



Analyzing entry opportunities for a Latvian company of
alternative energy sources in the Russian market

Case: Baltic Sun Wind Engineering Company.

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ABSTRACT

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<p>The research was commissioned by Baltic Sun Wind Engineering Company. This company desires to enter the Russian energy market with its products. The aim of the thesis research is to provide the opportunity for the company to enter business in Russian market from the point of view of legislation and entry modes. The main objective is to suggest a suitable market entry mode for the Latvian company on the basis of the analysis. Moreover, the research analyzes how the case company of alternative energy sources can enter the Russian market from the legislative point of view.</p> <p>In order to find out the factors influencing the choice of the entry mode, strategies of market entry modes were analyzed. The SWOT analysis method was applied for analyzing the company's current situation with the focus on the strengths of BSW Engineering Company. to become international. The PESTEL analysis was used to analyze the possible challenges and opportunities of the Russian market area.</p> <p>To achieve the objectives of the research, the qualitative research method was used. This research approach was applied because the thesis research is described and analyzed by the market entry process of the BSW Engineering Company. Regarding the sources, the data was collected from the both primary and secondary sources. The primary sources include interview sessions with a representative of Customs Union of the Russian Federation and the CEO of the case company. The secondary data was collected from is books, documents, laws, articles and online sources discussing the topics of the research.</p> <p>The thesis provides the case company with a set of recommendations of how the case company can enter the Russian market from the point of view of legislation. The set of recommendations covers the finding of the most suitable entry mode for the BSW Engineering Company. This thesis research designed as a market entry plan with a step-by-step guide for successful penetration into the Russian business market.</p>	
Keywords:	Alternative energy, entry modes, entry strategy, legislation challenges, Russian market

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1 INTRODUCTION

In this first chapter, the basis of this research work is presented. The introduction chapter consists of four parts. Firstly, the background provides the reader an overview of the work. Secondly, the aim of the Bachelor Thesis is discussed. The third section gives detailed information about the thesis objectives, research questions as well as the scope and limitations of this research. Finally, the structure of this thesis is described.

1.1 Background

Using renewable energy has become increasingly popular in recent times. The reason for this is in the exhaustion of natural resources and consequently fluctuations in the prices of gas and oil. In combating this shortfall, the usage of alternative energy sources has increased at a global level over the past decades (European Commission 2014). As a matter of fact, energy has always been an important tool in economic development and energy sector. To fulfill human needs, the different kinds of energy sourcing have been used over history. As a proof of this fact were the industrial revolutions in the 18th century (Wrigley 2010). Energy is recognized as one of the most important forces today. It has influenced people's wellbeing, such as cost of living, transportation and heating.

In recent times, the most usable type of energy is fossil fuels. The emissions from using fossil fuels have a huge impact on people's daily lives and the nature on the whole. There are some challenges of many current fuel sources, including the following:

- 1) Limited supply of resources, such as oil and coal
- 2) High costs
- 3) Negative effect on the environment, e.g. water, air and forests
- 4) Increased global warming due to carbon based
- 5) Increased dependency on other countries for oil. (EESI 2014.)

These challenges of fuel energy sources could lead to catastrophic changes in the our planet's climate. They can harm the environment and the human livelihood. However, people came up with a solution to this problem such as energy efficiency and renewable / alternative energy sources.

Alternative sources usually known as non-conventional sources of energy. Renewable sources are not based on splitting of atoms or burning of fuels. Alternative energy sources can be used constructively to meet the energy requirements. To lower energy costs people need to know the benefits of alternative energy. Advantages of alternative energy sources are suggested to be as follows:

- 1) Does not effect to global warming
- 2) No polluting emissions
- 3) Saving on health
- 4) Ecological purity
- 5) Low operation cost of the equipment
- 6) The availability of resources
- 7) Unlimited resources. (Baltic Sun Wind Engineering Company 2014.)

On one hand, alternative energy resources sometimes are not available e.g. the wind does not blow or the sun does not shine, on the other hand, they can be reliable for businesses in which power outages are extremely costly. In any case, alternative energy sources are the best solution of the environmental pollution problem from fossil fuels.

According to The Global Status Report on Renewable Energy, about 16% of global energy consumption accounted on alternative energy (REN 21 2012). The biggest consumers of energy in the world are China, USA, India, Russia and Japan. Predictions on the future shows that in 2030 renewable energy will have a big part of the world's energy mix. Alternative sources will account approximately for 35-40% of all energy in the world. (International Energy Agency 2012, 1-7.) These data shows the success of case company's business idea and potential future growth in energy industry field.

Alternative energy sources can be considered as a main solution in energy crisis today. Moreover, renewable energy is the only type of energy in the developing countries and far located from big cities villages. In my opinion, future energy generation may rely on renewable energy sources.

Today, energy has become an important "commodity" in business life. In particular, renewable energy sources, "green" energy, and environmentally friendly energy are most demanding trends in international market. Requirements of production and distribution of energy are controlled by government. (International Energy Agency 2012.) Thus, when it comes to energy, Russian Federation cannot be left out from this topic. Russia is full of different kind of natural resources, for example, gas and oil. Only in 2008 a third of all country's revenues were oil and gas production (The Economist 2011). In addition, according to incumbent president of Russia (Putin 2012), revenue from oil and gas production provides one fourth of the GDP in the country. That is why Russia is called as an energy giant (Kuorsalo & Susiluoto & Valkonen 2007, 98-99).

The energy strategy of Russian Federation, valid till the period of 2030, states that more than 50% of the country's industry is outdated. In addition, the energy industry in Russia lags behind scientific and technological progress. Since energy is linked to other industries, it is very important to upgrade all problematic industrial areas. For example, energy is closely to mining, pulp, chemical, oil and gas industries. Thus, renovation of energy objects shall entail development of all energy industries as well as improve energy production. (Ministry of Energy of the Russian Federation 2014.)

Current research work concerns not only energy sources, but also the entering new market. Globalization becomes increasingly necessary for all companies, including SMEs and big enterprises. To move into foreign market easily, companies should reduce of barriers in international market. According to Jansson, Johanson and Ramström (2007), three countries have very big market size. These countries are China, India and Russia. They have a huge potential for West European firms to enter there.

Russian Federation has a big potential for international companies because the market there grows very fast. In particular, this potential concerns nearby countries, such as Latvia, Lithuania, Estonia and Finland. Entering the Russian market is a good business idea for foreign enterprises, because local firms are not able to satisfy the demand fully. Trade relationship between Latvia and Russia is mutually dynamic and rapidly growing (Embassy of the Republic of Latvia to the Russian Federation 2014). In August 2014, the Russian energy industry grew the second month in a row (The Wall Street Journal 2014). Despite the sanctions against Russia, it can be predicted that Russia's economy is growing.

Experts of International Monetary Fund (hereinafter, IMF) suggest that Russian government tries to make more stable economic environment for international businesses in Russia. However, there are a lot of opinions about future economic situation of Russia due to the recent events in the world. Anyway, Russian authorities have simplified the legislation, but the results are still far from the goal. Thus, on the one hand, the Russian market has a huge potential for international companies, and on the other hand, it has some challenges and pitfalls. Consequently, foreign enterprises should clearly analyze the environment before entering the market.

Obviously, the firm who goes international, need to understand that enter a new market is always a complex process. Each step in entering should be well thought-out, because any slight mistake can lead to the company collapse.

To better understand the entry process to the new market, in this case Russian market, this research work identifies three major problems that should be taken into account. First of all, it concerns the legislation of the entry country. Secondly, the company should carefully choose an entry mode. Finally, finding the area and region of entry is important.

1.2 Aim

The general aim is to provide the opportunity for the company to enter business in Russian market from the point of view of legislation and entry modes. The general

area of this research is business management with a specification on entry strategy. The main topic of this thesis research is analyzing entry modes and legislative challenges for the case company during entering Russian market. The research was commissioned by Baltic Sun Wind Engineering Company (hereinafter, BSW Engineering). This is a Latvian company of alternative energy sources in which I did my internship. The company BSW Engineering is located in Latvia, Riga. The main business activity is implementation of alternative energy sources, based on the use of wind and solar energy. Today the company has become one of the leading enterprises in Latvia in its domestic market. As the economy of Russia is growing at a very fast pace, it has a huge potential for the international companies. However, there are several challenges in internationalization process that should be considered before entering Russian market (Doing Business Project 2012). Based on the facts discussed above, the aim of this thesis is to describe the entry process of BSW Engineering Company in terms of legislation barriers and entry modes.

1.3 Objectives, research questions, limitations and scope

The objectives of this research derive from the need by case company Baltic Sun Wind Engineering Company in entering the Russian energy market. This research helps BSW Engineering in analyzing the new market environment in Russia in terms of legislations and entry modes.

The objectives of the thesis are as follows:

- 1) The first objective is to analyze market entry modes in order to find out the most feasible for the case company on the basis of the analysis.

- 2) The second objective of this research is to analyze how the Latvian company of alternative energy sources can enter the Russian market from the legislation point of view. This analysis includes looking into the key stages in legislation for opening renewable energy business in Russia.

This thesis research will thoroughly answer the following research questions with respect to BSW Engineering's entry into the energy business market in Russia:

Research Question 1:

- What is the most suitable market entry mode for the case company in entering Russian market?

Research Question 2:

- How can the case company tackle main legislative challenges of the chosen entry mode and the Russian market as a whole?

The first question identifies through an analysis the most feasible entry mode for the case BSW Engineering Company. The second question deals with analyzing the environment of Russia from the legislative point of view. Moreover, this question deals with the key challenges that the case company can face during its entry to Russian market.

This research concentrates on analyzing market entry in Russian market only from the case company's point of view. In other words, this research only looks into the market entry modes and legislative challenges of the entry strategy. The research is narrowed down to exclude cultural, financial or economic aspects.

Because my research is about legislation, the limitation of the research concerns the legislative documents of Russia, such as Constitution of the Russian Federation and Customs Code of the Customs Union. It is not within my control if the government will decide to make any changes in the constitution or other documents after the Bachelor thesis research process.

Furthermore, analyzing entry opportunities is considered from the point of view of the company's field of operations. Thus, for better understanding the answers the interview with the CEO of the case company was in Russian language, similarly to the interview with a representative of Russian Customs. The interviews were

translated from English to Russian and back. However, to minimize the biases in this research, the transcripts of the interviews were translated with the help of a Russian-English speaking teacher to avoid misunderstanding in interpretations.

1.4 Structure of the Thesis

Chapter 2 of the current thesis focuses on the research methodology that was used in order to answer the research questions. In chapter 3 the literature review of this study is presented. Internationalization process of existing entry modes is introduced in this chapter. Moreover, the rules of selecting suitable entry mode as well as factors influencing the choice are presented. To have the basic information about the case company and its products, the analysis of BSW Engineering Company is made in chapter 4 of this research. The analysis of Russia is used in chapter 5 to overview Russia and to study its energy market. Furthermore, step-by-step entry plan for the case company is presented in chapter 6. In chapter 7 legislative problems of the chosen entry modes and their solutions are described. Finally, chapter 8 concludes the thesis with the focus on recommendations for the future study.

2 METHODS

In this chapter, the research methodology is presented that was applied for writing this thesis. There are five sections in this chapter. The chapter starts with a description of the choice of the research approaches. Secondly, the selection of the research method is characterized. The next section describes the data collection methods followed by validity and reliability analysis. The final part presents the research process of the current work.

2.1 Research approaches

Ghauri and Gronhaug (2005, 110) state that there are two different research data for writing research i.e. quantitative and qualitative. Table 1 illustrates the differences between these two methods.

Table 1. Comparison of Quantitative and Qualitative Research Approaches (Ghauri & Gronhaug 2005, 110)

Qualitative Approach	Quantitative Approach
<ul style="list-style-type: none"> - Emphasis on understanding - Focus on informant's point of view - Interpretation and rational approach - Process oriented - Observations and measurement in natural settings - Subjective insider view - Closeness to data 	<ul style="list-style-type: none"> - Emphasis on testing and verification - Focus on facts or reasons - Logical and critical approach - Result oriented - Controlled measurement - Objective outsider view - Distant from data

Quantitative research data consists of numbers and quantities, and then the gathered data transformed to statistical analysis (Cooper & Emory 1995). Likewise, there is the data which cannot be interpreted from numbers such as behaviors of people, interests of companies and laws of countries. (Sekaran 2003.) This research method is called qualitative approach.

The definition of qualitative research can be described as “array of interpretative techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning, not the frequency of certain more or less naturally occurring phenomena in the social world.”(Cooper & Schindler 2011, 160). Another authors define qualitative research as the research that cannot be interprets by quantity and where words and expressions are needed (Bryman & Bell 2007). According to Lakshman (2000), qualitative research is used where it is impossible to make results for the numerical or quantitative analysis. Other words, qualitative research method uses in-depth analysis of non-numerical data.

The qualitative research approach is chosen because the thesis is described and analyzed by entering process of the case company. In addition, for this thesis work the qualitative research method is applied because it is suitable in business and management aspects. Furthermore, qualitative research allows the author to study Russian energy market as well as entry modes without limitations of predetermined categories of quantity. Moreover, this research method is appropriate in finding answers of the research questions and achieving the research objectives.

The next research approach is scientific approach. According to Yin (2009), there are three types of scientific approach such as exploratory / explore, descriptive / describe and explanatory / explain. These types can be present at different levels, no matter which research method is used (Yin 2009).

Exploratory research carried out by the researcher in order to gather deep information about specific problem or case to improve the final result. Thus, the problem area should be studied and researcher had a fully understanding of situation. (Cooper & Emory 1995.)

Descriptive research is conducted in order to represent detailed data about the population, the events or situation (Saunders & Lewis & Thornhill 2009). According to Cooper and Emory (1995), descriptive research uses on already existing theories and data. Descriptive research is usually complex and difficult because it describes the relationships between some aspects or some variables. (Cooper & Emory 1995.)

Saunders et al. (2009) identify explanatory research as a research that builds on the previous information. The goal of the explanatory research is to elaborate and enrich a theory's explanation. At the end of research, the researcher supports or refutes an explanation or prediction. (Saunders et al. 2009.)

I adopted the exploratory research method and used the case study for current bachelor thesis. The reason of choosing this method is a better understanding and analyzing of appropriate entry mode for the case company in form of alternative energy sources. Firstly, in analysis I used an exploratory approach to identify suitable entry mode and explain the different advantages and disadvantages of each of them. Moreover, in the process of collecting data I also used the exploratory research method for identifying legislative challenges of the Latvian company on the Russian market.

One more important issue for writing a research is choosing of methods of reasoning. There are two broad methods of reasoning: inductive and deductive. The inductive reasoning works from specific to general information and theories. The deductive reasoning works from the generalizations to the more specific things. (Trochim 2006.) In my thesis I decided to use a deductive reasoning approach. Thus, I firstly collected the information about all existing entry modes to build a theoretical background and then I chose the modes that suitable for the case company in real life. I deducted from literature and interview the possible legislative and other challenges in their entry stage of internationalization in Russia.

2.2 Research method

The choosing of research method depends on research question(s) as well as the aim of the thesis work. According to Yin (2009) there are five methods that can be used in research study, such as survey, history, case study, experiment and archival analysis. Moreover, Yin (2009, 11) identifies three aspects of how the suitable method can be chosen. The first aspect is form of research question, the second is focusing on contemporary events and the last one is controlling on behavioral events. Table 2 represents the connection of these aspects with the different research methods.

Table 2. Relevant situation for different research methods (Yin 2009)

Method	Form of research question	Require control of behavioral events	Focus on contemporary events
Experiment	How, Why	Yes	Yes
Survey	Who, What, Where, How many, How much	No	Yes
Archival Analysis	Who, What, Where, How many, How much	No	Yes/No
History	How, Why	No	No
Case Study	How, Why	No	Yes

Because of two of my research questions have “how” and “what” exploratory questions, a single case study method is chosen with involving of exploratory research. In addition, the research is focused on contemporary events of existing company and there is no any control on behavioral events (Yin 2009). In order to identify the challenges of entering Russian market for the case company the exploratory approach is used.

2.3 Data collection

Data collection sources are very important part in conducting research works. There are a lot of ways of collecting data for example, interviews, observation, literature, newspaper, surveys, questionnaires, e-mails, telephone, reports and other contacts (Smith 2005). In other words, it is all needed information to answer research questions. Data collection can be divided into two types that are primary sources and secondary sources. Each of them has their own importance and contribution in collecting data.

According to Rabianski (2003, 48), primary data is information collected for specific purposes in research. The most common primary data techniques include interviews, surveys and observations (both participant and direct). Interview can be used in

different forms for instance, personal contact, phone call, e-mail letters and other communication media. (Rabianski 2003.)

There are three main types of conducting interview such as structured interviews, semi-structured interviews and unstructured interviews. For structured interview, the researcher uses the questions based on before-prepared list and limits by them. Semi-structured interview is the use of some standardized questions with adding other questions depending on interview situation. Finally, unstructured interview is informal conversation with range of topics and without any limitations. Usually, primary data is less precise and can lead to research errors in comparison with secondary data. That is why secondary data is considered as more accurate and faultless information. (Rabianski 2003, 49.)

Secondary data is defined as information and data based on previous research or primary data. Previous research can involve published and unpublished literature. (Rabianski 2003, 49.) The other definition is more suitable for topic of this work. Czinkota, Knight and Liesch (2004) state that the most reliable and valid data are sources from government and organizations who regularly checks and updates new information. Some of these organizations are International Monetary Fund or IMF, World Trade Organization or WTO, United Nations organization or UNO and World Bank. They announce for countries specific reliable information about happenings all over the world. (Czinkota et al. 2004.) Today, secondary data is widely used by researchers and students. Secondary data is freely available without limitation and everyone can access to necessary data. This data can be in form of books, articles, and reports.

For the current thesis research, both primary data and secondary data are used to fulfill the purpose of the research. Primary data collection includes new and fresh data that have been collected by researcher (Stokes 2011). In this research the primary data were two semi-structured interviews with representative of Customs Union of the Russian Federation and CEO of the case company. The author selected the semi-structured interview with informal discussion to make a conversation easy and more understandable for interviewer and interviewee. A script of questions is prepared in appendices as well. The interviews will help to answer stated research question of this

bachelor thesis. The results of interviews will help the author to find in-depth information concerning process of entering case company in Russian market. The benefit of the interview with the CEO of the case company is that I got the information about CEO's vision on internationalization process. Moreover, the collected data was necessary for the analyzing the suitable entry mode for the case company. The collected data from representative of Customs Union of the Russian Federation helped to analyze the challenges of entering the Russian market for Latvian company of alternative energy sources.

During the interview the notes were taken and both interviews were recorded with the tape recorder. The analyzing of entry opportunities is considered from the point of view of the company's field. Thus, for better understanding of the answers the interview with a CEO of the case company was done in Russian language. The same way the interview with a representative of Russian Customs was done. The interviews and questions were translated from English to Russian and back. However, to minimize the biases in this research, the transcription of the interviews was translated with a help of Russian-English speaking teacher to avoid misunderstanding in interpretations. The detail of interviews is shown in the table below:

Table 3. Information about interviews

Name of Interviewee	Position of Interviewee	Date of Interviewee	Type of Interviewee	Location of Interviewee
Mr. Aleksandrs Uzakins	Chief Executer Officer of Baltic Sun Wind Engineering Company	June 14, 2014	Semi-structured interview	Riga, Latvia
Mr. Sergei Ivanov	Deputy Chief of Murmansk Customs on economic activity	September 20, 2014	Semi-structured interview	Murmansk, Russia

In the table above the place, the type, the date, the position and the name of interviewees are specified. The interviewees were kindly open to answer all the questions during the interview sessions. Interview questions are presented in Appendix 3 at the end of the thesis.

Secondary data collection includes already collected and assembled data (Stokes 2011). In my Bachelor thesis secondary data were documents, laws, articles, online sources, author's experience and different kind of books, such as printed and in electronic formats.

2.4 Validity and reliability

According to Morse, Barrett, Mayan, Olson and Spiers (2002) reliable research has to be based on reliable facts and sources, otherwise this research is no more than a fiction or fake study. Thus, validity and reliability are an essential part of veracious research work. (Morse et al. 2002.)

Ekwall (2009) indicates that two main factors that make the results of the research reliable are validity and reliability. In addition, these factors ensure the authenticity and credibility of the research (Ekwall 2009). In qualitative research, to get valid information is more difficult in comparison with quantitative research. Qualitative research is studying in-depth understanding of human behavior, the object being studied and influence to each other. So, the researcher should be cautious in gathering information because he/she can affect somehow the people or object and in can lead to the wrong result at the end. Hence, outcomes can be not fully genuine and reliable. Ghauri and Grønhaug (2005, 65) explain that quality of the research can be rate by internal validity and external validity. First one refers to if the obtained results in research are true; second one refers to if the research study can be generalized (Ghauri & Grønhaug 2005). According to Yin (2009, 36), the aim of reliable research is to sure that if the research will made again, the same results and findings will appear.

To make the current research valid and reliable the author carefully designed the research questions and chose suitable literature and theory. Reliability is attained by face-to-face semi-structured interviews in order to minimize mistake in collecting primary data and in future process of analyzing gathered data. Thus, it can be assumed that if the same study will be repeated with the same case company for a given period of time, almost the same conclusion will be gotten.

2.5 Research process

The process of writing thesis research began with an agreement of three sides. The first side is the CEO of the case company (Baltic Sun Wind Engineering Company), Mr. Aleksandrs Uzakins; the second party is the thesis supervisor at the university (Lapland University of Applied Sciences), Ms. Marita Wahlroos; and the third side is Maria Solovyeva as a student and the author of this research.

Initially, a discussion between Mr. Uzakins and the author was conducted in order to determine my responsibilities and his expectations regarding the thesis work. At the same time, the conversation with the CEO helps to express my own interest in the topic of the research, in particular in entering process of case company to Russian market. Thus, to meet the expectation and make relevant analysis, I searched for appropriate sources and literature, i.e. books and articles. Moreover, the data of inside and outside activities of the case company were collected from my previous practical training experience at the BSW Engineering Company and an in-depth interview with Mr. Uzakins.

In this research theory and practice are closely synthesized by each other. The theories are used to explain entering process of the case company. Moreover, these theories are used to analyze collected data. The model of the market entry modes directly comes from first research question. The SWOT analysis of the company also explains the first research question concerns the entering process of Baltic Sun Wind Engineering Company. It helps to minimize the weaknesses and focus on the opportunities. The PESTEL analysis is useful for the second research question concerning possible legislative challenges of entering the Russian market. It is necessary to describe all the benefits and issues of the Russian market. In addition, the results of this study bring the concrete steps and challenges during the entering process of the case company. The information from the interviews and literature helps to identify requirements of the case company and create the final suggestions.

3 LITERATURE REVIEW

This chapter provides the literature review that was applied for the current research work. In order to answer the research questions and make an appropriate analysis, the theoretical framework is introduced here. First of all, the strategy of market entry modes is analyzed. Secondly, the SWOT analysis, i.e. Strengths, Weaknesses, Opportunities and Threats of the case company is used. Thirdly, the PESTEL method including the analysis of Political, Economic, Social, Technological, Environmental and Legal aspects for market analysis is used. The explanation for each theoretical framework is presented in this chapter. To visualize the process of entering the market for the case company, the figure below is created:

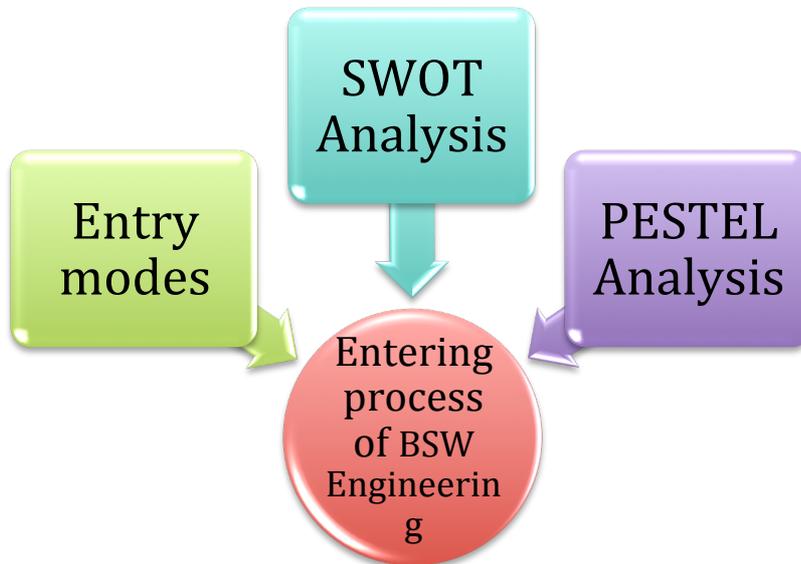


Figure 1. Theoretical Framework

According to figure above, the entering process of BSW Engineering includes entry modes analysis, the SWOT analysis and the PESTEL analysis. The entry modes strategy includes the options for the case company to enter the Russian market. The SWOT analysis is useful for analyzing the company's current situation and focusing on the strengths of BSW Engineering to become international (Beam 2008, 76-79). The PESTEL method is used to analyze the possible risks and opportunities of the Russian market certain area (Mooradian & Matzler & Ring 2014).

3.1 Entry modes

According to Root (1994, 5), the foreign entry mode is “an institutional arrangement that makes possible the entry of a company’s products, technology, human skills, management or other resources into a foreign country”. The most important strategic decision in internationalization process is selecting appropriate mode of entering or expanding in a new market (Root, 1994). Each company has its own motive and goal to go abroad and discover foreign market. There are certain factors that can influence the choosing of the type of entry mode before become international. Hollensen (2007) designates these factors as:

- 1) Internal factors
- 2) External factors
- 3) Desired mode characteristics
- 4) Transaction-specific behavior

Internal factors include the company's size, previous international experience and activity of the firm. The size of the organization has a crucial importance because it shows the amount of finance available and whole financial situation. Other words, big companies have large resources hence the involvement and successfulness in the international market increases. Certainly, all companies desire to have a high involvement and control in the foreign market, however small and medium enterprises are not allowed to afford this high level of control because of low financial resources. Thus, for the small firms is more suitable such entry modes that require fewer resources. (Hollensen 2007, 297- 302.) As Hollensen (2007, 297-302) states, another very important characteristic in choosing of mode of entry is previous international experience of managers and firm at whole. An experience raises profitability and certainty, and reduces the costs and errors in doing business. The last point in internal factors that can affect the choosing of market entry mode is the activity of the company and characteristics of the product or service. For example, size or weight of a product will determine which entry mode would take less customs taxes and less costs on transfer these products from one country to another. (Hollensen 2007, 298-299.) External factors include socio-cultural differences, country risks, trade barriers, market size and growth, and existing competition in

foreign market. (Hollensen 2007, 300-301.) Another reason of the choice of entry mode can be the socio-cultural differences of home and the foreign countries because more differences create more uncertainty and incomprehension. For instance, huge cultural gap in doing business might lead to the choice of joint ventures instead of direct investments. (Hollensen 2007, 300-301.) The factor of desired mode characteristics depends on risky aspects. The low levels of resource commitment may lead to big loss of opportunities. (Hollensen 2007, 302.) The last factor is transaction specific factors. This factor includes tacit nature of knowhow and the opportunistic behavior in the international market.

There are a lot of ways for a company to enter or expand its business to a foreign unfamiliar market. Market entry strategies can be for example, export, licensing, franchising, strategic alliances and foreign direct investment. The summary of existing entry modes is illustrated below:

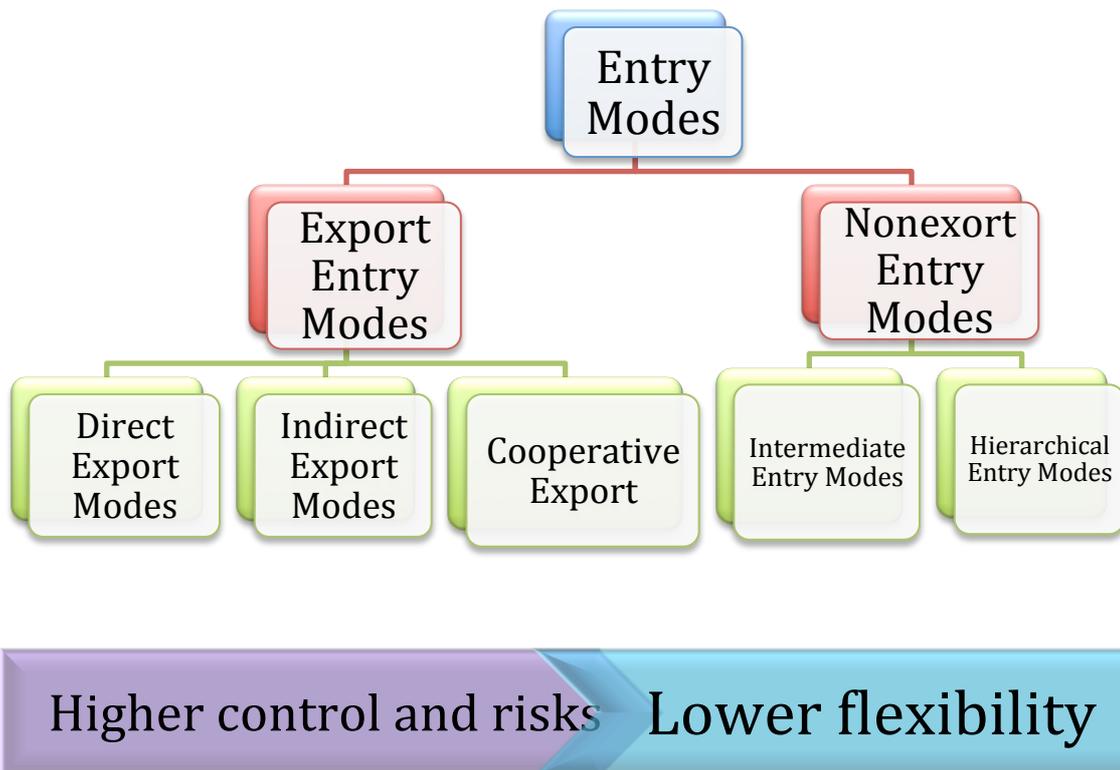


Figure 2. Entry modes (Albaum & Duerr 2008, 305-391; Hollensen 2004, 291-350)

Hollensen (2004, 291-350) divided all entry modes into two big groups such as entering through exporting and non-export entry modes. First type includes direct exporting, indirect exporting and cooperative export. Second type of entry modes is more complex; it divided by intermediate and hierarchical entry modes. Intermediate entry modes include licensing, franchising, joint venture, contract manufacturing and strategic alliance. Hierarchical entry modes group identifies by domestic-based sales representative, foreign sales and production subsidiary, acquisition and Greenfield.

The choosing of wrong or inappropriate entry mode can lead to the crash of company in foreign market. In the different markets one organization may use different or same entry modes. It depends on product or service of the company, knowledge about new market, resources available, level of management and capital. Moreover, company can change an entry mode with time; firm can choose another entry mode when it gains all needed information about the market. In addition, the firm may use different modes at one time. In order to make it easier to choose the international market entry modes for case company their advantages and disadvantages are defined and discussed below.

3.1.1 Export

The most common way for SMEs to enter the foreign market is export mode. The majority of researchers are confirming this statement. For example, Bradley (2005, 225) states that export mode is the quickest and easiest way for entering new market. According to Chung, Rose and Huang (2012, 40-58) and Porter (2004, 277), this entry mode is used in order to gain knowledge and experience of the international market. Nevertheless, this entry approach has its own advantages and disadvantages.

The first advantage of this type of entry mode is an avoidance of high cost of establishing manufacturing or simple company in the new country. Moreover, this type of market entry approach is the best way to learn the market of the host country. With exporting is easy to understand if there is a demand for current product in another country and possibly later to open a new business subsidiary there. Thirdly, export is the least risky way to enter foreign country. The reason for this is that the

owner of company does not need to bother how to sell it to customers. This work and responsibilities are laid to agent or retailer of the local market; the importer takes biggest risk of selling the batches of products. Next, exporting can increase the product life cycle by introduction it into new emerging business market. (Bradley 2005, 225.)

On the other hand, there are some cons of exporting entry mode. First of all, the most concerning thing in this type of entry is high cost of transportation. Organization should pay all the traveling costs, shipping, as well as management and agent fees. The money to cover these expenses firm has to gain by profits from exported products. Besides that, company must know and understand the laws and regulations of the country that firm going to enter. The legislation is varies from country to country and changes very fast, so it can make the product impossible to sell after some time. Thirdly, exporting implies an understanding of transportation rules and regulations. Shipping policies are usually very complex, especially for small and medium companies and big amounts of products. Fourth disadvantage is currency risks. If the firm is making export to a country with different currency it may lead to lower or higher profits than expected before entering. In addition, if the currency of home country is too strong, the products will be high cost and expensive for locals and the demand will be lower than it could be. Furthermore, exporting is performed by distant payments that can take a long time of waiting. Sometimes it can cause the problems with redeeming and remittance the money from importer. (Porter 2004, 280.)

Generally speaking, export entry mode is the safest way for an organization to sell the products in a new foreign market and later possibly open the business there. There are 3 different types of exporting – indirect export, direct export and cooperative export (Chung & Rose & Huang 2012, 55).

Indirect export is an export on the behalf of company in the domestic country. Thus, exporting manufacturer finds the firm that will be responsible for export products in other country (Albaum & Duerr 2008, 308). Indirect export is described as a good and easy way to gain the knowledge about the potential market (Root 1994, 57). However, firm has no control over the international market activities and entry strategy (Root

1994, 57). This entry mode means that company enters an international business market through an intermediary that deals with foreign customers and foreign firms. In addition, intermediaries participate in international transaction and implement the work of a head company. Usually, intermediaries can be export agents as well as freight forwarders who reduce the risk for organization to going international. If the company has no previous experience in foreign market and has no knowledge about other country's market, indirect export is a good way to enter. (Czinkota & Ronkainen & Moffett & Marinova & Marinov 2009, 223.)

The big advantage of this entry mode is that there is no need for the firm to have international experience in doing business. Moreover, no extra-costs will arise during the process of internationalization.

The clear disadvantages are a lack of control over activities of intermediaries in other country. There is no contact and feedback about the company's products or services in foreign market. As a result, it can lead to losing important information with end-users and customers. (Wall & Minocha & Rees 2010, 39-40.)

Indirect export is a very good way to enter the foreign market for a company-beginner. This form of entry requires minimum knowledge and skills in exporting mode and considered as a less risky way. Indirect export provides the sales in domestic market as the intermediaries deliver the goods to its partner in foreign market. Unfortunately, by using this entry mode company will gain only basic and minimum information about the outside market. (Luostarinen & Welch 1993, 22).

Summarizing the above, indirect export is more useful for small and medium enterprises because there is no need to have a lot of resources to become international company. Nevertheless, this mode is also suitable for big firms who beginning to be international to get new foreign opportunities.

The second type of export is direct export mode. From the name of this entry mode is evident that the producer sells directly to the importer or buyer located in the importing country. (Root 1994, 57; Albaum & Duerr 2008, 321). There is also an intermediate company in direct export, but in this form of export the middlemen are

situated in the target country. Direct exporting supposes very little or no knowledge about the country in which wants to enter but assumes a bit experience in operations with logistics and customs tariffs. (Root 1994, 57.) Usually, direct exporting is done through export department of the company or in head office connection. First of all, products are transported from factories and stored in a center warehouse. Then, they will carry to different distribution locations. Finally, products are directly transferred to the end-users in a foreign market. (Root 1994.) Direct export activities are widely used in first steps to become international firm. It is considered as a less expensive market entry mode in comparison with others. Moreover, direct exporting is used to test international potential market before invest more in one or another country in future.

One of the advantages of direct export can be total control over the all internationalization process. In addition, there is an interaction and communication with the end-customers and market. This way, organizations can quickly react to the market developments and changes. Consumers' feedback and market research are took into account more quickly what may lead to faster development of the competitive advantages and expand the business. (Terpstra & Sarathy 2000, 385.)

The downside of the direct exporting is difficulties in finding right alien customer segments that can take long time and cost a lot (Czinkota et al., 2009, 223). Besides that, the disadvantage is high requirements to resources and experience of internationalization in comparison with indirect export (Wall et al. 2010, 40).

According to Clarke and Wilson (2009, 205), there are two most popular entry strategies in direct export mode such as agents and distributors. The popularity of these modes associated with the low resource commitment and low risks for SMEs.

Doole and Lowe (2001, 326-327) describe an agent as a company or individual doing business operations abroad. This entry mode considered as a quick and cheap mode to enter international market. An agent works on a contract basis and gets an agency fees or/and percentage from goods sold. There are a lot of useful sources that can help the firm to find suitable agents in the target market such as Chamber of Commerce and industries, government's trade departments, potential customers and agencies. (Doole,

Lowe 2001, 326-327.) Because an agent works for a several of enterprises, agent is not motivated to concentrate on one particular company. For firms it can be considered as a disadvantage of the agents. Moreover, agent has a lack of ownership rights that decreases the level of incentive and performance; thus, agent focuses only towards commission. (Muhlbacher, Dahringer & Leihls 2006, 461.)

As Cateora and Graham (2005, 421) state that distributors are the importers who are based in the foreign market and generally have exclusive rights to the firm's goods in national or regional market. The product cycle in distributor's entry mode is not complex. Firstly, distributors take title to the products; secondly, they buy the goods from the manufacturer; finally, distributors re-sell the products by adding the margin of profit to the end customers. Besides that, distributors fully handle all sales aspects and activities and after-sales service in their business area. In comparison with agent, a distributor assumes all the risks, responsibilities and rewards. (Cateora & Graham 2005, 421.) Usually, distributors are free to choose the products and their customers and set their own retail prices. Moreover, distributors are specializing in a certain goods or market what can be a big advantage for an international firm. (Hollensen 2004, 298.)

The benefit of these two entry strategies in direct exporting mode is that agents and distributors have knowledge about situation in the local market, the potential clients, country's customs and traditions. They have a motivation to sell more manufacturers' goods in order to earn more the profit margin. On the other hand, distributors and agents may not try hard to find a suitable and profitable market for the product, if the product is not attractive in their point of view. Moreover, this entry mode can be risky for the companies because the market feedback is limited and intermediary may not share the expertise, experience and knowledge of the certain foreign market. (Hollensen 2007.)

One more type of export is cooperative exporting. If two or more SMEs cooperate together to create favorable conditions to sell abroad it is called cooperative export mode. Cooperative export is a suitable mode for companies with limited economy scale and the resources. This entry mode occurs when small or recently established firms combine their manufacturing and marketing in order to meet a large buyer.

Moreover, cooperative organizations share the risks and responsibilities as well as research and development (R&D) of the foreign market together. However, entrepreneurs and owners of those companies have strong desire to be independent, thus difficult relationships can exist between the cooperators. (Hollensen 2004, 302.)

3.1.2 Non-export

Non-export entry modes include intermediate and hierarchical modes of entry. In intermediate entry modes companies are doing international business in foreign country. In export modes goods enter a new country through domestic or foreign agents and distributors. Thus, in order to transfer not only products but also the skills and the concepts firms are using intermediate entry modes to enter a foreign market. In intermediate entry modes companies share risks and responsibilities together with another company. These companies are a licensee, franchisee, venture or alliance in the foreign market. (Hollensen 2004, 308.) Other words, the firms and cooperators will have better control over the activities of production that in export entry mode because the risks will be shared. However, organization cannot control all of the operations and future plans of the cooperator. It is dangerous for the firm because the cooperator may become a potential competitor who knows all the nuances and secrets of doing business of the firm. Normally, the contract they have made is a long-term contract, so the flexibility of activities is reduced. Intermediate entry modes include licensing, franchising, joint venture, contract manufacturing and strategic alliances.

The first intermediate entry mode is licensing. According to Czinkota et al. (2009, 228), licensing is an entry strategy in which one company under a licensing agreement gives permission to another firm to use its intellectual property for royalty as compensation. Bradley (2005, 243) states that licensing is when one company gives to other company its technology for working in foreign market for a fee or royalty. There are two cooperation parties in this entry strategy such as licensee and licensor. The licensee is a licensed company and licensor is a company that gives permission to intellectual property. The licensed properties can be trademarks, copyrights, technology, technical know-how and patents. (Bradley 2005, 243.)

The first advantage is that licensing is not required the capital investment. In addition, there is a no need of involvement with foreign customers as well as risk reduction in lacking knowledge of new market and country's legislations. One more positive sign is that in licensing both business sides can evade and ignore tariffs, quotas and other trade barriers that usually emerge when going in foreign market. (Keegan & Green 2005, 295.) If to study the advantages of the licensing more deeply there are various benefits for companies depending on the party. The advantages for licensor are following:

- Less requirements of resources and new market knowledge (Johnson & Turner 2003, 117);
- Cheap entry with low transportation costs and tariffs (Terpstra & Sarathy 2000, 392);
- Favorable entry mode from the point of view of the host country government (Terpstra & Sarathy 2000, 392);
- Less restrictions and threats from the country concerning company's entry (Johnson & Turner 2003, 117);
- Less risky in capital losses when the market is hardly predictable (Albaum & Duerr & Strandskov 2005, 349- 350);
- Fast way to stay in the new foreign market (Johnson & Turner 2003, 117).

Moreover, the licensee also has advantages by working in licensing entry mode. There are some advantages for licensee, including the following:

- Low costs to establishment a business;
- Legitimate using of already established brand name or product;
- Less risky in capital losses and requires;
- Short time for establishing a company;
- No costs to R&D by building of know-how. (Luostarinen & Welch 1993, 36.)

Despite all the advantages, the licensing entry mode has some disadvantages. In licensing there is no enough control over the market activities and changes as well as limited control over the using of the licensed asset. Moreover, the licensee and the licensor can have different opinions concerning marketing approach that may lead to

a negative influence on the image of the firm (Keegan & Green 2005, 296.) One more disadvantage of licensing is that there is a possibility for licensee to become a future competitor in the market (Czinkota et al., 2004, 229).

The second intermediate mode of entry is franchising. According to Czinkota and Ronkainen (2004, 204), franchising is a process where “a parent company (the franchisor) grants another independent entity (the franchisee) the right to do business in a specified manner. This right can take the form of selling the franchisor’s products or using its name, production, preparation and marketing techniques”. (Czinkota & Ronkainen 2004, 204.) From this definition it is easy to trace the similarity with the licensing, but the main difference is that the period of franchising is longer than licensing. As well as in licensing, in franchising there is an agreement where franchisee should follow the strict rules while they doing business together. On the other hand, franchisor will get the percentage loyalty payment by the company’s revenues in return. In this entry mode, franchisor involves in the business activities and helps the franchisee to use its property in correct way (Daniels & Radebaugh & Sullivan 2009, 587). The franchisor assists in the business performance such as marketing planning, quality control, customer relationships and reputation of the firm (Luostarinen & Welch 1993, 73).

Franchising advantages include an achievement of entering new markets, financial increase and dominance over competitors. Another benefit of franchising system is that this mode is suitable not only for product selling companies but for the service selling firms. (Czinkota et al., 2009, 231.) There are some advantages for franchisor as following:

- Opportunities for rapid business entry in foreign markets without large financial issues;
- Obtaining additional funds from the sale of the franchise;
- Adaptation to local conditions of each foreign market e.g. language, society and culture because of local franchisee. (Bagiev & Moiseeva & Nikiforova 2001, 512.)

Moreover, the franchisee also has advantages by working in franchising intermediate entry mode. The advantages for franchisee are following:

- The ability to create own business, by taking the experience and knowledge of franchisor;
- Obtaining the right to use already established brand name;
- Support in the organization of production and help from franchisor. (Bagiev & Moiseeva & Nikiforova 2001, 512.)

Despite many advantages, franchising entry mode has several disadvantages. The biggest difficulties in franchising is the selecting franchisee and its training, in order to create a strong brand image and to avoid franchisees' uncontrolled activities. (Czinkota et al. 2009, 231.) In addition, because of geographic distance between the franchisee and franchisor it is not easy to control the service's quality of the firm. As a result, it may affect the company's quality and other various factors (Hill 2007).

The third intermediate entry mode is joint venture mode. Joint venture (hereinafter, JV) is defined as “an enterprise, corporation or partnership, formed by two or more companies, individuals, or organizations, at least one of which is an operating entity. The ownership is mostly shared by the participants with more or less equal equity distribution and without absolute dominance by one party” (Young & Bradford 1977, 11.) In particular, joint venture is a firm that unites to work on one project together. This entry mode is suitable for enterprises which desire to partner without having to merge. Joint venture is a good way for firms to partner because they can expand the business, develop new products, gain a new market and find a suitable business partners. Creating a joint venture gives organizations more opportunities for growing with bigger capacity, more resources, simpler access to market, and more technical and marketing knowledge. (Info Entrepreneurs 2013.)

Firstly, the benefit of this entry mode is rapid short-term growth of the firm on international markets. Secondly, advantage of a joint venture is an obtainment of new technology, finance and experiences from both companies. As a fact, knowledge is a huge power, especially if this knowledge gives a successful access to new markets. Third advantage is the ability of sharing risk and cost to the business partner as this can avoid the crash of the firm in case of working alone. Other words, risks are shared between two sides, making risks lower for both. Fourth reason is that joint venture

helps to improve competitive position in the markets because of reputation of the both of enterprises.

The difficulties in joint venture can be in different objectives of business partners. Management process of one firm can be unacceptable for another firm that may lead the partnership to conflicts. The risks can include the imbalance in level of expertise, potential of conflict due to different culture and management style, insufficiency in leadership and assistance. (Info Entrepreneurs 2013.) As always, international businesses imply cross-cultural activities. For example, in one country certain actions are perceived as forbidden, while in other culture they are more than normal. Moreover, even that investment risks are low, they still exist. If the company invests in project and it fails, these amounts of money are gone. Sharing competitive information can be advantage and disadvantage in same time. When companies know the core competitive advantage of each other, it is not a core competitive advantage anymore. If the joint venture falls apart, the former partners can become competitors. (Hill 2007.)

The contract manufacturing is the fourth entry intermediate mode. Hollensen (2004, 310) describes the contract manufacturing as a foreign manufacturing process with the using of abroad resources without building any subsidiary firms. The company usually controls distribution, sales and services of its products in international market. The responsibilities and risks of production are shared with the local organization. The difficulties in this entry mode include the finding a reliable partner because there is a risk the contract manufacture may produce bad quality products. Hence, it is very hard to control the process of manufacture's production. Besides that, contract manufacture can steal the technology and become a big competitor in the target market. (Hollensen 2004, 310, 327.)

The last intermediate entry mode is strategic alliance mode. In business book, strategic alliance is described as “an informal or formal arrangement between two or more companies with a common business objective” (Czinkota et al. 2009, 231). The second name of strategic alliance is simply partnership. This entry mode can be in different forms such as equity participation, consortia, informal cooperation and contractual agreement. In strategic alliance both sides do not commit equity into or

invest in the alliance, what necessary in joint venture. Partners of alliance are cooperating together in order to achieve a common goal and make a profit. There are some cases where companies are cooperate without a binding contract; this called an informal cooperation. In this kind of cooperation, organization can visit another firm to exchange information about new products or services, production processes and know-how technologies with the aim of building friendship and mutual trust. In contractual or formal agreement, firms collaborate on joint marketing, research and development, production and technologies. (Czinkota et al. 2009, 234.)

The second non-export type of entry mode is hierarchical mode. Hierarchical entry mode is suitable for companies that want to influence and control more than in export and intermediate entry modes. In this entry mode, organization is completely owns and controls the international entry business by itself. (Hollensen 2004, 335.) Thus, all the risks, costs and responsibilities are lying on Head Company. Hierarchical entry mode includes domestic-based sales representatives, foreign sales and production subsidiary, acquisition and Greenfield investment. (Hollensen 2004.)

According to Hollensen (2004, 337), domestic-based sales representative is a person in the company who takes care of the sales system by doing business in foreign market. With the help of this staff member, the firm can control over of the sales and activities. The flipside of this entry mode is high costs of product transportation form domestic to foreign market. Usually, domestic-based sales representative mode is widely used in cooperation with governmental buyers and huge industrial markets, where the orders are so large as to cover the expense. (Hollensen 2004, 337.)

The foreign sales and production subsidiary entry mode implies the transferring production and sales to international market. Foreign sales and production subsidiary is used when the firm faces the big local demands for a production based. There is a full control over the company's activities and operations, such as sales and production; and there is a possibility to gain a new enterprise while doing existing business. The advantage of this entry mode is that it can help the company to acquire market knowledge directly and avoid the transport costs. Nevertheless, building the subsidiary is always requiring high investment and high risk. (Hollensen 2004, 338.)

The next hierarchical entry mode is acquisition. Hollensen (2004, 343) states that acquisition is a process when one company is buying another existing company or part of its ownership in the host market as its private ownership or subsidiary. Distinctive feature of this entry mode is that firm can enter the foreign market rapidly. In the purchase of the company in other country include also existing distribution channels, management experience, customers, brand name and reputation. The benefit of acquisition considered as full of control of the existing company's activities to obtain competitive advantages and in future expand the business to the new market. The disadvantage of this entry mode can be high risks because of big expenses, differences in culture and the relationship with the local management employees. Moreover, there is complexity in integrating two different enterprises with different culture and risk of higher debt. (Hollensen 2004, 343.)

One more way to open wholly owned subsidiary in foreign country is Greenfield investment entry mode. Greenfield investment means that firm starts a new business in international market by constructing of enterprise. The drawback of this entry mode is a high risk due to the high cost of establishing of a new facility. The difference with acquisition is that in Greenfield investment the company has to build up a new plant and pay higher investment cost. Consequently, it spends longer time to enter the foreign market. However, many companies choose to build their own subsidiaries rather than acquisition. The advantage of this type is easiness of starting a new business operation rather than change the already existing. (Hollensen 2004, 343.)

3.2 SWOT Analysis

SWOT is an acronym of words Strengths, Weaknesses, Opportunities and Threats. Simply put, the SWOT analysis is a summary or overview of the object being studied. The SWOT analysis is the most used and useful tool for analyzing a firm's internal and external environment. It helps the company focus on strengths, minimize the weaknesses, mitigate the threats and make opportunities available in real life. (Mind Tools 2012). Internal factors of this analysis include Strengths and Weaknesses, such as factors relating to products, pricing, costs, profitability, performance, quality, people and place, i.e. everything that is inside the companies' activity. External

factors consist of Opportunities and Threats, which include factors relating to markets, customers, seasons, trends and competition, i.e. activities outside the company. (Humphrey 2005.)

The SWOT Analysis was chosen by the author in order to analyze the internal resources of BSW Engineering Company. The author finds this analysis as comprehensive and simple to use. Besides, the data of the SWOT analysis could be collected from the interviews and from the general research of the company.

Usually, the strengths of the company are building from customers and other companies in order to develop competitive advantage (Mind Tools 2012). Strengths of the firm include brand names, reputation, cost advantages and goodwill. (Quick MBA 2012). In addition, an organization's strengths can be in having competent employees and board members, modern high-tech equipment or manufacturing facilities, big size of company, available grants, source of income and international experiences. (Community Tool Box 2013).

Together with strengths, firms should clearly be aware of the weaknesses of a company. The weaknesses are considered as poor activities in certain areas, for instance, product reputation, high cost and lack of patent protection. (Quick MBA 2012). Moreover, weaknesses of a company can lay e.g. in a lack of international experiences, lack of competent human resources or resources, small size of the firm, long physical distance to the market, outdated technology and equipment, ineffective operation systems or programs. (Community Tool Box 2013).

In order to analyze a new market, organizations can discover future opportunities for growth and profitability. Opportunities of external environment can include new technologies, improvement of regulations and legislation, absence of international trade barriers, demand on certain product/service, demographic changes and economic climate. (Quick MBA 2012). Besides, opportunities include positive future trends, awareness of potential customers, support of the local governments, availability of funding sources and distribution channel and increase in customer demand (Community Tool Box 2013).

A flip side of the opportunities is threats of a company. The threats including for instance, new legislation, presence of substitute products, changes in demand, competitive activity, demographic changes, channel pressure and changes in customer preferences (Quick MBA 2012). Furthermore, the other threats of firms can be "unavailability of funding sources or supplying chain or equipment, threat to the environment, rising cost, increase in governmental protective mechanism, non acceptance of customers, increasing the customs taxes, new changes in modern technology leading to slowness of adaptation, obsolete thinking or outdated manufacturing facilities." (Community Tool Box 2013).

3.3 PESTEL method for market analysis

PESTEL is an acronym of Political, Economic, Social, Technological, Environmental and Legal factors. PESTEL Analysis is used to determine the all-possible factors that can influence the study object. There are some other names of PESTEL that are PEST or PESTLE analysis. This analysis provides information for firms to understand a new environment to enter and minimize the risks before establishing its own business (Pestel Analysis 2014).

The PESTEL Analysis was chosen by the author in order to analyze the possible risks and opportunities of the Russian market certain area. This analysis is very useful to describe different important aspects which drawn below.

The first factor in the analysis is the political factors. Before going international, companies must evaluate the conditions of how market works in one or another country and what can influence on successfulness of the firm. In traditional understanding, political factors include rules and laws of country as well as political relationship on the companies from various trade associations and trade unions. (Capon 2009, 6). According to Johnson, Scholes and Whittington (2008), government plays a huge role in opening foreign business, for example in attracting international investment or creating obstacles and possibilities for profitable business. It is very important to international companies have had a clear understanding of possible political risks before entering foreign market. The political factors can be a big constraint for international enterprises, such as tariffs, taxes, quotas and other kind of customs costs. (Johnson et al. 2008.)

An economic environment of the foreign country has an essential importance when firm going international. For instance, poor economic situation can explain the failure of the company in new foreign market. Economic conditions consist of some forces or indicators which organizations should take into account while estimating its potential in the new market. (Daniels et al. 2009.) Importance of these factors depends on what firm going the do in the market. So, the most commonly analyzed forces of economic situation of the country are following: The Consumer Price Index or CPI, Gross Domestic Product or GDP, Gross National Product or GNP, unemployment figures, the price of crude oil, interest rate, consumer price index, inflation rate, currency exchange rate, level of income and purchasing power of people. (Pestel Analysis 2014).

The most usable economic factors are the GDP and level of income of the people. These factors measure the potential size of the market and purchasing power of the target customers. Despite the fact that countries with emerging economies afford a lot of opportunities for foreign companies, new coming firms must take into account the economic stability of the country. (Johnson et al. 2008.)

In addition to these aspects, Kouznetsov (2009) determines that there are some more important indicators that organizations should take into consideration. These factors are the infrastructure development, conditions of roads and railways or transportation and level of communication or telecommunication and availability of energy and fuel. Thus, underdevelopment of the above forces can provide possible risks for the firm to work successful in the international market.

Social or sociocultural factors consist of cultural and demographic aspects. It includes health of the population, population growth rate, career attitudes, manners in which culture changes and age distribution. Sociocultural environment allows organizations to understand the natives and communicate with customers in order to smooth the boundaries between different cultures. The level of social aspects shows the demand of people to buy the firm's products/services. For instance, an aging population means the decreasing of country's workforce and as a result the increasing the costs of labor. (Capon 2009, 6).

The importance of technological factors cannot be overestimated, especially today. High technology development in company can be a huge competitive advantage force. Moreover, technology is one of the force for organizations to internationalize. (Czinkota & Ronkainen & Zvobgo 2011.) Technological advantage includes those products and services that are not available in a market. The United Nations Education, Social and Cultural Organization (hereinafter, UNESCO) describe the technology as “the knowhow and creative processes that may assist people to utilize tools, resources and systems to solve problems and to enhance control over the natural and man-made environments in an endeavor to improve the human condition” (UNESCO 1985). Usually, firms use the technological research in order to consider the opportunities available for doing the business (Pestel Analysis 2014). The level of technological development can affect the company in positive or negative way. Thanks to digital media, organizations can get all needed information and inform the public faster than ever. However, media can spread bad or false information about the firms and it may influence the reputation of the companies (Capon 2009, 6). In a term of technology are included the technology incentives, technological changes, access to electricity and transportation network. (Quick MBA 2012). In addition, the factors of technology consist of the Internet and World Wide Web and communication technology, e.g. phones and video (Capon 2009, 58-59). This way, the company must evaluate technological environment in foreign market in order to consider the future opportunities before entering new country.

Ecological or environmental factors can influence the firm as strongly as other factors of PESTEL Analysis. Ecological forces include changing climatic conditions, in particular, global warming, scarcity of natural resources, pollution, waste, that can be an obstacle for different kind of business activities. Such restrictions are prescribed in legal documents about the use of natural resources and other measures of environmental protection. Other name for these ecological policies is “green issues”. The problems with ecology become more and more popular in recent years (Global Issues 2014). Thus, ecological aspects are more taken into account in business activities and operations. In particular this applies to those companies that are associated with the renewable energy field. The environmental legislations and regulations obligate the organizations abide by laws of environmental protection

(Business Mate 2010). Based on the written above, companies must undertake responsibility for their actions concerning the environmental and ecological issues.

Legal factors are in a close connection with political factors that has been discussed above. Legislative regulations are the basis for the companies that are going to become international. One of the most important steps of doing business in new market is knowledge of legal regulatory procedures in a foreign country. Easiness and transparency of doing business abroad depends on the complexity of the legislation of the country in which the company is going to enter. Legal factors include consumer laws, antitrust laws, health and safety laws, antitrust laws and discrimination laws. (Pestel Analysis 2014.) Moreover, there are some other forms of law that can influence directly or indirectly to company business operations. For example, these forms can be regulation of product and regulation of competition (Business Mate 2010).

4 CASE COMPANY ANALYSIS

In this chapter an overall presentation of the case company BSW Engineering is provided. This chapter divided by four parts. The first section gives general information about the case company Baltic Sun Wind Engineering. The second part describes different types of the company's products, their features and functions. The last section is SWOT analysis, which is used to analyze the company's internal and external factors.

All the information is taken from the author's working experience in practical training period as well as interview with the CEO of the case company. Moreover, author's findings are described in analyzing of BSW Engineering Company.

4.1 Overview of Baltic Sun Wind Engineering Company

The company Baltic Sun Wind Engineering is located in Latvia, Riga. Aleksandrs Uzakins established it in March 2011. The main business activity is implementation of alternative energy sources, based on the use of wind and solar energy, and all possible kinds of energy saving technologies. From the very beginning, the firm has successfully expanded its products by buying new technics to meet the increasing demands from the public to provide high quality products. Table 4 briefly shows the general information about the case company BSW Engineering.

Table 4. Case company's basic information

Official name	Baltic Sun Wind Engineering Company
Short name	BSW Engineering Company
Company form	Small enterprise
Established	March 2011
Business type	Alternative energy sources
Number of employees	3-10
Company's turnover	€ 20 157 (2013)

Today the firm has become one of the leading companies in Latvia with domestic market as well as international market. Company's modern facilities make the production more effectively; it provides the company with a competitive edge.

The firm's philosophy is providing nature energetic, such as wind power, solar energy, electric transportation, and energy saving light. The company provides products of the highest level of standard and ensures low price for it. The company's logo, which is used in the production of alternative energy sources of Baltic Sun Wind Engineering, is presented in figure 3.

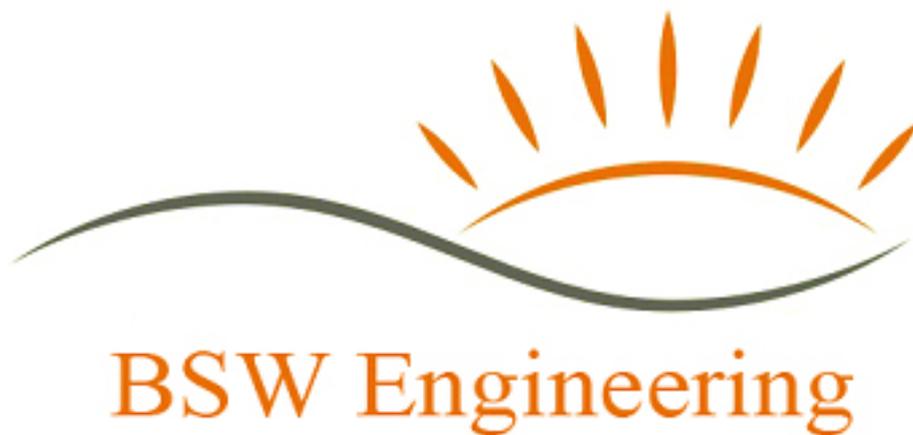


Figure 3. The logo of the Baltic Sun Wind Engineering Company

The figure above represents the official logo of BSW Engineering. The goal of the company Baltic Sun Wind Engineering is to provide a full spectrum of installation, configuration and maintenance services for alternative energy equipment.

Purchase of spare parts is held in China, output of the products - in Europe, which is certified by the European quality and rather low production costs. It helps easily compete with other companies in the European Union. Moreover, this allows producing products with the Baltic Sun Wind Engineering logo.

4.2 Company's main organizational chart

Organization chart is a diagram of a reporting hierarchy that is usually used to show relationships among employees, titles, and groups in certain company or firm.

The chart below shows the employees of the case company:

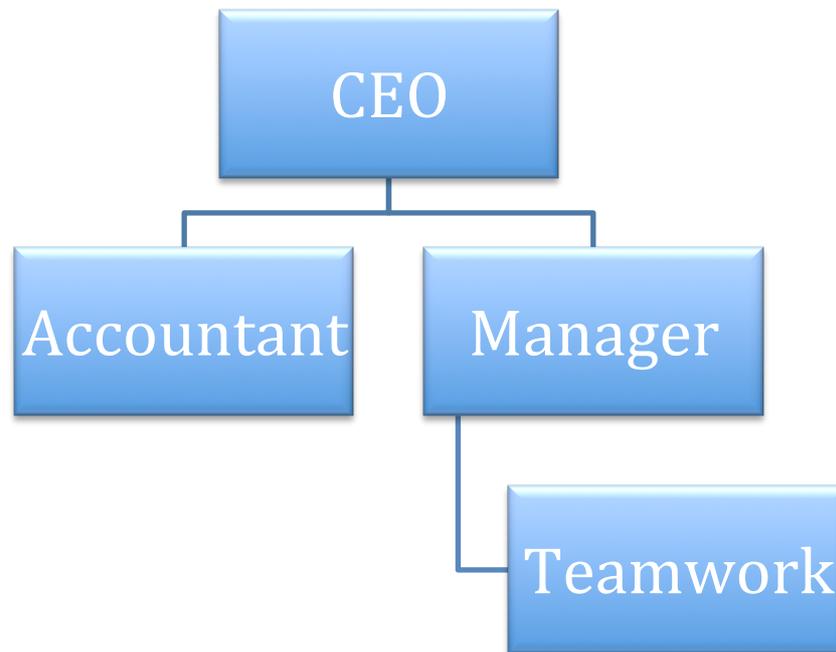


Figure 4. Organizational chart of the Baltic Sun Wind Engineering Company

The Chief Executive Officer is responsible for leading the workers and discipline in a work place. Furthermore CEO making major corporate decisions, hiring the staff and implement the strategic goal and objectives of the organization. Duties of accountant are to write the Company's income and expenditure budget, the Company's annual report, contracts of a financial nature and other financial aspects. Manager operates through functions like planning, organizing, leading, controlling and motivation. Teamwork is a group of handyman, which install, transfer and repair all selling devices. This figure represents the small size of the case company.

4.3 Products of the company

Baltic Sun Wind Engineering Company uses modern technologies of the highest quality. The main company's products are the following:

- Solar energy: solar panels, solar collectors
- Wind energy: vertical and horizontal wind turbines
- Energy-saving light: light-emitting diode (hereinafter, LED) lighting, LED Lamps
- Electric transport: electric mopeds, electric motorcycles, and electric automobiles. (Uzakins 2014.)

All products of the firm are certified, safe, tested and made only of high quality materials. An objective of the company is a transition from today's power engineering to alternative energy sources, both in industrialized and in household scale.

The main products of BSW Engineering Company are the solar energy products. Solar panels and solar collectors produce solar energy power. A solar panel or solar cell is a set of solar modules electrically connected and mounted on a one supporting structure. Picture 1 below represents an installed solar panel at house's roof:



Picture 1. Solar panels

Solar panels are rechargeable batteries made of semiconductor material that accumulates solar energy. After accumulating this energy by special technique,

energy transformed to electric current. (Uzakins 2014.) Advantages of solar cells are following:

- Energy of solar cells is free
- Energy is ecological cleanness and noiseless operation of solar power plants
- Solar energy can be used in remote areas, for example village, where it is expensive to extend the electricity power grid
- Lifetime of solar cells is around 30-35 years
- Solar pannels require little maintenance
- Solar energy has no problem of surges. (BSW Engineering 2014.)

At the heart of many solar power systems lies the using of solar collectors. Solar collector is a device for collecting solar energy, transferred by visible light and near-infrared radiation. By using the sun energy, collector systems allow to save annually the traditional fuels, e.g. up to 75% for hot water supply at all seasons, up to 95% for domestic hot water for seasonal use, 50% for heating purposes and 80% for the purpose of heating duty. Solar collectors is shown in picture below:



Picture 2. Solar collectors

The collector absorbs the light and converts the solar energy into heat that is transferred to the heat carrier, such as liquid or air. Then, it is used for heating buildings, water heating, electricity generation and drying agricultural products or food preparations. The solar water heating systems are used in private homes, apartment buildings, schools, car washes, hospitals, restaurants, agriculture and industry.

Simple collectors are usually used in residential and commercial buildings for space heating. Complex collectors typically used in solar power plants to generate electricity. Baltic Sun Wind Engineering Company sells the collectors that are used to heat buildings, water and generate electricity. There are three types of solar collectors such as flat-plate collector, vacuum collector and solar collector-hub.

The next company's products are the wind energy turbines. Wind energy is a renewable energy source that utilizes the kinetic energy of the wind. When it is converted into mechanical energy, wind energy can be used for a variety of mechanisms, e.g. windmills for pumping water out of the ground, wind energy cars and wind-operated cargo ships. The benefits of wind energy are following:

- Wind is free, thus electricity costs will be reduced
- Wind power is available almost everywhere on the planet
- Wind electricity doesn't release any harmful carbon dioxide or other pollutants
- Wind turbines are located on masts and took up a little space, which allows placing them together with other buildings and objects. (BSW Engineering 2012.)

Above-mentioned benefits of using the wind energy can be considered as an advantage of case company's business idea for entering the new market. Wind turbine is a devise that converts kinetic energy and produce mechanical energy. (Uzakins 2014.) Picture below illustrates wind energy turbines:



Picture 3. Wind energy pole mounted turbines

The turbines use large blades that generate electricity when the wind blows. The stronger the wind, the more electricity produced. There are two types of wind turbines. The first is building mounted – small system can be installed on the roof of house (1kW to 2kW), the second is pole mounted - free standing system stay on the ground in exposed position (5kW to 6kW). (BSW Engineering 2012.)

Another products of the case company are electric transports. Electro mobiles are growing item in international car market today. Electric transport use electricity as a power source. This kind of transport has many advantages such as higher efficiency, environmental friendliness, noiselessness and low operating costs. (BSW Engineering 2012.) Picture 4 presents an electric automobile:



Picture 4. Electric car

Electric cars produce less pollution than gasoline-powered cars. In addition, electricity is cheaper than fuel that is why electro mobiles have lower operating costs. Electric automobiles are easy to use, for instance, feasibility of charging from usual outlets. (Uzakins 2014.) Besides that, BSW Engineering Company offers other kind of vehicles such as electric motorcycles, electric automobiles, electric bicycles, electric trikes and electric scooters.

The last kind of BSW Engineering's products is energy-saving light. Energy-saving light is very popular segment in modern cities. This energy-saving light lamp is shown in picture 5:



Picture 5. Energy-saving light lamp

There are a lot of application spectrums of Light Emitting Diode (hereinafter, LED) lamps; they are designed to light highways, urban roads, streets, squares, pavements, tunnels, undergrounds, parks and yards. Moreover, energy-saving light is used for logistics centers, markets, industrial plants, retail and office centers and others items of city. There are many advantages of LED lighting over conventional light sources as following:

- High night visibility
- Continuous operation time of LED
- High mechanical strength
- Low maintenance and operating costs
- No negative impact on the environment
- Stable operation at any temperature with the range from -60 to 40 ° C. (BSW Engineering 2012.)

At the beginning of internationalization, the case company desires to enter the Russian market with solar and wind energy products. However, future variety of goods will depend on the demand of customers in the market. The main consumers of alternative energy are households, organizations and others, such as apartment buildings, private houses, farms, cottages, swimming pools, hotels, sport clubs, schools, car washes, health facilities, restaurants, agriculture and industry. People can

use renewable energy in the home by using installing solar photovoltaic systems that convert sunlight into energy that provides electricity generated from renewable energy sources.

4.4 SWOT Analysis of BSW Engineering Company

In order to do a business in the market confidently and safely, the firm has to know it deeply and completely. A SWOT Analysis can help the case company BSW Engineering to know its strengths and weakness, and represent opportunities and threats in the market. In this research, SWOT is used for analyzing the internal and external factors of BSW Engineering. Moreover, it can help to analyze situation of the company upon entering the Russian market.

According to the interview with the owner of BSW Engineering, the results of SWOT Analysis are collected in the figure. The figure below shows how the CEO of the case company states these strengths, weaknesses, opportunities and threats.

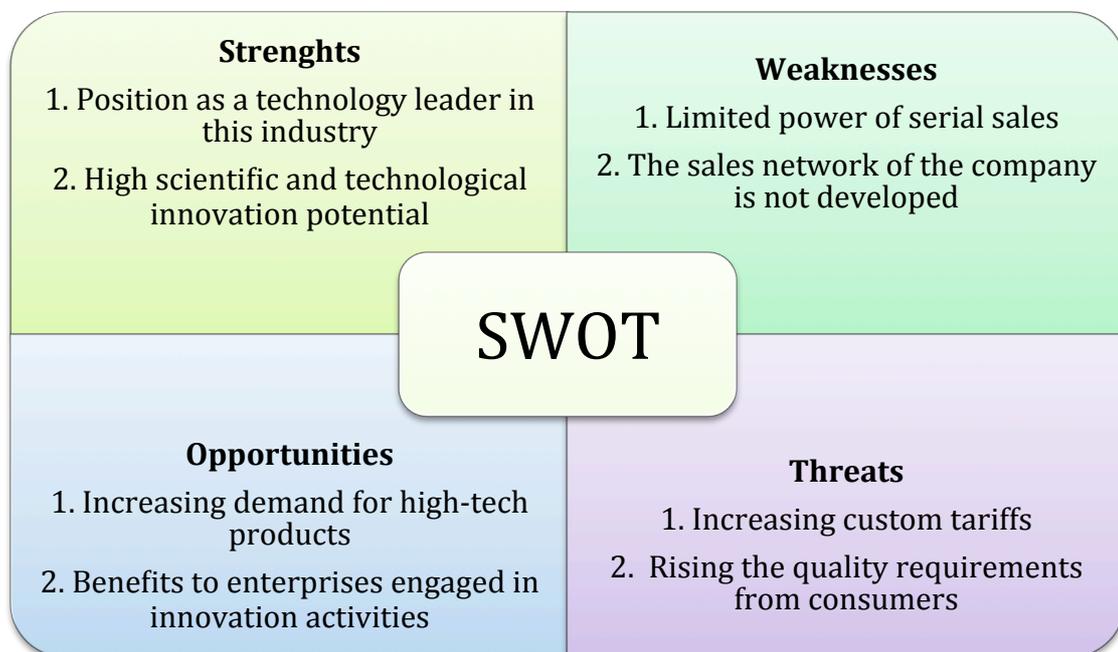


Figure 5. SWOT Analysis of the case company by the CEO

However, during the process of analyzing aspects of the SWOT analysis, the author detects additional factors to those suggested by the CEO. The figure below shows

summaries of these important elements of the case company. The SWOT Analysis will be explained in details below the figure.

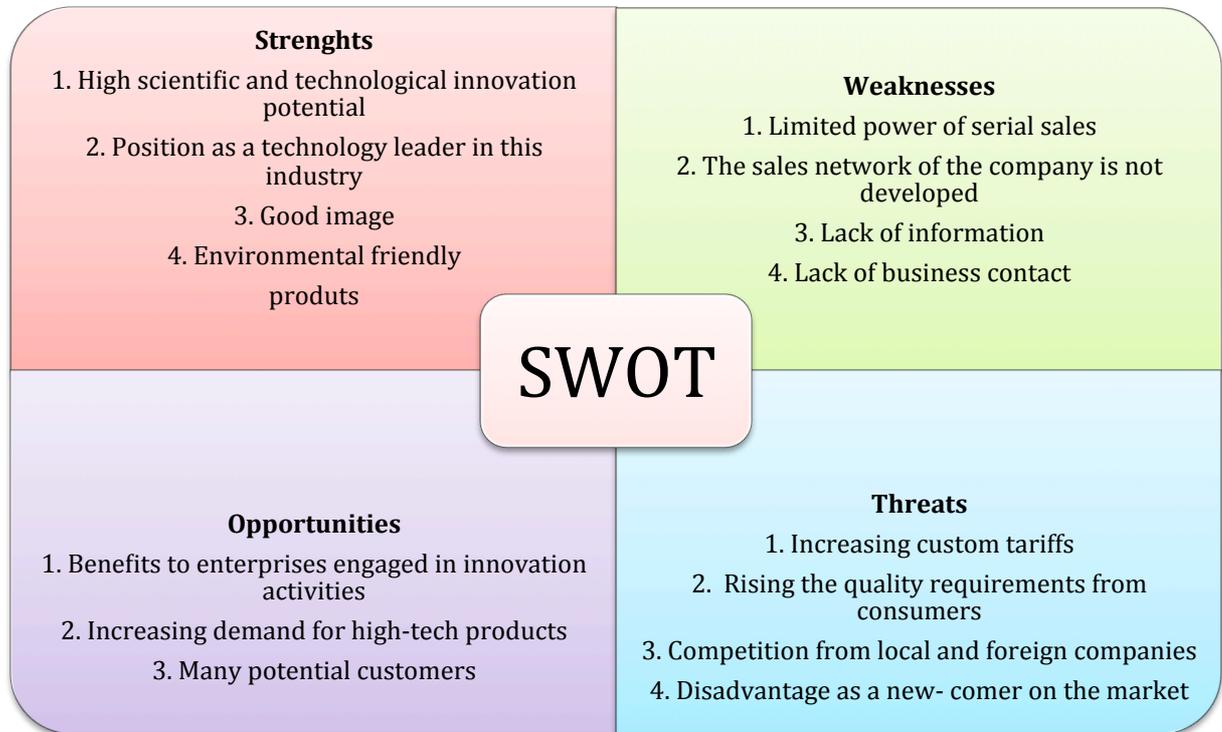


Figure 6. SWOT Analysis of the case company by the author

BSW Engineering's strengths lie in its innovative solutions and product quality. In addition, the firm has improved its product features through consultancy with experts and engineers. Listening to demand and expectations of the customers is one more important aspect in technological innovation potential of the firm. (Uzakins 2014.) Moreover, the company pays a lot of attention on managing its supply chain. Baltic Sun Wind Engineering Company has trustworthy suppliers of different product components. The firm always gets the latest technology and information first.

Due to the fact that alternative energy sources are a new type of production in the European Union, there is a low level of competition that promotes a more active development and implementation organizations in the European market. It can be considered as a position of the technology leader in this industry.

The qualities of the alternative energy products have already won the trust and praise of the customers in Latvia. The customers who wish not only to improve the ecological situation in the world, but also save the money on electricity, prefer the alternative energy sources of Baltic Sun Wind Engineering Company. Especially it is popular today when the payment for electricity is rapidly growing.

All the products of the case company are environmental friendly, and BSW Engineering is keeping on R&D of its product. Alternative energy sources or "green energy" is an energy that is obtained without causing environmental pollution. That is why the renewable energy sources are called as clean energy.

One of the weaknesses is limited power of serial sales. The case company has problems when dealing with huge orders from large international enterprises. Thus, it may lead to big troubles in wide Russian market. The incapacity of fulfill the demand of consumers might lead the firm to fail. Therefore, it helps the other big potential competitors to succeed in this field.

Another disadvantage of the case company is a lack of knowledge. The lack of understanding of the administrative system means the difficulties in dealing with the issues of corruption, bribery and bureaucracy in Russia. It is very difficult for organizations to enter the market without any notice or expectations. Therefore, the case company should know that Russia is listed as one of the most corrupted countries in the world's rank (Transparency International 2013). However, from the view of energy sector, the rate of corruption and bribery in the rural electrification area is relatively low. (Transparency International 2013.) To avoid this problems the person is needed, who has enough knowledge about dealing with the issue of corruption and bribery during the market entry process.

The weaknesses of the case firm might be lack of experience in international activities, in particular in Russian market. To be successful in one or another country requires different business strategies. Baltic Sun Wind Engineering has so far not yet established any contact with the Russian business market. The success of the business in Russia depends on good network of relations and business contacts. For example, an agent with motivation, qualification and good network will enable an organization

to enter the market easily. The other people who can help to solve this problem are the students who live and study in Russia. The company can establish the contact with them through e.g. exhibitions and seminars. These contacts are useful for both sides because the firm can give the work places for students as future employees.

The first opportunity is the support and assistance from the Russian government. The national authorities encourage foreign investment, especially for the environmental friendly objects. As mentioned earlier, the Russian government seriously considers the future potential of alternative energy. However, there are no concrete laws according to development of renewable energy on the market. According to previous described Energy Strategy, it is likely that the legal framework on energy in Russia will be approved in the near future. Thus, the important opportunity is the improvement in laws and relevant legislation that support the development of alternative energy in future.

The demand for alternative energy sources exists in potential large rural markets in Russia. According to Ministry of Energy of the Russian Federation, not all regions in the country have a cheap and stable access to electricity. This fact gives the opportunity for the case company to enter the Russian market. The government of Russian Federation has approved the Energy Strategy up to 2020 that fixes the necessity of using the renewable energy sources to meet the challenges of electric power supply of the population. Moreover, it will reduce harmful emissions from power stations in the cities that affects to environment. (Ministry of energy of the Russian Federation 2014.) Therefore, the access to Russian market gives the firm a big potential of more profits as well as better international image.

Innovative technology and high-quality products of Baltic Sun Wind Engineering Company has a good reputation and image as a European enterprise from Latvia. The products from Europe are well appreciated in Russia as an excellent innovative design and high durability goods. It means that the case company has advantage to gain the potential market higher as a reliable foreign firm.

One of the most important threats is a disadvantage for a case company as a newcomer. BSW Engineering can encounter a number of challenges in Russian

market. Among of them are differences in business culture of Russia and Latvia. Because almost half of Latvian population is Russians or Russian native speakers, the cultures and traditions of these countries are similar (Central Statistical Bureau of Latvia 2014). Nonetheless, business cultures of both countries have a number of differences. It depends on the location and legislation of EU and Russia. Russian business culture looks like a mix of European and Asian business culture, but with a flavor of Russia. For example, centralized decision-making can be seen within large Russian business organizations. One strong central figure makes strategic decisions with little or no consultation with anyone in business. Managers make all the decisions without the workers' input; they are responsible for decisions that are best for workers.

There are some risks for the company to enter the new country the first time. The risks may include the choosing the wrong partners in the distribution channel, wrong marketing tool or wrong entry mode. The legal documents concerning alternative energy sources in Russia are still low level and unclear. Moreover, there are unexpected changes in law or not yet updated in the official version documents existing. According to political and economic situation these days between Russia and European Union, the customs tariffs may increase that will lead the increasing the products' price. However, these are the risks that every organization meets when enter international market.

Some of the main threats for BSW Engineering in the Russian market is a new manufactures or competitors. Any changes in the firm and any wrong step can be a significant advantage for other companies in this field. To stay successful in the market, company should provide the best quality products for their end customers.

5 RUSSIA AS A TARGET MARKET

In this fifth chapter, the analysis of Russia and its market are presented. This chapter consists of two sections. Firstly, the energy industry in Russia is discussed. Secondly, the PESTEL Analysis of Russian market is described.

Obviously, Russia is a largest country in the world and considered as a world superpower. The population of 142 million is mainly concentrated in the European part of the country and then is continued to west of the Ural Mountains, along the southern border. Russia has the world's largest reserves of forest and mineral and energy resources. Moreover, it is one-quarter of the world's fresh water in the country. In accordance with the foregoing, Russia is a world market leader in exporting and producing natural gas, and the fourth largest producer of nuclear energy. Despite the economical crises, Russian consumer market has a growth in some areas. These areas are consumer goods, real estate, automotive, construction and telecommunications. Big Russian cities with a population over 500,000 people is a target market for a lot of retail chains both foreign and Russian. (Embassy of the Russian Federation to the United States of America 2015.) Nevertheless, entering the Russian market might be challenging for foreign organizations. Companies should clearly understand that the risks of penetration could be high if they wish to expand in this market.

5.1 Energy industry in Russia

There are two valid strategic development of the energy industry of Russia for now: one strategy for the period till 2020, and another one strategy for the period till 2030 (Ministry of energy of the Russian Federation 2014). Moreover, organizations and institutions related with energy issues are important for analyzing this question. Together with the Ministry of energy of Russia, there are also other bodies dealing with energy such as Ministry of economic development and trade, Agency for power industry balances forecasts and Center of Energy efficiency in Russian Federation. The last of these is a specially created informational portal that aimed to state energy efficiency measures. Apart from the mentioned above, there are periodic publications

of energy problems and developments in Russia (Energosovet 2011). According to the contents of Energosovet as well as official pages of each of the mentioned institutions, the main aspects of energy development of the Russia are energy safety, energy efficiency, budget of efficient energy and environmental friendly energy. Having reviewed these guidelines, they provide the achievement of country's goals such as:

- More efficient energy production in the country
- Savings of energy
- Renewable energy sources
- Variety of fuels used in energy production
- Environmentally sustainable energy production

In order to reach these goals, in Russia must be created certain conditions. First of all, environmental friendly energy saving technologies and equipment should be applied. Secondly, changes in energy industry should be formatted by federal and regional legal base. It would help to use the energy with higher efficiency by international ecological standards. In addition, an attention should be paid to privately owned partnerships that connected to implementation of energy projects. Lastly, alternative energy sources are considered as a strategic development of energy in Russian Federation in future (Ministry of energy of the Russian Federation 2014).

However, to achieve these objectives it is necessary to soberly assess the existing funds and assets in energy industry in Russia. There are some factors that hinder the development of energy branch, for example, more than 50% of the major equipment is obsolete that can lead to the danger of emergency breakages. (Ministry of energy of the Russian Federation 2014.) Simultaneously with this fact, there are positive forecasts about the Russian energy demand in the coming years. Ministry of Energy of Russia presages the growth in demand for energy on 18,4% to 2017 with comparison of level of 2010.

These future strategic policies present the situation in whole Russian market and in the country in general. The obsolescent industries will not compensate the increasing of demand for energy sources. Thus, in order to pave the way to sufficient energy,

modernizations and reconstructions of the existing energy objects must be implemented. This fact proves the big business opportunities for BSW Engineering, which dealing with alternative energy sources products.

Besides that, Russia is increasingly support the development of energy sphere in the country, in particular, in cooperation with Europe. Notable is also the fact that this EU-Russia cooperation in field of energy was quite active in past 3 years (Kononenko 2011). Consequently, according to energy strategy, Russian Federation invests billions into the power energy industry. It becomes clear, that geographically closest to Russia countries are forecasted to be in high demand.

5.2 PESTEL Analysis of Russian market

PESTEL Analysis model will provide Baltic Sun Wind Engineering with a clearer picture of the macro-economical problems, which can affect to successful market entry strategy to Russia. This analysis is used in current research work in order to analyze the business-operating environment of Russia. Hence, it will help the case company in decision-making process of entering the renewable energy market in Russian Federation. PESTEL analysis framework is presented in the figure below.



Figure 7. PESTEL Analysis for this research

According to the statement of Broadman (2000), there are a lot of political barriers on the way to the entry to the Russian business market. These challenges exist in administrative and institutional spheres of country's policy. Firstly, the barrier is not very stable political environment of Russian Federation. Secondly, corruption and bribery ranks high place in doing business in this country. Thirdly, there are the biases and discrimination towards business licensing and registration of the firms. Fourthly, limited and often blocked access to domestic distribution channels. Finally, less transparent legal system to easy operates in the market. Moreover, there is difficulty in finding suitable place for business setup because of not only political but also geographical factors. (Broadman 2000.)

The uncertain political and governmental system of Russian Federation can be negative factor for the foreign companies. While summarizing the political system, there are many difficulties in Russia that will be hard to change even in next 10 years. The main problem of political environment as well as business area is corruption. Corruption is directly affects to the investment climate and presents the reluctance of the international organizations to enter into Russian business. (BMI Knowledge 2013.) According to the statement of Kouznetsov (2009), the main challenges of legal and political systems of Russia are high level of bureaucracy and not transparent legislative environment.

It becomes clear, that those above-mentioned risks can cause damage to the different company's activities. Notable is also the fact that political system of other country cannot be avoided for the enterprises aspiring to enter a new market. Important features that company should do an advance are carefully study all the risks and estimate the advantages and disadvantages of the entering the market.

The economical factors are also very important aspects in analyzing foreign market. The Russian government is trying its best to encourage foreign SMEs to invest in Russia. It is also making efforts to avoid the high level of bureaucracy and corruption in the country. Moreover, Russian government making changes in transportation system as well as banking system to do business in this country smoothly. The telecommunication structure is also getting investments from the authorities in order to improve the communication with the outside world. Unfortunately, economic

situation of Russia is still in its transition phase and all attempts to attract foreign companies are not always profitable. (ITAR-TASS 2013.) According to BMI Knowledge (2013), the GDP of Russian Federation is growing very fast pace that presents the decreasing the rate of unemployment. However, economic situation in the world and in particular in Russia gives no confidence in a stable future.

One more difficult task for international companies is to deal with rapidly changing exchange rate. Russian ruble has an unstable position in international market and it can cause the financial crises of foreign firms. Thus, transactions can fail due to unavailability of cash or external money in banking system. Besides all these economical factors, the companies must be aware of other structures of the country that wish enter into. Knowing the components of Russian economy, firms can make the projections relating to possible bureaucracy in the company's business field.

The next factor of analysis is social factor. Jansson et al. (2007) notice that informal networks are still important features in Russian businesses. The companies in Russia build its identity through the network activities. Moreover, personal relationships have a huge role in Russian business world. For example, people do not believe lightly in things that they hear first time. That is why it is more effective to have face-to-face conversations, rather than do business by telephones or letters / e-mails. The open feelings influence inter-firms relationship and as a result contacts and communications are warmer when companies know each other. However, the relationship between the parties is based on the contract. No agreement is final until a contract was signing.

It is very important to impress Russians and build lucrative business relationships. If entrepreneurs understand the aspects of proper business etiquette, it can be helpful to success. (Jansson et al. 2007.)

The technology sector of Russian Federation is rich in science tradition and has a good reputation. Russia is a country with highly developed areas such as Mathematic, Chemistry, Structural engineer, earth science and aerospace technology with the huge contribution of Mikhail Lomonosov and other famous scientists. A lot of impressive work of art in different fields was created in Russia from the early of 18th century. All

these facts are playing significant role in the development of the country's technology level. Because of well-developed military and weapons sectors, Russia has a strong voice in the international arena regarding to peace and security in the world. (UK Essays 2013.)

The environmental situation in Russia remains as a serious because the ecological pollution is still high. The environmental ills have been developing during the years and further exacerbated with the slumping production and the implementation of environmental protection programs in Russia. (Yablokov 2001.)

However, Russian Federation is a signatory of a lot of international environmental treaties. They are the International Tropical Timber Agreement of 1983, the United Nations Convention on the Law of the Sea of 1982, the Convention on International Trade in Endangered Species of 1973, and the Montreal Protocol about controlling the ozone layer.

Kouznetsov (2009) states one more challenging fact in his study concerning the entry of Russian market such as legal factor. The smaller companies are easy subject to corruption by officials than bigger enterprises because big organizations have more resources and contacts as compared to the small firms.

In addition, there are frequent and unpredictable changes in Russian legislation this time; obtaining information from authorities is difficult and long process. These facts make it hard to get the complete knowledge and overview of the Russian market for foreign companies. In this way, doing business is a hard work for foreign firms because they need to pay bribes to carry out firm's operations and activities without interruption and other unexpected problems. (Swedish trade council 2008.)

It is also important to note the difficulties in establishing the company in Russian Federation because it is very complicated and time-consuming process. International enterprises need to pay more attention to special bureaucratic processes in order to setup a sales office or other business property. For instance, it can be issues in documentation of official records such as language translation, making apostils and legal company's stamps. (Voslensky 2008.)

Because of high bureaucratic level the custom clearance process in Russia is very complicated and time consuming as well. In order to get clearance from the department of the customs, all the needed documents should be filled and prepared accurate. Even a very small mistake in a word or number leads to undertaking the entire process again. It is better for the foreign companies to involve customer clearance agents since they know how the customs works on a regular basis.

Knowing the legal system of a certain country can help the firms to avoid such problems in process of entering. In addition, according to the legislation, enterprises can find a suitable approach and entry mode that company must undertake to internationalize successfully.

6 ENTRY PLAN

In this chapter, the entry plan for Baltic Sun Wind Engineering Company is introduced. The chapter is divided by five different stages. The first part describes the choice of market entry mode; the second, third and fourth sections determine direct export, franchising and joint venture, respectively. The last part is the conclusion of suggested entry plan.

The author of this thesis research suggests the entry modes based on the collected data and relevant theory, thoughts, and working experience in the case company. The entry plan described below is a suggestion for the BSW Engineering; thus, this plan is considered as a possible entry strategy.

6.1 Choice of entry mode

As discussed in Theoretical framework chapter before, there are some factors that influence the choice of market entry mode (Hollensen 2007). The nature of each factor is affecting the final decision that might vary from export modes where the level of internationalization is low to hierarchical modes where the level of internationalization is high. Figure 8 demonstrates the entry modes depending on control level and resource deployment:

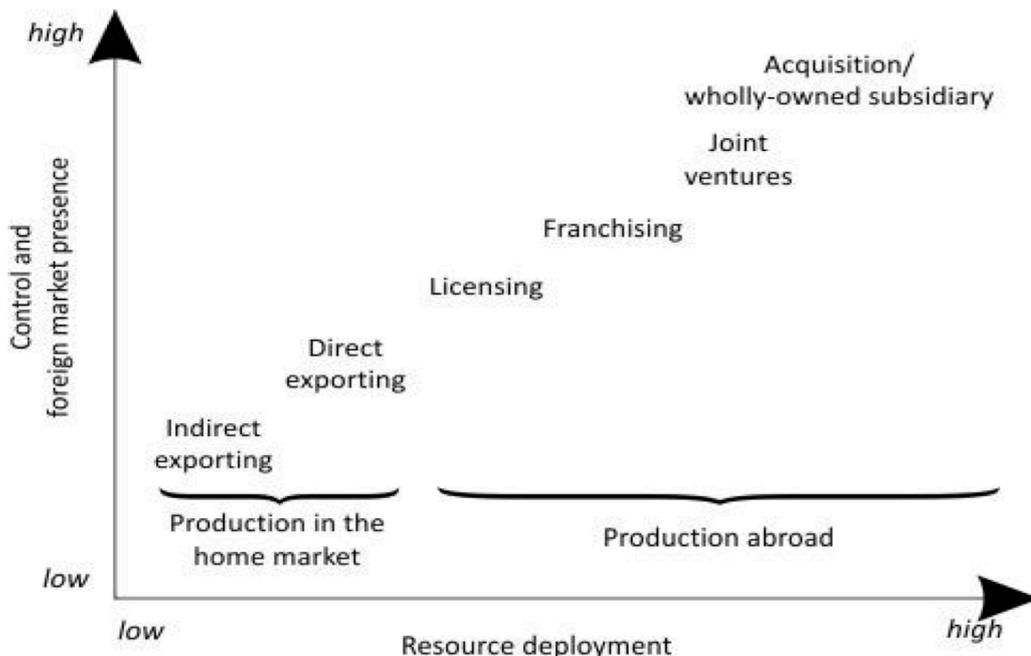


Figure 8. Market entry modes in relation with control level and resource deployment

The mode of export needs very little capital and lack of control, while the mode of acquisition requires huge resources and high control over the market. Depends on the resources and level of foreign market presence, companies choose suitable entry mode.

6.1.1 Stage 1: Direct export

According to Hollensen (2007), the table below shows the analysis of each factor that can affect the choosing of the type of entry mode.

Table 5. Factors affecting the level of internationalization (Hollensen 2007)

Factor	Description	Level of internationalization
Internal factors	Size of company	Decrease (-)
	Previous international experience and activity	Decrease (-)
	Product complexity	Nothing in the change (0)
External factors	Socio-cultural differences	Increase (+)
	Country risks	Decrease (-)
	Trade barriers	Decrease (-)
	Market size and growth	Increase (+)
	Existing competition	Decrease (-)
Desired mode characteristics	Level of control	Nothing in the change (0)
	Risk commitment	Decrease (-)
	Flexibility	Decrease (-)
Transaction-specific behavior	Know-how	Nothing in the change (0)

As it is seen from the table 5, the Decrease with minus symbol is the majority with 7 out of 12 aspects. At the same time, the Increase with plus symbol is marked for only 2; the Nothing in the change with zero symbol counts for the remaining 3 factors. Summarizing the results, the internationalization level for the case company BSW Engineering is quite low. Hence, according to Hollensen (2007), the most suitable market entry mode for the company is the export mode.

However, in order to ensure the correctness of the decision, it is necessary to compare the two main components of export mode: direct and indirect export mode. In a table below are represented characteristics of direct and indirect export based on Gilbert, Churchill and Peter (1998, 369).

Table 6. Comparison of direct and indirect export entry modes (Gilbert & Churchill & Peter 1998)

Entry mode considerations	Direct Export	Indirect Export
Resources required	Minimal capital	Very little
Return on investment	Good	Limited
Potential risk(s)	Low risk of loss	Low risk of any kind
Control capabilities	Possible loss of control of marketing	Limited
Host government reaction	Limited	None
Other considerations	Good first learning step	Easy way to explore international business

According to this table, the Baltic Sun Wind Engineering Company can decide which export mode is more suitable for their activities. Export includes the low level of control, limited required resource and reduces financial risks. (Hollensen 2007, 310-311.) Despite the fact that export mode brings some drawbacks for the company such as high transportation costs and tariff barriers, a lot of international companies use this mode to “test the waters” (Hollensen 2007, 391). By applying export strategy, the case company BSW Engineering could develop the sustainability of the business

before establishing foreign subsidiary or other future extension. Therefore, the best entry mode for the case company at the moment is direct export mode. Figure 9 below illustrate the process of crossing the border for the case company in Stage one:

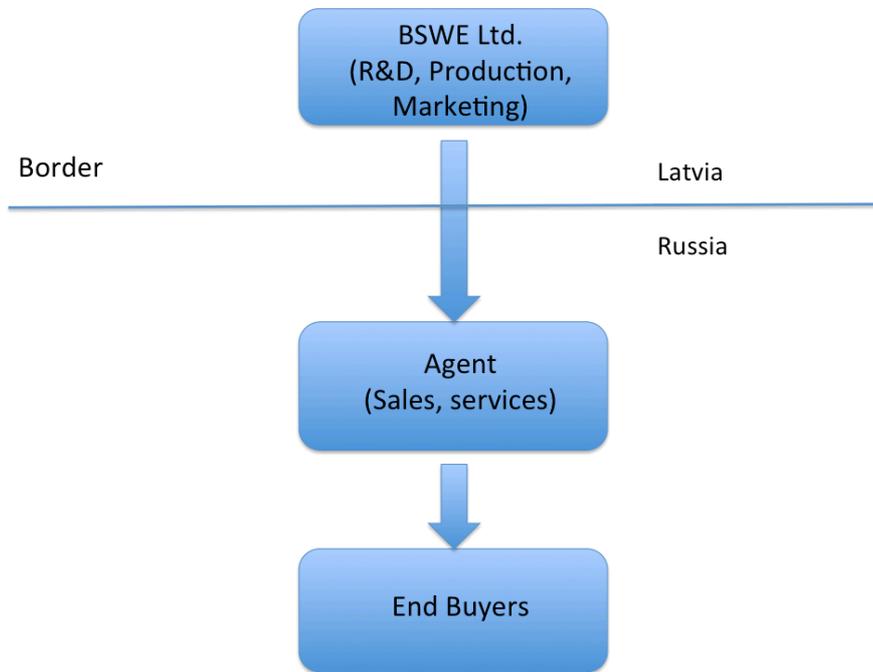


Figure 9. Process of direct export mode for BSW Engineering Company

Figure above represents direct entry mode process for the Baltic Sun Wind Engineering Company. An agent in Russian market is suggested for the case company in chapter 7 in order to promote its product abroad.

According to theory presented in Chapter 3 of current thesis, there are two entry strategies of direct export mode: agents and distributors. An agent is chosen because it is quick and cheap mode to enter foreign market. The case company does not need to look for an agent workstation and office; it is the duty of the agent, as opposed to distributor. Distributors are actually the large company's buyers and customers. They buy from the firm directly and add the trading margin from 30 to 100 percent. The agent sells the goods in foreign market on the behalf of the case BSW Engineering Company. With the agent there is a possibility to track sales and number of customers. Once the sales has become on a stable basis, Baltic Sun Wind Engineering could move on to market by strong entry mode.

6.1.2 Stage 2: Franchising

Assuming that after the first stage of direct exporting the business has grown steadily and the demand for the products is big, the future activities could be aim at new entry mode. During the thorough consideration and weighing out the aspects that may affect the growing of business, it has been decided that franchising is the best way for the case company to continue the entry strategy.

Franchising is one of the intermediate modes of entry. In comparison with export modes, intermediate entry modes imply transferring production into the target market. Moreover, franchising requires more resources and costs than in the direct/indirect export modes.

The reason for choosing the franchising entry mode is the increasing of demand. Moreover, previous direct export mode assumes very little knowledge about the market and the end-customers. In order to meet the demand, the case company should control activities in a foreign market by changing the entry mode.

The main advantage of the franchising entry mode for the case company is quite low expenses and future costs. All the costs are the liabilities of the franchisee of the firm. Aside from that, the franchisee is obliged to pay a percentage of its profit to the franchisor. Most expenditure of franchisor includes promotion and advertising of the firm in the foreign country, creating the website and brand awareness. In addition, the case company needs to use their resources in training Russian engineers for the job, in order to keep European quality of assembling. One more advantage of franchising is that the patents, the know-how and the training of employees are transferred from the franchisor to the franchisee that will give the monitoring of the company's operations.

On the basis of the discussion above, the author suggests BSW Engineering to contact the Russian Chamber of Commerce in order to find the support and interested partners. Moreover, there are many Internet resources and plenty of literature devoted to the franchising in Russian market. These sources are The World of Franchising, the Russian Association of Franchise Development, Franchising Shop and International Franchise Association. On the websites identified above, organizations place their

offers and requests of the franchising. Thereby, BSW Engineering Company can submit the company's information on one of those sites in order to obtain necessary profiles of potential partners. Figure 10 below illustrate the process of crossing the border for the case company in Stage two of current strategy:

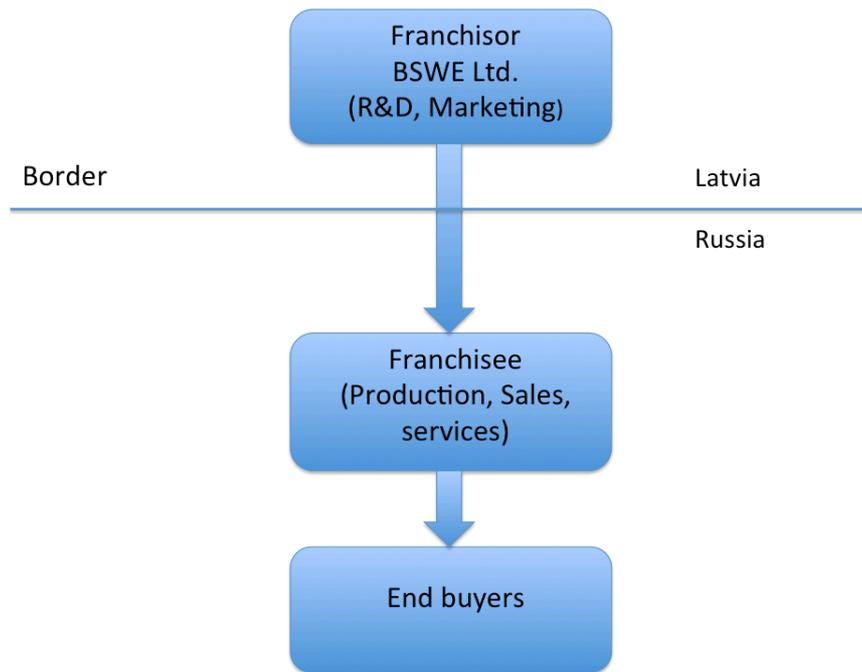


Figure 10. Process of franchising entry mode for BSW Engineering Company

The figure above shows the franchising process of BSW Engineering. The franchisor in this entry mode is the case company, while the franchisee is the partner in Russian market.

The author chose franchising entry mode instead of licensing that is similar in definition because of some reasons. The franchisor provides assistance to the partner throughout the conduct of business, while the licensee builds its business independently. Close attention of the franchisor helps the case company to penetrate deeper into the Russian market. Besides that, the period of franchising is usually longer than it is in licensing. It shows the stability of business. However, with the increased demand, the case company Baltic Sun Wind Engineering would need to enter Stage three, i.e. Joint Venture entry mode.

6.1.3. Stage 3: Joint Venture

In order to make more investment and earn more profits, BSW Engineering can move on new stage Joint Venture. According to definition of joint venture, this entry mode allows to share the risks and costs with local partner. Thus, joint venture is regarded as a suitable model for the case company with rapid growth.

After some years' time, the products of Baltic Sun Wind Engineering Company would not be a new anymore in Russian market. Thereby, there is a threat that better similar products would start coming into the market. Consequently, the best solution of this situation is getting into a joint venture with another Russian manufacturer. It can help to gain more market share and achieve stable position. Additionally, creating the joint venture is a huge strength for both parties, because it helps to improve competitive position by combining two existing reputation of the companies.

This entry model can bring the case company to have an access to the knowledge, resources and distribution systems with the help of the other party of joint venture. If the local partner is big, there is a possibility to undertake lucrative projects and bring positive public image. Finally, joint venture entry mode allows BSW Engineering Company to establish long-term presence on the Russian business market. The process of crossing the border is shown in figure below:

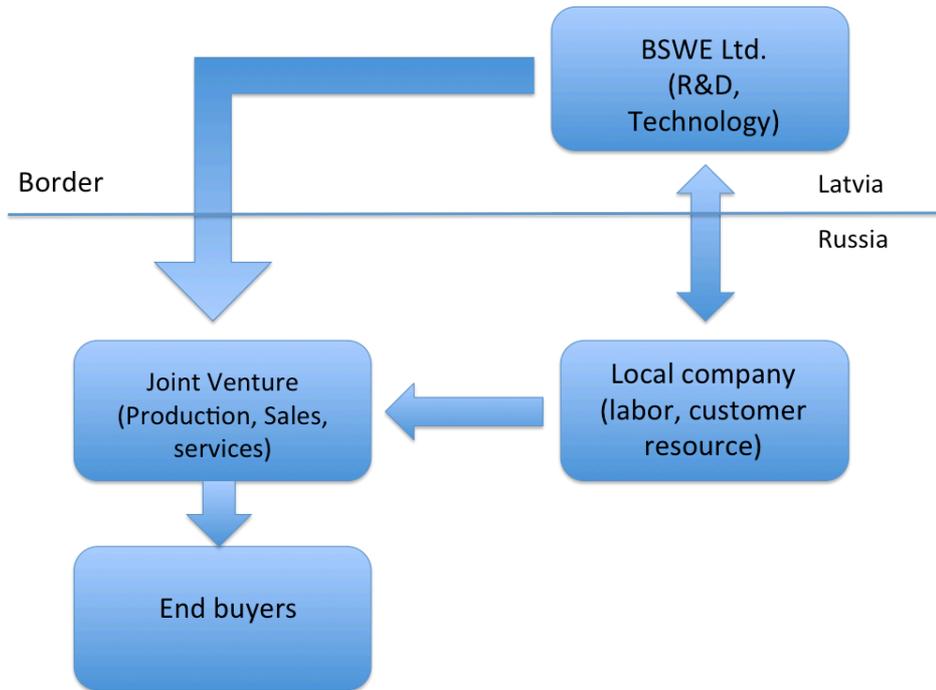


Figure 11. Process of Joint Venture entry mode for BSW Engineering Company

The figure 11 presents the process of doing business with joint venture entry mode. The author suggests the case company from Latvia to create the joint venture with Russian company in order to run on a larger scale.

According to the definitions of joint venture and strategic alliance, in chapter 3 of literature review part of current thesis research, the concepts of both entry modes quite similar. However, the author is preferred joint venture entry mode for the case company. Firstly, in joint venture there is a possibility for the BSW Engineering to share the risks and resources with other company in case of failure. Secondly, there is no need to invest huge amount of money and resources in comparison with hierarchical entry modes, for example subsidiary.

6.2 Conclusion

By thoroughly answering the second research question, is supposed to be a market entry strategy for the BSW Engineering case company. There is not one suitable entry mode forever. All of the three entry modes are workable, since each of them has pros

and cons. The best way in this situation is connect them to each other or realize them step-by-step. The first step to enter the Russian market is the basic direct export mode. After some years of consolidating the customers, it is time for Baltic Sun Wind Engineering Company to sign the franchising agreement with Russian franchisee. Establishing the joint venture is considered as a future strategy because the small case company is not able to invest big capital at this moment. The timeline of entering the Russian market is presented in figure 12 below:

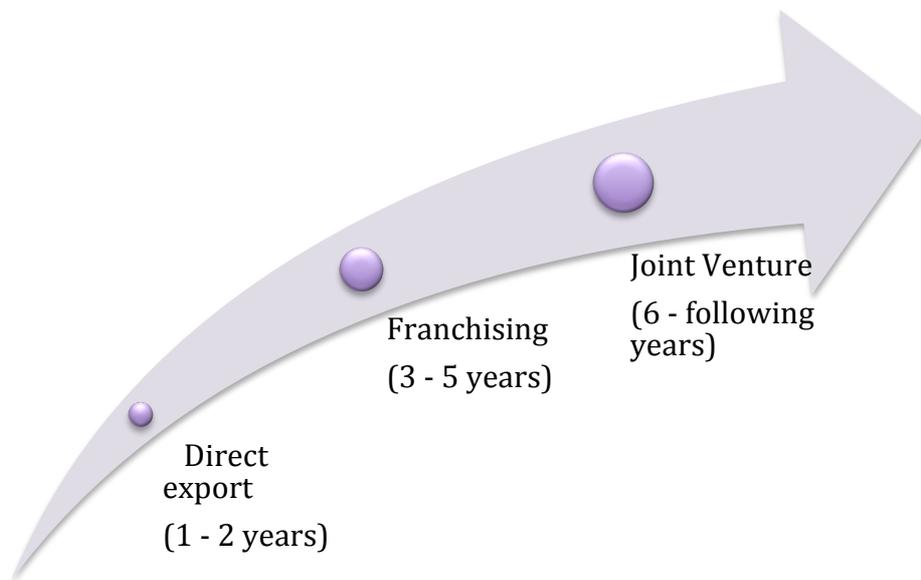


Figure 12. Timeline of entering the Russian market

The case company should improve the process of entering the Russian market as time progresses because it is a long-term process. During the testing the market in practice and accumulating the knowledge, the entry plan has to be changed in time.

As discussed in Case company analysis chapter 4, most spare parts of energy products are purchased from China. Thus, in direct export mode, the product life cycle is shown as:

CHINA → LATVIA → RUSSIA

Firstly, spare parts are transporting from China, then assembling in Latvia and selling in Russia. This process is remaining European quality of products and save resources of the case company in training Russian employees. The product life cycle of franchising entry mode can be described as:

CHINA → RUSSIA

The franchisee is ordering the spare part directly from China and assembling the products in Russia with close attention of the franchisor case company. The quality of the products is changed into Russian that may affect the customer's trust. Therefore, if the quality of products is not deteriorated and demand for the goods is not fall, it is a good indicator for the next stage of case company business development in Russia. In Joint Venture, the product life cycle is presented the same as in franchising:

CHINA → RUSSIA

However, after the first intermediate entry mode - Franchising - the author recommends the other intermediate entry mode - Joint Venture - instead of the hierarchical entry mode for some reasons. First of all, franchising implies not full involvement in doing business abroad. Foreign franchisee produces and sells products on behalf of the case company. Franchising entry mode serves as a transition from the direct export to a fuller involvement of the company in Russian market through joint venture. In turn, the joint venture implies a high level of control and actions abroad on its behalf. For example, if the company fails with franchising entry mode, almost all of the risks and losses are covered by the franchisee abroad. In a joint venture all the risks and responsibilities are shared between the parties. Thus, this entry plan is very helpful for the BSW Engineering to enter the Russian market slowly and carefully. The author of this study does not take into account the hierarchical entry modes such as a branch, subsidiary and acquisition. The CEO of the case company may consider these modes after 10 years of successful development in the Russian market.

7 CHALLENGES OF ENTRY

In this section, according to the interview with the representative of Russian Customs, the main challenges of entering the Russian market are identified. Secondly, the challenges of each selected entry modes is analyzed.

7.1 Challenges of the Russian market

The first and the main challenge of the Russian market is a high level of bureaucracy. Bureaucracy considered as the most prominent political and legal challenges in Russian Federation. According to Kouznetsov (2009), there are a lot of special time-consuming bureaucratic processes in Russia. The companies should follow these processes in order to be success in business. These statements were verified by the author's empirical findings. The representative of Russian Customs stated that the bureaucracy is a big problem of Russia that is difficult to deal with.

Based on the theory and empirical findings, it is easy to state that market of Russia is highly bureaucratic. Bureaucracy is present at almost every level of state agencies. Because of bureaucratic culture of Russian market it is very difficult for the case company to operate smoothly. These problems are concerned almost all departments. For example, it is very time-consuming task to get any information from authorities or it is more difficult to have a personnel meet in the authorities (Ivanov 2014). Thereby, Latvian case company should give special consideration to the problem of bureaucracy before entering in the Russian business market.

The second challenge of Russia is a non-transparent country's laws. The legal system of Russian Federation is not very transparent and easy. The difficulty of Russia is not in the government but in the unstable administration system. These arbitrary laws can create big problems for the foreign SMEs. This problem is increasingly focusing on SMEs as they have limited resources. Thus, small firms may "fall for the tricks" of the legislative system of Russia. The most changeable and unpredictable laws are related to the taxes and tariff side. Unfortunately, nobody can avoid those problems, but companies, especially SMEs have to be prepared for such changes. (Ivanov 2014.)

The next big challenge of entering the Russian market is customs entry barriers. According to the interviewee, the custom clearance of Russia is very complicated and time-consuming process. Russian customs is considered as corrupt and highly bureaucratic state. In order to get a clearance from customs department, entrepreneurs need to stock up on a lot of patience. Documentation is a very important aspect of conducting customs clearance and all needed papers have to be prepared exactly accurate. Even a small mistake is considered unacceptable and can lead to a big lag. The representative of Russian customs is also stated that every little or minute detail has a great importance in the rapidity of custom procedure. Products, which are transported across the border, have to be exactly packed as per specification. Otherwise, goods can be delayed and it can take a lot of time to solve the problem. In some cases, it is easier for the agents to cross the border for getting any spare parts instead of waiting for all complex customs procedures. Thus, the case company has to be ready to face very complicated Russian Customs system. (Ivanov 2014.)

Another challenge of Russian market is corruption. The main reason that international enterprises show reluctance to enter Russian market is a high level of corruption in the country (Rodriguez & Uhlenbruck & Eden 2005). This fact is supported by the empirical findings as the interviewer stated that corruption is prevalent in Russian Federation today. Analyzing this situation, obviously that BSW Engineering has to try to avoid involving in the corrupt transactions.

Time-consuming procedures in Russia are the last challenge. The most complicated and most important process in setting up the business is registration of the company. There are a lot of documents and plenty of paper work is needed to do. The required documents for registration of the firms are articles of association, extract from the trade register, the passport of CEO and address documents. Trade register agency in Russia is tax department. They are responsible for registration of new organizations as well as tax registration. (Ivanov 2014.) Starting a business in Russian Federation usually takes an average over 23 days (International Finance Corporation 2013). However, the number of procedures depends on the size of one or another city. For example, getting electricity in a company is an extremely laborious work. It can vary from 4 months to a 1 year to get electricity. As a result, there is huge variation in the

time, needed to start a business in Russia. Thus, the company should begin action on cooperation with Russia the sooner the better. (TMF Group 2014.)

7.2 Challenges of entry modes

7.2.1 Direct export mode challenges

First of all, the problem of direct exports to Russia may start in the field of taxation. However, if the foreign company sells the products to the country that located in the Customs Union directly, a foreign legal entity (hereinafter, FLE) would not be subject to taxes in Russian Federation. Besides that, there is no need to establish a presence in Russian state agencies. (Customs Code of the Russian Federation 2005.)

This entry mode is very easy way to enter Russian market because an agent would be responsible for customs clearance and paying taxes such as customs duties and import VAT. Unified Customs Tariff or UCT of the Customs Union of Russia represents the import duty rates for the products. These import duty rates vary from 5 to 20 percent depending on the country. Moreover, technological equipment that is manufactured outside of Russia can be also released from the import VAT. Whereas the agent takes care of all the challenges in Russian business market e.g. bureaucracy, corruption, customs, taxes, the case company can focus on production and delivery of the goods. (Ivanov 2014.)

In order to facilitate and accelerate the process of internationalization of the case company, the author offers listed instruction for entering the Russian market. The steps of starting direct export in Russia are following:

1. Find reliable agent

During the period of writing current thesis research, the CEO of the case company suggests the author to become an export agent in Russian Federation. Due to the fact that the author has a background education in business field and the author is a citizen of Russia, an interest in working in this field is high. In addition, the author has

completed the practical training by working in the case company as an assistant of the CEO. Moreover, there is no way to fears that the agent may become a competitor in the future. Thus, the most difficult problem of direct exporting to Russia is solved.

2. Make an agreement with agent

Agency agreement in the Russian Federation is not subject to the state registering. However, in order to draw up correctly contract with the clearly defined rights and obligations of the parties, it should include the following aspects:

- Subject of the contract
- Description of the business activities of the agent
- Contract time
- Reporting of the agent
- Procedure of remuneration to the agent
- Limiting the rights of the parties
- Subagent agreements
- Reasons for termination of the contract. (Doing Business Project 2012.)

These dimensions may vary from one contact to another. However, to avoid confusion in the content of the contract, it is recommended to use all of the above aspects.

3. Find transporting company

According to the interview with the CEO of the case company, best area of Russia to enter is Pskov region area. The reason for choosing this place is the closest location for Latvia that simplifies the transportation. Another reason is that electricity in the Pskov region is supported by hydroelectric power. This region does not have a nuclear power plant. This makes energy for local residents more expensive. (Uzakins 2014.) Consequently, it shows the successfulness of business idea for the case company. Therefore, the list of potential transporting partners of the Baltic Sun Wind Engineering Company is presented in the Appendix 1.

7.2.2 Franchising mode challenges

In the Russian Civil Code (hereinafter, CCRF), franchising is called as a “commercial concession”, while the franchisee is defined as a ‘user’ and the franchisor is defined as a ‘right holder’. In the Chapter 52 (articles 1,027 to 1,040) of the Civil Code of Russian Federation and in the Chapter 69 (articles 1,235 to 1,238) of the CCRF, the governing and general provisions on the franchise agreements are presented. The article 1,027 of the CCRF describes the relationship between franchisor and franchisee. According to this article, the franchisor must guarantee the franchise the right to use company's trademarks, know-how and other intellectual property rights. All the trademarks must be registered with the Rospatent or WIPO of Russian Federation. Moreover, franchising agreement has to be in the written form and registered with the Federal Service for Intellectual Property.

The biggest challenge of franchising in economy of Russian Federation is absence of stability. Constant ups-and-downs of country’s economy lead to the same instability in demand for all kinds of products. This fact has a direct impact on franchisees. In addition, there are some problems of Russian franchising in the sphere of law. As discussed above, in the CCRF the term franchising is mentioned only as the synonym to the term “commercial concession”. Nonetheless, “commercial concession” term is much narrower than the meaning of “franchising”. This hole-in-law makes franchising in Russia very difficult to use.

With regard to taxation, the legislation of Russia does not differ franchising and other forms of business in Russian Federation. Thus, the franchising fee is the same as for other businesses, namely VAT and corporate income tax. Russian VAT calculates, as 18 percent of the turnover and corporate income tax is 20 percent of the difference between income and expenses. (Ivanov 2014.)

Here are some concrete steps that the case company has to do in order to start franchising in Russia. The steps of starting franchising in Russia are following:

1. Study legislation on franchising

Before starting any actions to opening a franchising business in Russia, BSW Engineering Company should carefully learn the basics of legislation on franchising in Russian Federation. Franchising legislation is presented in Chapter 54 of the Civil Code of Russia.

2. Develop a franchise package

The franchise package is a set of documents that defines the relationship between franchisor and franchisee. The franchising package include the following documents:

- Franchise agreement or Contract of commercial concession

Franchise agreement is an agreement that describes the activities of franchisor and franchisee. The franchisor gives the right to use their exclusive rights to franchisee. Franchise agreement must be register in the tax office. Moreover, federal registration of case company's trademarks or service marks can take a lot of time, from 12 to 24 months. The franchise agreement should include the following aspects:

- Subject of a contract
- The legal status of the parties
- Obligations of the parties
- Retail space
- Payments
- Duration of the contract
- End of contract
- Consequences of termination of the contract
- Final Provisions
- Additions to the contract. (Doing Business Project 2012.)

Above-mentioned aspects also may vary in different franchisee contracts. In order to avoid difficulties in opening franchising business, an experienced franchise lawyer is needed.

- Business plan

In addition to the basic components of a business plan, such as company overview, industry and competitor analysis, it should include detailed information about the know-how of the franchisor. In addition, it is very important to show the economic business model and advantages of franchisee, for example, expenses and revenue sides, profitability and payback period. (Doing Business Project 2012.)

There are a lot of franchise consultants in Russia that may be useful for a case company. The most popular of them are presented in Appendix 2 of current research work.

3. Find new staff

Since franchising involves the expansion of the size of the company, BSW Engineering needs to hire new workers. They will deal with foreign Russian franchisee and help with solving their problems.

4. Search for franchisee

Finding the franchisee is the most difficult and risky step in franchising business. One of the most common mistakes is making the contract with the first available franchisee in order to the rapid development of the business. (Doing Business Project 2012.) Usually, it ends in failure for the both sides. For finding suitable and reliable franchisee, the author recommends the case company to attend the most popular franchise exhibition in Russia. The name of this exhibition is The Buy Brand International Franchise Exhibition. It is held annually in Russia, Moscow in September. This is a good way for the Baltic Sun Wind Engineering to make contacts and become acquainted with the Russian market.

5. Support for franchisees

The support from franchisor depends on the type of franchise agreement. The support might include the following aspects:

- Lease finding
- Operational training
- Sales training
- Management training
- Accounting training
- Customer service training
- Identification of suppliers
- Pricing
- Staff recruiting and training
- Provision of marketing materials and promotions
- Business advises
- Help in ruble shooting. (Doing Business Project 2012.)

The franchisor is obliged to provide the support for franchisee according to the agreement or the above list. Obviously, these aspects are not strict to use because they can be changed depends on the agreement type.

7.2.3 Joint Venture mode challenges

The most important problem of creating the joint venture in Russian Federation is shortcomings in the legislation. Legislative bodies of the Russian Federation are slow to respond to changes in the economic situation in the country and world market, which creates unfavorable conditions for the investment of foreign capital. (Ivanov 2014.) For example, new law was recently reformed in Russian Federation. Case company has to take into consideration that foreigners and international companies cannot own the land in Russia but they can rent it for 49 years (Federal Law 101-FZ/24.07.2002 (ed. by 12.28.2013) "On Agricultural Land Transactions").

The Federal Law 160-FZ/9.07.1999 1:20 (ed. by 8.12.2003) "On Foreign Investments in the Russian Federation" describes the concept of a joint venture in Russia. This Federal Law states: "The creation and liquidation of a commercial organization with foreign investments are made in the general procedure provided by the Civil Code and other federal laws." In this law, the concept of the commercial organization with

foreign investments is equal to the concept of the joint venture. Such status has all Russian commercial organizations with the participation of the foreign investor. Moreover, above-mentioned law provides the rights and privileges of these organizations.

One more challenge that the case company can face during the entry the Russian market is search for a reliable partner company. There are many difficulties in obtaining the commercial information about Russian firms because information about many companies is a commercial secret. (Ivanov 2014.) In order to reduce the risks of contact with unreliable partner, the author recommends using the services of independent audit firms.

In addition, a number of problems may be associated with the creation of the joint venture in Russia. Under the creation of JV means a series of stages, which includes the following (Ivanov 2014):

1. Project preparation

Preparation of the joint venture project consists of the commercial offer and feasibility study on the joint venture. Moreover, this stage includes the search for interested Russian partners. Very important aspect of the start of the joint venture is to address the issue of specialization. In order to properly identify the subject of the future activities of the joint venture, recommended contacting the specialized organizations such as Commerce and Industry of the Russian Federation, Institute of Russian Conjuncture and World Trade Center.

2. Protocol of intent

After a positive response to the commercial offer, company need to start drawing up a protocol of intent. This protocol reflects a mutual desire to create a joint venture in the chosen field. Protocol of intent is made in partners' discretion including economic and financial aspects of the JV. In other words, should be prepared all conditions for state registration of the joint venture.

3. Feasibility studies of the JV

The feasibility study is also necessary part of creating JV because it shows the economic expediency of the future joint venture. Feasibility study determines what partners will have in the result of the combination of their capital. Thereby, joint venture feasibility study is an approximate financial profitability for the both sides of partnership.

4. Founding documents

Normally, all of these documents such as the project and the contract constitute by an interested party, in this case, the Baltic Sun Wind Engineering Company. The contract enters into the force upon signature of the sides or from the date specified in the contract.

5. State registration of the joint venture

State registration of almost all business sectors is carried by the Council of Ministers of the Russian Federation, administrations of territories, regions, autonomous regions and cities. In order to register a joint venture, the founders need to provide the following information:

- Written request to register the company. It includes the name of the company, name of Russian and Latvian co-founders
- Notarized copies of the joint venture contract in duplicate
- Positive conclusion from the State Committee for Nature
- For Russian legal entity the notarized copies of certificate of registration, founding documents and articles of association is required; for Russian individuals the photocopy of the passport is required;
- For foreign Latvian legal entity, in particular, for the case company, the paper of state registration of the firm and bank reference is required. Both documents must be notarized translated into Russian language. Legalization procedure occurs in the Russian Consulate to confirm that the company is existed in the foreign country. (Ivanov 2014.)

8 CONCLUSION AND RECCOMENDATIONS

The motive of this chapter is to present the answers to the research questions that were discussed in the first chapter of this study. Additionally, this chapter concludes the main findings of this research. Moreover, the chapter provides the case company with a set of recommendations for future research.

8.1 Conclusion

Current thesis research was designed to suggest a suitable entry plan for the case company BSW Engineering and analyze the main legislative challenges of Russian market and the chosen entry modes. Baltic Sun Wind Engineering Company is a Latvian company of alternative energy sources. Today, the company has many customers in Latvia and European countries. Thus, case the company decided to expand the business by entering the Russian market in the near future. This research provides necessary information of entering into Russian market for the case company BSW Engineering Company.

In order to achieve the objectives of the thesis, the research questions were designed at the beginning of the research work. The main findings of the research questions are as follows:

1. What is the most suitable market entry mode for the case company in entering Russian market?

In order to answer the first research question, the author studied many relevant literatures concerning the market entry strategies. Drawing also from the interview with the CEO of the case company, suitable modes to enter the Russian market were suggested. Suggestions were made in accordance with the wishes of interviewee and the capabilities of BSW Engineering Company.

Of all the existing entry modes, such as export, intermediate and hierarchical modes, the author listed three modes in three different stages of the company's development.

Each of them has its advantages and disadvantages, which to some extent affect the success and time of entering the foreign market. In order to meet the case company's wishes, all the aspects and the pitfalls of each entry mode were analyzed. Finally, direct export mode, franchising and joint venture were found as the best choices. Moreover, a timeline of entering the Russian market was recommended to the Baltic Sun Wind Engineering Company.

The direct export is the most suitable model for BSW Engineering for entering the foreign market at the first time. Exporting to Russia is less risky for the case company because the agent has to deal with most of the problems in the local market.

The franchising entry mode is more or less in the middle between the export and joint venture modes. This mode is more risky and gives more control as well as requires more capital and commitment. The franchisee acts on behalf of the case company and passes the information about the Russian market to the main firm. It helps to make the products better according to the needs and demands of end customers.

The joint venture entry mode is the most controlled business in comparison with the previous two modes. Nevertheless, the risks and commitments are shared between the parties of the JV. This entry mode allows the case company to stay in Russia stably for a long time. Actually, the choice of the market entry mode depends on the legislative challenges of the Russian market that affects to the success of the operations of the foreign firms.

2. How can the case company avoid main legislative challenges of the chosen entry mode and the Russian market as a whole?

The answer to the second question comes mainly from the interview with the representative of Russian Customs. In addition, Constitution of the Russian Federation, Customs Code of the Customs Union and other relevant literatures are drawn from information sources for answering this research question.

Despite the fact that the Russian market creates the conditions for the foreign investors and business executives, there are a number of barriers for entering the market. The main challenges found through this research are discussed below:

- Bureaucracy is the most significant problem of the Russian legal system. Dealing with the bureaucracy can be considered, as the biggest challenge for the case company as in Latvia there is almost no bureaucratic culture. It is very difficult to get the certificates or other government documents in Russia. That is why Baltic Sun Wind Engineering is entering the market through an agent. The agent is familiar with the local environment and knows how to manage future problems.
- High technical risks and unstable political situation in the country are other challenges. Laws are changing frequently and the company must always be on the alert for any changes in legislation.
- Several legal regulations and time-consuming procedures can affect the velocity of the whole operations. The case company has to carefully calculate the time required for entry into the Russian market. This can take a very large amount of time.
- Lack of transparency makes the internationalization to market of Russia difficult for foreign SMEs. Rapid and unpredictable changes in laws and may influence the company's successful operations.
- Corruption is still existent at almost each level of activity in the country. It makes the operations of international organizations complicated and difficult. In such a situation the agent comes to the rescue by managing all the operations on the Russian side.
- A high entry barrier of customs department is one more major challenge that BSW Engineering can face during its entry of Russia. The customs clearance process takes a long time for being released from customs authorities.

Sometimes, foreign firms need to pay extra charges and taxes that increase the time of delivery and make the products more expensive at the end.

In conclusion, it is vital for BSW Engineering Company to take into account the above challenges of the Russian market in order to have a successful entry. Moreover, it is very important to have a better understanding of the problems in order to avoid difficulties and failure in the future. Thus, the case company is recommended to follow the suggested entry strategy and steps of avoiding legislative and other challenges in each stage of development.

8.2 Recommendations

During this thesis process useful information concerning the objectives of the research was gained. However, a few issues were left without examination that needs to be studied further. On the basis of the theory, data analysis and conclusion, the author presents the following recommendations to the case Baltic Sun Wind Engineering Company:

- First of all, this research did not include any financial planning. The analysis of financial implications of penetrating the Russian market would be important information for the case company. Obviously, there are huge costs associated with entering the foreign market. In addition, financial analysis should include the price level for the case company's products in Russian market.
- Secondly, BSW Engineering Company needs to analyze the competitors in the same industry. Moreover, studying of the potential end users could give good information to the case company.
- Thirdly, there is a need to develop the marketing plan to promote the case company. The best way is to establish Marketing Information System or MIS for Russia. It could help set up and maintain a database for the Russian market.

· Fourthly, it is recommended that information about the members of the distribution channel and finding the partners in Russia for the Baltic Sun Wind Engineering Company is studied.

· Fifthly, the case company needs to think carefully about the time of entering. According to current political climate in Russia, there are some factors that could adversely affect the accessibility of European products in the Russian market. These factors are as follows: unstable political situation, low economic indicators, and a drastic decline in the value of the Ruble against the Euro. The case BSW Engineering Company is recommended to wait for normalizing of the country's environment before attempting to enter the Russian market.

The author hopes that these suggested actions will help the case company for the future success during its internationalization.

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APPENDIX 1

Appendix 1

1(1)

Potential transporting firms-partners for BSW Engineering, Direction Latvia - Russia

<p>1. Sanna Ltd.</p> <p>Website: www.sanna-group.ru</p> <p>E-mail: sale@sanna-group.ru</p> <p>Business type: Logistic Company</p> <p>Transportation types: Auto transport, Air transport</p>
<p>2. Petro-Broker Ltd.</p> <p>Website: www.petro-broker.ru</p> <p>E-mail: info@petro-broker.ru</p> <p>Business type: Logistic Company</p> <p>Transportation types: Auto transport</p>
<p>3. Canavara Group</p> <p>Website: www.canavara-group.ru</p> <p>E-mail: sales@canavara-group.ru</p> <p>Business type: Logistic Company</p> <p>Transportation types: Auto transport, Train transport</p>

APPENDIX 2

Appendix 2

1(1)

Potential franchisor consultants for Baltic Sun Wind Engineering Company

<p>1. Francon Ltd.</p> <p>Website: www.francon.ru</p> <p>E-mail: hello@francon.ru</p> <p>Business type: Consulting Company</p> <p>Services: Franchising documents, Finding franchisee</p>
<p>2. National Franchising Company</p> <p>Website: www.franchise.ru</p> <p>E-mail: info@franchise.ru</p> <p>Business type: Consulting Company</p> <p>Services: Franchising documents, Finding franchisee, Control of financial activities, Technological control</p>
<p>3. Russian Association of Franchising</p> <p>Website: www.raf.ru</p> <p>E-mail: a@raf.ru</p> <p>Business type: Consulting Company</p> <p>Services: Franchising documents, Finding franchisee, Brand promotion, Advertising</p>

APPENDIX 3

Appendix 3

1 (2)

Interviews with the CEO of BSW Engineering and Representative of the Russian Customs

Interview 1

Name of interviewee: Mr. Aleskandrs Uzakins

Title: Chief Executive Officer of Baltic Sun Wind Engineering Company

Questions:

1. Please, give an overview about your company's operations.
2. How is the reputation of your company and product in local market?
3. What are the strengths, weaknesses, opportunities and threats of your company?
4. Who are the main customers of BSW Engineering?
5. What are the products of the company? Which of them you would like to sell in Russia?
6. What are the strengths of alternative energy sources?
7. Have you done any international business? Which countries?
8. Why the company decided to internationalize its operations?
9. Why did you choose the Russian market to enter?
10. What are your opinions and expectations on entering the Russian market?

Interview 2

Name of interviewee: Mr. Sergei Ivanov

Title: Deputy Chief of Murmansk Customs on economic activity

Questions:

1. What are the barriers for foreign companies, in particular Latvian firms, of entering Russian market?
2. What are the risks and problems in Russian markets for foreign organizations at the moment?

3. What are the biggest current trade barriers in Russia?
4. What are the biggest problems concerning Russian customs procedure?
5. What are the most common documentation requirements in Russian customs?
6. Other problems in the Russian customs department?

7. Which entry mode do you think will be appropriate for Latvian company in entering the Russian renewable energy market?
8. What kind of barriers has Latvian companies when they export their products to Russia?
9. How have they affected the trade process?
10. What are the customs requirements for the company concerning the exporting to Russia?
11. What are the main legislative problems for Latvian firms of franchising mode of entry?
12. How have they affected the trade in Russia?
13. What are the challenges of legislation in Russia concerning the Joint ventures?
14. How to avoid these challenges?
15. What kind of subsidies, tax exemptions, and custom clearance are available for renewable energy investors and their products in Russia?
16. Could you describe the Law on Renewable Energy in Russia and Law on Energy Saving and Efficiency?
17. Could you name the decrees that support the development of renewable energy in Russia?
18. What kind of problems has the companies of alternative energy sources with the customs duties?
19. What would you like to recommend for Latvian renewable energy company with regards to enter the Russian market?