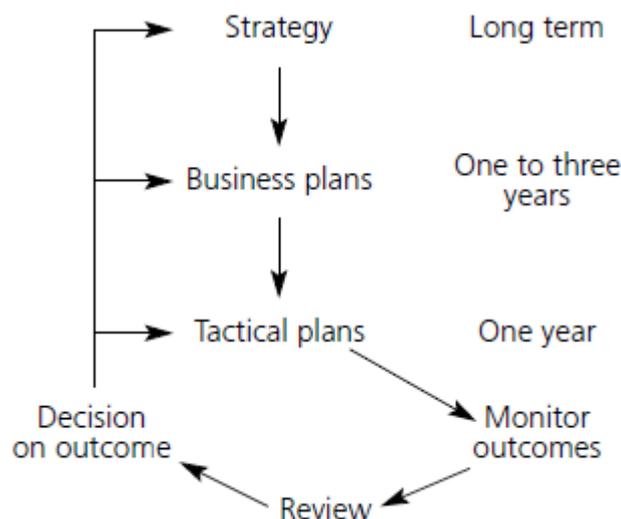


Figure 8. Risk management reviewing process by Olsson (2002).

Strategy is very important part of risk management. Strategy can draw the lines of what kind of risks are to be taken. Thus, strategy is usually made for long-term, but business plans and tactical plans are usually made for shorter-term. The cycle goes on by monitoring the outcomes, reviewing the decisions and finally there is outcome on the decision, whether to keep on going with the existing strategy or to change it. (Olsson, C. 2002.)

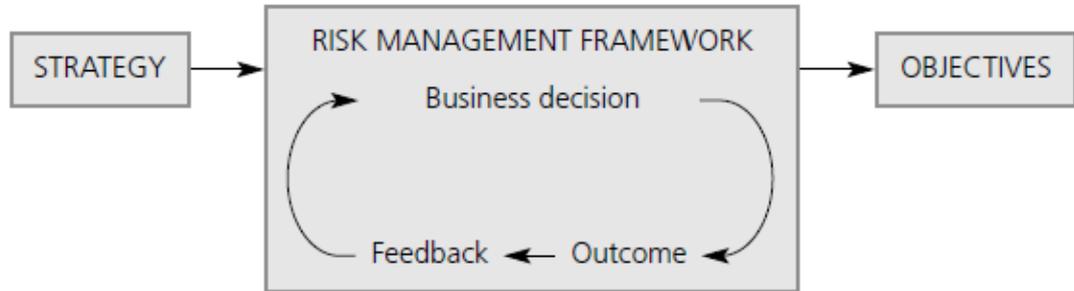


Figure 9. Risk management framework (Olsson, 2002).

Elements of risk management framework are the following:

- Degree to which risk management is centralized or decentralized
- policies set for the management of risk
- processes for making decisions
- way in which authority is delegated and use of it monitored
- technology used to records and analyze data, including risk models
- reporting mechanisms
- committee or other processes used for reviewing risk
- audit process

(Olsson, C. 2002.)

## 4.2 Supply chain risk and supplier risk

“Finding a right supplier during tough times is a key to an organization’s success and survival” (Brooks, E. 2010).

Punniyamoorthy, M. Thamaraiselvan, N. and Manikandan, L. (2011) argue that supply chain risk includes the following factors:

- Supply risk: potential problem for the supplier to deliver the demand of the customer, either quantity or quality wise within the anticipated time and costs.

- Manufacturing risk: production uncertainty and inadequate production capability causes a lot of inefficiency in the supply chain.
- Demand risk: Anticipated or volatile customer demand is the primary risk for the supplier.
- Logistics risk: can disturb flow of goods, information and money.
- Information risk: Good supply chain management needs information flow to smooth the processes in the chain. Asymmetry in information is the main cause of inefficiency throughout the chain.
- Environment risk: Supply chain can be negatively influenced by force majeure such as strikes and riots.

Supply chain risks according to Russill, R. (2010) are more specific than risks allocated by Punniyamoorthy et al. (2011). These risks include:

- Profit, budget and cash flow are all hurt
- Customers are kept waiting or even turned down
- Helplessness in dealing with supplier price increases
- Output price forced up with loss of competitiveness
- Poor supplier performance, allocation or loss of supply
- Fragmentation and loss of procurement negotiation leverage
- Legally unsound contracts heavily biased in supplier's favor
- Unproductive use of human resources
- Insufficient internal challenge of specifications and decision-making
- Decision-makers prey to the tactics of salespeople
- Political embarrassment or damage to company image and reputation
- Vulnerable to internal and external fraud
- Exploited and manipulated by monopolies, cartel and hostile contractors
- supplier innovations passed to competitors
- Beaten to the market by competitors with new products or services
- Too quick or too late to market with own new offerings
- Damage to brand and company reputation by unethical behavior or incompetence

- Organization is penalized for non-compliance with regulatory requirements
- Organization's activities become subject to public scrutiny and investigation

"The ultimate goal of risk management is to protect and enhance what the enterprise is primarily there to do" (Russill, R. 2010).

To identify, manage and mitigate supply chain risks Brooks (2010) suggest that the company should focus on the following:

Topic	Action
A time for synchronization:	Understanding each other's needs on how to survive and grow
Build information bridges:	Establish valuable flow of information
Seek sustainable relationship:	Build enduring relationships
Make strategy changes:	Can you manage in volatile recession? Are you ready for the upturn?
Advance everyone's understanding of the value chain:	Stimulate innovation through greater understanding of the issues facing all

Figure 10. Topics to manage risks. (Brooks, E. 2010)

Russill (2012) argues that the key message in preventing supply risk is the importance of the analysis and the likelihood that this will reveal powerful and usable facts not known.

### 4.3 Country risk

Country risk is mainly political risk that the company is if facing when dealing with foreign country. (Suominen, A. 2003) Country risk is mainly used when analyzing the country's financial situation or other finance related matters.

To separate political risk and country risk, below there is a table to show the usage of these terms:

POLITICAL RISK includes:	COUNTRY RISK assessments are made in
Political	Financial situations
Economical	Credit ratings
Social	Assessing business potential in the country
Ideological	
Racial	
Religious	
Land ownership features	

Suominen (2003) continues by explaining that the company must be prepared to assess and manage political and country risks. Intense inflation, price and currency exchange changes and unexpected interest changes are key elements when pondering the financial risks. Moreover, the risks related to nature catastrophes, such as tornados, must be taken into consideration.

National government can decide actions that are against foreign companies. Changes in tax legislation, currency regulations and additional fees for foreign companies are usually the methods to regulate foreign companies and their actions in the country. Political risks can be anything between restricting capital movements up to taking full control over company's profits and property. In addition, there can also be illegal maneuvers such as terrorism, rebellion, request of bribes, kidnapping and civil war. E.g. in Russia, there can be such actions as kidnapping of the company, or then just interference by relying on different kind of regulations. (Suominen, A. 2003.)

Suominen (2003) suggest that the following questions would be asked in order to assess the operating conditions in the country:

- What is the social, political and economic situation in the country like?
- Which legislation form they use? How rapidly regulations can change?
- Do they have workable and trustworthy banking sector?
- How many permits are needed?
- What kind of situation does the country have in respect of corruption and bureaucracy?
- Is the capital invested safe from any government actions?
- What kind of country risks are involved and what they imply to business?
- Does the company have a mitigation plan?

Country risk assessment is very useful for the companies, in order to avoid any unexpected surprises from the foreign country legislation or from the political field as well.

## **5. STUDY – PLANNING AND CONDUCTING THE STUDY**

In this chapter, the methodological choices, reliability and validity of the empirical study are stated. The planning of the survey study and data collection and choosing the interviewees is explained.

### **5.1 Methodological choices**

Methodology chosen for this research has been qualitative research. This methodology can help the researcher to find solutions to the research question “How to choose suppliers in North-West Russia?”. In order to find an answer to

this question a survey was conducted by interviewing professionals of North-West Russian trade. To complement the picture gained from interviews also multiple data sources, such as written reports were studied.

According to Marschan-Piekkari, R. and Welch, K. (2004), interviews are very rich in information, but suffer from biases and limitations as any of the research methods, such as social process. This means that the researcher is influenced by the relationship between the researcher and the researched. This limitation must be understood when interviewing and the researcher needs to put effort on being as objective as possible, while making the interviews. Furthermore, interviews can finally give more information than quantitative questionnaire. The questions can be answered in many different ways and it can bring unexpected pieces of information for the researcher.

Moreover, information is received by introducing a semi-structured questionnaire for the interviews. By using semi-structured interview questionnaires, there is a structure for the interview, but as the questions are open questions, interviewees can reply to them in many different ways, giving as much information as possible. In addition, open questions can bring also information that was initially unexpected, but could be valuable in any case.

## **5.2 Data collection**

Data collection is done through interviews, books, articles and statistics. There is a lot of information about suppliers and their evaluation. Some of that information and theories are brought to this work, to give guidelines what are the general theories available. By interviewing and studying, the theory can be challenged and eventually there will be an answer about how to choose suppliers in North-West Russia and are there differences in relation to theory. Furthermore, there is theory for risk management, and research results covering it.

The hypothesis in this report is that it is not workable to use purchasing literature as a sole source of information when choosing suppliers in North-West

Russia. Based on working experience in North-West Russian trade, the author assumes that the special circumstances of the economic, political and societal conditions in Russia should be taken into account, when choosing suppliers. The author assumes that supplier selection criteria presented in literature is more suited to Western-European or North-American circumstances than to emerging economies or overseas areas.

### **5.3 Interviewee selection and data analysis**

The interviewees for this study were chosen by the fact that some of these contacts have been previously known to the author, but mostly they are chosen based on the fact that they have experience in the Russian trade. Therefore, interviewees have not been solely chosen as a result of meticulous analysis and study on Russian experts. However, it can be stated that the interviewed professionals represent a sufficiently large and versatile combination of business practitioners for the purpose of this study.

Additionally, interviewing people with different kind of background can give valuable information about different viewpoints, and can help in respect that companies are able to ponder if their approach would have similar aspects to it. Therefore, gaining valuable information could support their strategic decisions in their future actions. The interviewees have been picked only by the fact that they should have information and experience of business in North-West Russia.

The number of interviews is important, but as Eskola, J. and Suoranta, J. (1998) wrote, 15 interviews are enough to give scientifically meaningful data. Making a decision of the extent of the survey always depends on the issue studied. In this survey study it was concluded that interviewing nine experts would give sufficient evidence needed for the assessment of supplier selection criteria. The same topics started to revolve around the interviews and in the last few interviews, no new information was gained. The author decided that there is no need to extend the survey further, since the information was becoming mature.

## **5.4 Reliability and validity**

The survey study has been conducted by using interviews as the main data source. The interviews were done via connections that were known to the researcher, or chosen by having convincing expertise on business in North-West Russia. Choosing interviewees in this way might present a source of error, as selection might be biased to certain aspects of North-West Russian business and supplier selection. Also, the number of interviewees consisting only of nine experts limits the possibility to generalize the conclusions of this study. The author emphasizes that this study should be seen as giving some initial guidelines to business practitioners in choosing suppliers in North-West Russia.

The reliability and validity of this study might be affected by the fact that the author is working in a specific business sector and this has, in some effect, affected interviewee selection of this survey.

## **6. CRITERIA FOR CHOOSING SUPPLIERS IN NORTH-WEST RUSSIA – RESULTS OF THE SURVEY**

This chapter presents the details of the survey conducted by interviewing nine professionals of the North-West Russian trade. The results of the interviews are presented in this chapter six.

### **6.1 Questionnaire and interviews**

Interview questions included 10 questions as total. The interview questions are presented as appendix 1 and 2 of this study. There were five questions related to choosing and managing suppliers and five questions related to managing supplier risks. Interviews were conducted between May and August of 2013 and they were conducted in Finnish or in English.

### 6.1.1 What are the factors that need to be taken into consideration when looking for a new supplier in Northwest Russia?

Most often cited factors of the interviews are presented below. The answers in different interviewees were analyzed and divided into different categories. In the following figure these categories are presented and the frequency that they appeared in interviews is given by a number. E.g. quality and specification of the product needed was cited in six interviews out of nine.

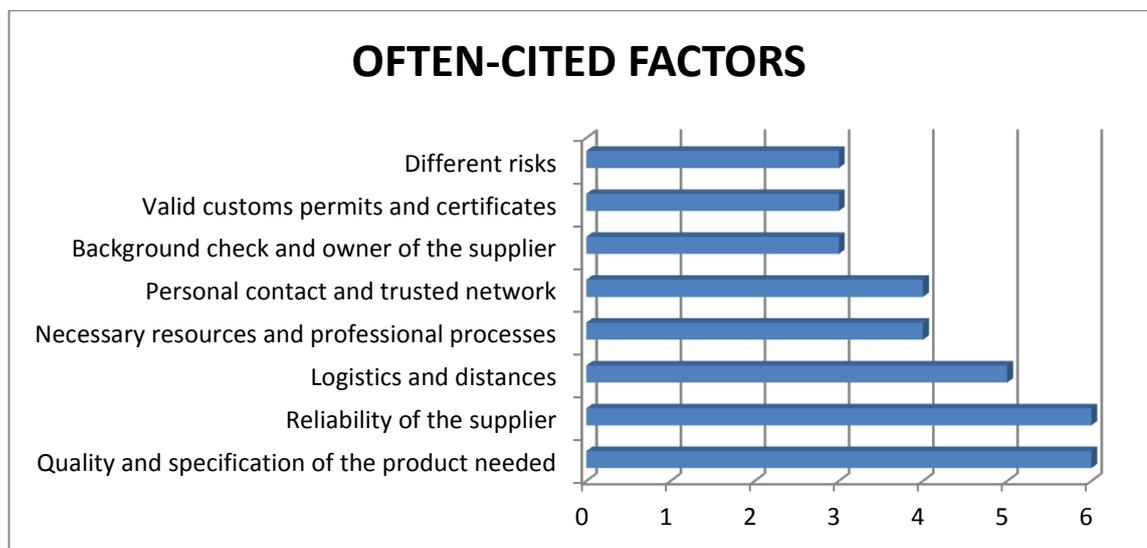


Figure 11. Often-cited factors

The most important factors mentioned were clearly quality and specification of the product (or service) that is needed and also the reliability of the suppliers. Logistics and distances were also mentioned in half of the interviews, being clearly the next important factor. Recourses and professional processes in the supplier company, own personal contact to the supplier and own trusted network were the following factors mentioned.

In addition, there were several other factors mentioned, such as, to find significant companies, language skill, the strategy of own company and reliability of the local authorities. One important factor to remember is poor infrastructure and thaw that is breaking roads, trucks and possibly products as well.

### **6.1.2 Why those factors are important?**

There are several very interesting factors mentioned in the first interview question. Here, below, couple of direct citations why the interviewees see those factors important in their own opinion.

“Business usually tends to fail with basic issues. There’s a lot of interest in the Finnish companies but usually the business will fail because of practical arrangements” (Interviewee C, 2013).

“Long-term approach is difficult to handle, many lack the ability in it. Risks must be kept in mind throughout the process” (Interviewee E, 2013).

“The factors are important, since the practices (in North-West Russia) are different to Finnish or in any other country in west” (Interviewee H, 2013).

“If your own resources are limited, it would be easier to choose a reliable supplier” (Interviewee I, 2013).

“Criteria need to be the same as dealing with any other partner/country. It is must to have personal contact” (Interviewee F, 2013).

“Same product related criteria as in everywhere else. There are local special characteristics to take into account. Reliability of a supplier can be questioned; therefore it must be looked into, before engaging into business relationship” (Interviewee G, 2013).

### **6.1.3 Three most important factors?**

According to the interviewees and according to their opinion, the three most important factors to be taken into consideration when looking new supplier from North-West Russia are the following:

- \* Necessary resources and professional processes
- \* Reliability of the supplier
- \* Quality and specification of the product needed

These mentioned factors are in slight discrepancy with the results found from the question one. This is due to the fact that the interviewees had different emphasis on the important factors. Nevertheless, all of the criteria mentioned within the study can be seen as important factors in Russian business, and as a good advice received from the experienced business people.

### **6.1.4 Are there any special issues that are needed to be taken into consideration, because we are dealing with North-West Russia?**

According to interviewee A., if the Russian counterpart is agreeing to product and delivery terms today, but it must be always taken into consideration that the next day, all agreed issues could be forgotten.

Corporate climate in Russia is very different, although North-West Russia has been involved with international trade for a long time.

On the positive side, interviewees mentioned that North-West Russia has good logistical position, as St. Petersburg is central area and there are talented, educated people available. The cultural collision in St. Petersburg is lower than in any other part of Russia. Furthermore, they have a more advanced and established business culture. According to interviewee E., time management

and attitude to keeping meeting commitments is very different and when organizing a meeting, one must have several confirmations that the meeting will be actually held.

### **6.1.5 How to locate potential suppliers?**

Clearly the best way to locate potential suppliers, according to the interviewees, is to contact your network and to check references. So called “bush- radio” or word-of-mouth could also work when searching information regarding potential suppliers. Nowadays, you can find a lot of information via internet. It can give a start to the search, but internet pages in Russia contain a lot of false information and should be not trusted without any background checks. Also, the criterion of the need is guiding the search. Moreover, it could be useful to visit fairs and exhibitions and check the industry based registers and organizations. Though, there are also several companies to help you in the search, such as Finnish-Russian chamber of commerce (SVKK), Finpro and Business Representative Office of Eastern Finland, ISBE Oy.

It is useful to take into consideration that in Russia, there are no such things as “company name protection laws”. Hence, a person can snatch a name from a well-known company and start similar business using its name. Therefore, it must be remembered to double check that you are contacting the company you have been looking for, and not the name duplicate. Furthermore, it was the most mentioned that there is only one way to find potential suppliers; visit, visit and visit.

Interviewee H. brought up the fact that to find reliable supplier, you must invest a lot of time in getting to know the person and building up the relationship. Until you have good relationship, there’s always a risk to get conned.

### 6.1.6 What are the risks related to choosing suppliers?

Risks related to choosing supplier are vast. Here are the main risks mentioned in the interviews.



Figure 12. Mostly cited risk factors.

In the figure above, there are several different risks mentioned. Interviewees have mentioned many risks and the dispersion is great. Fraud has been the most mentioned risk, meaning that one should be very cautious in order not to get conned when doing business in North-West Russia. There are several stages in being conned, from receiving wrong goods up to a supplier disappearing with prepayment money. Background check and checking the actual owner remains to be one of the most cited factors.

Furthermore, there are lots of issues to be taken into consideration: ever-changing Russian legislation, quality of the goods, payment terms, contract terms, having neutral person to choose the supplier, possible legal cases of the supplier and culture risk. Below citations from the interviewees related to risks in choosing suppliers.

“Check the legality of the company e.g. by using given bank details” (Interviewee F, 2013).

“Check that not all companies you get offers from belong to same ownership” (interviewee D, 2013).

“The contract is important. Can you hold the supplier liable for bad quality if the contract is poorly written?” (Interviewee C, 2013).

“Avoid prepayments in Russia” (Interviewee B, 2013).

### **6.1.7 What are the potential risks regarding supplier search in Northwest Russia?**

First of all, most of the e-mail contacts do not get replies. Therefore, one must have personal contact to the company. Preferably to get connected with the managing director of the company, since usually he/she is the only one that has power to make any decisions.

Risks also lie in the company details. Background check has been indicated in this study already several times, but one cannot emphasize it enough. Finding correct company details can be a risk. The company may seem perfectly fine on the outside, but have huge problems internally. Use of lawyer is recommended, but the lawyer should have very western standards, in order to avoid any Russian-to-Russian “old boy”-networks.

Shady business can occur in Russia, a lot more than e.g. in Finland. Therefore, too good agreements must be reconsidered, since they might be frauds. Moreover, self-checking and neutral personnel are some of the key issues in order to avoid risks. Interviewee G. (2013) is guiding to take your time and not to make any hasty decisions.

Furthermore, interviewee H. (2013) is recommending one to understand the cultural differences, especially to take into account the Russian soul (Russkaya dusha).

**6.1.8 How to manage risks related to existing suppliers, in general? Are there any special characteristics in risks regarding North-West Russia compared to other geographical areas?**

How to manage risks related to suppliers is an extensive question, and therefore, various replies were being received during the interviews. Here is a list of major of the replies:

- Usage of framework agreement that both parties can accept
- Constant contact to supplier
- Constant supply chain control and supply chain risk control
- Reliability of own personnel and internal controls
- Code of conduct
- Taking corruption into consideration
- Lower quantities, lower financial risk
- Taking into consideration that the ownership of companies in Russia can rapidly change
- Potentially create a reward program with your supplier, where good actions (following the contract e.g.) get rewarded

Above mentioned issues are very good to take into account when managing risks. In addition, each industry might have their own unique risks and risk management tools.

North-West Russia was mainly mentioned to be similar with other geographical areas. There were no specific features mentioned in risks regarding North-West Russia compared to other geographical areas.

### **6.1.9 How to manage risks related to business in North-West Russia?**

Many interviewees commented that same replies can be used as mentioned in 6.1.8. Though, some new ideas were also presented:

- Gaining credit guarantees (which can be difficult)
- Controlling everything, all the time
- Using known companies can reduce the risk, but how to be competitive?
- Well written contract
- Regular meetings
- Documents need to be correct at once, corrections can be difficult to gain afterwards
- Other regions might be less corrupt. St. Petersburg city has very complex regulations
- Own representative/office in Russia. Keeping track of everything. Possibly Russian, Finns might struggle with the bureaucracy.
- Use of official quality inspectors
- Starting with small steps. Activities in the company might stop and the duration of the stop can be a mystery

In the end, knowing your business environment is one of the key factors in any business, in particular in North-West Russia.

### **6.1.10 What kind of suggestions would you give for the final choice of new supplier?**

In this sub-chapter, there are direct citations from the interviews. These citations include encouraging words and practical guidelines for any business practitioner to choose their supplier in North-West Russia.

“Check the references of the supplier and start with small steps” (Interviewee A, 2013).

“Start with small volume. Logistics is important” (Interviewee B, 2013).

“It’s a long process. Follow up the activity, how fast replying to e-mails and how easily visiting Finland. Be enthusiastic to start things. Use your intuition. It would be better is the Russians are already accustomed to western habits. Corruption can be very much alive. (Interviewee C, 2013).

“Managing and controlling the supply chain. Western habits are already becoming more common. It shouldn’t go wrong, at least badly.” (Interviewee D, 2013).

“The package consists of small pieces. Each piece has to be done thoroughly.” Interviewee E, 2013).

“Try many suppliers, use competitive biddings and keep up the relationships. Only then make the final decision.” (Interviewee F, 2013).

“If you want to operate in Russia, you need to be serious with it. Manage risks and start carefully. Russia is not that mystical place. There’re a lot of potential to make good and profitable business”. (Interviewee G, 2013).

“Systematic and analytical review is needed. Planning the risks beforehand and making decisions based on the risk impact to own company.” (Interviewee H, 2013).

“Let’s not drink champagne, if we are not taking risks.” (Interviewee I, 2013).

## **7. CRITERIA FOR CHOOSING SUPPLIERS IN NORTH-WEST RUSSIA – AN ANALYSIS OF SURVEY RESULTS**

An analysis based on the survey results is presented in this chapter and the implications of the results are also discussed. The analyses have been divided into two parts, just like the interview themes; how to choose suppliers and risk management in choosing suppliers.

## 7.1 How to choose suppliers

Choosing suppliers in North-West Russia isn't an easy task. Information can be available broadly, but the trustworthiness of it is a long stretch. Finding reliable information and potential, good suppliers requires a lot of foot work, travelling, meeting people, finding information, contacting well-known people and companies. As a result, the truthful information still might not be easy to gain. Furthermore, one must consider how much time and resources are put into the groundwork, thus, it is the strong foundation that will carry the business in the long run. As we can see the Figure 13 below:

Problems of finding suppliers in North-West Russia
Trustworthiness
Reliable information, financial data?
Foot work-> travelling, meeting etc.
Time and resources
Short-term vs. long-term planning
Spot market
Legal ownership of the company
Reliable company details?
Legal country of registration to be Russia

Figure 13. Problems of finding suppliers in North-West Russia.

Checking the background of a company is very difficult in North-West Russia, but if the company is legal and has nothing to hide, it should not be too hard to convey them to release this kind of information. According to codes of conduct many companies use, the legal country of registration and owner of the company must be known before engaging into the business. Furthermore, it might be beneficial to know the financial status of the company to get a better understanding of their current situation and future possibilities. All this information is giving strong foundation for negotiations and for the business relationship. Nevertheless, one must recognize the shortcomings of Russian companies in respect of lack of long-term planning and heavy reliance on spot

markets. Long-term business contracts are rare in North-West Russia, and it takes a lot of time and effort to gain long-term relationships.

Knowing the rules and regulations in North-West Russia is very important. Few have the resources for it, and hence, are looking for a company that has procedures, rules, regulations but also certification in order. Depending on the goods sourced from Russia, certification is one very important, in order to be sure of the productions processes used and the quality of the product. Certification is also an important factor in order to have legal information of the raw materials used or the raw materials purchased.

Difficulties in tangible business issues
Resources for managing Russian business
Logistical solutions
Thaw-> slowing down and breaking down
Logistics costs, where to buy?
Certification->Legal raw material

Figure 14. Difficulties in tangible business issues.

Logistics are crucial in Russia. The infrastructure is well behind the European standards, and roads are nearly impossible to pass by trucks for example. Bad road conditions and long distances equal costs. Thaw is yearly problem and it could slow down deliveries, or even damage delivered product. Therefore, one must be also very aware of the logistical possibilities when finding a potential supplier. Cost saving is the key in today's business life and it can be done in Russia by exploring the logistical possibilities from start to end. Furthermore, the roads are facing frost heave every spring and autumn, consequently some of the roads can be closed for a certain period. In that respect, North-West Russia is an optimal region in Russia to make business in. Roads are manageable, St. Petersburg has cargo sea ports and the area has a vast border line with Finland and Baltic countries. Access to Europe is easier, as well as ocean access to nearly anywhere in the world.

Choosing a supplier is not an effortless task. North-West Russia is one of a kind business platform; it has completely different perspective to business than

European or Finnish perspective. There are a lot of complex issues to be settled before starting a new business relationship and it is a task in itself to remember them all. Trustworthiness is one of the major issues when choosing suppliers and starting new business cooperation and one must constantly be aware of the fact that all the information received might not be correct. Therefore, one could also ponder the possibility of using business and consulting companies in the process of finding the reliable business partners.

## **7.2 Risk management in choosing suppliers**

Risk management in North-West Russia is very important, but also quite challenging. One of the key issues is to protect the company from getting conned while starting up new supplier relationship. Russia is a vast country and withholds a lot of potential, honest companies, but is also very potential growing platform for all kinds of fraud attempts.

Background check of the company is therefore, extremely important. It can reveal a lot also, if the company is not willing to give details of ownership to potential customer. However, the company must take care of its own employees, make sure they are neutral to make decisions in North-West Russia, and furthermore, it might be a good advice to rotate the position of the decision-maker from time to time, in order to keep the neutrality within the current suppliers and within their contracts. It is unfortunate, but in North-West Russia the possibility, for example temptation of a bribe can be in each corner, and the longer you are working within the same task, same suppliers, the harder the temptation can be to turn down.

The Russian legislation is another very difficult issue to be monitored, and controlled. Changes in it happen often, irregularly and sometimes as a surprise. To be ready for legislative changes, one must follow up the Russian situation on a constant basis. In addition, contract terms and especially payment terms can be difficult to manage. Russians prefers prepayments, for their benefit, but it should not be agreed, unless the supplier is a long-term and already reliable

and proved to be honest. The possibilities in payment misuses are endless; moreover, the payment terms ought to be equally safe for both parties.

Culture was mentioned very few times during this study, but it is mentioned under risk management. It is hard to start a business, if the cultural issues are not known to person in charge of negotiation. There are many issues to be considered and in that respect, Russia does not separate from other culturally challenging countries, such as Arab countries or countries in the Far East.

Supplier search is pretty difficult in Russia. One must personally travel, meet people and visit the potential suppliers. This calls for a lot of resources and even more time. Personal connection to people in Russia is very important, but it must also be said that not only the connection is enough, but it has to be the correct person to have the connection with. In Russian companies, rarely the managers have any authority to make bigger decisions, or even smaller ones. Therefore, one must contact the company's managing director or owner, in order to be in contact to the right person with decision-making possibilities. E-mailing is not a very popular way to get new contact in Russia.

To manage risks in Russia, there are few things to bear in mind. Constant control is of course one of the biggest issues in managing risks. Controlling the contact to supplier, controlling the supply chain and supply chain risks, controlling own personnel and controlling the agreements done between the company and the supplier. Additionally, code of conduct should be kept very close to the processes of Russian supply chain, in order not to make mistakes.

In the end, Russian business sounds very difficult, but can be also very rewarding. After finding good and reliable suppliers, there are potential to cut costs and still to receive high quality products needed. Finding the good suppliers take time, effort and can be unsuccessful a few times, but it is all worth it, when a good supplier is found and the relationship has been founded solid.

## 8. DISCUSSION

This chapter goes through the comparison made between literature theories and the findings of the study. Furthermore, recommendation for further study is also presented.

### 8.1 Comparison to literature supplier choice theory

If we are comparing the details of the study and the literature, we can find only few criteria from the study that has the similar emphasis that the literature in general. The differences and similarities of the approaches in literature versus the results of this study are illustrated in the following figure:

TANGIBLE CRITERIA/ LITERATURE	TANGIBLE CRITERIA/ STUDY	INTANGIBLE CRITERIA/ LITERATURE	INTANGIBLE CRITERIA/ STUDY
Capacity		Service and customer relationship management	
Quality of the product	Quality and the specification of the product	Reliability	Reliability of the supplier
Logistical solutions	Logistics	Flexibility	
Price of the product		Cycling time and delivery speed	
Workable order system		Information sharing	
Environmental actions			
Technology			
Financial security			
Location	Distances		

Figure 15. Similarities in literature vs. study criteria.

As it was initially assumed, the literature criteria are not the best option to be used solely for choosing suppliers in North-West Russia. Only 4 out of 13 criteria were similar to the finding of this study. It can be assumed that choosing suppliers in North-West Russia is more complex task by starting the process in finding out whether the information received is even reliable. To start a supplier relationship in North-West Russia, one must always take into account the major findings of this study. Literature criteria and theories give strong background for understanding suppliers, supply chain management and risk management, but the special issues related to Russian business must be considered as important steps to be aware of. It can be concluded that the textbook criteria in literature are most probably suited to countries and areas, where there is more stability in the conditions of society and economy.

## **8.2. Recommendation for further study**

This thesis is giving implications and guidelines for companies to choose suppliers in North-West Russia. This thesis is, thus, complementing the criteria that have been presented in management literature. It is obvious that the literature criteria cannot be purely used when choosing suppliers in North-West Russia.

For further study, it could be beneficial to further explore the topic from the viewpoints of specific fields of businesses. It could enhance the finding of this study and give implication to how much the result would vary when taking into account a specific field of business.

## 9. CONCLUSION

Choosing suppliers in North-West Russia might not be a painless task. Although, according to van Weele (2010), there are several purchasing and supply development models. Those models cannot be used in North-West Russia solely. They give very liable background for how purchasing should be done, how supply chain ought to be constructed and developed, but nevertheless, there are many issues that need to be taken into consideration only because of the area chosen is North-West Russia. The theories of supply chains or purchasing are not valid without an additional touch to features of Russian business. There are several criteria with which to choose suppliers, but the criteria in the study is necessary to take into account as it emphasizes the special features of the area.

The risks bear the same criteria, as in any other business or country, nonetheless, the special criteria of North-West Russia is needed to be taken into consideration.

By using the literature theories and criteria and combining the information to this study results, a company should get better results in finding suppliers from North-West Russia, and also to be able to assess the possible pitfalls before failing.

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Interviewees participated:

A: Project Manager/Consultant in Russian food industry. 08/2013

B: Sales Manager. Forest industry. 05/2013

C: Consult of Russian trade. Technology industry. 08/2013

D: Chairman of the Board. Logistics industry. 06/2013

E: Professional in Russian trade and logistics. Logistics industry. 05/2013

F: Entrepreneur. Chemical industry. 06/2013

G: Managing Director. Forest industry. 05/2013

H: Forestry specialist. Forest industry. 05/2013

I: Market specialist. Forest industry. 07/2013

## FIGURES

Figure 1. Growth outlook  
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Figure 2. The EIU rankings  
The Economist Intelligence Unit Limited. Country risk service handbook, 2012

Figure 3. Risk scores of Russia  
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Figure 4. Map of Northwest Russia  
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Figure 5: Important elements of supply chain management  
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Figure 6. Criteria for choosing suppliers.

Figure 7: Risk identification.  
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Figure 8. Risk management reviewing process  
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Figure 9. Risk management framework.  
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Figure 10. Topics to manage risks.  
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Figure 11. Often-cited factors.

Figure 12. Mostly cited risk factors.

Figure 13. Problems of finding suppliers in Russia.

Figure 14. Difficulties in tangible business issues.

Figure 15. Similarities in literature vs. study criteria.

## **APPENDICES**

### **Appendix 1. Interview questions in English**

1. What are the factors that need to be taken into consideration when looking for a new supplier in Northwest Russia?
2. Why those factors are important?
3. Choose three most important factors of those that you mentioned in question number one.
4. Compared to other geographical areas, are there any special issues that need to be taken into consideration, when dealing with Northwest Russia?
5. How to locate potential suppliers?
6. What are the risks related to choosing suppliers?
7. What are the potential risks regarding supplier search in Northwest Russia?
8. How to manage risks related to existing suppliers, in general? Are there any special characteristics in risks regarding North-West Russia compared to other geographical areas?
9. How to manage risks related to business in North-West Russia?
10. What kind of suggestion would you give for the final choice of new supplier?

### **Appendix 2. Interview questions in Finnish**

1. Mitä tekijöitä on otettava huomioon uusia tavarantoimittajia etsiessä Luoteis-Venäjällä?
2. Miksi nuo tekijät ovat tärkeitä?
3. Valitkaa kolme tärkeintä tekijää, kohdassa yksi mainitsemisianne tekijöistä.
4. Verrattuna muihin maantieteellisiin alueisiin, täytyykö Luoteis-Venäjällä toimittaessa ottaa huomioon jotakin erityistä?
5. Miten löytää mahdollisia tavarantoimittajia?
6. Millaisia riskejä tavarantoimittajien valintaan liittyy?
7. Millaisia riskejä liittyy tavarantoimittajien etsintään Luoteis-Venäjällä?
8. Kuinka hallita jo olemassa oleviin tavarantoimittajiin liittyviä riskejä, yleensä ottaen? Onko Luoteis-Venäjään liittyvillä riskeillä erityispiirteitä verrattuna muihin maantieteellisiin alueisiin?
9. Miten hallita riskejä Luoteis-Venäjän liiketoiminnassa yleensä?
10. Millaisia ohjeita antaisitte uusien tavarantoimittajien lopullista valintaa varten?