Entry strategy for SMEs in the Russian market
-Focus on challenges, entry modes and network relations.

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ABSTRACT

Russia’s economy is growing at a very fast pace and it has an enormous potential for the international enterprises. Although Russian market has a huge potential for international enterprises but at the same time it has challenges and pitfalls that need to be addressed before getting into the Russian market. Often international enterprises fail in Russia due to the reason that they are not fully aware of the challenges and difficulties of the market. Entry mode of SMEs is affected by the challenges and pitfalls of the Russian market and network relationships play vital role for the success of SMEs in the Russian market.

The aim of the thesis is to identify the main challenges of the Russian market that international SMEs can face while entering the Russian market and also how SMEs can choose a specific entry mode while taking into consideration the challenges that Russian market poses to international enterprises. Thesis also deals with the importance of network relationships and how SMEs can take benefit of the network relationships in order to serve the market better.

Empirical data has been collected by conducting interviews with representatives of different Swedish SMEs that are operating already in the Russian market. After the empirical analysis, the challenges of the Russian market are stated that were experienced by the interviewees. Common mode of Swedish SMEs based on the interviews is stated and it is also stated that how Swedish SMEs establish and maintain relationships with Russian counter parts.

This thesis will be helpful for the SMEs that are going to enter in Russia; to identify the key successful factors of the internationalization in Russia through a theoretical background, and cases of Swedish SMEs competing there. Moreover, the present study could also be of great interest for the Russian authorities that try to improve the business environment in Russia as it shows the perceptions of international enterprises on challenges of the Russian market.

Keywords: exporting, entry mode, Russian market, challenges, network relationship
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CHAPTER 1: INTRODUCTION

1.1. Background

In last two decades the world economy has been characterized by globalization. One of the main consequences of the globalization is the reduction of barriers to international trade and due to this, companies can move in international markets easily. Thus, this situation has changed the dynamics of the local markets as for some companies it is necessary to go abroad. Another consequence is that the equilibriums on these markets have changed, the number of competitors is increased and consequently to target a niche could not only be sufficient to compete (Jansson & Boye 2010; Cornia 2006).

Globalization enables the internationalization of all companies, big sized and SMEs too. Jansson (2007) states that “more home-market oriented small and medium-sized enterprises (SMEs) are internationalizing their business operations thus becoming more global” (Jansson 2007: 4). Companies can internationalize into the countries that have the same culture and business practises and when they get the experience in neighbouring countries then they can internationalize to the markets which are not similar in characteristics (Jansson 2007).

Due to the internationalization the “increased competition from low-cost countries has forced many European firms to increase their efficiency, specialization, and international trade to remain competitive” (Jansson & Boye 2010: 1).

Jansson (2007) indicate that the opportunities offered by the internationalization process are mainly the possibility to find new customers and the exploitation of economies of scales. Possibility to find new customers: going abroad each company can extend its customer base, especially if it moves in countries where the market potentials are attractive enough to enter.
Jansson and Sandberg (2008) state that China, India and Russia are the large scale countries where the market size is very big and so there are more opportunities and this is the reason that West European firms want enter these markets in order to get competitive and first mover advantage.

Exploitation of economies of scale: new foreign markets offer the possibility to exploit economies of scale due to huge market potentials. Thus, it is possible to have cost-savings with the production abroad or to sell huge volumes that allow exploiting economies of scale (Jansson 2007; Zeng & Williamson 2003).

Emerging country markets knew a rapid growth while the Western economies’ demand became saturated or stagnated. The growth was based on liberalization and privatization of the economic sector governed by competitive conditions in world markets. The frequent characteristic of these markets is that they are leaving the previous economic system for a capitalistic market system (Jansson 2007). Hence, they provide good conditions for company growth.

In according with Forsgren et al. (2005) the internationalization process is the result of the interaction between learning about international business and the commitment to international business operations. The main point to consider in the internationalization is that the firm has to get knowledge of the foreign market that it wants to enter. By doing this the gap can be bridged because “knowledge accumulation is continuous and dependent upon the duration of foreign operations. The longer the firm has been involved in foreign operations, the more knowledge it accumulates about these operations” (Jansson 2007: 137).

Russia has a high potential for international enterprises as the market is growing very rapidly and specifically it has a great potential for Swedish companies to enter Russian market because local companies are not capable of satisfying the demand. Trade between Russian and Sweden has been very dynamic and both countries give considerable importance to the mutual trade and trade volume between both countries have been increasing rapidly. In Russia, economy is growing and Russia has shown satisfactory macroeconomic development during last 10 year with an average GDP growth of 7 % which is remarkable in its own sense. Unemployment has decreased and it less than 6% and state debts are reducing and Russia has also got the stable currency reserves over the period of last 10 years. One of the several
reasons of continuing growth is rapid growing middle class in Russia which is becoming the reason of creating a high market potential. It is also important to note that consumption is continuing to increase in Russia (Forss, 2008).

Russian economy is facing a transformation from an owned state phase to a capitalistic phase. This transition needs investments creating a situation that foreign firms can exploit. International Monetary Fund (IMF) experts revealed that Russian authorities have created a stable economic environment. Yet, in last year’s the president of the federation stopped the disintegration of the Federation from within and he also suggested and imposed new rules for the business tycoons reducing their influence on the governmental decisions. In Russia there is also an attempt to simplify the legislation, but on this point the results are still far from the goal. Anyway the Russian political and legal framework is more stable than ever. Russia has known also some reforms to strength the investment climate through tax reform, deregulation, enhancing property rights, and developing financial markets and institutions. This situation makes the Russian environment comparatively stable and more predictable, but not stable because there is still increments of transaction costs as well as a number of related imperfection (Zashev, 2004).

This is the reason that more and more Swedish companies are starting to enter the Russian market specifically in production and services sectors. In 2007 Russia became Sweden’s 13th largest export market and the 4th import market (Swedish Trade Council, 2008).

In many industries competition is underdeveloped due to the reason that Russian local companies are often unable to satisfy the increasingly growing market demand due to many reasons e.g. lack of resources and capabilities, poor infrastructure and out-of-date equipment. Often international companies hesitate to enter the Russian market due to its complexity and be in phase of transition economy (Kouznetsov, 2009)

Thus the Russian market is a unique market which offers not only great potential for foreign enterprises but has as well a number of challenges and pitfalls which are important to know about before entering the market.
1.2. Problem

Zhang, et al. (2007) state that when deciding on entering into a foreign market, companies face two questions— which market to enter and by which way to enter the foreign market. Emerging markets like Russia provide more opportunities as these economies provide not only the abundant resources and cheap labour but also provide the huge market potential for the products and services.

Zhan (1999) indicates in its research that when an enterprise wishes to enter into a market then it is essential for the firm to assess its strategy in order to establish itself in the market. It is very important for the firm to know its commitment to the market in terms of investment, personnel, time and potential in order to make a decision on the entry strategy. It is also vital to analyze the advantages and disadvantages of the entry mode before getting into the market actually.

It is very important for Swedish SMEs to choose rightly between the right entry modes e.g. direct/ indirect exporting, alliances, contractual agreements, distributorship etc. as each entry modes takes some advantages and disadvantages in order to deal with the challenges of Russian market. Zhan (1999) indicate that entry modes like direct sales, sales through representatives, sales through distributors, joint ventures, and wholly-owned subsidiaries - vary in a degree of risk, reward, control, and market share.

The majority of the enterprises fail in the early stage or later on after establishing their operations in Russia due to the reason that they are not fully aware of the difficulties and challenges of the Russian market. Russian market, due to its challenges and pitfalls influences the entry mode of the international SMEs aspiring to enter Russia (Belyaeva, 2009; Kouznetsov, 2009; Albaum and Duerr, 2008).

Previous researches have often discussed some of the challenges and difficulties of Russian market in different sources whereas some of the challenges are neglected in previous researches. For example the research conducted by Swedish Trade Council in 2008 states that
Russian market has a number of pitfalls and difficulties. This research states that it can be a challenging task to establish a company in Russia. Corruption and bribery is a daily procedure in order to carry out the operations of the firm smoothly and to obtain required certificates to do business. Information is hard to get from relevant departments due to high level of bureaucracy and legislation is often in-transparent and complicated to deal with as it can be changed very frequent. Moreover, Swedish SMEs also face problems in dealing with bureaucracy and tariff and customs clearance departments (Swedish Trade Council, 2008).

Jansson (2007) states that it is an important point of concern to adopt culture of the foreign market in order to know the market better, especially in Russia and in China. The SMEs are particularly affected by this problem as triads or indirect relationships through distributor or agent are particularly common while entering into the foreign market (Jansson & Sandberg, 2008). The SMEs coped to different issues in their entry strategy process.

Another issue that is important for SMEs to cope is to build and maintain the network relationship in Russia while entering into the market. It is crucial for SMEs to get information regarding dynamics of the market and knowledge of the customers’ preferences in order to be successful in the international market, which is the essence of the successful network relationship. The network allow to “gain initial credibility, allow access to additional relationships and established channels, help in lowering cost and reducing risk, and influence their internationalization pace and pattern” (Zain & Ng, 2006,pp1). Moreover in Russia, the way to do business is different than West Europe and the emphasis is greatly placed on the personal relationship, so it is vital to have understanding of all these things in order to be successful in the Russian market (Jansson, 2007).

The differences between the Russian and the Western European relationships have been intensively explored in the past (see Michailova & Worm, 2003; Jansson & Johanson & Ramstrom, 2007) and the searchers named the specific relationship; Blat in opposition to the Chinese Guanxi. Furthermore, we realized that lot of articles described the specificities of the Russian culture but a little about the concrete influence of this culture on the company. Thus,
our aim here is to describe the influence of a macroeconomic phenomenon, the Russian business relationship or Blat on the microeconomic level i.e. the SMEs point of view.

1.3. Purpose and research question

The problematization section raises three questions which have become the area of interest for the present thesis:

- What are the main challenges of the Russian market?
- How can international companies overcome or avoid those challenges by choosing a certain entry mode?
- How can SMEs manage the relationships with the distributors or counter-parts in Russia?

The purpose of the first part is to analyze the environment in Russia and to identify the key challenges that an SME has to deal with during its entry strategy and building and maintaining the network relationship.

The second part deals with the entry modes that is most suitable for Swedish SMEs to adopt while entering the Russian market. The goal is to identify the most common and the most successful entry modes in order to help Swedish SMEs in their choice of entry modes.

Finally, the purpose of the third part of the present thesis is first, to identify the key success factors to manage this relationship in a dyadic entry nodes as well as in a triadic and second, to find the role of the network relationship in the process of entering in the Russian market.

This thesis will be helpful for the SMEs that going in Russia; to identify the key successful factors of the internationalization in Russia through a theoretical background, and cases of Swedish SMEs competing there. Moreover, the present study could also be of great interest
for the Russian authorities that try to improve the business environment in Russia as it shows the perceptions of international enterprises on challenges of the Russian market.
CHAPTER 2: METHODOLOGY

This chapter presents and explains the methods used by author in order to conduct this research. The chapter starts with justification of research strategy and then scientific perspective, scientific approach, research method, data collection sources, validity and reliability of the thesis are discussed. Qualitative research is used in this thesis and author has used focus groups in order to answer the research question.

2.1. Research method

The relevance of a research study is highly dependent of the research method used by the authors. Hence, the choice of the method is an important stage in the research process. According to Yin (2009) “each method has its own advantages and disadvantages”, thus there isn’t a best research method; the authors have to find the research methods the more adapted to the study and to their research questions. The method chosen has to be the one the more advantageous or the less disadvantageous to avoid a gross misfit.

There are five different research methods that can be use in a research study. To choose the relevant research method, Yin (2009) identified three different factors; the type of research question, the control of the investigator on the actual behaviour events and the focus on the contemporary events instead of historical.

<table>
<thead>
<tr>
<th>Method</th>
<th>Form of Research Question</th>
<th>Require Control of behavioural events?</th>
<th>Focus on Contemporary events</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment</td>
<td>How, Why</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td>Who, What, Where, How many, How much</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Archival Analysis</td>
<td>Who, What, Where, How many, How much</td>
<td>No</td>
<td>Yes/No</td>
</tr>
<tr>
<td>History</td>
<td>How, Why</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Case Study</td>
<td>How, Why</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Relevant Situation for Different Research Methods (Figure1.1; Yin, 2009)

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As seen before, our research study concerns the entry strategy of the Swedish SMEs in Russia. The study is divided in three research questions which correspond to the three “sub-strategies” of the entry stage; the entry nodes, the entry modes and the entry process.

In following the Yin model we decided to use the case studies research method. Indeed, in our three researches question we have two “how” questions and one “what” exploratory question. We also don’t have any control over the events and we analyze contemporary events involving economic actor. Therefore following the Yin models (2009), the case study is favoured.

Considering our research questions and their highly explorative characters, we decided to extend our case study to three companies. Our aim it was to improve the relevance of the report in increasing the data collected. The choice of the companies has been done also very carefully, they should respect four criteria. The company selected should be a SME and exporting in Russia in order to match with our subject. Moreover, writing a short thesis we decided to reduce our research to a certain region around Kalmar. We also took care to select companies that enter in Russia through three different ways, thus we have a company Arenco which selling directly there, another company Nordern Machinery which using an agent as intermediary and finally Rottne that have a retailer in Russia.

2.2. Scientific Approach

Yin (2009) identified three types of scientific approach: exploratory or explore, descriptive or describe and explanatory or explain. Whatever the research methods these approaches can be present at different level (Yin, 2009).

In the first part of our analysis we use the exploratory approach in order to identify the main challenges of the Swedish SMEs on the Russian market. In the process of collecting data, we also used the exploratory approach to identify the common entry modes and the explanatory approach to explain the different advantages and disadvantages of each entry modes. Finally, we explored the different issues that the SMEs are coped with his Russian partners or
customers through the examples of three Swedish SMEs and we used an explanatory approach to analyse this issues.

Usually, we distinguished two broad methods of reasoning: inductive and deductive. The deductive reasoning works from the more general to the more specific while the inductive reasoning works from specific observations to broader generalizations and theories (Trochim, 2006).

In our thesis, we decided to use a deductive reasoning or sometimes called the “top-down” approach hence we first collected the information about the entry strategy of the SMEs in Russia to build a theoretical background and then we compared this theory with real data. We deduced from our lectures and readings some challenges that the Swedish SMEs have to cope in their entry stage of internationalization in Russia. Then, we confronted our theoretical data to real data through the interviews of Swedish SMEs and data collected of previous study.

2.3. Research Method - Qualitative Method

Sogunro (2001) state that qualitative method is “an inquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of informants, and conducted in a natural setting”. According to Bryman & Bell (2007), qualitative research is research that cannot be quantified and is used where in-depth details are required and that needs words and expressions. According to Lakshman et al (2000), qualitative research is used in those cases where results of the study are inadequate for the numerical or quantitative analysis. Qualitative methods are also more effective in researches where researchers want to know more about the field of ethnicity, social factors, socioeconomic status, gender roles, religion and dynamics of the local and foreign markets.
<table>
<thead>
<tr>
<th></th>
<th>Quantitative</th>
<th>Qualitative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General framework</strong></td>
<td>Seek to confirm hypotheses about Phenomena</td>
<td>Seek to explore phenomena</td>
</tr>
<tr>
<td></td>
<td>Instruments use more rigid style of eliciting and categorizing responses to questions</td>
<td>Instruments use more flexible, iterative style of eliciting and categorizing responses to questions</td>
</tr>
<tr>
<td></td>
<td>Use highly structured methods such as questionnaires, surveys, and structured observation</td>
<td>Use semi-structured methods such as in-depth interviews, focus groups, and participant observation</td>
</tr>
<tr>
<td><strong>Analytical objectives</strong></td>
<td>To quantify variation</td>
<td>To describe variation</td>
</tr>
<tr>
<td></td>
<td>To predict causal relationships</td>
<td>To describe and explain relationships</td>
</tr>
<tr>
<td></td>
<td>To describe characteristics of a population</td>
<td>To describe individual experiences</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To describe group norms</td>
</tr>
<tr>
<td><strong>Question format</strong></td>
<td>Closed-ended</td>
<td>Open-ended</td>
</tr>
<tr>
<td><strong>Data format</strong></td>
<td>Numerical (obtained by assigning numerical values to responses)</td>
<td>Textual (obtained from audiotapes, videotapes, and field notes)</td>
</tr>
</tbody>
</table>
Table 1: Comparison of Quantitative & Qualitative Research Approaches

Source: Mack et al (2005, p. 3)

2.4. Data Collection Sources

According to Smith (2005), data collections sources are very critical in conducting research studies. Data collection can be done in several ways for instance, interviews, participant observation, literature, newspaper, surveys and previously published reports. Data can also be collected through questionnaires, emails, telephonic interviews, in-person interviews, focus groups and other personal or professional contacts. There are two types of data collections methods that are primary sources and secondary sources. Yin (2009) validates this and states that data can be collected from various sources such as documentation, archival records, interviews, participant-observation, direct observations and physical artifacts. He further indicates that for conducting research, use of various resources are of utmost importance and for a good case study it is of vital importance to use as many sources of data as possible in order to conduct a good case study.
2.4.1. Primary Sources

According to Malhotra and Briks (2003), the aim of primary data collection is to point out some specific problems or case. For collection of primary data, interviews, surveys and observations (both participant and direct) are the most common techniques. Interviews can be conducted in different ways like personal interviews, telephonic interviews, online interviews (including e-mails) and through other media communications.

Neville (2005) indicate that personal interviews can be characterized into structured interviews and unstructured interviews. Structured interviews contain pre-defined and well-organized questions that researchers want to ask and these questions can be open ended or close ended. According to Bryman and Bell (2007), open ended questions can be very useful in qualitative research (particularly case study) but at the same time they have some disadvantages as well. But mainly open ended questions are used to explore the areas about which interviewers have limited or no knowledge. Open ended questions provide the interviewees a freedom to respond to the question in a more free way which can sometimes lead to some unexpected results as well. Whereas close-ended questions are easier to handle and interpret as they give only limited choices of answers to the interviewees and they are also useful as they save time and effort which authors would have to invest in answering the open-ended questions during the interview. But there are some disadvantages of close-ended questions as well because they limit the answers to a specific range and due to that researchers can lose some spontaneous and interesting responses from the interviewees as they are only limited to specific set of answers (Bryman and Bell, 2007).

Neville (2005) states that the advantage of structured interviews is to get uniform information that makes the data comparison more easy and accurate. Whereas in un-structured interviews, researchers do not follow a set pattern rather they ask the questions in a free way and questions can develop from subsequent conversation with the interviewees during the interview.

In their research, Kumar (2005) and Malhotra and Briks (2003) indicate that researchers prefer a questionnaire in order to collect data during the interviews due to the three reasons.

- It is more structured and has an emphasis on collection of desired information that researchers want to get from interviewees.
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- Interviewee considers him/herself more motivated to answer due to his involvement in the interview.
- It reduces chances of error.

2.4.2. Secondary Sources

Rabianski (2003) states that secondary data can be defined as the facts and information that is based on previous research and it includes published and unpublished work. For example, secondary data can be gathered from written material like researches, articles, books and surveys done by marketing research companies in order to conduct a research study. He further states that to gain more in-depth knowledge of the research area, researchers should use both primary and secondary data in order to make the research more reliable.

Czinkota, et al., (2004) further elaborate this point and indicate that the data collected from governments and the other agencies who conduct surveys on regular basis are the most reliable and widely used sources to know about the micro and macro economic conditions. International organizations such as International Monetary Fund (IMF), World Trade Organization (WTO), World bank and United nations organization (UNO) provide country and region specific reliable information in order to give researchers an idea of what is happening in world and where does a specific country or region stands as compared to other parts of the world. Trade associations for specific industries and chambers of commerce for overall situation of the economy and scope of industry, are always reliable sources of data collection about local and foreign markets. (Czinkota, et al., 2004)

2.5. Data Collection of Thesis

For the current master’s thesis, authors have used both primary and secondary data. Primary data was collected through interviews with three representatives of 3 SMEs from Sweden who are operating in Russian market. Two Interviews took place in Kalmar whereas one interview was conducted in industrial zone of Rottne. As the current thesis is qualitative research so authors have decided to use semi-structured questionnaire in order to collect primary data. Questionnaire contains both open-ended and close-ended questions. Open-ended questions
were used to get the detailed opinion of the interviewees about the chosen field of interest. Whereas close-ended questions are used in order to get the interviews responses on the specific factors and challenges that were identified through secondary data i.e. scientific articles and previous research reports on Russian economy.

Secondary data for the present research thesis has been collected through course literature in the field of international marketing, scientific articles as well as reports and surveys that were conducted by international organizations like International Monetary Fund (IMF), World bank, Swedish Trade Councils and reports published on Russian economy in previous newspapers and journals.

2.6. Validity and Reliability

Morse et al (2002) indicate that for a research to be reliable it has to be based on facts and reliable sources because if the research does not have reliable sources then it’s no more than a fiction or fake study. So, there is great need of reliability and validity in most of research methods.

Ekwall (2009) explains that validity and reliability of the research are two factors that intend to verify the results of the research process and ensure the authenticity and credibility of the research. Validity is mean to measure what is in fact supposed to be measured. It is more difficult to get valid information in qualitative research as compared to quantitative research because in qualitative research both researcher and the object being studied influence each other. Therefore it is very necessary for the researcher to be cautious of the fact that he/she can affect the object or people being studied and it can lead to the results that are not 100% genuine and reliable.

Artebrant, et al., (2003) gave three dimensions of credibility of research i.e. validity, reliability and objectivity. For a research it is necessary to link the theory with empirical evidence and this connection confirms the validity. While Reliability means to what extent reappearance of the research will generate the same result. Coleman & Briggs (2002) agreed
with Artebrant et al. (2003) and argued that “Reliability is the extent to which a test or procedure produces similar results under constant conditions on all occasions”.

Guba and Lincoln (1981) indicate that although the nature of knowledge in quantitative and qualitative research is quite different but all research must have “truth value”, “applicability”, “consistency”, and neutrality” in order to be rigor, therefore, both quantitative and qualitative research types need specific criteria in order to be considered worthwhile.

Morse et al. (1999) state that methodology coherence; sufficient sampling, development of a dynamic relationship between samples; data collection and analysis are the verification strategies that ensure both reliability and validity.

Yin (2009) states that the quality of any given design can be judged in according with certain logical tests. The author identifies four tests: construct validity, internal validity, external validity, reliability.

Construct validity refers the challenge in case study research. This aspect regards the situation that a case study investigator does not develop a sufficiently operational set of measures and that the collection of data is usually done using “subjective” judgments. To avoid this problem Yin suggests a manner composed by two steps:

1. Definition of the problem in term of specific concepts

2. Identification of operational measures that match concepts.

The first point indicates the need to explain which is the aim of the study, the second one relates to the necessity to select a specific measure for the study. Regarding the second point it is necessary to find a specific measure to measure the phenomenon studied.

Construct validity can be increased with three tactics that are: use of multiple sources of evidence, establishment of a chain of evidence and to have the draft case study report reviewed by key informants. The first tactic, as the second, is relevant during the data collection phase, the latter refers to the situation to review the study through key informants.
When it comes to internal validity Yin (2009) highlights two points. He argues that internal validity is a concern for explanatory case studies and that it also refers to the problem of making inferences.

Making references regards the situation when the investigator infer a specific event that result from some previous occurrence. The problem is about the correctness of the occurrence and about the possibility that all the explanations and possibilities have been considered. Yin (2009) continues that it is difficult to individuate specific tactics to achieve this result. One way can be the analytic tactic of pattern matching. Others ways are made up explanation building, addressing rival explanations and using logic models.

External validity concerns the fact if a study’s findings can be generalized beyond the immediate case study. In this case it is necessary to distinguish between survey research and case studies. Survey research relies on statistical generalization, case studies on analytic generalization. In analytic generalization the investigator strives to generalize a particular set of results to some broader theory. The generalization process does not come automatically. A theory must be tested by replicating the findings in a second or even a third member that belongs to the phenomenon. Once this operations have been done, the outcomes can be accepted even if further replications had not been performed.

Reliability refers to the case in which a second investigator follow the same procedures and he should arrive at the same findings and conclusions. Yin (2009) argues that the goal is to minimize the errors and biases in a study.

To avoid this problem it is requested to document all the procedures followed in the earlier case. Thus, the general way is to proceed as if someone were always looking over your shoulder.
CHAPTER 3: THEORETICAL FRAMEWORK

The aim of this part of the present thesis is to introduce the theoretical framework which is applied for the present study. Challenges of the Russian market are described in the beginning and then Entry modes like direct and indirect exporting are presented. Theory on network relationships and their importance for enterprises is also stated in this theoretical part. Whole of the theoretical framework is based both on course literature as well as scientific articles addressing to these issues.

3.1. Challenges of the Russian market

Russia’s economy is growing at a very fast pace and it has an enormous potential for the international enterprises. Competition is not very much developed in many industries as the local enterprises are most of the time not able to satisfy the demand that is growing continuously and international companies also show reluctance to enter the Russian market due to its complexity and difficulties like bureaucracy and corruption etc.

According to the survey of Swedish Trade Council conducted in 2008, Russian market has a number of challenges and difficulties that are needed to be catered in order to enter into Russian market. The survey further states that it’s a normal procedure to bribe in order to get a certificate and corruption is done on the daily basis. Getting relevant information is a tough job and legislation is not very transparent and often complicated as changes occur very frequently. Moreover the SMEs also face difficulties in the custom clearance process and due to higher level of bureaucracy. In the following section of theory, authors account for the different challenges that a firm can encounter during the process of internationalization.

3.1.1. Political conditions

Johnson, et al., (2008) state that governments can play vital role in creating opportunities or obstacles for attracting international investment. So Johnson et al. (2008) suggest that it is
very important for international enterprises to evaluate the political risks before entering into a market. The political constraints can pose big challenges for international companies for example; government can impose tariff, quota and taxes on imports and exports and other kind of taxes.

While summarizing the political challenges in Russia, Braodman (2000) indicate that there are many institutional and administrative barriers to enter into the Russian market. Those can include the biasness or discrimination towards business licensing and registration of the firms, limited and sometimes blocked access to distribution channels, uncertain political and governmental system, corruption and bribery, difficulty in finding suitable place for business setup and less transparent legal system to operate in the market.

The Political environment of Russia is not very stable and can be of negative nature for the foreign enterprises aspiring to enter Russian market. According to the statement of BMI (2010), the existing Political system of Russia will be hard to change even in next 10 years as the corruption is the main problem of Russian political and business environment which ultimately affects the investment climate and foreign enterprises show reluctance to enter into Russian market. Kouznetsov (2009) also state that the main problems concerning to the legal and political system are bureaucracy and the legal system that is under developed and not very transparent.

3.1.2. Legal Conditions:

In its survey, Swedish trade council (2008) found that Swedish enterprises face difficulties on daily basis in Russia due to corruption and it is specifically difficult to obtain the certificates without bribing the relevant authorities and officers. Kouznetsov (2009) highlighted another fact in his study that the smaller enterprises tend to be the easy target of corrupt officials as compared to the bigger firms because bigger firms have more resources and contacts than smaller enterprises.

It is also important to note that frequent and unpredictable changes occur in legislation which makes it harder for foreign enterprises to comply with and then foreign enterprises need to pay bribes in order to carry out their operations smoothly and without interruption. It is also hard and difficult to obtain information in Russia especially from authorities which make it
difficult to get the complete knowledge and overview of the Russian market for foreign enterprises (Swedish trade council, 2008).

One legal difficulty is to setup a local sales subsidiary as it can be a very complicated and time consuming process. There are special bureaucratic processes that are needed to be followed in order to establish a sales office and that can be the documentation of official records through apostils and language translators and this can take a long time and often Swedish enterprises give less attention to these processes due to which it can take even more longer time (Swedish trade council, 2008).

The process of custom clearance can be very complicated and time consuming as Russian customs is corrupt, bureaucratic and intentionally causes delays in order to get bribes. To get clearance from customs department, all the documents have to be prepared exactly accurate and even a very small mistake can lead to a big delay in custom clearance. To avoid such problems and delays in custom clearance, Swedish enterprises are advised to involve customer clearance agents as they know how to deal with the customer department on a regular basis (Swedish trade council, 2008).

3.1.3. Economic conditions:

For international firms, it is of vital importance that they take into consideration the economic condition of the foreign country before entering into the market as some times bad economic conditions can account for the overall failure of the firm in foreign market. Economic factors include the GDP and level of income of the target customers as they determine the potential size of the market and purchasing power of the people. Although emerging economies provide a lot of opportunities for international organization but the companies must take into consideration the economic stability of the country (Johnson et al., 2008)

Kouznetsov (2009) adds one more important point and states that the infrastructure development, conditions of roads and railways (means of transportation), level of communication and it includes specifically the telecommunication and availability of energy and fuel etcs should also be taken into consideration while entering a foreign market as they
under-development in these area can pose a potential risk for the company to operate smoothly in the market.

The Russian government is making a lot of efforts to encourage SMEs to invest in Russia in different fields. It’s also making changes in the banking system as previously it was very bureaucratic and there was a long chain of command. Russian government is also trying its best to cope with the high level of bureaucracy and corruption which creates a lot of problems for international SMEs to do business in Russia smoothly. It is also making efforts to improve transportation system by making investments in infrastructure and emphasis is also on the telecommunication to improve the communication with the outside world. But besides all these effort, Russian economy is still in its transition phase and its offers attractions for international SMEs to invest in different fields. According to the projections, Russian GDP should grow in the coming years and rate of unemployment should decrease with the developments made to make the economy strong (BMI, 2010).

One more challenging task in Russia is to deal with the local banking system where access to the credits and making payments locally as well as foreign payments is a difficult task and cash management is also a challenging task as sometimes transaction can fail due to unavailability of cash or foreign money. According to the survey made by Swedish trade council in 2008, Swedish SMEs tend to be unsatisfied with the local banking system and found it difficult to handle (Swedish Trade Council, 2008).

3.1.4. Social Challenges

Jansson et al. (2007) state that in Russia informal networks established during the centrally planned economy are still important in businesses. Russia is facing a transition towards the West European model of “firms in network” and it is leaving a situation characterized by facelessness and anonymity. The firm builds its identity through its own operations in the networks, and because the specific actors involved tend to have almost all the external contacts they play a crucial role in this identity-building phase.
In West European and Russian business networks, independent persons of companies usually are interconnected and these relationships are built on rational and logical calculation and voluntary individual action.

When it comes to time the main feature of Russian enterprises is the short-term orientation. This characteristic make difficult the future planning as a consequence that the focus is on the past and on the present. “The short-term horizon prevails with the absence of trust and reputation in addition to the reluctance to make relationship-specific investment, make changes in terms of terminated relationships to a common characteristic of the network” (Jansson et al. 2007; 960).

Russian companies usually prefer to conclude relationships instead of changing activities within the relationships. “This is strengthened by the fact that during the transition knowledge about how to do business becomes obsolete and no longer valid, and firms have to find new ways of doing business, which often also tends to mean finding new customers and suppliers” (Jansson et al. 2007; 960).

Causality refers to “heart” that constitutes an important part of the Russian business culture. Russian usually show their feelings because they usually are affective. This situation influences inter-firm contacts and communications and the result is that interactions are often emotional, personal especially when the firms know each other. In the Russian business networks planning is viewed as a critical activity and the risk of being cheated or treated arbitrarily always prevail. In Russia networks are characterized by high uncertainty avoidance and the consequence is that managers basically are focused on how to obtain control and preserve power within the network. (Jansson et al., 2007).

3.1.5. Corruption

Rodriguez, et al. (2005) also state in their research done on Russian economy that corruption in Russia is the main reason that SMEs and foreign enterprises show reluctance to enter Russian market and they further state that corruption is the reason that control is in hands of few people that are powerful in the political system and due to this the legal system is also in-transparent and changes in the legal and everyday procedures take place very frequently sometimes over-nightly in order to give rise to the bribery.
Rodrigues, et al. (2005) also indicate that companies have to give special consideration to the level of corruption in host country while deciding upon the entry strategy and for that they define the corruption as the “abuse of public power for private use”. They further explain that it is essential for SMEs to understand the nature of corruption in the host country as it can differ largely from the nature in the home country of the SMEs. Rodriguez, et al. (2005) It is also important to have an understanding of the likelihood of encountering corruption in dealing with state officials and inherent degree of ambiguity in the corrupt transactions in a given country and both kinds of the corruption are on high level in Russia.

Broadman (2000) did a comprehensive research on corruption in Russian market and its comparison with other East European states and concluded that almost all firms pay bribes in Russia to custom clearance officers, local tax inspectors and the bureaucrats in order to survive in Russia and carry out smooth daily operations. Broadman (2000) also stated one more fact that often SMEs have to pay the mafia also in order to survive in Russian market which is an alarming situation. While comparing Russia to Poland, Broadman (2000) indicated that it takes four times more to establish an enterprise in Russia as compared to Poland and also that foreign enterprises are paid almost double inspections in Russia as compared to its other counter parts in Eastern Europe like Poland.

3.2. Entry Modes

Johnson, et al. (2008) define strategy as a long term direction and scope of an organization which provides it with competitive advantages through its configuration of competences and resources. Companies have to form comprehensive and clear strategies in order to satisfy customers’ needs and wants and to adapt to the needs and demands and to the ever-changing external environment. After the international enterprises have formed such strategy then comes the time to take strategic decisions in order to implement the strategy and such strategic decisions include entering into a new international market (Johnson, et al., 2008).

Jansson (2007) defines entry strategy as “How firms get access to new customer in new geographic markets by marketing their products there”. According to Johnson, et al. (2008), a
market entry strategy consists of an entry mode and a marketing plan. First companies have to make the choice that which market to enter and once it is done then they have another strategic choice to consider i.e. choosing how to enter that market or in simple words company needs to form an entry strategy.

Jansson (2007) states that firms enter into international market either through intermediaries such as agents and distributors or through a own representative in the foreign country, mainly a subsidiary. These represent various entry modes like exporting, FDI or joint ventures. According to Johnson, et al. (2008) entry modes vary in level of resource investment taking into consideration the firm’s involvement and commitment to the foreign market. It is also important to note that the decision of entry modes often depends upon the degree of internationalization of the firm and it is also dependent on the organizational development. Jansson (2007) indicates that the process of internationalization is a process where firms gradually increase their commitment to the market after they gain knowledge of the market and gain the capabilities to serve the market better. Such strategy shows the stages of the internationalization where companies enter in a market through exporting as an entry mode and then they strive to get the knowledge about the local market and its dynamics without investing heavily in assets. As the companies gain the knowledge and experience of the market, they can gradually expand the scope of the activities in the market by joint ventures and finally by FDIs if they consider the market to be attractive enough for the investment (Jansson, 2007; Johnson, et al., 2008)

Johnson, et al. (2008) indicate in their research that the main entry modes into a foreign market are exporting (direct and indirect), licensing & franchising, joint ventures and foreign direct investment if the firm considers the market attractive enough and have a high commitment to the market.

Kouznetsov (2009) indicates the factors that influence the choice of mode of entry in market include the market attractiveness as whole, political and economic risks, condition of infrastructure and the rate of return on investment.
Zhan (1999) claims in his research that different modes of entry vary from country to country and it depends mainly on the risks and return expected from the investment in international operations. Direct exporting and indirect exporting are the main entry modes but contain payment risks, foreign exchange costs, lesser control on the market and slow increase in the market share. Whereas joint ventures offer greater control over the market, pricing and distribution of the products but on the same hand they require heavy investment and active participation in management and operations. It is also like to happen that in Joint ventures, profits are realized after quite a long time. On the other hands FDI offers a total control of the operations and sales and marketing functions but needs even much more higher investments that are often not available to SMEs. So the international firms have to consider all these factors in order to adopt a suitable and more appropriate entry mode. (Zhan, 1999)

3.2.1. Exporting

Exporting whether it is direct exporting or indirect exporting is the most common mode of entry for SMEs into foreign market. Export is a mode of entry where company does not have any ownership of operations and exporter has the lesser control on the market and its activities as all the tasks are done by an agent or a sales company and only products are produced in the host country (Kumar and Subramaniam, 1997). Exporting for a firm can either be direct or indirect depending upon the mode of entry and flow of transactions between exporter and importer or buyer.

Zhan (1999) and Albaum and Duerr (2008) indicate that in direct exporting the manufacturer (or exporter) sells directly to a foreign customer without using any kind of intermediary. It can be done through the contacts in head office or export department of the firm directly to the customer in the importing country. Jansson (2007) state that in direct exporting, foreign enterprises can get the information about the market and customers’ needs and wants directly from the customer and can make its products tailor made as per the requirements of the customers and can have a better and more strong relationship with the customer (importer).

While discussing about indirect exporting, Czinkota, et al. (2004) states that if an enterprise does not have the capital, personnel or resources to engage in the direct exporting process, then it can export its products via an intermediary in the form of agent, distributor or any other trading house or firm. Jansson (2007) notice that in case of indirect exporting, exporter
cannot get information directly from the customer or market rather it has to depend on the agent or distributor to get the information of market dynamics and customers’ needs. All the information passes through the intermediary to the exporter or customers. In this case sometimes intermediary can take benefit of the situation while not transferring the complete knowledge and information to the exporter regarding the customers’ needs and wants and consequently company can lose the market share in that specific market (Jansson, 2007).

3.2.1.1. Political and legal factors

When international enterprises enter into a market with the entry mode of exporting, they can face problems due to political or legal factors. For example companies may find high tariffs and import duties that can increase to the cost and make the products of the exporting company more expensive. Exporting firms also face problems in custom clearance, import duties and transportation of the products to the agent or distributor which can delay the delivery of the products to the customers. In indirect exporting, normally the importing intermediary or distributor takes care of the custom clearance and import duties etc as he/she may be well versed with the procedure of the host country. (Johnson, et al., 2008; Zhan, 1999) Zhan (1999) also noticed that some times countries or the political leadership can impose special taxes or duties on specific products in order to make the industries of their choice more profitable or to capture more market share. These practices are very often in developing countries especially like China and Russia where government can manipulate in order to safeguard their domestic industries or to get some other benefits.

3.2.1.2. Economic factors

Johnson, et. al (2008) state that exporting is the simplest and form of entering into a foreign market and it carries the lowest level of risks and companies do not have to invest in the operational activities and companies can achieve economies of scale by producing more and exporting to the foreign markets. Czinkota (2004) also indicate that indirect exporting carries even low risks and resource commitment as compared to the direct exporting. Moreover, as normally intermediary in form of agent or distributor takes the care of the activities in host market, so exporting company can more focus on manufacturing products and delivering or
exporting them on time to the agent so that company can work toward achieving the economy of scale (Zhan, 1999)

Lasserre (2007) in his research made a very important point that when direct investment in the new market is not justified or too risky, then companies can enter the market through exporting in order to have better understand of the market. It is especially very important in case of SMEs as they have limited resources and cannot invest directly into a market. Zhan (1999) agrees by pointing out towards one mare point that if a company does not want to be involved too much in the foreign market in the beginning then indirect exporting is the optimal strategy for them to enter into the foreign market.

Establishing a relationship by direct exporting is a challenging task as in this case companies have to get the information about the market themselves and very careful and often SMEs don’t have such kind of information on the foreign markets because they have limited resources to invest into the foreign market. Direct exporting has one more drawback, that exporter cannot get benefited by the advantages offered by the local market. (Johnson, et al., 2008; Lasserre, 2007; Zhan, 1999)

To overcome this drawback of lack of information and knowledge of the foreign market, companies can export through intermediaries such as agents or distributors in order to get advantage from their expertise on the market. They can be helpful in getting the information about the target market, general business practices and level of competition the local market. (Czinkota, et al., 2004)

While discussing about the network operations and relations, Czinkota, et al. (2004) state that in direct exporting, company has to find the customers itself which can be a difficult and time consuming task. It is especially challenging in order to find reliable buyers in emerging countries. In the similar context Bradley (2002) notices that cost of find potential buyers is significantly higher in case of direct exporting. Whereas in indirect exporting, intermediaries like agent or distributor takes care of the operations in local market and establish and manage relationships. They are also helpful as they provide the after-sales services to the customers.
and can communicate to them better and on time. Moreover, they can better negotiate with the customers because of the reason that they know the language and culture of the local market and can help to reduce risks that foreign enterprises face in getting the payment from customers. Moreover, export intermediaries are of great benefit for the exporting companies as they are present in the local market and can find and identify new customers and provide a better distribution network that can be very helpful for SMEs. (Czinkota, et al., 2004; Zhan, 1999; Jansson, 2007 and Johnson, 2008)

Zhan (1999) argue that it is of utmost importance for the exporting company to choose the right distributor because the distributor is the one who represents company in the local market and is responsible for the marketing and other activities. It is also important for the exporting firm that they control the pricing of the distributor or agent in order to stay competitive in the market and they don’t lose market share on the basis of higher prices. (Zhan, 1999)

In the similar context when companies use indirect exporting, they can be dependent on the intermediary as all the information is got through intermediary and sometimes intermediary can take benefit of this dependence. If the exporting company is too much dependent on the agent or distributor, they may lose control as all the information of the market and competition channels through agent or distributor (Johnson et al., 2008). Whereas in this context, direct exporting allows a company to have a better and stronger control on the activities, distribution, pricing and marketing of the products and it can bring higher margins as there are no intermediaries involved (Zhan, 1999).

3.3. Network Relationships

As we know, there are two types of entry nodes which are the dyadic and the triadic. The dyadic entry node consist to locate directly the company in the foreign market, while the triadic entry nodes use an intermediary on the market through , a subsidiary, a distributor, a joint venture, or even a customer. There are several reasons taken into account in the choice
of entry strategy but the main one is the environment. In both, dyadic and triadic entry nodes the relationship is crucial to succeed the entry strategy of the SME.

### 3.3.1. The importance of the network relationship in the SMEs (the knowledge)

In a first part, we are going to develop the importance of the network for the SMEs. To succeed the internationalization process, the international business knowledge is not enough, it’s also necessary to collect knowledge about the targeted country (Barkema et al., 1996). Indeed, the environment could be very different from one country to another. Meyer & Shak (2002) distinguished the formal knowledge which could be collected directly through research or reports and the experiential knowledge which is more tacit knowledge and is learnt through doing business in the country. Obviously, it’s this latter knowledge which is the more difficult to get and hence the more important in the entry process.

The formal knowledge can be easily collected by the firm itself but concerning the experiential knowledge the task is tougher. Indeed, the SMEs don’t have the necessary resources to localize abroad and to develop their experiential knowledge thus they have to use their network (Meyer & Shak, 2002).

This network could be inside their origin country with companies that already have experience in the targeted market and hence can help the SMEs in the entry process in sharing it. But the network can also be abroad thus the SMEs use the knowledge of the actors directly present in the market. This kind of network is very useful for the SMEs because of the deep knowledge of the country culture and hence the way of doing business there (Jansson, 2007: 156).

In Russia, the environment is very different than in Sweden. Thus, the knowledge of the market is crucial in the entry process. As seen above, there are mainly two ways to collect specific-country knowledge, though the business network at “home” or abroad (Meyer & Shak, 2002).

In Russia, the SMEs have to cope with the difference of culture which involves a problem to build a network relationship.
3.3.2. The particularity of the network relationship in Russia, Blat

To understand the particularity of the network relationship in Russia, it’s necessary to explain the Blat. The notion of Blat describes the particular role of the social network in Russia. During the Soviet Union Blat was an important part of people’s everyday life (Jansson, 2007). At this time the blat was defined by the exchange of favor in order to obtain advantages. Blat is a particular form of exchange even different to the swapping (Ledeneva, 1998).

The trust is crucial in the blat relationship. Indeed blat tends to be repetitive, a services imply another one back. It can be seen as a balance which is never stable.

3.3.3. Main Characteristics of Russian Blat

Concerning the network relationship, the Blat has also an influence at the personal level. To do business in Russia it’s necessary to know the particularities of the relationship in order to improve the communication with the intermediaries or the customers.

The trust is the crucial notion in the Russian culture. With the transition of the economy, the environment became more uncertain and the financial sector got unstable (Gurkov, 1996). As result, the importance of the trust and honesty increased, it is started to be impossible to establish relationship without them (Johanson, 2008).

The trust is mutual, the trustworthiness of one partner implied the one of the other. However, this mutuality is long to establish because of the high degree of suspicious in the beginning of the relationship (Jansson, 2007). This is result from the experience of the Russian especially concerning the foreign firm, the Russian use to deal with the same company only for several years and then they set up in another country (Michailova & Worm, 2003).

Some authors divided the trust in two distinctive forms, the cognitive form and the emotional form. The emotional trust concerns the trust based on the emotional contacts, the friends, the family, while the cognitive form refers to the choice to trust someone due to certain conditions that prove is reliability. In Russia, it is the emotional trust which is the more common. The trust based on the emotion occurs easily and then, it may develop into a cognitively-based trust (Michailova & Worm, 2003).
The lack of trust into the organizations and formal laws (Johanson, 2008) as well as the long experience of cheating in the relationship (Michailova & Worm, 2003) causes a difficulty for the Russian people to grant their trust. Hence, the Russians like to develop close and long term relationship. The purpose of the relationship is to share norms, rules and also a specific language, it’s only through a long cooperation that it’s possible to build this common understanding. This implies a real investment and serious commitment in this relationship for both partners, as result the cooperation has to be sustained over a long period (Michailova & Worm, 2003).

Moreover in the Blat relationship, the Russians don’t expect an immediate return of the favors, on the contrary many people prefer a time lag. They prefer to receive the favor back when they will really need it which implies a long-term relationship.

3.3.4. The new Blat

With the transition to a market economy the Blat lost is emotional and human face and became more materialistic (Jansson, 2007). The Blat gift changed the form; the money replaced the chocolates and perfumes and then the corruption took a bigger part in the society. However a new generation of Russians, influenced by the Western culture, denigrates more and more the Blat which has been perceived negatively and refuses to submit to it (Michailova & Worm, 2003). The transition to the market economy also involved market imperfections which increased the importance of the network in the business.

3.4. Synthesis

THE MAIN CHALLENGES

The challenges of the Russian market concern the political, the legal and the economic system.

- The political system:

According to Broadman, the political system is mainly characterized by institutional and administrative barriers that the companies abroad have to cope in order to enter in the market. Thus, this protectionist policy constitutes an important barrier.
The uncertainty of the political system can be a problematic factor as well for the companies. Indeed, the decision to go abroad imply a long term investment for the SMEs hence a non stable political environment is a decisive factor.

- **The legal system**

Kouznetsov (2009) indicates that the legal system is under developed and not very transparent in Russia. Thus, the SMEs have to cope with the changing legislation but also with the lack of information of the Russian market. Kouznetsov (2009) also states that the bureaucracy is the main problem in the legal as well as the political system.

- **Economic Condition**

Russia is still an emerging country which means that it is still in a transition phase to the market economy. Thus, Russia is still late in some points especially the banking system. However, the Russian government is making lot of effort to improve the economy through the transportation system, the communication with the outside world or in changing the banking system. According to BMI the GDP should growth in the coming years.

- **The corruption**

Rodriguez et al. (2005) states in their research that corruption is the main reason that the companies show reluctant to enter in Russia. They explained that the corruption is an overall phenomenon in Russia, in the political system as well as in the legal system. Broadman (2000) highlights the importance of the bribery in the daily operations for the SMEs. They have to pay the mafia in order to survive in the Russian market.

**THE ENTRY MODE**

Jansson (2007) distinguishes two ways of entry in a international market either directly in set up itself mostly a subsidiary or through an intermediary such as agent or distributors. These ways are divided in different entry modes which are exporting, FDI or joint venture.
The choice of entry mode depends on different factors as the political and economical risk, the infrastructures or the return expected from the investment (Kouznetsov (2009), Zhan (1999)).

The export entry mode is particularly adapted to the limited resources of the SMEs. Exporting from a SME is either direct with a subsidiary or indirect through an agent or a distributor. Obviously, the main difference between these two ways of exporting is the commitment of the enterprise in the market. Thus, in direct exporting the foreign enterprise can get information about the market directly from the customers while in indirect exporting the enterprise is highly dependent on the agent. (Jansson (2007))

However, Czinkota (2004) points out the low risk and resources commitment that imply the indirect exporting as compared to the direct exporting.

Compared to other entry modes, the exports are also greatly faces to the legal and political barriers as high tariffs, import duties or even specific taxes on specific products.

**THE NETWORK RELATIONSHIPS**

Considering the specificity of the Russian market, the data collection about the market and the customers is crucial for the foreign enterprises. According to Meyer & Shak (2002) there are two different ways to collect specific country knowledge either from consulting, business network at “home” or from the business network abroad as agent or distributor. Meyer & Shak (2002) also distinguishes the formal knowledge to the experiential knowledge. The first one can be easily collected while the experiential knowledge is more relevant however it requires a direct presence on the market.

The collection of experiential knowledge is a tough task in Russia because of the particularities of the network relationship or Blat. Indeed, compared to the Western Europe culture the trust is a central notion in Russia. Hence, the relationship tends to be close and on long term (Jansson, 2007).
Since the end of the Soviet Union, the Russian relationship evolved and became more and more materialistic Jansson (2007). The obvious example concerns the “Blat gifts”; the corruption has gradually replaced the traditional exchange of favors in Russia.
Thesis for Master Program in “Growth through innovation and international marketing”
CHAPTER – 4: EMPIRICAL DATA

This part presents the empirical investigation that authors have conducted in order to answer research question. Results of the semi-structured interviews have been presented in this part in order to give the reader point of view of interviewees from Swedish SMEs.

4.1 Norden Machinery AB

4.1.1 Company presentation
The core business of Norden Machinery is the tube filling system manufacturing. The company is located in Kalmar, Sweden. Norden Machinery utilizes advanced technology and it wants to be a global company maintaining a local presence at the same time. Additionally, the company is proud to supply top-quality products and to follow its customers with a first-grade service. The company has sold more than 8,000 systems worldwide and there are more than 5,000 machines still in use today. Norden Machinery is the world’s leading manufacturer of tube filling and tube handling systems. As we stated above the company offers high quality products and services and it is the number one as tube filling System Company in the world. The mile stones to maintain this position are extensive research and technology with the Norden Machinery brand name. Norden Machinery is proud to have a global presence and to maintain at the same time a local presence that is fundamental to sustain relationships between its agents, distributors, subsidiaries and most importantly, its customers.

4.1.2 Business concept
Norden Machinery is focused on the tube filling and tube handling industry with most of its output supplied to this market. Its equipment is designed for all capacities, market segments and with a high degree of customization to satisfy all applications. It has become specialists in building tube filling machinery with more experience and expertise than any of its competitors. Norden Machinery works with the Swedish culture and values, thus it listens
carefully at the requests of the customers and responds quickly. Importance is given to partnership through close cooperation and reactivity to the customer needs. The global reach and local presence let Norden Machinery to give the support needed at its customers.

The vision of Norden Machinery is to be the world leading supplier of tube filling systems. The strategy applied to reach the vision is made up through packaging machinery for collapsible tubes that work at all speed, for all segments and at the highest quality, local presence globally, very broad market coverage, focus on key customers, highest service level and responsiveness, focus on R&D, benefit from the packaging knowledge, Modern process oriented quality system in conjunction with outstanding workmanship.

Interview with the representatives of Norden Machinery

<table>
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<tr>
<th>Company’s name</th>
<th>Norden Machinery</th>
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<tr>
<td>Location</td>
<td>Kalmar, Sweden</td>
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<tr>
<td>Field of business</td>
<td>Tube filling systems</td>
</tr>
<tr>
<td>Interviewee’s name</td>
<td>Lars Hammarstedt</td>
</tr>
<tr>
<td>Interviewee’s designation</td>
<td>Marketing director</td>
</tr>
<tr>
<td>Year of entry into Russia</td>
<td>Around 1960</td>
</tr>
<tr>
<td>Interview date</td>
<td>May 05, 2011</td>
</tr>
<tr>
<td>Interview place</td>
<td>Norden Machinery Head office, Kalmar, Sweden</td>
</tr>
</tbody>
</table>

Authors made the interview on the 2011-May-05 in Norden Machinery Head office located in Kalmar. The interviewers met one person, Lars Hammarstedt who is the marketing director for the markets of United Kingdom and Russia. The length of the interview was 41 minutes and the whole interview was audio recorded and then transcript on a paper. For Norden machinery the interview has been shorter than the other interviews because Lars Hammarstedt was occupied in the organization of an exposition for the sequent week. Thus, some questions have not been made and the focus has been pointed only on the most important questions for the topic of the thesis.
4.2. Arenco

4.2.1 Company presentation
Arenco – company presentation: Arenco AB is an engineering company that was founded in 1877 and it designs and manufactures match machinery. It also produces solutions for the products that need high-speed packaging, handling and transportation. Arenco is also involved in producing the machinery for pelagic fish processing. Arenco supplies good quality and state of the art machinery to all over the world from its three main locations in Sweden i.e. Kalmar, Sweden and Halmstad. Arenco also provides highly quality components for match machinery and fish processing machinery from Shanghai, China on very competitive rates.

4.2.2. Business concept
Arenco's business concept is to design, develop, market and deliver efficient and high quality machines for packaging, fish processing and match making. It also offers complete production lines for packaging, fish processing and match making almost all over the world. Arenco also manufactures and delivers the spare parts and raw material for match making industry through its different locations. Competitiveness of Arenco is based on its long history of experience in match machinery, strong market position, excellent knowledge of the machinery, market and customers and an effective and cost efficient supply chain of having production resources in Sweden and China.

Arenco's vision is to become the world leader in the match making and other markets that it serves or cater to through customer oriented market experience and operational excellence.

A brief description of Arenco’s activities on above mentioned places is given as below:

**Arenco AB, Kalmar, Sweden**
Arenco’s head office is situated in Kalmar, Sweden and it is responsible for design, development and sales of the machinery. An assembly plant for the machinery is also located at Kalmar. The match-industry business in looked after from the Arenco’s office in Kalmar.
Arenco offers the complete range of products for match-machinery. It offers match machinery, raw material for match industry and a wide range of sales and services activities. Arenco can be classified as world leader in the match industry because it has more than 100 years of experience and it has the ability to design the whole tailored-made factories for match production and with the passage of time, machinery is being improved constantly to increase the efficiency and profitability.

**Arenco AB, Gothenburg, Sweden**

VMK brand which is one of the world’s most famous fish processing lines, is owned and manufactured by Arenco AB. It provides the whole range of machinery for processing of “pelagic fish, such as sprats, anchovy, kilka, herring, mackerel, horse mackerel, blue whiting and similar fish.. The company also manufactures reliable filleting machines for single or butterfly fillets, and special skinning machines for both herring and horse mackerel inline with the filleting unit”. ([http://www.arenco.com/website1/1.0.1.0/14/1/ dated May 11, 2011 at 12:52](http://www.arenco.com/website1/1.0.1.0/14/1/ dated May 11, 2011 at 12:52)).

Head office of VMK is situated in Gothenburg which is a central location for the fishing centers in Scandinavia and to the rest of the world.

**Shanghai Arenco Machinery Co., Ltd, Shanghai, P.R. China**

Shanghai Arenco is situated in the Pudong (new industrial zone in Shanghai) and has a 10000 square meters of factory area where high quality parts and components are produced for machinery. Shanghai Arenco is responsible for the design, manufacturing and delivering of parts and components for the match, fish processing and packaging machinery. It also have has sales office in China that caters to the Chinese market and supplies components and parts to the Chinese customers who are currently using Arenco’s machinery for matching and fish processing. (Arenco, 2011)

Interview with ARENCO’s representatives:
Authors made the interview on May 06, 2011 in ARENCO head office located in Kalmar. There were two people from Arenco who participated in the interview. Jan Kaldner is Sales Manager and mainly deals with “Match machinery” where as Helene Håkansson is Area sales manager. Both take care of the export sales as well and both of them are responsible for sales in Russia as well. The interview lasted for 44 minutes and the whole interview was audio recorded with the consent of both interviewees. During the interview, Jan Kaldner was more active as he is responsible for field sales in Russia and Helene Håkansson helped him in the interview as well as she is responsible for assisting him in carrying out the sales activities.

4.3 Rottne Industri AB

In 1955, a Swedish farmer’s son Borje Karlsson set up the company Borjes Mekaniskas at a small workshop on the outskirts of Rottne, a town situated in the South of Sweden. At this time, the product selling was wire loaders, wagons, timber sledges, folding load support for truck, ect.( Rottne Product catalogue, 2010)

Nowadays, Rottne AB is one of the leading manufacturer of logging machinery and they employee 235 employees. They develop and manufacture a wide range of forwarders and harvesters covering everything from first thinning to clear felling (http://www.rottne.com/uk/).
Rottné Industri AB has an annual turnover of about 360 million SEK and possess three locations in Sweden and 15 retailers worldwide and 11 in Sweden. (Rottné Product catalogue, 2010)

The main office is situated in Rottné, there takes place the sales department, the product design, manufacturing, spare part warehousing, service and training programs. Rottné Industry AB possesses also two factories located in Lenhodva and Stensele. (http://www.rottne.com/uk/)

Rottné is actually in the fourth position in the logging machinery, behind respectively John Deere, Komatsu Forest and Cancy. There is still a big difference between the leader, John Deere that produce 13,000 of machines per years, and Rottné that produce 2000 machines per years.

The particularity of Rottné is their flexibility along the value chain. They are not only producing machines but also developing and assembling, as result they have a high percentage of own product part. Rottné success is also based on the innovation; they survived to the difficult times by coming out new machines.

<table>
<thead>
<tr>
<th>Company’s name</th>
<th>Rottné Industri AB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Rottné, Lenhovda, Stensele</td>
</tr>
<tr>
<td>Area of business</td>
<td>Europe, North America and Australia</td>
</tr>
<tr>
<td>Interviewee’s name</td>
<td>Roland Axelsson</td>
</tr>
<tr>
<td>Interviewee’s position</td>
<td>Production/Sales Support</td>
</tr>
<tr>
<td>Year of activity expansion to Russia</td>
<td>1991</td>
</tr>
<tr>
<td>Interview date</td>
<td>09/05/2011</td>
</tr>
<tr>
<td>Interview location</td>
<td>Rottné</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>235</td>
</tr>
</tbody>
</table>

Authors made the interview on May 09, 2011 at Rottné Industri AB head office located in Rottné. There were one people from Rottné who participated in the interview. Roland Axelsson is production and sales support and he takes care of the export sales of Rottné. The
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interview lasted for 1 hour 14 minutes and the whole interview was audio recorded with the consent of the interviewee.

4.4 Empirical Findings

In this section we want to display the data that we have collected during the interviews. We prepared a questionnaire in accordance with the theory illustrated in the previous chapter and we subjected the questionnaire at our interviewees.

4.4.1. Challenges

We have listed the challenges of the Russian market in a table and we asked the interviewees to rate from one to five for each challenge and the end we asked if they agree with the table and if they think that other challenges should be considered. About the last point all the interviewed have said that the table covers all the challenges that a SME has to face.

4.4.1.1 Norden Machinery AB

The next table shows the values given by Lars Hammarstedt the person that we interviewed at Norden Machinery.

<table>
<thead>
<tr>
<th>Challenges of the Russian market for your company</th>
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<tbody>
<tr>
<td>Bureaucracy, difficulties in dealing with authorities</td>
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<td>Language barrier</td>
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<td>Non-transparent and arbitrary laws</td>
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<td>High tariffs and other entry barriers</td>
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<td>Corruption</td>
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<tr>
<td>Cultural difficulties in doing business with Russians</td>
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<tr>
<td>Unstable political and economic situation</td>
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<tr>
<td>Legal and other changes which occur “overnight”</td>
<td>X</td>
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<tr>
<td>Non-reliable suppliers and buyers</td>
<td>X</td>
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</table>
The interview started about the Norden Machinery’s presence in the world of the firm and the mode used. Lars answered that Norden Machinery is present in more than 80 countries worldwide and in most of them the firm works through agents. Agents are not present in each country, in some cases as Russia, Africa and Middle East there is an agent who covers more than one country. He or she is responsible for the zone.

When it comes to the difference between Russia and Sweden the main issue regards the bureaucracy that is very difficult to understand and it also shapes the behavior of the customers. Another difference is concerning people, it is easy to deal with Russians and they are very thankful if someone helps or gives advices them. Yet, Russian customers are loyal if they buy a machine and they are satisfied they do not change brand even if they can spend less money. Technology is a little behind the level of West Europe, this constitutes an advantage for Norden Machinery because in Russia there is a great demand of technology and the firm is appreciated because of its knowledge and its willing to share it with the customers.

The challenges in the Russian market are bureaucracy, language barriers, arbitrary laws and corruption. Bureaucracy as it has been mentioned above regards a very complex system that make all the operations more difficult and longer. Lars said that when he goes to Russia he always brings some spare parts because it is easy. Yet, worldwide Norden Machinery uses DHL instead of in Russia the agent usually jumps on a plane come back to Kalmar to take the part and then he comes back in Russia.

Another challenge is made up by the language because few people speak English in Russia. This problem is avoided by Norden Machinery with the agent that is Russian. Yet, another problem regards arbitrary laws. Lars told us that they had a problem with a customers and he was thinking about the opportunity to go in front of a court, but the agent discouraged him because in Russia you can not know which will be the outcome. The last main challenge is corruption. Norden Machinery has never dealt with it, but it is clear the presence of the
corruption. Yet, Lars said that they feel they are loosing some businesses because the company is not involved in corrupted dealings.

Lars stated that cultural difficulties in doing businesses with Russian people can not be considered a challenge because it is different but not difficult.

The unstable political and economic situation and legal and other changes that occur overnight are not challenges because the former represents a situation that is not worst than in the rest of the world. The latter constitututes a situation in which there are changes but these changes are not a surprise, hence there is not the the "overnight" effect, they belong to the differences that a company has to face when it goes abroad.

Non-reliable suppliers and buyers are not a challenge. Lars said that only with one buyers they had problems but with all the others everything has always been perfect.

4.4.1.2 Arenco

In the next table it is possible to see the answers that we got by Jan Kaldner and Helene Håkansson during the interview at Arenco.

<table>
<thead>
<tr>
<th>Challenges of the Russian market for your company</th>
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<tr>
<td>Bureaucracy, difficulties in dealing with authorities</td>
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<td>Language barrier</td>
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<td>Corruption</td>
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<td>Cultural difficulties in doing business with Russians</td>
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<tr>
<td>Unstable political and economic situation</td>
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<td>Legal and other changes which occur “overnight”</td>
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<tr>
<td>Non-reliable suppliers and buyers</td>
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<tr>
<td>Other</td>
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</table>

Table 2: Arenco answers
When the interviewees were asked about the difference between doing business in Russia and Sweden, they replied it’s totally different. In Russia there is still a high level of Bureaucracy and things are very regulative. Bureaucracy is the main factor that affects the business and it is also that customs clearance is not an easy task in Russia. Import duties can vary to high ratios in very short time and sometimes it can be difficult to deal as they need exact specification of everything and even a very small mistake can lead to delayed delivery for many days. While in Sweden and Western Europe, you can do that in same day and there are no frequent changes in duties and other day to day routine matters.

When during the interview they are asked to rate the challenges and difficulties of Russian market, they said that Bureaucracy is the main challenge and difficulty in Russia to deal with. They said corruption is a problem overall but we never experienced it as our part is to deliver the machine to the customers and then they are the one to deal with customs and every thing. So we never faced it on our part but we read it in newspaper that in general there is more corruption in Russia as compared to many other countries. They also said the arbitrary laws seem to be very difficult in Russia so in our contract we have written that any legal matters will be taken in Swedish courts and we are not sure how they will act in Russia.

Arenco has overcome the language and cultural barriers in way that they have employees as their head office that are fluent in Russian and all the documents and agreements are written both in Russian and English. The employees who speak Russian are from Russia and they know the culture and business practices so this is how Arenco has overcome the language and cultural barrier. Moreover, interviewees highlighted that infrastructure is really bad in Russia and condition of roads and railways is not very good and it is difficult to transport the machinery to long distances and it takes a long time. They also pointed out that buyers in Russia are very much price oriented but it is also that they are very open and when you explain the benefits of the products in the long term, they can purchase the machinery even if it is expensive than the competition.
4.4.1.3. Rottne Industri AB

The last table concerns the answers of Roland Axelsson our contact at Rottne Industri AB.

<table>
<thead>
<tr>
<th>Challenges of the Russian market for your company</th>
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Table 3: Rottne Industri AB answers

Russia is a challenging market for Rottne which is very different from the other European market. The interviewees identified as main issue the late in term of technology and education. As seen before, there is a formation included in the price of a Rottne machines, hence an instructor go in Russia to explain how the machines works. Rottne cope to difficulties in Russia to transfer the knowledge from the instructor to the Russian operator. This process is more complicated in Russia because of their lack of technology, the operators most of time don’t have the minimum of knowledge required to understand the instructor. A significant part of the Russian customers don’t speak English also which complicates the tasks even more.

The interviewee also noticed the changing environment in Russia. According to him, you don’t know if the contracts with the customers will be still available the week after or if the rule or laws will be still the same.
Rotne has also problem to respond to the problems of the Russian customers. They don’t understand that it takes time to produce and to deliver the machines. The Russian customers want to have the machine the day after the order.

4.4.2. Entry modes

4.4.2.1. Norden Machinery AB
During the interview Lars Hammarstedt said that Norden Machinery conducts its businesses through agents. The firm has about an agent for every country in which it is present, in some parts of the world there is an agent that covers more countries. This situation happens in Russia where the agent is responsible for the Russian market as well as for Ukrainian market, Belarus market and for the all the market that belonged to the URSS. Norden Machinery AB usually does not have a direct presence in the foreign markets except for the main markets as China, United Kingdom, France and Germany where it is present with an own subsidiary.

The figure below gives an illustration about the entry mode of Norden Machinery for the Russian market.

![Diagram of Norden Machinery AB's entry mode for Russia](image)

4.4.2.2. Arenco
During the interview, Jan Kaldner gave a brief history of how they entered into the Russian market and how they operate in export market generally. ARENCO entered Russian in 1970 by selling the match machinery direct to the customers and they did not use any agent or subsidiary. Export strategy of Arenco is "direct exporting" and they are doing this in almost all the export markets in the world except Middle East where it is necessary to have an agent to do business.

The figure below gives an illustration about the entry mode of Arenco for the Russian market.

![Diagram of Arenco's entry mode for Russia](image)
4.4.2.3. Rottne Industri AB

Rottne entered in Russia in the same way that it does for the other country i.e. through a local intermediary. In Russia, Rottne worked with two companies since his entry in 1991. Since 2000, Rottne has a distributor in Russia called Forest Service in Saint-Petersburg.

The choice to have an agent in Russia and hence to proceed to a triadic entry strategy was made to adapt better to the Russian culture and to the way of doing business there.

“They (the Russian) have different culture but I think that the one who sells in Russia have to be Russian or living in Russia for longer so they know how the things are done, I don’t think we can go there and sell directly”.

The figure below gives an illustration about the entry mode of Rottne Industri AB for the Russian market.
However, this strategy is not exclusive to Russia; Rottne uses it also for the other market. Rottne doesn’t consider the Russian market as particular.

“I don’t think that the culture difficulties are bigger there than in some other parts in the world”.

**4.4.3. Network Relationship**

**4.4.3.1. The particularity of the network relationship in Russia**

*Emotional relationship Trust*

The main particularities of the Russian relationship concerns its emotional face and the importance of the trust. Lars Hammarstedt, the manager of Norden Machinery confirmed this specificity of the Russian, they don’t hesitate to show their feelings.

"If they have a problem and they are very very upset because the machine do this or the machine doesn’t do that. [...]I ask if they checked that and that, what happens if u do this. And then, they say "ohh, it works". And then they are very happy, more or less they will kiss you and go. So they show more feelings yes but its not a problem”

The manager of Norden Machinery also noticed the loyalty of the Russian customers implied by the trust in their company.

"If you sold the machine once and if you haven’t been tricking them or you don’t try to lie to them, and if you delivery on time and there isn’t surprise on the price, newt time they will buy your machine, they will not look to any other competitors”

*Short term orientation*

The short term orientation of the Russian has been met by two companies; Norden Machinery and Rottne. The manager of Rottne noticed the wish to have the product quickly, even sometimes faster than it’s possible.

“Some case yes, when you started to deal with the Russian, they want to have it yesterday...” While, Lars Hammarstedt from Norden Machinery the short term orientation concerning the management of the business but this phenomenon is not exclusive to Russia for him.
“I’m not sure if Russia is so diff becoz we see the tendency all over the world the forecast are shorter and shorter”

The new Blat
Lars Hammarstedt, the manager of Norden Machinery pointed out the importance of the money cash in doing business and also its naturalness in Russia.

"in Russia is cash still the cash. In other countries it can be some thing else but in Russia it is still cash and a lot of cash. And that’s a big difference when u compare it to other countries. You could go to Russia and you sell a machine and you ask when can we deliver and then he asks it depends when I get the down payment. How much is the down payment. Yes 30 percent of whole amount. They say ok how much is that. its 10000. So they say ok, yes, here is ur down payment. Ok and that happens on exhibition where there is a thousands of people and they just sit on the table and calculate the down payment and do that in front of people."

4.4.3.2. Management Implication

Norden Machinery AB
Concerning Norden Machinery AB, it competes in Russia through an agent. The role of this agent is to take care about the contacts with the customers and to create a connection between the firm and the client. The direct contact between Norden Machinery AB and the final buyer occurs only at the end, when it is the moment to sign the contract. The agent is from Ukraine so she is familiar with the Russian culture and she can take care about all the challenges of the Russian market. She lets Norden Machinery AB to save time with the bureaucratic system and she also helps the company to deal with the values of the Russian people.

Norden Machinery AB has adopted a policy in which at the beginning the visits to the customers were done together by Lars Hammarstedt and the agent. After the customer care in Russia is done by the agent. The relationship with the agent is enhanced through a frequent communication, training session for the agent, travelling together. Yet, Norden Machinery AB
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deals only with private own companies in which Norden Machinery AB represents the main supplier.

*Arenco*

Arenco is in a dyadic relationship with its customers in Russia as it gets information direct from the customers who use its machinery. Arenco gains information direct from its customers for example, if a customer needs some kind of customization in the machinery, then Arenco is in direct contact with the customer and cater to its needs and demands personally.

*Rottné Industri AB*

Rottné competes through a retailer in the Russian market, Forest Service. Over there, the role of the retailer is double.

The main role of Forest Service is to do sale support and distribute spare parts, more or less everything around the machine. In this task Rottné is an important collaborator because of its knowledge and its experience on the machines. Rottné is helping them, it is not directly involved but it plays a role of support.

“We are then behind him with that, helping him. As a support in a back side we are close to them”

The second role of Forest Service for Rottné is to provide information about the Russian market. They achieve this task through two ways, first directly from the knowledge of the managers and second by organizing meeting between Rottné and its Russian customers. Thus Rottné stays informed of the Russian needs and can adapt better its products to the market.

The relationship between Rottné and its Russian retailers is close and very informal. This is mostly due to the role of support of Rottné in the business of Forest Service which implies a good communication. Moreover, this close relationship is strengthened by the fact that the managers of Forest Service are Swedish. “We know them (Forest Service) and we became friends. Sometimes you’re invited to their home sometimes, because we are a small company that will be much more formal for a big company”.

The relationship between Rottné and its customers is also close mostly because of their after sale service, the instructors keep contact with their customers.
4.7. Synthesis

In this section we want to present the main results of our empirical findings. The paragraph will be divided in three sections: challenges, entry modes and network relationships.

**Challenges**

When it comes to challenges we noticed that all the three companies that we have interviewed agree that bureaucracy is one of the main challenges of the Russian market. All three stated that bureaucracy influences the import activities in Russia and so it makes things more difficult.

Another challenge on which is possible to find an agreement among the companies is non-transparent and arbitrary laws. Russia is a country where even if you have signed a contract you cannot know what will happen. This point has been highlighted by Norden Machinery AB and Arenco that said that they experienced this situation and Norden Machinery AB stated that in one occasion it gave up to go in front of the court.

The last main challenge is about high tariffs and other entry barriers and all the three firms said that is a presence of these. Especially Rottne said that the entry barriers can change very often and they give instability at the Russian environment.

Among the others challenges all the companies said that corruption is present in Russia but none of them have never dealt with it. On this point is interesting to notice that Norden Machinery AB thinks that it is loosing businesses instead of the other two companies that think this situation does not affect consistevely their businesses. Arenco said that they are in a niche market so the dimension of segment are not so big and the consequence is that the phenomenon does not touch too much it.

The attention has been pointed on the language barriers and on this point Norden Machinery Ab and Arenco said that this is not a problem because it is possible to avoid through the agent in the former case and through Russian employees who speak English in the second case. Rottne stated that many customers do not speak English and this affect the businesses of the company. Rottne suffers more this situation because it uses a Swedish company settled in Russia as agent.
Entry modes
About this point there is a big difference among the firms that we have interviewed. Norden Machinery AB and Rottne utilize an agent for their businesses whereas Arenco acts directly on the Russian market. This difference answers at the different strategies adopted by the companies, Norden Machinery AB and Rottne do their international businesses through agents, Rottne for the Russian market considers the possibility to use a second agent because of the dimensions of the Russian market. Arenco has always exported directly in the foreign markets, the unique exception is in Middle East where is not possible to do businesses without an agent.

Network relationships
Network relationship is divided in two parts: the particularity of network relationships in Russia and management implication. About the first part we had information only by Norden Machinery AB and the relevant points are that Russian people shows their emotions and feelings and they are opened to suggestions, they also are characterized by a short term planning but this issue is not so different from the rest of the world.

When it comes to the second part there is a split between Norden Machinery AB and Rottne with Arenco. The first two, as we stated above, utilize an agent and the role of this is to take care of customers. Thus, the agent is careful at the needs of the customers and he/she offers technical support to them. In the case of Arenco the relationships with customers is taken care directly by the firm. There is a direct relationships, hence there is a direct collection of the needs of the customers and a direct customization.
CHAPTER 5: ANALYSIS OF EMPIRICAL INFORMATION

In this section, authors will analyze the interviews that will help to identify the main challenges of the Russian market perceived by the interviewees, and the analysis of interviews will also make it possible to state the most common entry modes of Swedish SMEs and how Swedish SMEs maintain their relationship with the counterparts in Russia.

5.1 Challenges

In the following section we present the analysis of the challenges that are considered most important by the interviewees about Russian market.

5.1.1 Bureaucracy

Among the most prominent political and legal challenges is the “Bureaucracy”. Kouznetsov (2009) in accordance with Swedish trade council (2008) states that main problem of the political and legal system is bureaucracy. There are special bureaucratic processes that are needed to be followed in order to do business in Russia.

This was verified by our empirical findings as all the interviewees stated that the main problem of Russian market is bureaucracy and it is very difficult to deal with.

Based on the theory and our empirical findings we can state that Russia is a highly bureaucratic market and bureaucracy is present at almost every level. Bureaucratic culture makes it difficult for Swedish SMEs to operate smoothly and they find a hard time in dealing with the bureaucratic practices. It is a difficult task to get information from authorities and sometimes it is difficult to find out the exact personnel to meet in the authorities to get information. So Swedish SMEs should give special consideration to this problem before entering in the Russian market as they are not aware of dealing with bureaucratic procedures in Sweden.
5.1.2 Non transparent and arbitrary laws

In-transparent and arbitrary laws can create problems for the international firms especially for SMEs in Russia as the legal system is not very transparent. SMEs can be affected by this challenge as they have limited resources and they can become the target of the intransparent and arbitrary laws easily. There can be frequent changes made in the laws and especially on taxes and tarrif side and SMEs can’t avoid such problems as they have to deal as per the present laws that can be unexpected some times. Legal system is not transparet and decisions in courts can be changed by political or bureaucrat influences and SMEs may not know who is influencing the decision in a cetain way (Czinkota, 2004; Kouznetsove ,2009; Swedish Trade Council, 2008).

Our emprical findings are also inline with the theory as all the three interviewees stated that some times changes can occur in the laws frequently or overnight and they have to comply with that. All the three companies have stated in their agreements that in case of any dispute, matter will be taken to Swedish court as they are not sure in Russia who will influence the decision in what way.

So analyzing this situation we can state legal difficulty can be faced in the from of in-transparent and arbitrary laws and Swedish SMEs should give special consideration to this point before entering the market. We also state that our interviewed companies have dealt with this situation very well and they have stated in their agreements that any disputes will be taken to Swedish courts in order to make it sure that all the decision are clean and without anyone’s influence.

5.1.3 High tariffs and other entry barriers

The process of custom clearance can be very complicated and time consuming as Russian customs is corrupt, bureaucratic and intentionally causes delays in order to get bribes. To get clearance from customs department, all the documents have to be prepared exactly accurate and even a very small mistake can lead to a big delay in custom clearance. (Swedish trade council, 2008).

This was verified by our empirical findings as all the interviewees stated that it is extremely difficult to deal with Russian Customs as they look for every little or minute detail. Goods have to be exactly packed as per specification and if there is a very little change, goods can
get delayed in customs department for many days. All three interviewees stated that it is especially difficult in case of spare parts as sometimes agent or distributor has to fly to Sweden to get spare part and go back to Russia as it is easier than dealing with the Customs department that takes a long time and delays goods intentionally to get some bribes or favors. Hence we state that Russian customs is very complicated, bureaucratic and causes intentional delays in custom clearance process in order to get bribe or favors. So Swedish SMEs should take this in account before entering the Russian market as it can pose significant delays in the delivery of products and spare parts in time to the customers or distributors.

5.1.4. Short term orientation and Corruption

The short term orientation of the Russian can be seen at two levels. At the individual level which is more characterized by the impatience of the Russian who want to have or to do everything fast. This behavior can be seen with the delivery or the payment.

The short term orientation can also be at the company level i.e. the outlook of the company. In Russia, the short term perspective is due to the experience of economic and politic instabilities since lot of years. However, this short term vision of the Russian companies tends to spread to the other countries because of the difficult economic times that facing the world since 2008.

Rodriguez, et al. (2005) state that corruption in Russia is the main reason that SMEs and foreign enterprises show reluctance to enter Russian market and they further state that corruption is the reason that control is in hands of few people that are powerful in the political system and due to this the legal system is also in-transparent and changes in the legal and everyday procedures take place very frequently sometimes over-nightly in order to give rise to the bribery.

Our empirical findings support this as all three interviewees stated that corruption is present in Russian market but they were never affected directly by the problem of corruption. However they stated that it is prevalent in the Russian market. One interviewee stated that level of corruption is so high that purchasers even take commission on purchase of machinery in exhibitions and in front of a lot of people. Deals are done in the exhibitions halls and they don’t hesitate to do it in front of public and all the deals are done in cash.

Analyzing this situation, we state that corruption is prevalent in the Russian business culture; our case companies never experienced it because all the operations on Russian side are done
by the customer or distributor and this is how our case companies have avoided to be involved in the corrupt transactions.

5.2. Entry mode

Johnson, et al. (2008) indicate that the main entry modes into a foreign market are exporting (direct and indirect), licensing & franchising, joint ventures and foreign direct investment if the firm considers the market attractive enough and have a high commitment to the market. Kouznetsov (2009) indicates the factors that influence the choice of mode of entry in market include the market attractiveness as a whole, political and economic risk, condition of infrastructure and the rate of return on investment.

Exporting whether it is direct exporting or indirect exporting; is the most common mode of entry for SMEs into foreign market. Exporting is a mode of entry where company does not have any ownership of operations and exporter has the lesser control on the market and its activities as all the tasks are done by an agent or a sales company and only products are produced in the host country (Kumar and Subramaniam, 1997).

Our empirical findings also comply with the theory as all the firms that were interviewed by us, entered the Russian market through exporting. Two of them (Norden Machinery & Rottne AB) entered the market with indirect exporting having a distributor in the Russian market where is one firm (Arenco) exports directly the customers in Russia.

Our analysis of the entry mode is that exporting is the most common entry mode chosen by Swedish SMEs to enter into Russian market. By choosing this entry mode firms can deal with challenges of Russian market more effectively as all the operations on the Russian side are carried out by customers or distributors and SMEs can focus on production and delivery of the products whereas customer or distributor can take care of all the challenges like bureaucracy, dealing with customs department and other laws and taxes. Agents or distributors can better deal with the corruption as they are aware of the business practices and can deal with those challenges better than the Swedish SMEs. So exporting is the best possible entry mode for the Swedish SMEs to enter into Russian market.
5.3. Network Relationship

5.3.1. The particularity of the network relationship in Russia

Network relationship plays very important role for SMEs in order to operate in Russian market. SMEs can take benefit of the relationships and network of the intermediary to effectively market its products and services in the local market. It is also very important due to the reason that all the information is got through intermediary and SMEs need to have very strong relationships with the intermediary in order to know better about the needs and demands of the Russian customers. SMEs also need to invest in the relationship in order to show more commitment to the market and in the relationship in order to get fruitful results that are mutually beneficial for SMEs and intermediaries and also to increase experiential knowledge of the companies. (Jansson, 2007)

The trust is the crucial notion in the Russian culture. With the transition of the economy, the environment became more uncertain and the financial sector got unstable (Gurkov, 1996). As result, the importance of the trust and honesty increased, it became impossible to establish relationship without them (Johanson, 2008). The lack of trust into the organizations and formal laws (Johanson, 2008) as well as the long experience of cheating in the relationship (Michailova & Worm, 2003) causes a difficulty for the Russian people to grant their trust. Hence, the Russians like to develop close and long term relationship. The purpose of the relationship is to share norms, rules and also a specific language; it’s only through a long cooperation that it’s possible to build this common understanding. This implies a real investment and serious commitment in this relationship for both partners, as result the cooperation has to be sustained over a long period (Michailova & Worm, 2003).

Our empirical finding are also inline with this theory as all the interviewees stated that Russians are more friendly than other western Europeans and once if you build trust with them and provide the products according to agreement, then they tend to work with the companies for long term even if the company provides the products more expensive than competition. They do not switch to other suppliers if the products are of good quality and up to the standard stated in agreement.
So while making the analysis we state network relationships are very important in order to have a better understanding of the market. It is of utmost importance to create trust between the company and the customer or distributor as once you build the trust in relationship, then Russian customer or distributor will tie strong bond with the company and will try to do business for long term.

5.4 Synthesis of Analysis:

On the basis of above mentioned analysis, authors present the summary of analysis as below:

5.4.1. Main challenges of the Russian market

Political and legal challenges

Among the most prominent political and legal challenges is the “Bureaucracy and corruption”. Swedish SMEs find it particularly difficult to deal with the bureaucratic culture as due to these firms rely don’t know who is the concerned person in the authorities and to whom they have to meet in order to get the specific information and certifications etc. High import tariffs and customs duties are also a big problem faces by SMEs. Customs can take especially long times to release the goods and that can make the delivery slow. Custom officials can hold the products for longer times in order to get some bribe that results in the slow delivery of the products to the customers. Unstable political and government situation is also a problem because international enterprises can really predict about the future planning due to the unstable political situation. In-transparent and arbitrary laws are also a big challenge because if the companies go into litigation on some matters, then Swedish SMEs will find it hard to know how is influencing the decision in a specific direction. This is the matter that Swedish SMEs write in their agreements that all the disputes will be taken into either Swedish courts or in West European courts so that they know that legal process is clean and judgment is made on merit and not on any kind of political or social influence.
Economic challenges

Most prominent economic challenge is the unstable and unpredictable economic situation. Although economy is emerging at the moment and economic conditions are getting better but still the economic situation is unstable and unpredictable enough for a continuing investment in Russia. It is also difficult to assess the financial risks as very limited amount of information is available about the economy and industry. This makes it difficult for international SMEs to forecast because the amount of information available is not enough to make the forecasts. Another economic challenge faced by Swedish SMEs is the currency risk. Although in Russia all the dealing is done in Euros, but still sometimes it can be difficult to have enough funds and moreover it makes Swedish products expensive as now days Swedish Krona is much stronger as compared to Euro and Russian buyers feel it more expensive to buy the products due to this currency exchange situation. Swedish SMEs also find it difficult in the beginning to find a reliable supplier or buyer but it is also the fact that once they have done the business for few times, and then Russian counter parts are more loyal and friendly as compared to other Western European counterparts. Poor infrastructure e.g. bad conditions of roads and railways; is also a challenge because on time delivery is mainly dependent on thesis two modes o transportation. It has also be highlighted in the empirical investigation that Russians are behind in technology and communication as compared to Western Europe and this can also be a challenge especially for the SMEs who are offering high tech products to the Russian market.

Social challenges

Foremost social problem for Swedish SMEs in Russia is the language barrier as very few businessmen can speak good English and often Swedish SMEs have to use interpreter to talk to the customers which is mainly the distributor or agent of the company. As Swedish SMEs lack the fluency of language in Russian, so they have to rely on the distributor or agent to serve as a translator if and when necessary. It is also hard to find a reliable buyers or supplier in Russia in the beginning but once business has been done with Russian counterparts then they tend to be loyal to the company and maintain a long term and mutually beneficial
relationship. Another social challenge faced by Swedish SMEs is the short term orientation of the Russian business partners. Russian enterprises do not tend to plan for long term where as Swedish enterprises plan for long term and sometimes this difference of approach can bring difference of interest between two parties. There are few cultural differences as well that pose challenge for the Swedish SMEs to take care of them in order to market their products successfully in the market. There is difference of attitude towards work, learning of new knowledge and skills and hierarchical styles that need to be addressed in order to perform well in the Russian market.

**Corruption**

Corruption has deep roots in Russian business environment and presents different kinds of challenges for the enterprises wishing to enter Russian market. Corruption makes it possible to limit the power to few very powerful hands that are powerful politically as well. Bribery and corruption takes place on daily basis and SMEs have to deal with this problem in order to get necessary certificates and licensing. Due to the in-transparent legal system, the decision in the courts can be changed by exercising political influence or sometimes in exchange of favors or bribing. Previous researches also state that there is high level of corruption prevalent in state officials and often Swedish SMEs find it difficult to deal with this because it makes it hard to find out exactly whom to meet in order to get a specific information or approval for a certificate or license. The same was found out in the empirical investigation as well because few interviewees stated that corrupt transactions do take place in the selling or purchase of machinery and international SMEs sometimes cannot avoid such transactions in order to operate in the Russian market.

**5.4.2. Entry Mode**

Common mode of entry into Russian market by Swedish SMEs is indirect exporting. Swedish SMEs involve an intermediary while serving to the Russian market. There are several advantages of the indirect exporting which make it the easy choice of Swedish SMEs to enter Russian market. For example, it is easy to find potential customers because the intermediary operates in the local market and knows the market well. It is also less risky to serve the
market through a distributor or agent because company can use distribution and marketing network of the distributor and does not have to invest in these things. It is also low risk entry because international enterprises do not need a lot of investment to make as distributor takes care of all the issues and distribution. This mode is also preferable due to the reason that language barrier is removed as intermediary makes all the communication with customers and on local level. It also brings another advantage for the SMEs that they don’t have to deal with the customs and high tariffs and intermediary deals with all these issues as intermediary is often well versed to deal with customs and local officers due to the reason that it is present locally and know the business culture of the market.

5.4.3. Network Relationship

Network relationship plays very important role for SMEs in order to operate in Russian market. SMEs can take benefit of the relationships and network of the intermediary to effectively market its products and services in the local market. It is also very important due to the reason that all the information is got through intermediary and SMEs need to have very strong relationships with the intermediary in order to know better about the needs and demands of the Russian customers. SMEs also need to invest in the relationship in order to show more commitment to the market and in the relationship in order to get fruitful results that are mutually beneficial for SMEs and intermediaries and also to increase experiential knowledge of the companies.
CONCLUSION

In this chapter we will conclude the main findings of our research. The purpose of this conclusion is to answer our research question.

The present research study has shown that majority of the Swedish SMEs enter the Russian market exporting both direct and indirect exporting. All three organizations that were interviewed by authors entered the Russian market through exporting. Two of them used indirect exporting as their strategy to enter the Russian market through agents and one used direct exporting as its entry strategy to enter into Russian market. Choice of agents or distributors make the companies limited to manufacturing of the products and exporting it to Russia but it is of less risk to the SMEs because while choosing the agents or distributors, they don’t have to deal in the local market which is very much different from the Swedish market. Especially they don’t have to deal with the customs department and they can avoid the bureaucratic culture as it is the responsibility of the agent or distributor to deal with all the matters in the local market. It also helps in overcoming the language and communication barriers as agent is responsible of all the communication to be done in the market and it is the responsibility of the agent to get all the market information and pass it on to the SMEs in order to make the products and services more better and according to the needs and demands of customers.

The choice of these entry modes is largely affected by the challenges of the Russian market that it poses to the international SMEs. As SMEs have limited resources to invest in the markets, so they choose agents and distributors to target the Russian market. The biggest challenge for the Swedish SMEs in Russia is to deal with the Bureaucracy and they tend to cope with this challenge by entering into the market through an agent or distributor. Bureaucracy is characterized by the Swedish SMEs the biggest challenge to cope with as in Sweden there is almost no bureaucratic culture hence they found it difficult to handle in Russia as they are not familiar with how to handle it. Bureaucracy also makes it difficult to get the licensing and certificates that are very easy to get in Sweden. It is also difficult to
handle as normally it is not easy to find and meet the relevant person who is exactly responsible for the task.

Another big challenge is unstable political and legal conditions. Laws can change frequently and sometimes changes can occur overnight. It is also a challenge as rules for industry or companies can change with the change of the political leaderships. Underdeveloped legal system poses a challenge as in case of litigation, Swedish SMEs are often not aware what would be the result of the litigation and who will be influencing that decision. So Swedish SMEs tend to take the matters to western European courts when it comes to writing of contracts.

Economic conditions can be of challenging nature but mainly they are of benefit for the Swedish SMEs as Russia has a huge potential for Swedish products which are characterized as high quality and high tech products. Poor infrastructure causes delays in delivering the products to the destination on time.

One more major challenge faced by Swedish SMEs is the complicated customs clearance process. It can take a long time for the products to be released from customs authorities that are difficult to handle and due to the long waiting time in custom warehouse, companies may have to pay extra charges that makes the delivery delayed and products more expensive. Corruption is another big problem that makes the operations of the companies complicated and difficult to handle. In Russia there is a high level of corruption and it is prevalent on almost every level. Swedish SMEs tend to cope with this problem by having agents or distributors who handle all the operations on Russian side. Custom clearance and getting necessary certificates from different authorities is much easier for the Russian agents to get as they are aware of the practices of the market and also they know the culture and way of business in the local market.

Another difference of approach that Swedish SMEs face is the short-term orientation of the Russian customers. Russians do not tend to plan for long term whereas Swedish SMEs plan for long term. So there is a need to deal with this problem. It is especially important to deal with this when SMEs offer high tech products and machine that are supposed to be used for long term. As Russian culture is characterized as short term, so they don’t take the point of long term use of the machinery into account while purchasing the products so they might
chose the cheap products which are not durable in the long run. So Swedish SMEs need to deal with this difference by highlighting the long term performance and durability of their products so the Russian customers can know that it is better to buy an expensive machine which is durable over the long run instead of buying a cheap machine which is not durable and can produce less output.

Network relationships play a vital role in the success of the Swedish SMEs in Russia and it is very important to have strong network relationships in order to serve the market in more focused and better way. As majority of the Swedish SMEs enter the Russian market through intermediaries, so it is even more important for them to have a strong and mutually beneficial relationship with the intermediary. It important to because intermediary is the only source that provides the hands on knowledge of the local market and deals with the customers. As the intermediary (either distributor or agent) has the direct contact with the customers so it can provide better information and feedback of the market. Intermediary helps and facilitates in the distribution of products and maintaining a good relationship with the customers who are actually using the product. SMEs can better adopt their products according to the needs and wants of the customers which are shared with them by the distributor or agent. Intermediary also help in reducing the social challenges like barrier of language and the local practices of doing business in Russia. Intermediary also plays a vital role when any kind of dispute arises and can facilitate the SMEs to better solve the problem as it knows the language and local and cultural practices. As all the information of customers’ needs and demands travels through intermediary, so it is of utmost importance to have a strong and mutually trusted relationship with the intermediary. One thing that is important to know to build and maintain long term and strong relationship with Russian counterparts is that they involve trust and emotional feelings in the business relationships as well whereas Swedish SMEs tend to rely on formal contracts and do not get emotionally involved in the business relationships. So there is a need to understand this difference of approach. It is also important to note that once the Russian customers have used the product and are satisfied with its performance then they tend to be more loyal than other western European countries.
So in order to have a successful entry and long term success in Russian market, it is very important for SMEs to take into account the different challenges of the Russian market described above in order to avoid difficulties and failure. It is vital to have a better understanding of the challenges in order to decide the right entry mode and it is also vital to have a strong and long lasting mutual network relationship with the Russian counterparts in order to be successful in the market.
Recommendations

On the basis of our theory, analysis and our conclusion, we present following recommendations to the case companies i.e. Norden Machinery, Arenco and Rottne AB:

Norden Machinery:
Norden Machinery uses an agent in order to serve Russian market. This adopted entry strategy is the best possible choice for the Norden Machinery as it is an SME and does not have the enough resources to go directly in the market with own setup. So Norden should continue this practice but as Russia is a huge market, so it is not possible for one agent to cover the whole country especially when it is also covering the older USSR block as well. So there is a need to have more than one distributors or agents for The Russian market so that Norden does not lose the potential customers and market and can serve the market with greater market shares.

As at the moment all the information about the market, customers and their needs & demands are communicated through the agent, so there is a need for Norden to invest more in the relationship in order to get the best result out of it. They can invest more in the relationship to have more close ties with the agent and can introduce new training programs for the agent to build more trust and durability in relationship. It is also very important to have more and collective focus on the market by Norden and its agent in order to know better about the needs and demands of the customers so that they can satisfy the needs of the market with collective efforts that will be mutually beneficial.

Arenco:
Arenco entered the market by having direct exports to Russia where customer is responsible for all the dealing right from custom clearance on Russian end to the delivery of the products to their destinations. Although Arenco earns a greater profit on the product because it does not use any agent for Russian market but at the same time, Arenco is losing its market potential because they are not very active in the Russian market and they serve those customers who
contact Arenco itself and Arenco does not have any plan to attract customers from Russia as they do not take part in fairs and exhibitions anymore in Russia to attract the business. Although Arenco is on kind of monopolistic position in the Match making business but still it can take benefit of hiring an agent in the Russian market who does the market research and bringing the potential prospects to Arenoc. By having an intermediary in Russia, Arenco can target the market with more attention and it can bring new business to the company which it is losing at the moment by not having an intermediary on Russian market. It is also important to have an agent or distributor for Russian market, as it can better suggest the trends of the market especially in the case that Russia is much behind in technology as compared to Sweden. So use of an agent or distributor can not only bring new business to Arenco but also give it more insight into the needs and demands of the target market which can result in more market share for Arenco by producing customized machinery for the customers.
Use of an agent is particulary important due to the fact that Arenco gets all the information from customers to whom it sells the machine but that information is relevant to only that specific customer and cannot be generalized for the market. So if Arenco uses any intermediary in the Russian market, it can be beneficial for Arenco to get more information on the general market trend that can lead Arenco to produce better products as per the demads of the market.

**Rottne AB:**
Rottne AB is a Swedish SME that is catering to the Russian market for a long time and serving the market through indirect exporting by having an agent that is responsible for the Russian market. The agent called ”Forest Services” is not only the agent for Rottne AB but it is representing several other companies from the same field. So ”Forest Services” does not have a primary focus on Rottne AB products and Rottne may be losing the market share because ”Forest Services” does not have primary focus on Rottne’s products. So there is a need for Rottne to appoint an agent who has the primary focus on the marketing and sales of Rottne’s products. It is also important to note that Russian market is a very huge market and has a lot of potential for Rottne’s products, so it will be better for Rottne AB to appoint more than one agents in Russia in order to cover the whole market and get as much market share as possible. It is also important to note that Russia is very big country in area and it has a lot of
forests which means that there is a huge potential for Rottne’s products, so there is need to explore the market more deeper so that Rottne can get as much market share as possible. It also seems that the moment that Rottne’s relationship with “Forest Services” is not very close that is why “Forest Services” is not having a primary focus on Rottne’s products. So there is a need that Rottne and “Forest Services” make their business relationship more closer in order to focus more on the market and get more market share which is the essence of the business relationships.
References


Linnaeus University – a firm focus on quality and competence

On 1 January 2010 Växjö University and the University of Kalmar merged to form Linnaeus University. This new university is the product of a will to improve the quality, enhance the appeal and boost the development potential of teaching and research, at the same time as it plays a prominent role in working closely together with local society. Linnaeus University offers an attractive knowledge environment characterised by high quality and a competitive portfolio of skills.

Linnaeus University is a modern, international university with the emphasis on the desire for knowledge, creative thinking and practical innovations. For us, the focus is on proximity to our students, but also on the world around us and the future ahead.