



Strategic Response to Sanctions Against Russia: A Qualitative Study of Finnish Companies

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Abstract

The purpose of this thesis is to study the effects of the Russian counter sanctions following Ukraine crisis and EU sanctions on Russia on the business operations of Finnish companies.

The thesis analyzes how well the companies have found replacement markets and other strategic solutions to replace the lost business in Russia. The study focuses especially on the operational changes of three large Finnish food and beverage companies, Valio, Fazer and Olvi.

In the theoretical part, the topic is investigated by researching the sanctions imposed by the EU on Russia and their impact on the global economy, as well as the consequences for the companies. The food industry is highly dependent on external resources, which suffered due to exposed sanctions. Therefore, it is particularly important to deepen the understanding of the global effects of sanctions, e.g., on production chains.

The empirical study primary uses companies' latest annual reports to answer the research questions, which focused on understanding how Valio, Fazer and Olvi have changed their business strategy. The result of the study was the importance of innovative product development in replacing the lost market, as well as using internal resources by investing in sustainability and recent technology.

Keywords/tags (subjects)

Sanctions, crisis management, risk management, international commerce, strategic business

Miscellaneous (Confidential information)

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Tiivistelmä

Tämän opinnäytetyön tarkoituksena on tutkia Ukrainan kriisin jälkeisten Venäjän vastapakotteiden ja EU:n Venäjä-pakotteiden vaikutuksia suomalaisyritysten liiketoimintaan.

Opinnäytetyössä analysoidaan, kuinka hyvin yritykset ovat löytäneet korvaavat markkinat ja muut strategiset ratkaisut menetetyn liiketoiminnan korvaamiseksi Venäjällä. Tutkimus keskittyy erityisesti kolmen suuren suomalaisen ruoka- ja juomayhtiön, Valion, Fazerin ja Olvin, toiminnallisiin muutoksiin.

Teoreettisessa osassa aihetta pohdittiin tutkimalla EU:n Venäjälle määrittämiä pakotteita ja niiden vaikutuksia maailmantalouteen sekä liiketoiminnallisia seurauksia yrityksille. Elintarviketeollisuus on erittäin riippuvainen ulkoisista resursseista, joihin kohdistui muutoksia sanktioiden myötä. Siksi on erityisen tärkeää syventää ymmärrystä pakotteiden globaaleista vaikutuksista esimerkiksi tuotantoketjuihin.

Empiirisessä tutkimuksessa vastataan ensisijaisesti yritysten vuosikertomuksien pohjalta tutkimuskysymyksiin, joissa keskityttiin ymmärtämään, miten Valio, Fazer ja Olvi ovat muuttaneet liiketoimintastrategiaansa. Tutkimuksen tuloksena oli innovatiivisen tuotekehityksen merkitys menetettyjen markkinoiden korvaamisessa sekä sisäisten resurssien hyödyntäminen investoimalla kestäväan kehitykseen ja uusimpaan teknologiaan.

Avainsanat (asiasanat)

sanktiot, kriisi johtaminen, riski johtaminen, maailman kauppa, strateginen liiketoiminta

Muut tiedot (salassa pidettävät liitteet)

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1 Introduction

Finland's trade with Russia grew rapidly in the early 2000s, and in the 2000s Russia was one of Finland's largest trading partners. Russia was an important export market, especially for industries and companies whose operations were otherwise focused on the domestic market. Russia joined the WTO (World Trade Organization) in August 2012 (WTO, 2022). The news was especially good for Finnish export companies, because membership was an opportunity to improve imports. However, a few years later in 2014 the situation in East-Ukraine started to deteriorate due military actions by Russia in Crimea, which was illegally joined to Russia, later following Ukraine war in early 2022.

Russia has systematically caused instability in Ukraine, due which the European Union (EU) imposed various restrictive actions on Russia since March 2014. The target of economic sanctions has been to protect other countries from exposing to the considerable risk of political instability of Russia and weaken their market position thus financial situation and forcing to stop the military actions in Ukraine (Gould-Davies, 2018). The impact is shown by the loss of significant market areas which Russia offered for many international companies. The biggest negative impact on Russia has been from financial sanctions, which have led to impossibility of making new investments in Russia.

1.1 EU sanctions impact on Finland trade with Russia 2013-2022

In 2013 pre-sanctions Russia was Finland's main trade partner and in 2022 the placement has decreased to third most important trade partner after Germany and Sweden as shown in Figure 1 and 2.

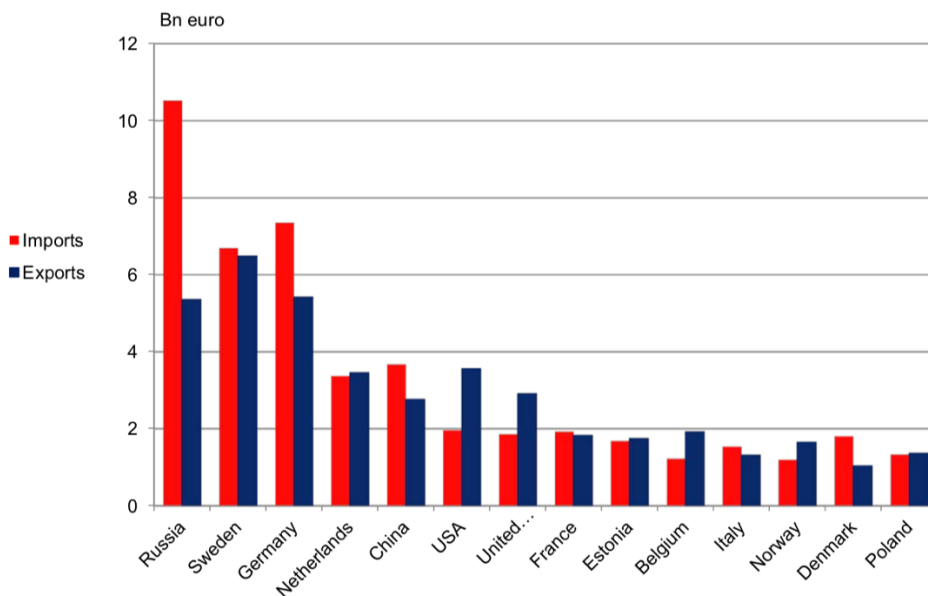


Figure 1 Finland foreign trade by countries in 2013. Source: Finnish Customs Statistics 2014

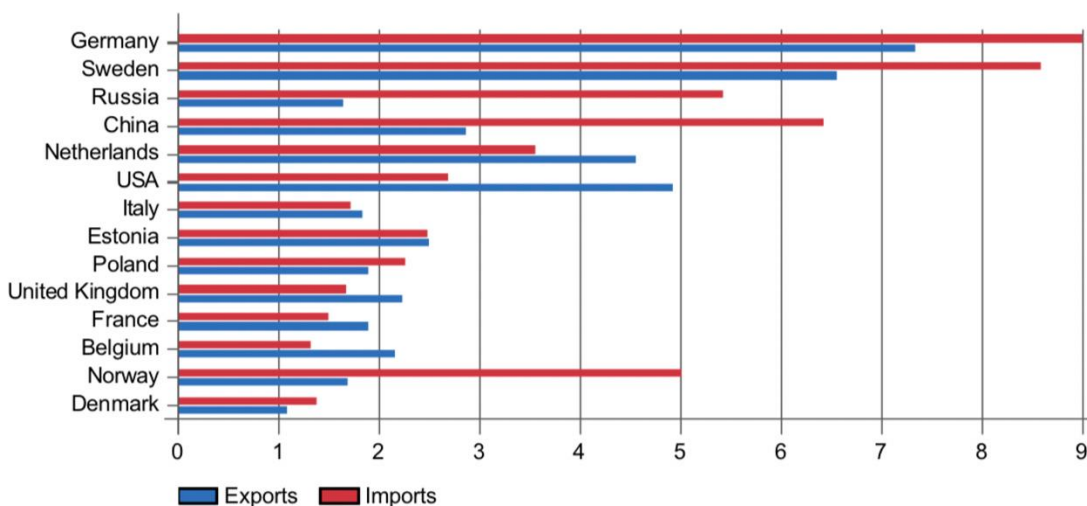


Figure 2 Finland foreign trade by countries in 2022. Source: Finnish Customs Statistics 2022.

The sanctions have had a significant impact on the geographical distribution of exports, which is reflected in Russia's ranking as Finland's most important trade partner over the years. For a long time, Russia was among the three most important of Finland's export countries, until in 2015 it was only the fifth most important. (Finnish Customs, 2022) In the fall of 2015, the Finnish national economy was in a demanding situation. The economy and foreign trade had already contracted for a long time, and a quick turnaround to a significantly better economic development was not expected. The growth prospects of the Russian economy had already been weak for a long time, as the crisis in Ukraine accelerated the decline of the economy. At the time, the crisis in Ukraine was still only at "crisis level", and increased the uncertainty of economic growth, lowered investments and weakened the Russian currency, the ruble. Confidence in Russia as a trading partner was low and there were risks involved. (Kovanen, 2017)

The downfall lasted till 2016 following the year 2017 which turned out to be more positive year between the countries. Finland's exports to Russia increased by 15% and imports by 33% compared to the corresponding period in 2016. The effect of the increase in trade had positive impact on the Finnish economy and employment. The increase continued till 2019 when the growth was slowed down, however energy product's share of total imports from Russia was still over 69%. In 2020 the most meaningful change in import was in crude oil. The amount was reduced by 46% compared to previous year leaving the energy product share to 56.1%. The percentage has decreased since the severe sanctions against Russia was declared due their war in early 2022. (Finnish Customs Statistics, 2017-2021)

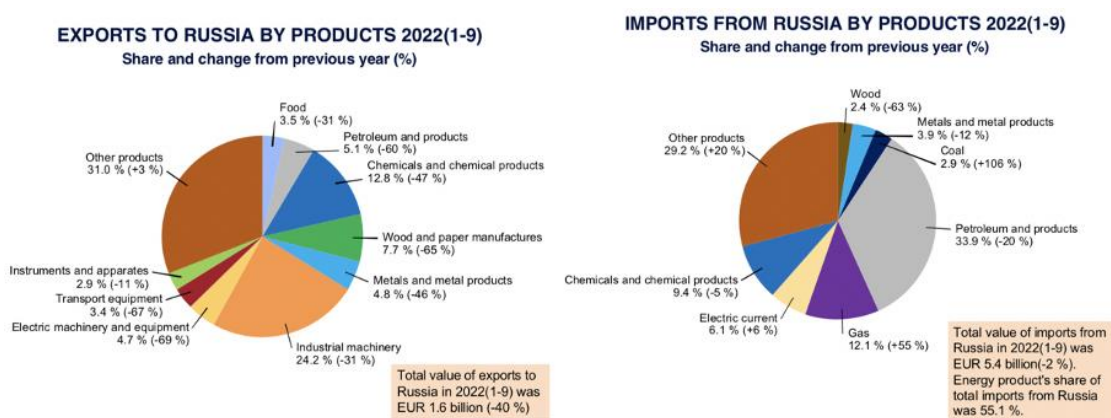


Figure 3 Exports and imports to Russia by products in 2022. Source: Finnish Customs, 2022

Figure 3 shows the most relevant product categories for Finland's exports to Russia and imports from Russia in 2022 between January and September, and the change in value compared to the last year. As shown in Figure 2, the most valuable export categories to Russia in 2022 are industrial machinery (24,2%), chemicals and chemical products (12,8%) and petroleum and products (5,1%) and noticeable the biggest share is other products (31%). On the other hand, the imports from Russia are focused on raw materials such as crude oil (33,9%), gas (12,1%), chemicals and chemical products (9,4%). Between 2013-2022 Finland bought the most amount of crude oil and energy products from Russia in 2015 when the share of oil imports was almost 59%, in total or energy products was more than 73% of all Russian imports to Finland. (Finnish Customs Statistics, 2013-2022)

1.2 Finnish Foreign Direct Investment in Russia

In addition to foreign trade, Finnish companies also have a considerable number of subsidiaries in Russia. According to the latest data, there are just under three hundred of these subsidiaries in Russia. The number has decreased progressively over the years, as in 2010 there were still around 420 subsidiaries owned by Finnish companies operating in Russia. Between 2010 and 2019, the number of subsidiaries owned by Finnish companies in Russia has decreased by nearly one-third. (Ali-Yrkkö, Hirvonen & Kangasharju, 2022). The turnover and expenses of these enterprises are included in the Russian economy statistics, but the income from the activities is recorded in Finland.

According to review of Statistics Finland's data, Lavikainen et al. conducted in 2022, Russian affiliates have accumulated annual income in Finland of EUR 270–380 million in recent years. At the end of 2021, Finns had around EUR 3.7 billion from Russia, which is only 0.44 per cent of all foreign assets. Up to 70% of companies with Russian business activities are in the industrial and commercial sectors. Additionally, the industries with the highest number of enterprises with Russian business in 2019 were repair of motor vehicles and motorcycles, as well as professional, scientific, and technical activities. The share of goods trade in business is considerably large therefore, the share of services remains significantly small, statistically in 2020 the share was only 18%, of which a considerable amount is related to the consumption of Russian tourists in Finland. (Lavikainen et al., 2022)

It is clear that these figures have also decreased due to the war in Ukraine and ultimate sanctions, and many Finnish companies have completely turned down operations in Russia. Even before the crisis in Ukraine, retailers such as Stockmann and Kesko, as well as large financial institutions including as Nordea, OP, and Handelsbanken, had left business operations Russia. In addition, other service sector companies, such as Posti, have withdrawn from the Russian market. (Ali-Yrkkö et al., 2022).

1.3 Motivation for the research

Besides the topic being a current issue, from the business perspective Russia is the world's largest country in terms of geographical area and its market area is exceptionally large, offering many opportunities for trade, which I aim to concretize in this work from the business perspective of large Finnish companies such as Olvi, Valio and Fazer. From the point of view of Finnish companies, the research topic is relevant for the future. It is important to define the consequences caused by war and sanctions and thereby understand what companies must do in order to avoid excessive damage.

As Russia is the largest country and an important trade partner for Finland, this study of the lost market area is essential in Finland. Internationalization plays a significant role in the operations of large companies, and environmental factors affecting it and changes in the business environment always have consequences in one way or another in business. In addition, Russian culture is remarkably diverse and variegated, and its business environment is often unpredictable. Various strengths, weaknesses and opportunities can be found in the Russian business environment, which makes the subject interesting to study.

1.4 Research questions and objective

The end of market operations in Russia is a multi-faceted problem that has inevitably forced companies to change their business strategy in order to replace the lost markets with new ones. The thesis examines three large Finnish food industry companies: Valio, Olvi and Fazer, whose market loss in Russia has been significant. The research focuses on the perspective of impacts on foreign trade, but domestic trade must be considered when examining the company's overall business strategy. The research objective is to find practical examples of how the companies are changing

their strategic goals and what kind of business opportunities they have in the future in relation to new markets areas by answering the research questions. The main research questions of this thesis are: How Finnish companies have changed their business strategy in response to the sanctions imposed on Russia? And how the businesses are planning to replace the lost market with new ones?

1.5 Structure of the thesis

This thesis is structured as follows. The second part reviews the literature on the EU sanctions on Russia and its economic consequences as well as companies' behavior in times of sanction regime. The third section explains the methodology of the thesis regarding research approach and context, data collection and analysis as well as the verification of the findings. The fourth section is the results and the fifth the discussion of the findings including personal reflection.

2 Literature Review

The purpose of systematic literature review is to collect evidence from previously produced information and sources for deeper understanding of the topic. An essential part of the research is the sanctions imposed on Russia and their consequences, as well as the effects on businesses. Collecting background information is important for understanding the research questions, thus answering them is more efficient. This literature review handles an earlier published literature on EU sanctions, their consequences for the global economy, and the changes in the way companies operate due to sanctions.

2.1 EU sanctions on Russia

The first sanctions EU imposed on Russia was in 2014 due Ukraine crisis. In comparison to the first-stage sanctions that restricted the oligarchs' operations, the second-stage sanctions imposed by the EU have wider and more immediate impact. They restrict the direct export of some goods to Russia and make it challenging for Russian businesses to obtain finance. Due to these penalties, the export possibilities of Finnish technology companies decreased. Strategic investments are being suspended in Russia as a result of the sanctions and the decline in oil prices. Sanctions have the result of further weakening consumer and business confidence. Pipes, pumps, equipment used in

the oil and gas industries, and other machinery or their components have been the most significant items for Finland among the products on the EU sanctions list. In addition, the so-called multi-functional items appropriate for military usage are also included. (Berg-Andersson & Kotilainen, 2019) Finland's exports of food to Russia were subject to sanctions from Russia, with the consequences of a far greater significance than the sanctions imposed by the EU. On the list of sanctions set by Russia for Finland, the most significant are milk, meat and fish and products made from them. Also on the list are product groups that include e.g., vegetables and fruits. The sanctions imposed by Russia are most affected the export of the Finnish dairy and meat industry. (Lehtonen & Hyytiäinen, 2019; Kovanen, 2017)

After Russia started the war against Ukraine in 2022 EU imposed new more restrictive sanctions on Russia. The sanctions no longer only limited the business with Russia but rather forced countries to cut off all the operations in and with Russia. The European Commission (2023) has written extensively on its website about the EU's sanctions against Russia. Economic sanctions have been imposed on six different categories: services, raw materials and other products, defense, energy, transport and finance. The main sanctions are targeted on access to finance, export and import restrictions, and restrictions on individual companies and a large number of Russian businesspeople and politicians, as well as state-owned enterprises (e.g., asset freezes and bans on business relationships). Sanctions on the Central Bank of Russia prevent it from using its vast foreign exchange reserves, for example, to support the exchange rate of the ruble. Most major Russian banks have been exposed to at least some sanctions: a ban on dollar payments, a ban on the SWIFT messaging system and/or a financial ban. The sanctions will make it much more difficult for these banks to access finance and international payments. In terms of balance sheet, the banks cover for 80% of the Russian banking system. (Astrov et al., 2022) The export of dollars and euros to Russia in cash is also prohibited. In addition, Western countries have banned the export of numerous goods and services to Russia. The ban applies in particular to technology, means of transport and their components, the energy industry and luxury goods. (European Commission, 2023) However, according to researchers Astrov et al. (2022) not all Russian banks are subject to sanctions and are still able, among other things, to transmit export-related payments.

Alongside with EU, The Group of Seven (G7) countries: Canada, France, Germany, Italy, Japan, United Kingdom (UK) and the United States (US) established economic and financial sanctions on

Russia in early 2022 when Russia began the war in Ukraine. In addition to the actual sanctions, numerous countries, including EU countries, have closed their airspace to Russian aircraft. Hundreds of foreign companies have announced that they will withdraw from the Russian market or stop their business with Russia. For example, many large international energy companies have decided to give up purchases of Russian oil and natural gas, and logistics companies are stopping transport to Russia. (European Commission, 2023).

2.2 Economic consequences of the sanctions

Following the current news around Ukraine war, common opinion seems to support the fact that Russia is responsible not only for the human casualties caused by the war and the refugee crisis, but also for its other consequences, which threaten global security and the stability of the world economy. The biggest economic consequences clearly have been for Ukraine. Due to disruptions in supply and manufacturing networks, uncertainty and heightened risk, labor outflows, and additional expenses, economic activity has even decreased in many areas of Ukraine. Additionally, an important percentage of Ukraine's GDP has been lost as a result of the blockade of seaports. According to the National Bank of Ukraine (2022), the number of businesses that have totally suspended operations has decreased by almost half (from 32% to 17%) since the war began. There are no estimates about the level of GDP after the war, although it is anticipated that it will reach a critical point. It should be underlined that Ukraine's severely damaged infrastructure may serve as an encouragement for outside capital investment in its reconstruction.

The import and export restrictions imposed on Russia are designed in such a way that it maximizes the negative effects of the sanctions on the Russian national economy and at the same time limits the consequences for European Union companies and citizens. Researchers Mahlstein et al. (2022) found from their study of "Estimating the Economic Effect of Sanctions on Russia" that Russian economic loss has been close to 14% of GDP which major part is loss of Foreign Direct Investments (FDI). Countries highly linked to Russia such as China India and Turkey are all suffering from loss of real GDP, therefore i.e., China have aligned with non-allied countries in order to minimize their loss caused by Russian trade costs. Although countries less dependent on trade with Russia can benefit from trade diversion the consequences are seen globally. Economic growth slows down in Europe and the effects are transmitted more widely to the world economy through different

channels. The biggest effects can be seen through raw material markets, international trade, and financial links, and tightening financial conditions. (Mahlstein et al., 2022)

Economic growth slows down in Europe and the effects are transmitted more widely to the world economy through different channels. The biggest effects can be seen through raw material markets, international trade, and financial links, and tightening financial conditions. Accelerated inflation is a major concern in many countries. Even before the war, inflationary pressures were intensified by rising raw material prices, disruptions in production, and the imbalance between demand and production. Russia's attack on Ukraine accelerates the rise in prices and threatens to prolong the period of high inflation. The sharp rise in energy and food prices is particularly worrying. Its effects are most felt in lower-income countries and in the poorest households, where energy and food make up the majority of monthly expenses. (Caldara et al., 2022)

Additionally, major changes in the corporate environment have increased the need for risk management and crisis management, for example, to better future forecasting and respond to possible threats more swiftly. Even though they are connected, external force instability often takes precedence over operational dangers. As a result, contemporary events like as the Ukraine war and the corona epidemic are seen as external threats. Delivery challenges caused by war, as well as protracted sick absences and quarantines caused by the pandemic, are examples of business disruptions. The threat created by an external element has shown itself as a result of Russia's invasion of Ukraine, hurting the working environment for many Finnish businesses.

When considering the situation of the global world economy at the moment and in the near future, difficult years can also be experienced in the investment market in the near future, as has been experienced in 2022. Researcher Guenette et al. (2022) studied the implication of the war in global economy. According to them, global investment markets depend in particular on a possible future recession and its intensity. The recession will probably also have a downward effect on valuations in the securities market, when considering the previously mentioned economic growth and in connection with the development of the stock market. Investors face a challenging situation: falling markets and a higher nominal return target set by high inflation. In particular, the price of energy started to rise strongly in Europe after Russia started restricting gas exports in order to undermine the united Western front that opposed the war. As inflation started to rise

sharply above the target level, the central banks began to respond to high inflation by tightening monetary policy. This partly scared investors in both the stock and interest markets. In the United States, the acceleration of inflation was caused more than in Europe economic growth. This was strong due to pent-up demand, the loosening of corona restrictions and production problems caused by the corona pandemic. (Guenette et al., 2022)

2.3 Companies' behavior in a sanction regime

The phenomena of how companies are navigating through these tough times is researched in a macro and microlevel. Major changes in the business environment have raised the need of risk management and crisis management, for example, in order to improve future forecasting and respond more quickly to potential threats. Even though they are related to one another, the instability of external forces generally takes the lead over operational hazards. Therefore, current events like the war in Ukraine and the corona pandemic are also seen as external hazards. Business interruptions include delivery issues brought on by war and long sick leaves and quarantines brought on by the pandemic. The danger posed by an external factor has materialized as a result of Russia's invasion on Ukraine, weakening the operating climate for numerous Finnish enterprises along side with other domestic and foreign companies.

The research is focused on how the business environment is changing mainly in manufacturing industry and how the companies are forced to change their operations to continue business without the market benefits Russia once offered for them. Russia being the biggest country in the world and geographically in a good location the country offered a good logistical benefit for many suppliers. This automatically increased the cost of exporting and Bank of Finland predicted in 2022 (Mäki-Fränti & Vanhala) that most of the companies particularly in Finland are not able to replace suppliers with new one nor changes the routes where to export goods. The answer for many companies was to compensate the increasing cost of alternative suppliers with increasing the prices of goods and services. According to the study conducted by Mäki-Fränti and Vanhala (2022) stated that almost 60% of the companies in technology industry believed that they are capable of replacing the old suppliers with new ones. In information industry only 30% believed to find alternative options. According to Ngoc et al. (2022), Ukraine supplied around 50% of neon gas and 40% of krypton gas which are crucial resources in electronic chip industry. This has led to shortage of

components, higher material costs, late deliveries for every company that in some way is dependent on shipping.

Effects of increased difficulties with suppliers is shown heavily on food industry around the world since both countries are major exporters of agricultural products in food and beverage industry. According to researchers Ali et al. (2023) Russia and Ukraine held over 24% of supply of wheat which itself puts a massive weight on the food distribution and food industry around the world. The lost resources in terms of logistics as well as natural raw materials, has increased the importance of countries own resources, companies' equity ratio and liquid assets. Increased use of vegetables, reduction of animal productions, improving the biodiversity in agriculture for many countries by using nitrogen in farming and benefitting air quality and water quality are just a few of the solutions for long-term food security of maintaining ecosystem services (Ali et al., 2023). Additionally, Ngoc et al., (2022) argue that an energy security plan is required to secure sufficient energy for socioeconomic development demands, as well as to maximize the use of renewable, clean, and ecologically friendly energy. To promote autonomy, resilience, and risk management, the socioeconomic development plan must enhance solutions.

3 Methodology

The core of research is an efficient methodology used to answer all the research questions. With the right research methods, it is more likely to achieve the desired results and collect the desired information about the problem that is the subject of the research. The chosen research methods are explained through the paragraph and justified so that the entirety of the research would be easier to understand.

3.1 Research approach

Scientific research can be divided into qualitative or quantitative research. Qualitative research aims to describe and understand a specific company, individuals, or phenomenon. Interviews can be used as a data collection method, surveys, observation, discussions or analyze existing materials. (Groenland & Lana, 2020) The research approach used for the study is qualitative research to identify challenges of the issue and find new perspectives and possibilities by gaining deeper understanding of the research topic. According to Groenland and Lana (2020) qualitative research

does not include any formalized or objectified measurement or statistics which are more characteristics of a quantitative study.

Qualitative study approach was chosen because of the relevancy of empirical findings from different sources such as, articles, books, conversations, business documents, online interviews, observations from published texts etc. where the matter is discussed. Sometimes also numerical data for example, data statistics can be observed and analyzed but for the results the data is not primarily edited into numerical form. (Groenland & Lana, 2020). In addition, quantitative research methods are primary not used for the study due conflict with the nature of the issue and not being helpful to reach results from the study. However, small sample of statistics are used for finding history of the research topic as it involves relevant statistics for example, sources like Finnish Customs and Statistic Finland.

3.2 Research context

The context of the research is three major food and beverage companies in Finland. Olvi, Fazer and Valio all had significant amount of business operations in Russia before sanctions and caused by Ukraine war, the companies lost crucial market areas. This chapter provides the reader better understanding of the companies and reflection on how they responded to the sanctions exposed to Russia.

3.2.1 Olvi Group

Olvi Group was founded in 1878 in Iisalmi thus has operated over 140 years where it was first founded. The founder William Gideon Åberg was brewery master himself and the purpose was to launch more soft alcohol drinks rather than hard liquor which was the most common alcoholic beverage. The company was listed in stock in 1987 and its biggest shareholder is currently Olvi Foundation. Olvi Group is mainly operating in Finland but has subsidiaries in Baltic countries such as Estonia, Latvia, and Lithuania and additionally in Belarus. (Olvi Group, 2022)

In March 2022, the group announced to stop all the exporting to Russia and end their operations in Belarus. However, the group decided to continue the operations in Belarus and only withdraw from Russian markets due sanctions. The subsidiary in Belarus operates as an independent finan-

cial unit and they also had local brands. External financial unit is seen beneficial for risk management thus helped to reduce any environmentally sensitive risks exposed to the group in Finland. Furthermore, the war in Ukraine has increased the risk for overall operations particularly the availability of packing materials, can and glass bottles as well as increased the prices of production- and logistics costs. The main raw materials important for the production and suffering from shortage are barley malt, sugar, and carbon dioxide. (Olvi Group, 2022)

The group is currently updating their risk management program and are hoping to find solutions to react faster to environment changes than before as well as predict the future. The group is especially focused on developing cybersecurity and other safety matters to create analysis service tool. Currently operations in Belarus are highly affected by EU regulations and sanctions, but the group has found the solution to use local producers to continue business. To repair the damages caused by sanctions Olvi is responding to increase of costs by continuing to higher prices as much as possible. According to the financial statement published in January 2023, the group is actively looking for alternative suppliers and strives to improve the efficiency of its production operations. The challenges related to the availability of natural gas have been considered especially in Baltic markets. To ensure uninterrupted manufacturing, the production facilities are intended to adapt to possible energy changes as efficiency as possible. The group is making investments in the self-sufficiency of raw materials also in Finland by introducing carbon dioxide recovery and storage equipment. In addition, with focus on repairing the lost market from Russia, the group is developing new product lines and sustainability solutions i.e., with water consumption in production. (Olvi Group, 2023)

3.2.2 Fazer Group

Oy Karl Fazer Ab, also known as Fazer, is founded in 1891 by Karl Fazer. In 2022 the turnover of the group was 1,1 billion euros which makes the group one of the leading companies in Nordic food industry. Fazer is operating in seven countries, exporting into over 40 countries and overall employ over 6 200 employees of which around 4 200 in Finland. (Fazer Group, 2022a)

According to the annual report 2022 almost immediately after Russia started the military actions and war in Ukraine, Fazer Group stopped all the operations in Russia. The loss of business operations in Russia decreased the turnover by 18 million euros. However, ending the subsidiary operat-

ing in Russia and the bakeries under it was not a simple process for the group. As a solution, the subsidiary was sold to a local operator in Russia, and thus Fazer completely outsourced itself as a subsidiary. In 2021, Russia's turnover was approximately EUR 157 million, thus 13% of the group's turnover. The company has operated in the bakery business locally in Moscow and St. Petersburg and employed around 2,300 people. (Fazer Group, 2022b & 2022c)

The consequence of the sanctions imposed on Russia was a wide-ranging energy crisis, which also affected Fazer's operations, especially due to the difficult availability of natural gas (source of thermal energy for bakeries) and electricity. According to the annual report, the group was one of the first companies to withdraw from the Russian market, therefore, they were able to react quickly to changes and strengthen crisis management through preventive actions. The group responded to the problems caused by the energy crisis by investing in oil-based backup equipment. (Fazer Group, 2022a) In addition to the invested equipment the group was able to produce natural gas from Baltic thus continue business operations despite the loss of markets in Russia.

Russia has caused concern in business with uncertain environmental factors for years, which is why the group has carefully prepared risk management measures. This is why, for example, natural gas production disruptions have been compensable with as few consequences as possible. (Fazer Group, 2022d) Alongside with replacing production losses and facing the challenges caused by the energy crisis, one of the most relevant strategic initiatives was to increase the product range. The strategic action was successful, and the group was able to launch new product lines in Finland, Baltic, and Sweden. (Fazer Group, 2022a)

3.2.3 Valio

Valio Ltd. is a food industry company, founded in 1905 in Hanko, Finland. The group's turnover in 2022 was around 2,2 billion euros. Valio is held by 3,700 Finnish dairy farmers in the form of cooperatives. Valio's primary goal is to provide the highest possible return to its shareholders, namely the dairy farms, through cooperatives. Dairy farmers had a particularly difficult year, with huge rises in fertilizer, energy, and animal feed prices, as well as considerable increases in farm production expenses. There were also issues with the availability of some production inputs. At the same time, Valio's industrial operations expenses climbed dramatically due to factors such as rising energy prices. (Valio, 2023)

The company exports its products to around 60 countries, therefore Russia's share as single country was remarkably small. (Valio, 2023) According to the Valio's website news published in April 2022(a), the value of foreign export was annually 750 million euros equal 40% of the total turnover. In November 2022, the group announced that it would stop exporting to Russia and Belarus due sanctions. In addition to exports, the import of packaging materials and raw materials was also stopped. (Valio, 2022b) The solution was a business transaction between Valio and the Russian company Velkom Group, which covered all Valio's operations in Russia as well as a single product group whose production was concentrated in a factory located near Moscow. Russian operations accounted for around 87 million euros in 2020 leaving the percentual stake of 5% of the turnover. (Valio, 2022a) According to the annual report 2022, the diversification of business operations into several different countries was the group's strategic decision to minimize the operational risks related to Russia. (Valio, 2023)

The changes in Russia's business environment due to sanctions and the end of cooperation caused the most significant challenges in the increase of energy, feed, and fertilizer costs. The effect of these production chain challenges was mostly seen on dairy farms thus costs increased by almost 70% compared to 2021. (Valio, 2023) However, despite the challenges, Valio was able to enhance their business operations and implement higher costs into their pricing strategy, thus increase price paid to cooperatives as well as gain costs savings. In the future, Valio's strategic plan to correct the lost market and the financial loss caused by the difficulties is to develop the responsibility of the products and thereby improve the quality of the products. Improving quality enables to raise prices, which in turn generates more money for the group. Valio states in its latest annual report that it is currently developing a responsibility program for dairy farms. Alongside with Fazer and Olvi, Valio as well has future plans to launch new products. The focus of Valio's business strategy is innovative product development, which, according to the company, is implemented by investing in high-quality raw materials. The company has plans to expand in the Asian market and launch new products, e.g., plant-based products. (Valio, 2023)

3.3 Data collection

The most common data collection methods in qualitative research are interviews, surveys, observations, and various documents. Data collection methods are not mutually exclusive, but they can also be used in parallel, combined in different ways, depending on the research problem is or what

are the research resources. The focus in data collection for this research was to collect information about the three companies Valio, Olvi and Fazer for the empirical study. Data was collected mainly from documents such as the annual reports and companies' websites. The topic being current the academic articles and papers relevant to the topic were limited, therefore some non-academic sources such as news articles, organization websites etc. were utilized for deeper understanding of the issue.

Data from secondary academic sources was used for the literature review overseeing the history of the topic as well as for theoretical parts to find most relevant information. Additionally, numerical data statistics for example, Finnish Custom Statistics were analyzed for the literature review. For deeper understanding of the issue and the social phenomena studied in this research, data was intended to find from as many secondary sources as possible. Due to the limited time frame the research itself did not reach the capacity of the wanted result which can be seen in the lack of survey, interviews, or any other primary method of data collection which could be useful in this type of research.

3.4 Data analysis

One of the commonly used data analysis methods in qualitative research are content analysis in which data can be analyzed by material (inductive)- and theory (deductive)-oriented ways. (Seers, 2012) The data analyzed for the thesis is combination of both inductive and deductive methods. Therefore, essential material can be summarized from original data in a way that conclusions and answers to the research questions are achievable. The analysis has been done in depth and the data collection findings have been examined extensively from different perspectives. The goal in such analysis is to help organize the information in a coherent and clear form without losing its essence.

The analysis of the data has been conducted mostly with the help of one's own thinking. Observations and findings interpreted from the data have been analyzed as either irrelevant or relevant for the research by reflecting them on the research questions. Through this structuring, only essential information has been collected from the material. No other tools have been used for the analysis, since answering to the research questions can be found through the interpretation of one's own thinking. The breakdown of the relevant information according to the research ques-

tions guided the structuring of the text and helped to filter the found material to match the achievement of the objectives.

3.5 Verification of findings

Validity, reliability, and objectivity must all be addressed when evaluating the accuracy of quantitative research findings. These essential concepts can be used to judge if the study was effective and whether it answered the research goals. Validity refers to the ability to precisely measure what was investigated in the study. The study's internal validity relates to how the research findings answer the research problem. External validity refers to the generalizability of the research or the possibility that equivalent results might be achieved by other researchers. Throughout the study process, the researcher must be precise and critical. Errors must not occur, for example, in data collection and analysis, since random errors reduces the dependability.

Criticism of sources has risen to a significant role in current research alongside the development of media and technology. Sharing information is rapid and the information can be easily modified according to the target audience. This criticality has also been used as the basis of the collected data for the study. The topic of the research involves media-sensitive information, e.g. In relation to Russia's military actions, therefore verification of the sources was particularly important. With this, the reliability and validity of the research can be ensured.

Information related to the companies has been collected from the companies' own annual reports as well as from other sources authored by the company's own author. The statistician's information is based on the statistics of the countries' official websites. Due to the critical nature of the source, information has been left out during the process to prevent information based on propaganda. The research topic is current, which is why the available previous research information was limited. The nature of the research questions also limited the scope of authors own reflection, and the research focused on finding facts about the activities of companies related to sanctions and business after Russian military actions.

3.6 Ethical issues

The subject of the research is based on extremely sensitive topics, the biggest of which is war. This inevitably raised ethical questions when doing the thesis. The first ethical challenge was a personal approach to the topic and its underlying sub-topics. For many years, Russia has divided opinions with its activities, mostly negative opinions about the actions of the army, corruption, and political issues. Personal opinions were present when analyzing the data, and objectivity towards the data proved to be challenging from the point of view of the research. Sources and information are strongly associated with propaganda, which is the biggest ethical challenge in terms of collecting material.

In the planning phase of the study, the ethical challenges were considered and the purpose of the study is not to determine right and wrong, but to find answers to the question of how companies are reacting to the prevailing situation. There are no ethical problems associated with the results of the research and the results are clear and one-dimensional, which provides an opportunity for further research. It completely depends on the researcher's personal goals and research questions, which direction they want to take the research forward.

The limitations of the research

The reliability of research results was previously discussed in subsection 3.5. In general, the reliability and validity of the research results were perceived as good, and these were examined from the point of view of the reliability of the sources. Unfortunately, due to the limited time frame, interviews, or surveys to collect primary data could not be conducted. This limited the possibility of getting more detailed information for the research, as well as possibly personal experiences and thoughts about operational changes from company's personnel. With the help of surveys, a deeper understanding of the research could also have been achieved, and possibly challenge the already presented information with new perspectives. Since only secondary data sources were used for the research, the research remained superficial. Another factor limiting the study was the timing of the study. Therefore, currently there is not as much already published research information on the subject as there may be in a few years. Since the subject is a political and social dilemma, personal attitude towards the parts of the research was also a limiting factor in choosing information and sources for the research.

4 Results

The research aimed to answer two research questions. This chapter explains the results conducted from the research. The research found information that is easy to understand as an answer to both questions, which also caused the difficulty of finding results for both questions. The answers to the research questions are divided according to the questions, so that it is easier for the reader to understand which information is intended to be understood as an answer to each question.

How Finnish companies have changed their business strategy in response to the sanctions imposed on Russia?

The first research question is designed to answer how Finnish companies have changed their business strategy after the start of the war. It is already clear how the sanctions affected and what kind of consequences they had, but the actions that take place as a result of these consequences are the subject of this question. The challenge of the question came up due to the limited availability of information, but the companies' annual reports gave a simple and clear picture of the kind of actions they have taken to respond to the sanctions.

Since all the companies under investigation are large food industry companies, the findings from their operations were also very consistent. All companies stopped exporting and importing with Russia due to the sanctions. In addition, Olvi continued operations in Belarus, but outsourced operations from the parent company, which means that the Belarusian subsidiary operates as a financially independent unit. However, it still follows the group's common guidelines and values. As an independent financial unit, it does not expose the parent company to business environment risks in Belarus, which is part of Olvi's risk management strategy even before the start of the war. Fazer and Valio sold their sister companies in Russia to local operators, and thus completely ceased operations.

Fazer Group CEO Christoph Vitzthum (2023) emphasizes that the prolonged crisis period has had a strong impact on the company's risks, and in many risks, there is not a single cause of risk growth that is completely clear, but the growth have been affected by many factors. Rising energy prices, container shortages in the world and costs increase clearly increase the risk levels of the company's daily operations. In the annual reviews of companies, the general uncertainty in the market

caused by the war is brought up. It is especially questionable how the war in Ukraine generally affects the company's customers, subcontractors, and delivery reliability. Customer projects have arisen as operators have withdrawn to alternative areas from Russia. The indirect effect of the war in Ukraine can be seen as a positive risk for companies as well. Changes in strategy have opened up new opportunities for companies and forced short-term development for needs that would not necessarily have been implemented otherwise.

The annual reports also strongly highlighted how the companies were aware of business risks related to Russia, and how they had been able to prepare with backup measures. Since the start of the war, Olvi has increased cyber security and developed software that is capable of more efficient analysis of environmental factors affecting business to increase security and reaction to changes. In addition to improving safety, Olvi strives to find alternative suppliers and enhance the productions. The issues associated with natural gas availability have been investigated, particularly in Baltic markets. To maintain continuous production, the industrial facilities seek to adjust to any energy fluctuations as efficiently as achievable. Furthermore, the group is investing in raw material self-sufficiency in Finland along with by implementing carbon dioxide recovery and storage equipment.

Fazer's operations were significantly affected by the energy crisis and the natural gas shortage caused by it, to which they responded by investing in oil-based solutions and continued natural gas production in Belarus. Despite the resource loss, the group was prepared to activate alternative options and had a well-prepared risk management program. Valio already had business operations in fifty-nine different countries excluded Russia which didn't make them vulnerable to losing Russian business market. In conclusion, all three companies already had activated their crisis management sufficient enough long time before the war, to be able to replace the lost suppliers, raw materials, and producers with a new one or execute alternative plans in case crisis occurs.

How are the businesses planning to replace the lost market with new ones?

In the planning phase of the research and the basis for formulating the research questions, the assumption was that the company would replace the lost market in Russia with new market areas. However, this was not the case, instead the companies focused on repairing the financial loss in a

product-oriented manner. As the research progressed, it was noticeable that it was not possible to replace a market area the size of Russia by itself by acquiring new market areas, but the loss had to be reduced by greater sales in countries where there is already existing business.

The annual reports did not reveal the companies' intentions to expand their business to new markets after losing the Russian market. However, it must be considered that the goal of every business is to expand, and although the solution to the market loss caused by sanctions was not mainly find new market areas, companies are expanding their operations. As the resource dependency theory suggests that the business strategy relies on the internal and external resources of the company, thus the company intends to utilize the internal resources after losing the external ones and to increase the power of the external resources again. Additionally, the results showed that all three companies focused on the internal resources and how to efficiently utilize them in order to gain more resources externally which can be replacing the old ones, in this case the resources coming from Russia and Ukraine.

Fazer's solution was to bring new products to the market, and they managed to expand the product range in Finland, Sweden, and the Baltics. The product launches were specifically aimed at the expansion of oat products, which was made possible by the expansion of in-store bakeries. According to the group, in 2022 the company opened thirteen new in-store bakeries and at the end of the year there were a total of 131. The strategic product development and short-term objectives to launch new products as many as possible was successful which was shown in the group's turnover. According to the Fazer's CEO (2023), the groups' turnover increase by 13% in 2022.

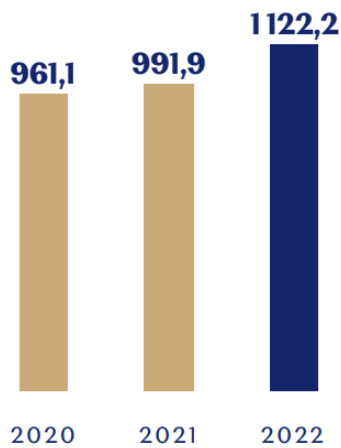


Figure 4 Fazer Group Turnover 2020-2022. Source: Fazer Group Annual Report 2022, p. 7

However, even if the product launches balanced the market loss Fazer struggled to meet new expectations of the changed consumer behavior. As people began to struggle financially due high interest rates as well as high prices in mandatory household bills such as electricity and heating, Fazer took short-term actions by range and pricing changes, ensuring energy availability, and re-viewing geographic markets. (Fazer, 2023)

Cost savings and increasing prices in relation to the increase in costs have enabled Valio to grow profitably despite the difficult circumstances. Despite the availability problems, Valio was able to keep all factories in operation and ensured delivery to customers, which was also reflected in a 15.6% increase in the group's turnover in 2022 compared to the previous year (figure 5). Both domestic and foreign turnover increased. In July 2021, Valio had bought Heinon Tukku company, which balanced the turnover after the start of the Ukrainian war and enabled growth, especially in domestic markets. According to the annual report, the world market was profitable, so raising prices did not cause a decrease in the purchasing power of the products. (Valio Group 2023)



Figure 5 Valio Group Turnover 2020-2022. Source: Valio Annual Reports 2020-2022

Valio continued to develop responsibility in the production chain and thus increase the quality of the products, which made it possible to raise the prices. Valio's mission is to be a pioneer in innovative milk and food solutions and brands. The group's regional strategic strength is milk business in the domestic market. Another strategic focus area is raw materials and solutions that add value to the industrial clients, through which the business hopes to expand internationally, particularly in Asia where Valio will introduce yogurts, snack goods, cheeses, and plant-based products in 2022. (Valio Group, 2023)

With new products and rising prices, the companies tried to lower the financial loss and compensate for the expenses that the changes caused by the war. The focus of Olvi's market expanding is investing in innovative product development. According to the company's report, product development is built through megatrends such as responsibility and sustainable development. By using financial resources, the company has the opportunity to invest in environmentally friendly production technology, recycle materials and take advantage of digitalization by developing its technology to utilize data, e.g., for initiative-taking information management. The data obtained with the help of technology also promotes risk management in the future, which the company was already able to utilize after the start of the war in Ukraine. In 2022, Olvi launched 479 new products globally (Olvi group 2023).

Olvi capacity of launching new products every year ensures the growth in sales volume. In 2022 Olvi launched new products 479 new products and in previous years 2020-2021 the group launched in total of 786 new products in markets.

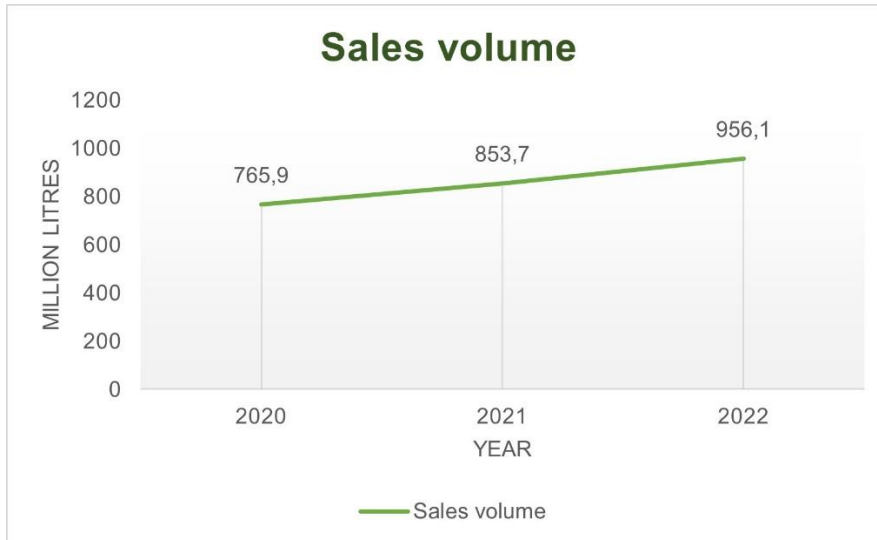


Figure 6 Olvi Group Sales Volume ML 2020-2022. Source: Olvi Group Annual Reports 2020-2022

Olvi was also involved in investing in responsibility, which they also developed to make production more efficient thus increase the value of the product for customers. Responsibility and sustainable supply chain goals are one of the focus areas in Olvi's strategy for the future as well as how the company is planning to replace the lost production in Russia. However, investing in sustainability is not because of the war, rather than a direction which the company was already going forward to. Olvi stated in their annual report in 2022 that "the extensive effects of the war in Ukraine were visible in the energy market, food security, human rights, and the operation of supply chains. Resulting energy crisis has increased the desire to implement the green transition in Europe." (p. 15).

Investing in risk management in the future has also been one of the main strategic actions for the companies. The energy crisis is important in risk management at the moment. In their annual reports, the companies emphasized the importance of the work done in risk management for the risks related to the energy side at the moment. The prices of electricity, gas, fuel oil and the like are particularly important in the entire company's value chain, and they strongly influence the company's daily business. Along with production concerns, the HR-related risks imposed by the conflict in Ukraine additionally emerged. The company was also worried about the employees be-

cause they had been living in a time of uncertainty and needed to be taken care of. Two aspects that are projected to increase in businesses include keeping employees informed and managing crisis resilience.

5 Discussion

The purpose of the study was to research how three leading companies in Finnish food industry has responded to the sanctions exposed to Russia and how they have strategically changed their business operations in order to continue sufficiently as possible. The pattern of the corporations' communication has generally remained consistent. However, the reports published on the issue were general in nature and only indicative since the overall assessment was unclear and there was not yet assurance about all of the consequences. The companies started to address the situation generally in terms of the contracts and other matters that had legal consequences for them. The early statements on the matter usually criticized the war and stated that the business was reviewing its contracts to determine what steps might be taken. However, the business is not restricted to any one operating model and can choose to give emphasis to either short-term or long-term outcomes, depending on the circumstances.

The consequences of the war on each company became increasingly concrete over time, and the businesses were able to put their strategies into action. Generally, operations in Russia were suspended or ended, and agreements that had not been finalized by the use of force or sanctions were chosen not to be extended. The most recent statements used for the research, that addressed the war and its impacts provided a situational overview of how the action plan was put in place and how that affected the business' operations. The main results from the research were that raw material shortage and energy production challenges evitable caused difficulties for all three companies. Additionally, sanctions forced the companies sell the subsidiaries along with all the business operations in Russia. However, the suppliers, producers, and markets were able to replace with new ones or alternative options. Launching new product lines and investing to self-sufficient technology as well as improve the old product with more sustainable production was a common strategy to survive and compensate the market lost. One of the most significant changes was increase in prices as a result of higher supply and commerce costs for companies.

While discussing the results, the size of the companies under study must be considered. Valio, Fazer and Olvi are the three largest food and beverage companies in Finland, whose operations extends into multiple countries and whose production are decentralized. Despite the loss of the Russian market, the companies' level of self-sufficiency is high. Therefore, they have better chances to survive a crisis of this magnitude. It is not yet known exactly how damaging the challenges caused by the war were, but according to the latest annual reports, the business is being stabilized with new products and higher prices. (Valio, 2023; Fazer, 2023; Olvi, 2023) However, this will cause a negative impact on society as people are financially struggling which has effect on global economic growth.

As resource dependency theory suggest that strategies depend on the strength of firms controlled over critical resources, including natural resources, technologies, and political resources. The results heavily establish the scope of effects the sanctions had on all the critical resources of the companies. Political factors were the core reason for the imposition of sanctions, as several countries strongly condemned Russia's military actions and the sanctions were a way to force Russia to withdraw from Ukraine. In order for the companies to be able to maintain political resources and profitability, they had to give up their business activities along with the sanctions even if the business itself was not involved with the war. The lack of natural resources and the energy crisis forced companies to change their strategy in terms of production and develop new technology to guarantee business continuity. It is significant that every company's business is dependent on external resources, and disruptions to the resources forces companies to adapt to the new situation according to their internal resources.

An economic crisis arose as resources were cut off from the original source, and sanctions drove companies into financial decline or even bankruptcy. Similar economic crises have also happened in the history. The biggest ones which have influenced Finland and Russia have been e.g. The Finnish banking crisis at the turn of the 80s and 90s, which led to the recession of the 90s (Kiander, 2001), the Asian economic crisis of 1997 (Berg, 1999), the Russian economic crisis of 1998 (Pastor, G., & Damjanovic, 2001), the Global Financial crisis of 2007-2009 (Shin & Song, 2010) and the debt crisis of the EU region in 2009 (Lane, 2012). Other economic crises have resulted in growing unemployment and decreased profitability for businesses as a consequence of this crisis. Due to the restricted availability of resources caused by Ukraine war, changes in consumer behavior, and cor-

porate limitations, the global economy enters a crisis, and the first to suffer are SMEs with a lower level of self-sufficiency. Similarities can easily be found between economic crises because the characteristics and factors of the economy have remained the same. If some of these factors are negatively affected, it always leads to the next economic factor, as a snowball effect.

Finnish researcher Jaakko Kiander (2001) studied the Global financial crisis in 90-century and its effect on Finnish businesses. In his study he established that financial crisis analysis is significantly important for companies to improve their risk management as well as crisis management. This has been one of the biggest reliefs for Valio, Fazer and Olvi as they have been well prepared for crisis to happen in Russia and were able to efficiently function as fast as possible. This is the main implication for manager as they are able to improve the business management by looking into the past financial crisis and utilize the information. Kiander's study also observed from the study conducted by Parkkonen and Volk (2000) the impact of global financial crisis on SMEs and family businesses. As the three companies under the study in this thesis are significantly big in Finland, therefore their possibilities to survive are higher than smaller businesses. This was also a characteristic of the 90's recession when mainly SMEs went bankruptcy alongside with individuals who drifted into over-indebtedness caused by high interest expenses.

In conclusions, the overall result from the research was positive. All three companies were able to maintain operations in other countries and make new investments. Even if the market and resource loss in Russia had a significant effect on producers, resources, supply chain and commercial relationships, the result showed that the loss is replaceable. Olvi, Fazer and Valio all found a common way of replacing the loss by innovative product development and investing in sustainability and technology, therefore increasing the quality of the products for customers. This enables the companies to increase prices as well. However, it's costly and smaller companies are in more damage to go bankruptcy due high production costs and low internal resources. The profitability of the business emerged as a significant feature in responding to crises and experiencing crisis survival. Especially profitability on time prior the crisis had an impact on the nature of crisis management strategy the company had adapted their operations. As the profitability of operations weakened due to the sanctions, more strategies were adapted to reduce operations, operations continuation with additional funding, new investments, and cessation of operations.

The companies have generally communicated quite comprehensively about what happened and its effects on their own operations and future plans. In general, the businesses have discussed what transpired and how it has affected their own operations and future plans in fairly detail. The laws that regulate how businesses operate and the organizations that keep track of their compliance play a part in this, but it is also in the company's best interest to actively communicate about the issue. Due to the magnitude of the companies, making major choices typically takes months rather than just days or even weeks. If a company is at all aware of how the world is shifting, major changes should not come as a complete surprise as in this situation, the corporations were ready for possible risks.

Longer-term data could provide more comprehensive research results when the experience of the effects from the crisis is longer than just over a year. Thus, the collection of longer-term data could be set as a further research proposal for the study of the topic. In addition, based on longer-term data, it would be possible to investigate whether a crisis management strategy has been more suitable than others. As Thakur and Hale (2022) have stated, studies focusing on crises and crisis management do not deal much with what kind of strategic countermeasures it would be profitable for companies to adapt their operations to different types of during crises. This perspective in research could provide valuable information in crisis management in choosing a strategy or strategies. Further research based on this thesis could be studied from the corporate social responsibility and crisis management perspective including surveys and interviews.

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