

# NORWEGIAN BUSINESS IN RUSSIA

*What does it take for Norwegian companies to succeed  
with their internationalization to Russia?*

Written by Maria Varteressian

Master of Science in Globalization, Politics and Culture

Trondheim, Spring 2014



NTNU

Norwegian University of  
Science and Technology

---



# Table of Contents

PREFACE	I
ACKNOWLEDGEMENTS	III
ABSTRACT	V
1. INTRODUCTION	1
1.1 RESEARCH TOPIC AND QUESTION	4
1.2 MOTIVATION BEHIND CHOICE OF RESEARCH TOPIC AND QUESTION	5
2. THEORY	7
2.1 INTERNATIONALIZATION STAGE-THEORY OF UPPSALA SCHOOL	7
2.2 THE ECLECTIC “OLI” PARADIGM OF JOHN DUNNING	8
2.3 INDEPENDENT VARIABLES	9
2.3.1 OWNERSHIP RELATED VARIABLES	9
2.3.1.1 ECONOMIC FACTORS	9
2.3.1.2 ORGANIZATIONAL FACTORS	9
2.3.2 LOCATION RELATED VARIABLES	9
2.3.2.1 CROSS-CULTURAL FACTORS	10
2.3.2.2 LEGAL SYSTEM AND BUREAUCRACY	10
2.3.2.3 DEALING WITH CORRUPTION	10
2.3.3 INTERNATIONALIZATION RELATED VARIABLES	10
2.3.3.1 INTERNATIONAL EXPERIENCE	10
2.3.3.2 NETWORKING	11
2.3.3.3 BUSINESS PLAN	11
2.4 RELEVANT LITERATURE	11
2.4.1 DOING BUSINESS IN RUSSIA	11
2.4.2 DIFFERENCES IN BUSINESS CULTURE	12
2.4.3 SOME REASONS TO WHY COMPANIES FAIL ON THE RUSSIAN MARKET	13
2.4.4 SOME CONDITIONS FOR SUCCESS ON THE RUSSIAN MARKET	14
3. METHODS	15
3.1 RESEARCH DESIGN AND STRATEGY	15
3.2 COLLECTING DATA BY USE OF INTERVIEW	15
3.3 THE STUDY SAMPLE	16
3.3.1 PRESENTATION OF FACILITATORS	18
3.3.2 COMPANY PRESENTATIONS	19
3.4 TRUSTWORTHINESS OF THE STUDY	20
4. EMPIRICAL ANALYSIS AND DISCUSSION	21
4.1 PERSPECTIVES ON NORWEGIAN BUSINESS IN RUSSIA	21
4.2 ECONOMIC FACTORS	25
4.3 ORGANIZATIONAL FACTORS	29
4.4 CROSS-CULTURAL ASPECTS	34
4.5 LEGAL SYSTEM AND BUREAUCRACY	42
4.6 DEALING WITH CORRUPTION	45
4.7 INTERNATIONAL EXPERIENCE	47
4.8 NETWORKING	50
4.9 BUSINESS PLAN	54
4.10 SUMMARY	57
5. CONCLUSION	61
6. BIBLIOGRAPHY	67

## Figures

Figure 1: Presentation of variables. Source: self constructed 4

Figure 2: Cultural differences between Norway and Russia (Hofstede 2010) 12

## PREFACE

For many years now, Russia has held a steady course towards becoming one of the most significant players within the international society. Membership in the WTO, aspiration of becoming a member of OECD as well as a growing middle-class were solid indicators of Russia coming closer to the West. President Putin aimed at climbing World Bank's Ease of Doing Business list to the 20th place by 2020 (May Decrees, 2012). Russia was, with this, aiming at attracting more foreign direct investment.

The abovementioned development has been hampered by the current situation in Ukraine. Due to the tensions caused by the crisis in Ukraine and financial sanctions imposed on Russia by EU and the U.S, world's financial elite of bank officials, traders and asset managers perceive Russia as a less attractive country for investment (Moscow Times, 2014). Norwegian business in Russia is naturally affected by this situation, as only the talks of counter sanctions from Russia create uncertainties for Norwegian companies.

Current study was initiated prior to the outbreak of political crisis between Russia, Ukraine and the West. Most of the information was gathered before escalation of the situation. The effects of this crisis on Norwegian business in Russia are, therefore, not accounted for in the study. Current political situation will instead be commented by using a quote from one of the informants in the study.

*“We can only hope that the current situation will resolve itself soon, because Russia was heading in the right direction”*

– Jarle Forbord, Director of Norwegian-Russian Chamber of Commerce.



## ACKNOWLEDGEMENTS

The most sincere gratitude goes to all those who have helped with making of this master's thesis. Without the encouragement, guiding and contribution, this work would not have been possible.

### **Thanks to my supervisor, Professor Asbjørn Karlsen**

I am truly grateful for all of the guidance and help I have received from Asbjørn Karlsen. He has been very helpful throughout the whole process with this master's thesis. His support and supervision have been invaluable to me - *thank you, Asbjørn!*

### **Thanks to Erik Welle-Watne, Jarle Forbord and Christina Johansen**

Much appreciation to Erik Welle-Watne at Innovation Norway, who contributed greatly by helping me get ideas and inspiration for the creation of the research-question. Furthermore, I would like to thank Jarle Forbord at the Norwegian-Russian Chamber of Commerce for providing me with valuable insight, information and perspective about the research topic. I would also like to give big thanks to Christina Johansen for reading through and giving valuable comments on the final draft of the thesis - *thank you all very much!*

### **Thanks to my informants**

I would like to thank all my informants for accepting to participate in this research. Talking with you has provided me with invaluable information and insight on the research topic. Without your contributions, this research would have been impossible - *thank you very much for the time and information you have shared with me!*

### **Thanks to my family and friends**

I am truly grateful for all the support, encouragement and love my family and friends have given me throughout the work with this research. I owe big thanks to Kari Anne and Asbjørn Løvstad, for providing me with a wonderful cottage for doing my work. My deepest gratitude goes to my dear Øistein - *thank you for your patience, love and support!*



## **ABSTRACT**

The current study looks at what it takes for Norwegian companies to succeed with their internationalization to Russia. Through a qualitative multiple-case study, eighteen semi-structured interviews, with relevant actors, were undertaken. The gathered information is analyzed in the light of internationalization theory, with some elements of cultural divergence and organization theories. By looking at cases of success, and a few examples of failures, approaches to handling of ownership-based, locational and internationalization aspects are discussed. The study concludes by pointing to how a company's approach to handling the mentioned aspects determines whether it succeeds or fails in Russia.



# 1. INTRODUCTION

Internationalization undertaken by transnational corporations is both a cause and a result of globalization. A company internationalizes when it expands activity out of home state boundaries. The matter of what consequences this expansion has led to has been heavily discussed by academics belonging to different factions (EL-Ojeili & Hayden, 2006). Globalists argue that globalization has led to dissolving of national boundaries and economies. Traditionalists counter-argue this by who are saying that divided national economies remain a salient category. In this regard, differing policies of nation-states affect internationalization of transnational companies (Held, 2000).

Expansion to international markets opens new opportunities for companies. By expanding their selling, R&D and production activities, companies get a chance to grow. Access to new markets gives companies possibility to increase their size and revenues. Nevertheless, international expansion is also perceived as a risk since the company needs to face many features it has little control over in a nation different from home. Entering new markets demands great caution as the expansion can fail and lead to disruption instead of growth (Hollensen, 2004; Johanson & Vahlne, 1977)

Current thesis will focus on internationalization of companies to international markets. Internationalization is, due to the ability of companies to move production, people, capital and technology across state boundaries, seen as an embedded part of globalization. Attention will, therefore, be given to what it takes for companies to succeed with their internationalization. Such an angle of approach is meaningful as not all companies succeed with their attempts to internationalize. There must therefore be features that separate companies that succeed from those who fail (Dicken, 2007; European Commission, 2004a)

Transnational corporations (TNCs) retain characteristics from their country of origin. A set of norms and values originating from their home nations are a part of their marrows. Nevertheless, their character might change over time. Since TNCs are learning organizations, they work to adapt to new surroundings. Therefore, the character of a company alternates as it assimilates to new operational patterns. Assimilation to the new host-nation is necessary for survival due to companies being dependent on the legitimacy deriving from their environment. Such dependency on externalities generates internal uncertainties

Lack of information, or knowledge of how to use it efficiently, can often explain failure of companies. Number of internal uncertainties depends on how much information the company possesses about its external surroundings. Having knowledge about the

surrounding context is crucial for decision-making. Lack of awareness about customers, competitors, suppliers as well as norms values and opinions of the host country can lead to failure. Preparations reduce the amount of such uncertainties. By preparing, the employees within the company familiarize themselves with the context of the host country. Even the largest companies are never better than their employees. Therefore, companies must program their employees with the right operational information (NHD, 2012; Jacobsen & Thorsvik, 2007).

Choice of host market must depend on rational considerations by the management of the company. Expanding of business should, therefore, follow an intended pattern where the company chooses a country due to considerable revenue potential. BRIC(S) is an acronym created by Goldman Sachs economist Jim O'Neal. In a study of future economic development, O'Neal emphasized Brazil, Russia, India, China, and later South Africa, as the most influential economies. Internationalization of activity to one of these markets would, therefore, be perceived as rational for TNCs (Dicken, 2011, NRK, 2014).

Russia is by some measures the largest country of the BRICS-economies. The country has the largest national territory in the world. Furthermore, the purchasing power of the 142 million citizens living there has dramatically increased due to the overall national rise of living standard. These facts portray Russia as an attractive market for foreign direct investments. Evidence shows that foreign companies perceive Russia as a demanding country for doing business. Even though Russia is said to have one of the fastest growing economies, the tendency of western companies failing there is significant (Fey, 1996; Michailova, 2000).

Doing business in Russia is said to be difficult due to a distinctly different way of practicing business compared to the West. Russia and Western countries differ in cultural, political, economic, social, and religious aspects. High corruption, low predictability, and transparency have been perceived as difficult features to handle for foreign investors. Foreign companies doing business in Russia are also challenged by dissimilarities in ethical norms and values. Nonetheless, some companies manage to achieve great success on the Russian market (Evans & Mavondo, 2002; Usunier & Lee, 2005; Hisrich&Gratchev, 2001).

Russia is the geographically closest BRICS economy to Norway. The border dividing these two countries in the High North stretches 196km on land and 1680km in the Barents Sea. Bilateral relations between Russian and Norway have for hundreds of years been undisturbed. The abovementioned gives reason to assume that Norwegian business would perceive the Russian market as attractive for internationalization. Such seems, however, not to be the case. Number of Norwegian companies in Russia is barely higher than one hundred. Different culture, difficult language, tough business climate and shadow-

economy are some of the factors explaining this low number (Norvegia.ru 2013; Høiby & Kreuzenbeck, 2012).

There are substantial differences between business cultures of Russia and Norway. Aspects of openness, honesty and a “win-win” - orientation have been used to characterize Norwegian business. Russian business has, on the contrary been described by aspects of secrecy, fierceness of competition and “zero-sum” way of thinking (Almås, 2012). The abovementioned can be explained by the contrasts on dimensions such as power distance, individualism, masculinity, uncertainty avoidance, pragmatism, and indulgence (Hofstede, et. al., 2010). Roughly speaking, the different combination of these dimensions affects the business culture of Norway and Russia. A hierarchal structure, large power distance and uncertainty avoidance are among the factors indicating that Russia has a bureaucratic form of business culture. Distinct employee-roles, significant power distance, and vertical communication are the main components of such business culture. The Norwegian business culture, on the other hand, has an organic characteristic. Accordingly, the authority, control and communication in Norwegian organizations are network-shaped. Furthermore, power distance is rather low and employees have flexible roles (Jacobsen & Thorsvik, 2007; Hofstede, et. al., 2010).

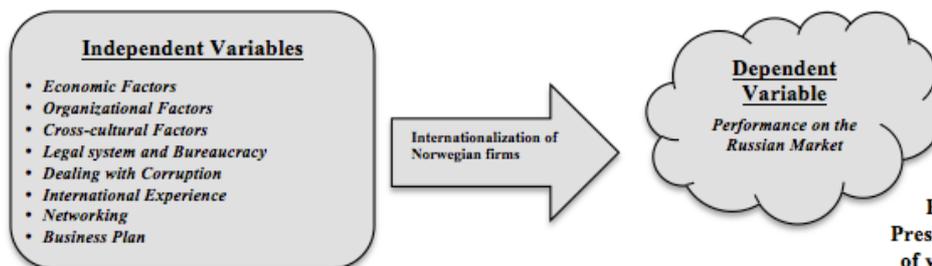
Norwegian companies internationalizing to Russia will need to operate very differently there than they do in Norway. This is explained by the cultural manifestations presented above, but also different rankings on Transparency International (2013) and Ease of Doing Business (2014) lists. The first list ranks Norway on 5th and Russia on 127th place, while the latter places Norway on a 9th and Russia on the 92nd place. Doing business in Russia is, therefore, considered to be more difficult than in Norway.

John Dunning’s internationalization theory (1988) suggests that companies need to have some company-specific assets in order to perform successfully on a foreign market. Such assets are company size, brand name, advertising strength, technology, experience and access to cheaper resources. Furthermore, internationalizing to less culturally proximate host-nations requires more preparations than culturally close nations (Cavusgil et. al., 2008). Consequently, doing business in Russia requires large amounts of preparations and company specific resources for Norwegian companies. In this regard, Scholars of Uppsala School consider an incremental expansion through export to proximate markets as the most rational strategy, as experience gained through a careful start would allow stage-wise expansion of heavier investment to less proximate markets. Although such an expansion is both rational and risk reducing, not all companies seem to follow it. Thus, internationalization of companies can be perceived as a diversified activity, not following any particular stages or cultural proximity rules (Carlsson & Dale, 2011).

Many Norwegian companies have failed with their internationalization to Russia. Most common reasons for their failure have shown to be lacking emphasis on cross-cultural aspects, networking and risk assessments (Almås, 2012, Høiby & Kreuzenbeck, 2012). Failure and difficulties of some of these companies have gained great attention in the media. In turn, this created the impression that doing business in Russia is nearly impossible for law abiding Norwegian investors. The number of companies that have succeeded in Russia has, due to this, been overshadowed. There are companies that managed to invest, survive and eventually profit on the Russian market. They have acquired know-how for achieving operational success. Several factors have had an impact on their performance. These factors can be perceived as independent variables affecting the level of performance Norwegian companies manage to achieve with their Russia-investment. Among them are economic, organizational and cross-cultural factors. Handling of the legal system, dealing with corruption, international experience, networking and business planning are also among such factors. The approach to handling of the abovementioned factors determines whether a company fails or succeeds. Gathering and analyzing approaches of those who succeed can contribute to helping future Norwegian investors going to Russia. Companies can achieve more success by intelligently building on the knowledge gained by those who have internationalized to Russia before them (Fey & Shekshnia, 2010).

### 1.1 Research topic and question

Topic of current research is Norwegian business in Russia. By undertaking a multiple case study, the actions of a sample of Norwegian companies will be presented and analyzed. In doing so, this study will present an overarching characteristic of how some companies have managed to perform well in Russia. In this manner, current research will look into what it takes for Norwegian companies to succeed with their internationalization to Russia. The research-question of this thesis is, therefore, “what does it take what does it take for Norwegian companies to succeed with their internationalization to Russia?”



**Figure 1.**  
**Presentation**  
**of variables**

Figure presented above gives an overview of the set of variables used in the current research. By using eight independent variables, this research will attempt to explain what it takes for Norwegian companies to achieve successful performance on the Russian market

through internationalization. The listed variables will be used as categories in presentation and analyses of information gathered from a sample of Norwegian companies on the Russian market. Current thesis discusses the characteristics of companies that succeed by using the theory of internationalization and previous research. Following after that are some suggestions for further research and conclusion based on the main findings.

Current study belongs to the framework of qualitative research. As the study looks into eleven cases of Norwegian companies in Russia, the applied research design is multiple-case study. Semi-structured interviews were used to collect the information for empirical analysis. In all, eighteen interviews, from 6 facilitators and 11 companies, were conducted for the current study. Undertaking interviews with facilitators allowed creating a broader perspective of Norwegian business in Russia, as the facilitators have a focus on Norwegian business altogether. All of the companies in this research operate in dissimilar business segments and are of different size<sup>1</sup>. Purpose of having a sample of companies that differ in both size and business segments is to look for similarities in practices undertaken by them. The wide character of the study and model presented in figure 1, allows for a broader perspective on what it takes for Norwegian companies to succeed with their internationalization to Russia.

## **1.2 Motivation behind choice of research topic and question**

Global economic influence is moving from West to East and South. Russia is among the economies predicted to gain substantial role in the future of the world economy. Information about Russian context and performance of foreign companies on the Russian market is, therefore, an important resource. So far, too few Norwegian companies have succeeded with their internationalization to Russia. The overall goal should be to increase the number of Norwegian investors performing well on the Russian market. Knowledge of errors made by companies can in this regard be a benefit as it provides insight on potential challenges. Together with information about successful activity it will be possible to create effective business strategies for operation in Russia. Furthermore, it can help reducing amount of failed internationalization processes (Høiby & Kreuzenbeck, 2012; Dicken 2011).

Mistakes made by previous investors can be used to lower the number of failures in the future. Although numerous Norwegian companies have failed with internationalizing to the Russian market, some have succeeded. These companies possess valuable information based on experience. Having this experience inside one company has a value in itself.

---

<sup>1</sup> Micro<10 employees, Small<50 employees, Medium<250 employees. Source: EU Commission for Enterprise and

However, by accumulating, systemizing and making this information available for future investors, its value increases. Interest of this study is to contribute to such gathering and analysis of information. Hopefully, it can help future Norwegian investors avoid repeating mistakes made by others as they internationalize their activities to the Russian market (Høiby & Kreuzenbeck, 2012).

## **2. THEORY**

### **2.1 Internationalization stage-theory of Uppsala School**

Theory of internationalization offers important insight to actions undertaken by companies as they expand their activities to new markets. The theory suggests that companies have strategic motivations for internationalizing, as their aim is to gain profit through international expansion of activity. The company's decision to internationalize stems from its aspiration of meeting demands in a global market segment. Hymer's pioneering works in the 1960s contributed to the general view in business literature of a sequential course to a company's development from being domestically to becoming internationally oriented (Dicken, 2011). Later researchers have applied further nuances on this sequential way of expanding activity. In this respect, stage-theory of Uppsala School and John Dunning's Eclectic OLI paradigm have been a highly influential (Glückler, 2006; Johanson & Vahlne, 2003)

International expansion of companies is a context particular process. It depends on what is perceived as essential for achieving competitive strength. Scholars of Uppsala School considered incremental expansion through export to proximate markets as the most rational strategy, since experience gained through a careful start would allow stage-wise expansion of heavier investment to less proximate markets (Johanson & Vahlne, 2003). Stage-wise internationalization is, therefore, perceived as risk-reducing in terms of the amount of control a company has over its surroundings (Cavusgil et. al., 2008).

Not all companies choose a sequential approach to internationalization. Some companies decide to invest directly to an unfamiliar market, thus pointing to investors often being more impulsive than rational. Consequently, a stage wise expansion, as presented by stage-theory, does not always correlate with reality. Dale and Carlsson (2011) portray internationalization as a diversified activity, which does not follow any particular stages or cultural proximity rules. In this respect, companies seem to internationalize for different reasons. While some follow their customers, others utilize opportunities opened up by personal relationships (Glückler, 2006).

Internationalizing companies become exposed to contextual aspects of the nations into which they set out to operate. These are features such as new customers, competitors, market structure, regulations, norms and values. How a company handles them decides its performance. Cavusgil (2008) argues that unfamiliarity with cross-cultural, financial, political and commercial aspects lessens the chances of success. In this regard, amount of information an investor possesses about the host market indirectly decides the number of risks she or he might face. Through preparation and research the investor can gain valuable

knowledge that enhances correct handling of the new national context. Such information makes it possible to portray potential dangers and create suiting strategies for handling them. Handling the context of a host-nation in a proper way will help the company to achieve easier assimilation to its surroundings. In turn, this helps to attain legitimacy from surroundings and reduce operational risks (Javalgi & Martin, 2007; Cavusgil et. al., 2008).

As has been stated above, not all companies follow a sequential path to internationalization. Some companies are so-called “born globals” as an international expansion lies at the core of their existence (Dicken, 2011). No matter how and when the company chooses to expand, it needs to have some company specific assets for being able to expanding its activity. John Dunning has presented this notion in his contribution to the theoretical field of internationalization.

## **2.2 The Eclectic “OLI” paradigm of John Dunning**

In his Eclectic “OLI” Paradigm theory, Dunning argues that a precondition for a company to operate successfully on a foreign market is possession of company specific assets. Such assets are company size, brand name, advertising strength, technology, experience and access to cheaper resources. The implied notion is that only a company of considerable size would be able to internationalize. Accordingly, there is a link between TNCs and bigness, meaning that large companies have higher ability to internationalize successfully (Dunning, 1988; Dicken, 2011).

The three main components of the OLI theory are ownership, location and internationalization. The first part is usually intangible and can be moved within the TNC at low cost. Examples of such are brand name and technology. The second part entails factors affecting business culture and proximity. Companies must base their choice of location on potential for quality and quantity of production and transport; as well as market size. Government policies on FDI, proximity of market, cultural aspects, as well as attitudes towards foreigners also fall under this part. The last component has to do with internationalization with regard to choice and level of entry. It implies that the success of international expansion depends on how the company chooses to enter a new market. The main categories of expansion-choices are export and licensing, joint ventures and subsidizing. Whichever method the company chooses, it will need a sufficient amount of stability and resources to follow through (Dunning, 2001; Carlsson & Dale, 2011).

## **2.3 Independent variables**

### **2.3.1 Ownership related variables**

Based on the first component of Dunning's Eclectic OLI theory, the following section presents the variables of economic and organizational factors. As these factors are intangible, company's can move them internally at low costs. These are the assets necessary for internationalization to be possible. They form the basis for the company specific advantages. As internationalization theory suggests, companies need a competitive advantage that puts them ahead of the local companies on the market (Javalgi & Martin, 2007; Dicken, 2011).

#### **2.3.1.1 Economic factors**

This variable has to do with strength of domestic position and resource base. These factors create the basis for a company's ability to compete on the foreign market. Based on them, the company sets a time frame it perceives as rational in terms of investment and revenues. Sufficient amount of economic resources allows the company to be flexible and handle unforeseen events. As stated earlier, transnational corporations have been associated with bigness due to their large resource bases. Thus, international expansion for SMEs has been perceived as more risky in terms of management and financial resources (Dicken, 2011).

#### **2.3.1.2 Organizational factors**

Organizational factors entail the internal company specific characteristics. These features vary between companies due to different resources, capabilities and experiences. Company size, style of leadership and structure of the organization determine how a company will assimilate with the surroundings of the host-nation. This variable also embodies the engagement from top leadership and the amount of control the headquarters has over the foreign entity (Dicken & Malmberg, 2001; Maskell et al., 1998; Hervas-Oliver & Albers-Garrigos, 2009).

### **2.3.2 Location related variables**

Variables in this section are connected to the location component of Dunning's theory. Their importance lies in the formation of business culture in the host country. Companies that set out to internationalize will have to deal with factors making up the business culture in the country into which they choose to expand their activity. As companies become exposed to new environments, they need to adjust their activity to new sets of contextual patterns. These patterns consist of culture, government regulations, technology, economic development and market structure (Javalgi & Martin, 2007).

### **2.3.2.1 Cross-cultural factors**

This variable consists of the culture, history, language, politics and society that make up great parts of a nation's context. Cultural divergence theorists argue that due to globalization, cultural groups have become increasingly aware of their differences. Culture is thus the collective programming of the mind that distinguishes human beings in one group from another (Hofstede, et. al., 2010). It infiltrates each sphere within a nation. Some divergence theorists argue that the culture is a stronger force for influence than race, education, age and gender (Warner & Joynt, 2002; Taras et. al., 2009).

### **2.3.2.2 Legal system and bureaucracy**

The legal system and bureaucracy constitutes a large part of the national context, in the same manner as cross-cultural aspects. To some degree, these features are shaped by social and historical manifestations of the country as cultural patterns of a nation can affect whether it has a bureaucratic or organic business culture. The foreign company must at all times be aware of the legal framework and regulations within the host-nation. Whenever the host-government applies new reforms affecting the company it must be ready to adjust its practices (Jacobsen & Thorsvik, 2007).

### **2.3.2.3 Dealing with corruption**

Importance of having an own variable for corruption is that it is a strongly present locational problem within most spheres of the Russian society. Internationalizing companies will meet this problem and naturally need to deal with it. The way companies choose to handle the issue of corruption will have a large impact on their performance (Transparency International, 2013; World Bank Group, 2014).

## **2.3.3 Internationalization related variables**

The last set of variables is connected to the component of internationalization. Chances of achieving success with internationalization depend on how the company chooses to enter a new market. As mentioned, the most common ways of expanding business activity are exporting, licensing, joint venture and subsidizing. Level of performance is dependent on whether the process was planned or spontaneous. International experience, as well as participation in networks, also affect whether a business succeeds or not (Dunning, 2001; Carlsson & Dale, 2011).

### **2.3.3.1 International Experience**

Level of international experience affects how well a company performs with the internationalization it plans on undertaking. Having international experience prior to

internationalizing activity to a foreign market might help the performance, as it increases the chances of the company being prepared to do things differently than at home. The type and degree of internationalization a company undertakes is usually affected by level of international experience. Companies with large experience from many markets might see it more rational to invest in a wholly owned subsidiary than a company with no international experience (Dunning, 2001; Dicken, 2011; Johanson & Vahlne, 2003).

### **2.3.3.2 Networking**

Participation in networks has impact on the performance level in a host nation. Companies can obtain valuable information from networking with the right actors. In such a way, networking benefits companies with insight needed for creating strategies suiting the national context of the country into which they plan on expanding. Participation in networks within the host nation might benefit the investor through getting recognized in the surroundings. A well-established network might help with positioning and protection on the market (Carlsson & Dale, 2011; Jacobsen & Thorsvik 2007; Dicken, 2011)

### **2.3.3.3 Business plan**

The performance on a foreign market is to a large degree affected by whether the expansion was planned or spontaneous. Thorough work with business plans, the investor undertakes more rational and realistic considerations regarding amount of resources needed for internationalization. Furthermore, by planning, the investor becomes utterly familiar with the context of the host nation. This can help dealing with potential risks that might occur in the host market (Cavusgil et. al., 2008; Carlsson & Dale, 2011)

## **2.4 Relevant literature**

### **2.4.1 Doing business in Russia**

Russia has potentially good outlooks for attracting FDI. Stated by Goldman Sachs economist Jim O'Neal, in the future, Russia has potential to become one of the most influential economies in the world. Its current position as one of the biggest economies in the world makes it an attractive destination for foreign investment. Through recent membership in the WTO and aspirations of joining OECD, the Russian government has set some ambitious goals in terms of attracting investors from abroad. In the presidential decrees in May 2012, President Vladimir Putin put forward plans of reaching top-20th place on World Bank's "Ease of Doing Business" list. With such aspirations and a wealthy

resource base, Russia aims at attracting more FDI in the future (Dicken, 2011; Voldnes & Nilssen, 2005; NRK, 2014; Doing Business, 2014; Deloitte, 2013).

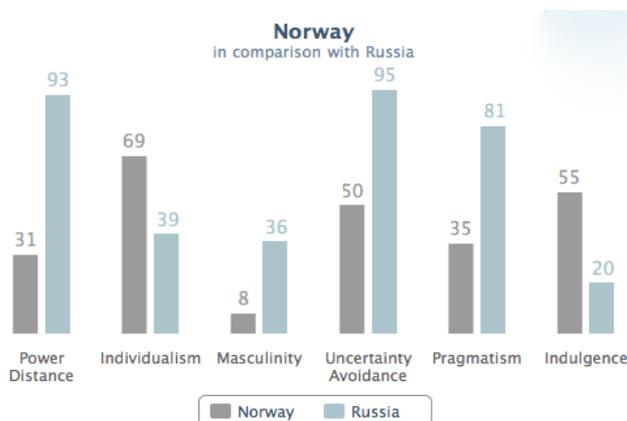
In spite of ambitious goals for the future, doing business in Russia is perceived as challenging. While some aspects have improved for international investors, more comprehensive policy attention is needed to tackle the corruption and incompleteness in the rule of law (OECD, 2013). Current organization of the business sector creates obstacles for foreign investments. Law on foreign investment in strategic sectors from 2008 has raised tendencies of protectionism in Russia. This law covers an expansive list of approximately 40 key sectors in the Russian economy. Within these sectors, foreign investors are prohibited from owning 100 % of shares in Russian entities (Pomeranz, 2010). Additionally, strategic sectors have strict rules of operation. Based on this, foreigners struggle to navigate confidently on the Russian market (Vos & Koparanova, 2011).

#### 2.4.2 Differences in business culture

Cultural manifestations found in Russia today stem from its cultural dimension and historical influences. Factors such as climate, history, Mongol Yoke and Orthodox religion have formed the basis for the development of cultural dimensions. Such dimensions are collectivism, power distance, uncertainty avoidance, and performance orientation. In turn, manifestations such as generosity, bureaucracy, secrecy, pride, togetherness, respect for status and authority have developed (Solberg, Ablerdu, Eliseeva, 2008).

Although Russia and Norway are geographically close their cultures are quite dissimilar. As culture infiltrates all spheres within a nation, differences in cultural factors between Russian and Norway create contrasting manifestations within the business culture of the two nations. Figure 2 presents these manifestations.

Figure 2: Cultural differences between Norway and Russia (Hofstede 2010)



Russia's scores are higher than Norway on the power distance scale. Thus, the Russian culture seems to be more hierarchal than Norwegian. Scale of individualism shows that Norway is individualistic and Russia is more collectivistic. The scale of masculinity shows that the Norwegian society is more feminine than Russian. The

uncertainty avoidance-scale shows a high tendency of uncertainty avoidance in Russia. Establishment of highly complex bureaucratic system is here a clear indicator. The scale of

pragmatism shows that the Norwegian society is normative while the Russian society is pragmatic. In normative cultures, people tend to seek the absolute truth in contrast to pragmatic societies where truth depends on situation, time and context. Russia's low score on the indulgence-scale illuminates the restrained character of the Russian society. Furthermore, cultures with low scores on this scale tend to lean towards pessimism and cynicism (Taras et. al., 2009; Hofstede, et. al., 2010).

Although figure 2 gives a good overview of what aspects the Norwegian and Russian cultures differ on, it is important to note that it only provides an overview based on a more or less stereotypic view of the two countries. In reality, the character of the two cultures is much more nuanced. However, figure 2 offers an idea of the main characteristics of Norwegian and Russian cultures. Based on this, it is possible to draw parallels to the behavior patterns within the two countries. Such is of great use, as these patterns tend to reflect the mentality of individuals representing their cultures. In turn, they affect the mentality of customers and business cultures within countries (Hofstede, et. al., 2010; Sergejeva, 2008)

A hierarchal structure, large power distance and uncertainty avoidance are among the factors indicating that Russia has a bureaucratic form of business culture. Jacobsen and Thorsvik (2007) that the main elements of such business culture are distinct roles of employees, lots of rules and specified procedures. Communication within organizations in bureaucratic cultures is primarily vertical within organizations in bureaucratic business cultures. The Norwegian business differs from the Russian. Based on Figure 2 its culture is determined as organic. Authority, control and communication are network-shaped. Employees have flexible roles and the distance between managers and peers is low (Jacobsen & Thorsvik, 2007).

### **2.4.3 Some reasons to why companies fail on the Russian market**

Many Western investors have failed with their attempts of internationalizing activity to Russia. According to Ruda et. al. (2013) as much as 90% fail during first three years of operation. Some of the reasons for failure are connected to expanding for the wrong reasons, impatience and wrong assumptions about the Russian market. Additionally, some fail due to lack of expert advice prior to investment, underestimating the costs of internationalization and deciding to become an international company too late (Karnani, 2012)

Often, Russia is described as a market for large corporations. However, even large companies can fail with their activity there. An example of such is the Danish bed bath and living company, Jysk. Looking back at their Russia activity, management of Jysk

acknowledges that they did not do enough research prior to investing in Russia. Their assortments did not match the Russian market. An example of this is that the size of their furniture was too large for homes of Russian middle-class. Jysk failed at understanding the mentality of customers and what marketing strategies suited Russia (Moscow Times, 2013; Business Insider, 2012).

Norwegian business operating in Russia has met various challenges. Equally to Jysk, many Norwegian companies, both large and small, have drawn back from the Russian market. An example of such is Selfa Arctic. There were several reasons to why this company failed. Some of them were a naïve approach to dealing with Russians and insufficient planning prior to investing. The management of the company had not put enough emphasis on cross-cultural aspects and had, therefore, a poor understanding of the Russian context. Furthermore, the company failed at building social relations on authority level. Lack of sufficient networks made the investor blind to seeing where the pressure against them came from (Høiby & Kreuzenbeck, 2012).

#### **2.4.4 Some conditions for success on the Russian market**

In order to succeed, companies must make themselves familiar with the context of Russia. Gaining information prior to investing is important for any host market, but Russia has shown itself as particularly significant in this case. Foreign companies must have knowledge of market structure and who their potential partners and competitors are (Karusheva & Kopilevich, 2007). Mentality of Russian customers is also an important aspect with which companies need to become familiar. The most essential is to know how and why Norway and Russia differ. In this way, it will become possible to navigate successfully on the Russian market (Akvaplan-niva, 2012; Remington, 2012)

Earlier research on the subject points to economic backbone, willingness to succeed and patience as the main attributes for good performance on the Russian market. Norwegian investors must be willing to put in time and money in their Russia project (Melkumov, 2009). Furthermore, they must have awareness of aspects such as lack of predictability and transparency in regulatory instances (McCarthy & Puffer, 2008). Norwegian companies operating in Russia must also take into account the significance of personal relations in Russian business and the monolithic role of Russian CEOs. Moreover, foreign investors must create business models that suit the Russian context (McCarthy, D.J and Puffer, S. 2002; May, et. al., 2005; Ledeneva, 2006; Høiby & Kreuzenbeck, 2012). They must also put great emphasis on human resource management. By focusing on HR, Norwegian companies will strengthen their expatriates with necessary knowledge of how to operate on the Russian market and behave in the Russian environment (Domsch & Lidokhover, c2007)

### **3. METHODS**

#### **3.1 Research design and strategy**

Aim of this research was to examine the performance of Norwegian companies in Russia by looking at the experience of facilitators and companies. Through conversations with a sample of different Norwegian facilitators and companies, a rich amount of information was obtained. As the main purpose of this was to gather experiences through conversations, the qualitative method was considered best suited to the current research.

Qualitative-research method is concerned with gathering stories, experiences and descriptions. In the gathering of information in the form of words, and the researcher was the main "instrument" of data-collection. The qualitative method allowed gathering information in the form of stories, experiences and opinions. The information was then placed in perspective of the internationalization theory and earlier research. Use of this method allowed gathering the right information needed to answer the research question. By use of qualitative research method the idea was to create a picture of what it takes for Norwegian business to succeed in Russia based on experiences of the informants (Yin, 2003; Bryman, 2012; Matthews & Ross, 2010).

The research-design is the framework by which information for the study is gathered. Through logical sequence, the empirical data was connected to the theme, question and conclusion of the current research. Due to a rather small number of Norwegian companies and facilitators being the focus of the study, multiple-case design was selected. This design was well suited for the research as it provided for gathering data of real-life experience through asking the informants how, when and why questions. This design was chosen as it allowed gaining insight to why decisions were taken, how they were implemented and what their outcomes were (Yin, 2003; Matthews & Ross, 2010; Schramm, 1971).

#### **3.2 Collecting data by use of interview**

Eighteen interviews were gathered within the time frame of three weeks. In order to increase trustworthiness of the study, informants with a broader perspective of the subject were included. These informants are described as facilitators. Information provided by them added a broader insight on the theme of Norwegian business in Russia.

Use of qualitative interviews collected information for this study. As this data-collection method consists of questions and interactive dialogue, it lets the researcher

obtain information in the form of opinions and feelings from informants. The three main forms of qualitative interview are structured, semi-structured and unstructured interview. For this study, the semi-structured interview form was chosen as a tool for collection of data. Through direct, face-to-face interaction with the informants the aforementioned eighteen interviews were conducted (Matthews & Ross, 2010).

Prior to conducting interviews, a set of topics was listed down to function as an interview guide. Since the semi-structured interview is more flexible than the structured interview, the questions were asked in order natural to the development of the conversation. Occasionally additional questions were asked for gaining more insight on specific topics during the interview. Being semi-structured, this form of the interview gave the informants flexibility in terms of order and extent of answers (Matthews & Ross, 2010).

For this study, eighteen interviews were conducted from eleven companies and seven facilitators. Face-to-face interviewing was regarded as the most appropriate and serious way of gaining the information. However, it was both time-consuming and expensive to gather information like this, as it required a great deal of travelling. Nevertheless, by meeting the informants in person, information was gathered through a setting of natural communication. The initial goal was to conduct all information through face-to-face interviews. There was, however, one informant from whom information was gathered by email.

All of the interviews were undertaken in Norwegian language. A smart-phone was used as a recording device. In order to hold a high ethical standard, prior to recording the information an informed consent was obtained. After having gathered the information, the recordings were transcribed. Firstly, this was done in Norwegian. Afterwards, all of the information was translated to English. In order to ensure correct interpretation of the information the respective sequences were sent to the informants for a final consideration.

### **3.3 The study sample**

As the current research focuses on finding out what it takes for Norwegian business to succeed in Russia, the sample had to consist of informants with right background and experience. The sample was, therefore, collected purposefully and judgmentally. In order to shed a contrasting light on the sample, a company that had withdrawn its activity from the Russian market was included in the study.

According to Yin (2003), personal contacts of the researcher can act as research sponsors that help gaining contact with relevant informants for the study. Having spent half a year as an intern at the Royal Norwegian Consulate General in Murmansk, in 2013, the author had established many valuable contacts. Due to their relevant experience and knowledge of the study subject, many of these contacts served as research sponsors and informants. Prior to beginning the search for relevant informants, the author contacted Erik Welle-Watne at Innovation Norway and Jarle Forbord, at Norwegian Russian Chamber of Commerce. Through conversations with them, the author gained valuable insight to what the focus of the research should be. (Saunders, 2006).

Extensive research was done in order to find suitable companies for the study sample. By using the web page of the NRCC, a number of companies, which could be relevant to include in the sample were found. Additionally, the search-engine, "Google," was used to find Norwegian companies active in Russia. Having pinned down the number of companies, the author started looking for relevant contact persons. Here, there were some challenges, as it was rather difficult to find information about relevant people on the Internet. Even more difficult was to obtain their contact information. Thus, on several occasions e-mails were sent to receptions at different companies. Not all of them replied. The author also tried calling the receptions in hope of them sending me to the department within the company where I could get directed further. Experience shows that calling reception desks of large enterprises seldom helps getting in touch with the right people. Eventually, a sufficient number of informants was obtained.

As the timeframe of the research was narrow I had to limit the number informants. The maximum number of what I thought would be possible was ten companies and five facilitators. As I started gathering information I was advised to contact three extra informants, since their insight and experience on the subject of study would be valuable. Thus, number of informants came to the total of eighteen. Consequently, my sample includes elements of "snowball sampling" (Bryman, 2012). Tables below present further information about the study-sample.

### 3.3.1 Presentation of facilitators

Name of Organization	Area of operation in Norway	Activity in Russia	Name and title of informant
<b>Innovation Norway</b>	Works for innovation and competitiveness of Norwegian business. The three main work fields of IN are entrepreneurship, growth in companies and innovative milieus.	<ul style="list-style-type: none"> <li>- Innovation Norway has activities towards Russia both domestically and in Russia</li> <li>- Representation offices in St. Petersburg and Moscow.</li> <li>- IN contributes to the establishment of Norwegian business in Russia. Helps with investments and gives advice to companies.</li> </ul>	<p>Erik Welle-Watne, <i>Director of Fund Management for CIS and Balkan</i></p> <p>Dag Ivar Brekke, <i>Director of Innovation Norway Russia and Commercial Counselor at the Royal Norwegian Embassy in Moscow</i></p>
<b>Company for Industrial Growth (SIVA)</b>	<ul style="list-style-type: none"> <li>- Works for innovation in Norway and abroad through creation of innovative milieus.</li> <li>- Offers experience and competence combined with access to capital and network.</li> </ul>	- Contributes to Norwegian business in Russia through Polar Star Innovation Centre in Murmansk	Geir Reiersen <i>Genera Manager for the International sector of SIVA</i>
<b>Norwegian-Russian Chamber of Commerce (NRCC)</b>	- Nongovernmental, non-profit organization founded by Norwegian and Russian business groups	- Works to improve and stimulate business relations amid Russian and Norwegian companies concerning export, import, business development, shipping, and investment for tourism activities.	Jarle Forbord, <i>Director</i>
<b>Norwegian Ministry of Trade, Industry and Fisheries</b>	<ul style="list-style-type: none"> <li>- Responsibility for developing a progressive trade, industry and fisheries policy</li> <li>- Works to promote Norwegian business and trade, contribute to a sustainable management of the fisheries and sea-sector, and secure a holistic industrial policy.</li> </ul>	- Runs the Norwegian-Russian governmental commission for economic, industrial and technical-scientific cooperation. The Commission is based on bilateral economic relations between Norway and Russia, and a serves as a forum for the exchange of views between the authorities of the two countries and between government and industry.	Ine Charlott Paulsen, <i>Specialist Director for Russia and CIS</i>
<b>Norwegian Barents Secretariat</b>	Competence center of the bilateral relations between Russia and Norway	Works for developing relationship between Russian and Norway in the high north by funding and promoting the cooperation.	Claus Bergersen, <i>Advisor</i>
<b>The Norwegian Bank (DNB)</b>	The largest financial corporation in Norway. DNB is both a commercial actor and a facilitator, since it grants loans to investors.	DNB has a branch in Murmansk, Monchebank.	Bjørn Celius, <i>Senior Vice President</i>

### 3.3.2 Company presentations

Name of the company	Year of est.	Number of employees	Activity in Russia	Period in Russia	Name and title of informant
<b>Telenor</b>	1855	33.000	<b>Telecommunication.</b> - Holds 30 % share in VimpelCom. - Representation office in Moscow.	Since 1992	Thor A. Halvorsen. <i>Senior Vice President</i>
<b>Statoil</b>	1972	23.400	<b>Petroleum industry</b> - Cooperation deals in Barents, Okhotsk and Kara Seas. - Signed a major deal with Rosneft in 2012 gained 30 % share in Kharyaga onshore oil field.	More than 20 years	Jan Erik Strand. <i>Advisor</i>
<b>DNV GL</b>	1864	16.000	<b>Consultancy and certification in petroleum sector</b> - Project based activity - Representation office in Moscow	Since beginning of 1990s	Sverre Gravdahl <i>Project Director</i>
<b>Reinertsen</b>	1946	2800	<b>Construction and engineering</b> - Production facility in Murmansk	Since 2005	Torkild R. Reinertsen <i>Director</i>
<b>Barel</b>	1993	70	<b>Manufacturing</b> - Fully owned subsidiary: BR-electronics Ltd	Since 2003	Trine Gustavsen <i>Managing Director</i>
<b>Jotun</b>	1926	9000	<b>Maintenance of petroleum industry, shipping and infrastructure</b> - 2014: opened production facility	Since 1970s	Svein Stolpestad <i>Group Vice President – business development and strategy</i>
<b>Wenaas-gruppen</b>	1931	Fewer than 10	<b>Hotel property investment</b>	First investment made in 2005	Lars Wenaas <i>Director</i>
<b>Akvaplan-Niva</b>	1984	85	<b>Research and consultancy on marine aquaculture and environment</b> - Fully owned subsidiary with limited activity	Since beginning of 1990s	Salve Dahle <i>Director</i>
<b>Amedia</b>	1800s	3500	<b>Printing of newspapers</b> - Subsidiary: Prime Print. - Active in Voronezh, Novosibirsk, Nizhny Novgorod, Yekaterinburg, Chelyabinsk and Moscow.	Since beginning of 1990s	John Kvadsheim, <i>CEO of Amedia Eastern Europe and head of Amedia growth</i>
<b>Elopak</b>	1957	2800	<b>Production of packaging solutions for liquid food</b> - 2014: opened production facility	More than 30 years	Jan Ivar Rønning, <i>Executive Vice President</i>
<b>Orkla</b>	1654	28.000	<b>Branded consumer goods</b> - 1995: Baltic Beverages Holding - 2004: SladCo - 2006:Krupskaya	First investment in 1995, second in 2005. <b>Withdrew from Russia in 2014.</b>	Are Nakkim <i>Vice President of Business Development</i>

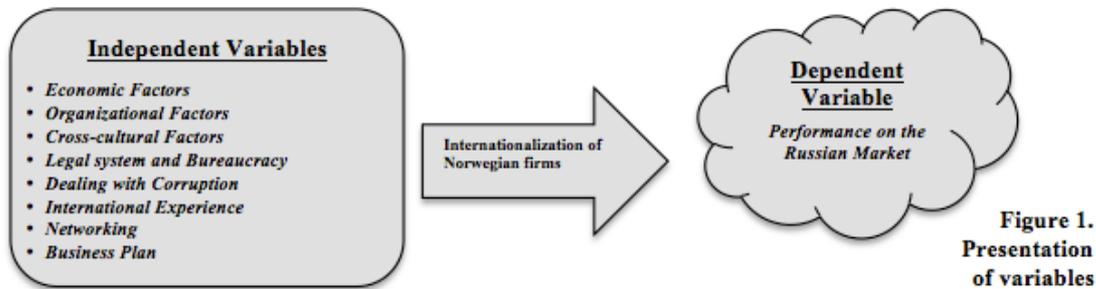
### **3.4 Trustworthiness of the study**

Reliability and validity are important criteria for the quality of research. It is, however, arguable whether these concepts can be applied to the qualitative framework as much as they can to the quantitative. However, ignoring these aspects could in worst-case lead to a subjective relativism where everything can mean anything (Kvale, 1996). Thus, it is vital to be sure that the collected data helps answering the research question as this affects the integrity of the research. In qualitative studies trustworthiness would be measured through transferability, credibility, dependability and conformability (Bryman, 2012).

In order to ensure credibility, the researcher attempts to demonstrate that a true picture of the phenomenon under examination is being presented (Bryman, 2012). In this respect the experience of Norwegian companies on the Russian market. Sending out text sequences to the respective informants, to get their approval on the interpretation of their information, increases credibility of the study. In order to ensure transferability, the researcher must provide a sufficient amount of details about the fieldwork. In respect of the current study, this would mean that the findings could be generalizable for all of the Norwegian companies doing business in Russia. By using the information provided by the facilitators, the perspective of the study broadens, since the information provided by them also entails companies outside of the sample. Dependability criterion is provided through giving enough information about gathering of research for enabling a future investigator to repeat the study. Finally, through conformability, the researcher must demonstrate that findings develop from the data and not the predispositions of the researcher. In regard of this study it implies that the question of what it takes for Norwegian companies to succeed with their internationalization to Russia is answered by the information provided by the sample and other from my personal opinions (Shenton, 2004)

## 4. EMPIRICAL ANALYSIS AND DISCUSSION

Current chapter presents the findings of the research through ten systematically structured sections. First section serves as an introductory for the rest of the chapter by presenting perspectives on Norwegian business in Russia. Following sections are structured after the independent variables. Each section is primarily providing the empirical findings. The facilitator interviews are presented first, followed by company interviews with Orkla as the last of them. Analyses and theoretical discussions are presented at the last part of each section. The last section is a summary with the main ideas provided throughout the chapter. Through this sequential presentation of the data current chapter addresses the research-question of the thesis, and provides an answer on what it takes for Norwegian companies to achieve success with their internationalization to Russia.



### 4.1 Perspectives on Norwegian business in Russia

#### *Facilitators*

Due to globalization and economic development Russia has changed. Naturally, so have the market and the business opportunities. According to Claus Bergersen at the *Barents Secretariat*, the possibilities for doing business in Russia are not lesser today than they were before. However, because of globalization, the opportunities have changed. Thus, companies need to be smart enough to use them right. In this regard, Bjørn Celius at DNB said that the Russian market has, due to an increase in buyer-ability and growing middle class, attained good business potential for Norwegian companies. However, companies must consider business segment, relevance of product, channels of distribution and competitors. “*In Russia these aspects tend to be more complex than in Norway,*” said Celius. Therefore, companies must make sure that they have sufficient competence, resources, and a realistic time frame is in place prior to investing.

Current number of Norwegian companies in Russia is low<sup>2</sup>. According to the facilitators, some of this can be explained by a mismatch between the structures of the Russian market, which is said to fit large companies, and the Norwegian business, which

---

<sup>2</sup> Approximately 100 companies are currently active in Russia (Norvegia.ru)

mainly consists of SMEs. Thus, in theory, only a small percentage of Norwegian companies are compatible with the way Russian business is structured.

In order to operate in Russia, Norwegian companies need to have patience. According to Bergersen at *Barents Secretariat*, many processes are time consuming and often lead to delays of the planned activity. It might also take time before revenues start arriving. Bergersen explained that having to wait for long periods is expensive for companies. Since the resource bases of SMEs are usually smaller than those of large companies, they often lack the stayer-ability and resources necessary for operating in Russia.

In addition to a diametrically different business structure, Russia also has a different business culture compared to the Norwegian. These dissimilarities appear through the characteristics of Russian and Norwegian businesspeople. According to Geir Reiersen at *SIVA*, Norwegians are inclined towards openness, honesty and fairness. Russian businessmen are on the contrary inclined to secrecy and fierceness in competition. Connected to a general lack of preparation prior to investing, Norwegian companies in Russia are often naively blind to see the hidden power structures by which Russian businesspeople operate. Due to this, many Norwegian companies fail to run in line with local practices and become outsiders. Consequently, doing business in Russia becomes perceived as challenging.

Erik Welle-Watne at *Innovation Norway* stated that Norwegian companies should not choose Russia as their first foreign market. Main reason for this is the cultural dissimilarity between Russia and Norway. Inexperienced companies should instead choose markets culturally closer to Norway for their first expansion. Companies can consider moving towards markets more like the Russian after having gained international experience in culturally close markets.

### ***Companies***

*“A friend of mine once said that there is no country better to do business in than Russia; after you have overcome all of the challenges”* - John Kvasdheim, CEO of Amedia Eastern Europe and head of Amedia growth.

Majority of companies interviewed for this study have placed emphasis on the importance of preparations prior to investing in Russia. Jan Erik Strand at *Statoil* explained that the company has experienced the business culture and the regulatory framework as very different from Norway. According to Strand, there were challenges in understanding why *Statoil's* Russian partners acted in certain ways. The company also discovered that many of the regulatory and strategic documents used by Statoil in Norway seldom exist in Russia.

Furthermore, calculation of costs and economic terms also tend to differ from their practices.

Many of the informants have said that by assessing potential risks, doing business in Russia becomes more predictable. Trine Gustavsen at *Barel* said that the company has placed great emphasis on analyzing the national context of Russia. Early on, *Barel* began to use one of their Russian employees as a coordinator to ensure appropriate handling of their activities in Russia. This helped the company to avoid many potential risks.

Jan Ivar Rønning at *Elopak* said that after having done thorough risk assessments, Russia should not be perceived as anything special in terms of risks. “*The company should then feel integrated to the operational environment in Russia,*” said Rønning. Such preparations have helped *Elopak* with acting correctly in their surroundings. An example in this regard was when necessary documents for initiation of their newly opened production facility were delayed. By having good familiarity with the Russian way of doing business, the company managed to solve the situation quickly.

Not all risks can be avoided. Thor Halvorsen said that *Telenor* learned this the hard way through the conflict with *Alfa Group*. In 1998, the company made its first investment in what would become one of its major assets; namely *VimpelCom*. The invested amount was 162 million USD and gave *Telenor* 30 percent of the share ownership in *VimpelCom*. The investment was perceived as risky, and *Telenor* wanted to share some of that risk with a partner. Accordingly, this was how *Alfa Group* became a co-investor with *Telenor*. In 2004, the two parties came in conflict due to disagreement on commercial reasonability. It would take a long time before the conflict was solved. According to Halvorsen the situation became easier at the point *Telenor* began understanding the Russian way of doing business. By acquiring Russia-specific competence, the company managed to handle the conflict with *Alfa Group* in a proper manner. Based on this, Halvorsen recommends Norwegian companies to prepare themselves for conflict by building up leverage in the form of competence, relations and networks.

Based on *Jotun*'s over thirty years of activity in Russia, Svein Stolpestad explained that the company does not perceive Russia as more difficult than other markets. According to him, many western businesspeople have stereotyped Russia as a particularly difficult host-market. Stolpestad expressed that doing business in a foreign nation will always be more difficult than domestically. In his view, many investors do not seem to understand this. When challenges are dealt with, Russia is a good country for business.

Based on ambitions of growing outside the Nordic market, *Orkla* decided to invest in Russia. The successful experience with investment in *Baltic Beverages Holding (BBH)* in the 1990s served as an incentive for choosing Russia as host-market. Are Nakkim at *Orkla*

explained that great performance with *BBH* was a large inspiration for a new Russia-investment. This time, *Orkla* aimed at becoming a major actor on the Russian confectionary market. Through brownfield acquisitions, *Orkla* obtained the ownership of *Sladco* in 2005 and *Krupskaya* in 2006. Headquarters of the company were confident that these investments would be equally successful to *BBH*.

A lot had changed in Russia between 1990s and 2005. The management of *Orkla* did not take into account the substantial changes that had happened in the Russian market. According to Nakkim, when *Orkla* invested in *BBH* it was among the first international companies that invested in Russia. "At that time, there were no global actors in place on the Russian market," explained Nakkim. After having invested in the confectionary sector, *Orkla* acknowledged that the structure of the Russian market had changed significantly. In addition to not being the only foreign investor, the company experienced that the market had become centralized. Thus, in order to become significant in Russia one had to obtain a large market share in Moscow. Furthermore, the globally leading confectionary companies had large market shares.

According to Nakkim, there was not a good fit between what *Orkla* thought was necessary to succeed and the structure of the Russian market. Since the trend of large retailers has grown in Russia, the suppliers have been put under pressure. Due to the retailers having a centralized structure it was hard for the company to obtain a good position. *Orkla* had solid market-shares in Yekaterinburg and St. Petersburg. The company did not, however, have a large market share in Moscow; this made it difficult to get good deals with the retailers. Nakkim also admits that the management was too impatient and wanted to get revenues fast instead of investing more. In turn, this resulted in a total market share of 4 %, which was too small to succeed.

### ***Analysis and Discussion***

Russia is not a beginners-market for foreign investors. The interviewed facilitators have stated that internationally inexperienced companies should look to other markets than the Russian. Preferably these should be markets culturally proximate to Norway. In this sense, they have claimed that the stage-wise expansion is the most rational way to internationalize.

Cavusgil (2008) argues that unfamiliarity with context of host-nation lessens chances of success. Consequently, Norwegian companies should do thorough preparation and research on the Russian context. This way they will gain valuable knowledge that enhances correct handling of their Russia-activities. *Telenor* had to learn this through conflict with *Alfa Group*. The company's case has served as an intimidating example of what might happen with Norwegian companies in Russia. However, the case of *Telenor* can

also be seen from the opposite angle. Even though the company faced severe challenges, they managed to stand their ground and eventually succeed in Russia.

Internationalization theory suggests that in order to engage in international activity, companies must have a substantial amount of resources. As things take time in terms of getting revenues in Russia, Norwegian companies need to have patience in order to succeed. Having patience requires sufficient amount of resources. Such resource-need has generated an understanding where large companies are more likely to survive on the Russian market than small and medium sized companies. Although this understanding to some extent is true it must, however, be noted that small and medium enterprises also can achieve success in Russia. Sample of the current study, which consists of three SMEs and eight large companies, can serve as an example in this regard. At the same time as this number indicates that it is more challenging for SMEs in Russia, the three smaller companies in the sample are examples of the fact that companies of such size indeed *can* succeed in Russia. Companies are never better than the people working there. Thus, there is nothing hampering firms of smaller size to do good business, as long as they prepare before entering the Russian market. Besides, being a large company does not automatically grant success. In this case, *Orkla* can serve as an example.

*Orkla* had clear ambitions and potential for success on the Russian market. Being inspired by the success of *BBH* in 1990s the company invested confidently in 2005 and 2006. However, it took for granted the effects of globalization. A lot indicates that *Orkla's* insufficient preparations led to the company's unfortunate fate on the Russian market. Instead of adjusting their marketing strategies to the Russian market and investing more, the company became anxious about losing money and chose to withdraw from the market altogether. The experiences the firm acquired through this failure can serve as valuable information for Norwegian companies considering investing in Russia.

## **4.2 Economic factors**

### ***Facilitators***

Economic factors form the foundation for a company's activity on a foreign market. As stated earlier, it might take time before revenues begin arriving. According to Welle-Watne, at *Innovation Norway* the management must calculate for spending money on the establishment, marketing and networking within the first period of their Russia-activity. In this respect, a solid position on the home-market is favorable, as the company must have some income while establishing activity in Russia. In this regard, Bergersen at *Barents Secretariat* said that if the company has a good position elsewhere it will be easier to gain

credibility in Russia. This is because Russian businesspeople tend to decide the seriousness of foreign investors by looking at their domestic revenues.

Financial buffers and thrifty business strategies are necessary for expanding business to Russia. Sufficient amount of resources enables long-term perspective and patience. These features are essential as it takes time before the company gains a solid reputation and market share. Therefore, it is naïve to believe that revenues will come rapidly in Russia. If companies plan for that, they have misunderstood a great deal, said Bergersen.

In Russia, competition is hard and the market is demanding. According to Reiersen at *SIVA*, Norwegian companies operating there must put lots of emphasis on delivering good quality, quantity and prices. In order to succeed, Norwegian companies must be enthusiastic and operate professionally. They must also be able to deliver on higher demands so that they stand out from the crowd of their Russian competitors. In this respect, marketing is of great importance. According to Dag Ivar Brekke at *Innovation Norway*, a smart marketing move is to use their Norwegian identity, since Norway has a positive reputation in Russia. Thus, companies should create links between their activities and Norway.

### ***Companies***

The majority of the informants have reiterated that since things might take time, long-term perspective and patience are important factors for doing business in Russia. Sverre Gravdahl at *DNV GL* said that the company spent about ten years on meetings and communication with *Gazprom* prior to getting their first project. After completing this initial task, following projects were more comprehensive. Eventually, *Gazprom* granted the Norwegian company the largest project in *DNV GL*'s history.

*Reinertsen* has also experienced the need to invest a lot over a longer period prior to gaining profits in Russia. Torkild R. Reinertsen explained that approximately ten years ago, the company entered the Russian market through a brownfield investment by acquiring a production facility in the northwestern Russian city, Murmansk. Motive for entering the Russian market was to get a good position before the Shtokman offshore gas field. When the Shtokman project was abandoned, due to poor prospects on future revenues, *Reinertsen* lost some of its incentive for the establishment. As a large industrial boom did not come to Murmansk area, the company had to survive by other means. Due to the good position in Norway, the company filled capacity of the Murmansk facility with Norwegian projects. "Eventually, we aim at getting large projects in Russia," said Reinertsen. Based on the activity in Russia, *Reinertsen* has learned essentiality of long-term thinking and personal

commitment. *"Often it takes many years before the organization is fully stable and gets revenues...thus, being optimistic and having faith in the future is vital,"* said Reinertsen.

According to Strand at *Statoil*, flexibility based on a sufficient amount of resources and knowledge is necessary for good performance in Russia. *"Companies must be ready to protect their assets after having invested a lot of money,"* said Strand. Such has to do with asset protection. In addition to protecting their assets, Norwegian investors must think thoroughly through how to position their products on the Russian market. According to Stolpestad in *Jotun*, investors must understand the market structure and who is who in the surroundings. Dependent on which segment the company operates within, it must know with whom it can cooperate with and what channels it can reach its customers. Additionally, Norwegian companies must be aware of what products are on the market and whether there is demand for what they offer. This way, they become aware of what competitive advantages they have compared to the Russian companies on the market. Companies in the sample have all explained their awareness of what makes them better than their competitors. While some had put emphasis on their technology, others emphasized the quality and quantity of their production. Others have also used their Norwegian identity as a prerequisite. Common for all of the informants is that they put emphasis on building good reputations and having high moral standards as part of their marketing in Russia.

Marketing is essential in order to reach out to potential customers and take market shares. John Kvasdheim at *Amedia* said that the company at all times focuses on following up both their present and potential future customers. The company's policy of always putting the clients first separates them from many of their competitors. Kvasdheim believes that selling good quality, fast delivering and good customer service has helped the company to succeed in Russia. *"Prime Print has the customers it deserves,"* said Kvasdheim. Therefore, the company works with promotion each hour of every day. Also, *Reinertsen* has been working hard with promotion. Torkild R. Reinertsen said that the company tries to attend and hold speeches in Russian at as many conferences and important gatherings as possible. Such action shows that the company puts effort on visibility towards potential partners and customers. In this sense, the company works to build a good reputation and make itself visible on the market.

Being the leading Nordic supplier of concept solutions to the grocery and out-of-home sectors, as well as branded consumer goods, *Orkla* has a large resource base. In terms of position in the home market, the company has roots that go back to the year 1654, and is among the largest companies in Norway. Additionally, *Orkla* has annual revenues of approximately 30 billion NOK and a staff of about 28.000 employees. In addition to the Nordic market, the company also holds positions in India and Austria. Based on this, *Orkla*

has enough resources to have patience and long-term perspective in Russia. The financial background is also solid enough to be perceived as serious by Russian actors.

After having invested in *Sladco* (2005) and *Krupskaya* (2006), *Orkla* realized that competition in Russia was hard. Both Russian companies and foreign investors were at all times working hard to hold their positions on the market. As the Russian market is large and interesting for many actors, there was a constant need of taking market shares in order to survive. According to *Orkla*, acquiring and maintaining a good position in this market is expensive due to its substantial size. Therefore, the company perceived the Russian market as tougher than the Nordic.

*“It might be that we had too high expectations about getting revenues fast. Maybe there should have been invested more money and time into the Russian activity. Some say that we did not invest enough from the start and that this harmed our chances of attaining the right starting position...we should probably have invested more. However, the question is if that would have made things better...we were afraid of losing money.”* – Are Nakkim, Vice President of Business Development at Orkla International.

*Orkla's* main strategy entails local brands. Therefore, the marketing has been done in the same way in Russia as in other host-nations where the company is active. As the company now acknowledges not having succeeded it is, therefore, questioning the applied marketing techniques and strategies. A vast difficulty was that their largest competitors in Russia had global brands while they had focused on local branding. Also, working with local brands was not a success like it is in the Nordic countries. In Nakkim's opinion, Russian customers tend to be drawn towards larger brands, which are either national or global.

### ***Analysis and Discussion***

A sufficient amount of economic resources allows the company to be flexible and handle unforeseen market alternations. To increase chances of success, Norwegian companies should preferably have financial buffers and solid positions on their domestic market.

In order to succeed in Russia, Norwegian companies must be flexible and adjust their products and activity to the demands on the market. Investors must, therefore, at all times have a realistic perspective on their surroundings and the market structure. In this way, their services and products will fit in with the market structure and the mentality of the customers. As has been said in theory, in order to operate successfully on a foreign market, companies must have something that none of the Russian companies have. It can be technology, marketing skills, good prices or national identity. Some examples from current company sample are, *Statoil's* unique offshore petroleum technology; *Amedia's*, capacity

and customer service and *Reinertsen's* intensive promotion by attending and speaking at Russian conferences. Thus, in order to succeed on the Russian market, Norwegian companies must be aware of what makes them different, in a positive sense, from their Russian competitors. Moreover, they need to use these differences as competitive advantages through marketing.

In some respect, the case of *Orkla* resembles *Jysk's* case. The company's management realized that the products they offered did not match the Russian market after they had invested there. Consequently, they failed at understanding the mentality of Russian customers and what marketing strategies suited Russia (Moscow Times, 2013).

In the case of *Orkla*, the management expected to get revenues fast. According to the facilitators and majority of the other companies in the sample, getting revenues fast is opposite of what foreign investors should expect in Russia. *Orkla* had the economic backbone, but lacked patience and staying power. As stated in theory, investors must be willing to put in time and money in the Russia project. They must also be sure that the strategy and tactics they are using correlate with what is needed to succeed on the Russian market. Such was, unfortunately, not the case for *Orkla*.

### **4.3 Organizational factors**

#### ***Facilitators***

Choice of organizational structure has a large impact on performance in Russia. According to Brekke at *Innovation Norway*, Russia is known for having a top-down structure with authoritative and hierarchal features in organizations and companies. Norwegian companies should therefore consider whether it is rational to implement a different model than the Russian. In this respect, Reiersen at *SIVA* explained that in order to achieve good performance fast, Norwegian companies should use the Russian organizational design. Implementing the Norwegian model straight away will most likely lead to confusion and struggle for the company and their Russian employees. Moreover, it will take much time and money to make the local employees think like Norwegians. "*In a way, you take away the benefit of being in Russia and having Russian employees by making them think like Norwegians,*" said Reiersen. However, if the company has time and patience, some Norwegian elements can be added over time.

Commitment from headquarters has great influence on of performance in Russia. According to Welle-Watne at *Innovation Norway*, no matter the size and business sector of the company, the management should be active in following up the activity in Russia. "*Headquarters in Norway must keep track of, and follow-up actions of managers at the*

*local entity*," said Welle-Watne. As for actions taken on a daily basis, the local management can get some autonomy. In this regard, Celius at *DNB* recommended implementation of corporate governance as a guiding line. According to Jarle Forbord at *NRCC*, top managers must be able to show that they have power and capability to take decisions. They should also take time to travel and control that the activity goes as intended.

If the Russian management is left unattended for too long, unwanted tendencies might occur. Such tendencies are creation of sub-cultures, bubble thinking and frustration over too much autonomy. *"In the worst case, these tendencies can cause the company to loose its path towards the goals that were initially set,"* said Brekke. Therefore, relationship between the headquarters and local management must be built on trust, understanding and frequent communication. However, even though the relation seems to be working fine, there is always need for checks and follow-ups. According to Celius at *DNB*, the headquarters must present guidelines for how it wants the Russian entity to be operated. It will then be easier for the Norwegian management to navigate the Russian entity through their plans and goals.

As has been mentioned before, companies are never better than their employees and even the largest enterprises can make wrong decisions. Consequently, an important feature of those who succeed contra those who fail is the quality of their employees. Having good people working *in* Russia and *with* Russia at home is the criteria on which companies stand or fall. According to Celius at *DNB*, expatriates sent to Russia must be open-minded and culturally sensitive. Simultaneously the headquarters must understand the Russian context and have a "hands-on" approach on the activity. *"The management must work professionally and use the right people who work hard"*, said Reiersen at SIVA.

### ***Companies***

Companies in the sample have chosen different approaches to leadership and organizational aspects. Some have chosen a pure Russian model in terms of organizational style. Others preferred a Norwegian organization style or a mixed model where the organizational structure and leadership style belong to different models. *Akvaplan-niva*, *Telenor*, *Amedia*, *Barel*, and *Elopak* implemented a pure Russian model. *Jotun*, *Statoil*, *DNV GL* and *Reinertsen* have, on the other hand, chosen different modifications of the Norwegian model. As for *Wenaasgruppen*, the chosen organizational design seems to be mixed since the company has a Russian general manager and the Norwegian way of operating.

Some of the companies in the sample have placed great emphasis on using a Norwegian organizational design. Such emphasis entails that they operate by the same structure in all their foreign entities. However, informants in these companies have said that

because of cultural differences there are some alternations between host-nations. Due to the implementation of a foreign model, some misunderstandings have occurred.

Companies choosing the Russian organizational model said that it was obvious for them that managing a Russian entity by a Norwegian style would be unfitting. They acknowledged that the expectations to them as leaders in Russia differed greatly from those in Norway. According to Halvorsen at *Telenor*, the company works in the way that is compatible with the Russian culture and business structure.

Companies such as *Akvaplan-niva* have even taken it a step further and enhanced assimilation between the Russian and Norwegian working teams towards each other. Salve Dahle at *Akvaplan-niva* explains that firstly, the company hired Russian employees with the necessary skills and knowledge. Next, the management focused on incorporating the Russian employees into their organizational culture. Then, the Norwegians used the Russian employees as advisors for their activity, making learning and adjustment go both ways.

Due to their general differences in operational characteristics, the Norwegian companies in this sample have chosen different ways of activity in Russia. *Elopak*, *Jotun*, *Barel* and *Reinertsen* have production facilities. *Akvaplan-niva* has a subsidiary with limited activity. *Wenaasgruppen* is an investor operating through a Russian general manager and the international hotel-operator, *Rezidor*. *DNV GL* works with projects and has a representation office in Moscow. Common for all of these companies is that their activity in Russia is fully owned by them, meaning that no additional investors are participating in decision making of their Russia-activity. In the cases of *Statoil*, *Telenor* and *Amedia*, other shareholders are involved.

Common for all the abovementioned companies is strong engagement from headquarters. In the case of *Barel*, top management has been very much involved in the Russia-activity. The company's headquarters in Kirkenes is constantly following the activity in Russia to ensure full control over everything that happens. "*This also helps on the level of togetherness within the company,*" stated Gustavsen at *Barel*. In the case of *Reinertsen*, the headquarters has given lots of attention to the Russian unit. For some time, Torkild R. Reinertsen was himself the director of the entity. Nowadays, he spends one third of his time on following up of their activity in Russia. *Wenaasgruppen's* top management has continuous contact on mail/phone with the general manager in Russia. All issues are thus handled at once.

Informants in the sample placed emphasis on having control over the strategic actions of the local management. Such control is manifested through frequent communication, reporting and visits. Interaction mostly happens through e-mailing and phone calls. Majority of the informants uttered the importance of paying visits to the

Russian entity on a monthly basis. The headquarters of *Elopak* has put great emphasis on supporting the Russian unit from Norway by ensuring that information flows both ways. *“This way, they Russian staff will feel included in the activity of the whole company,”* explained Rønning at *Elopak*.

*Orkla’s* organizational style in Russia was the multi-local model. Such model builds on the understanding that since Russians know their local context best, they should operate the entity in Russia. Communication between the headquarters and the Russian subsidiary was manifested through monthly business reviews and projects. *Orkla’s* management perceived it as natural to apply a Russian organizational structure and leader style as it was in line with the local customs. The Russian manager understood Norwegian demands in terms of good governance. *“His working style was, however, very independent, so he preferred to take his own decisions in regard of running the entity,”* explained Nakkim. Norwegian headquarters was in this sense only an advisory organ.

### ***Analysis and Discussion***

Organizational factors such as leadership style and structure have a large impact on the performance of Norwegian firms in Russia. Fey and Shekshnia (2010) argue that robust organizational culture with clear practices has a positive correlation with performance in Russia. Facilitators interviewed for this study stated that the majority of Norwegian firms in Russia implement the Russian organizational design. As mentioned, the main elements of such structure are large power distance, defined employee-tasks and hierarchical structure.

According to earlier research, Norwegian businesspeople planning to invest in Russia should implement the Russian organizational model (Almås, 2012). Main reason for this is said to be that the Russian employees are expecting to be told what they should do in detail. History has shown that employees who have acted upon their own initiative have been punished for their actions. Russian employees are, therefore, often reluctant in making their own decisions, and thus working in accordance to a more network-based, Norwegian style.

The question of what it takes for Norwegian firms to succeed with internationalization to Russia also touches upon the subject regarding modes of entry. Choice of organizational structure and degree of control the headquarters must have over the Russian entity also depends on whether the entry was through a brownfield or greenfield investment. Through brownfield investments companies tend to get some of the old culture and structure. Such might have a mixed impact on the activity. In greenfield investments, the Norwegian investor will be free to create the Russian activity “from scratch.”

Norwegians that are to work as leaders in Russia should consider initiating their management by a classic, authoritative leader style, which is standard in Russia. The Norwegian manager must, therefore, show that he or she is the top executive of the whole firm, also the Russian unit. Such practice is essential since the amount of attention top management pays to the entity in Russia is significant for performance. After a while, as they gain trust from their Russian employees, Norwegian leaders can begin introducing elements of the Norwegian organizational structure (Almås, 2012).

Although the facilitators argued that a Russian organizational style would be most rational, not all the firms in the sample chose this model. *DNV GL* and *Jotun* were among the firms that implement their versions of the Norwegian organizational styles. Rationale behind implementing such models was that they are using them all over the world. Moreover, for *DNV GL*, the organizational model is a vital part of the activity. As most of the firm's operations are project-based, the activity is not continuous in one place. When their employees finish a project, they begin working on a new one in another country. Due to their standardized organizational structure, the employees do not need to re-adjust every time they move.

Other firms in the sample chose the Russian model due to perceiving it as most rational to use on the Russian market. *Orkla* was among them, as the company perceived it as rational, and, therefore, chose to operate by the multi-locational model. Several of the other Norwegian firms in the sample did the same as *Orkla*. Although choosing such organizational style is perceived as rational in Russia, firms must be aware of the mentality of Russian employees. Many Russians are attracted to working for foreign companies, as they want to experience the foreign organizational culture. Therefore, it is important for Norwegian investors to live up to expectations of their Russian employees. They can do this by having some visible foreign elements in their organizations. Such elements can be fairness, transparency, and a chance to have an impact on the company to feel as part of something important (Fey & Shekshnia, 2010).

Facilitators interviewed for this study emphasized the important role of headquarters and the top manager of the firm. As said in theory, cultural dissimilarities between Russia and Norway are manifested through different aspects. One of them is the role of leaders, who are, by their peers, perceived as superior (Hofstede, et. al., 2010).

Leaders have a significant meaning in all societies. By making their followers rise to new heights, they push social and economic evolvement at macro and micro levels. Russia has a long tradition with strong leaders such as Peter the Great, Josef Stalin and the WW2 hero, Gregory Zhukov. Thus, Russians look to their leaders as superior beings worthy of their compliance. What Norwegian investors must understand is that conformity and

respect will come only if the foreign leader demonstrates true competence and delivers tangible results. To some extent, foreign managers must live up to a higher ideal than Russian managers since, in Russia, the general belief is that foreigners are more progressive and can do more for their staffs than Russian CEOs (Fey & Shekshnia, 2010).

History has shown that Norwegian investors have failed at operating their Russian activity from Norway (Høiby & Kreuzenbeck, 2012). A major problem has been that Norwegian headquarters have not been good enough at keeping control with the Russian management of their entities. Although *Orkla* had chosen an organizational design perceived as rational, the firm's Norwegian management gave its Russian entity too much autonomy in terms of decisions. By letting the Russian management take strategic decisions alone, the headquarters lost some of the control over the activity in Russia. Consequently, the achievement of goals set by the Norwegian leadership was to some extent dependent on coincidence in terms of how the Russian management chose to steer the entity. Both facilitators and earlier research have stated that in some way, the top management must be present, at least through monthly visits by representatives with decision-power, as a business in Russia should not be operated only from Norway.

In the case of Norwegian firms in joint ventures with Russian actors, particular attention is required. Contrasting to firms with full ownership, those who have Russian partners cannot have full control over the entity and activity of the Russian entity. Such tends particularly to be the case in strategic sectors. Challenges Norwegian firms face in these sectors stem from having to cooperate with Russian partner(s) at the same time as protecting shares and amount of decision power. If operating in strategic sectors, the firm needs to work in line with a complex, and often alternating, legal framework. Consequently, such activities demand a great deal of attention from the Norwegian headquarters. It is then highly important that only people with high experience and significant roles in the firm work with the Russia-project.

#### **4.4 Cross-cultural aspects**

##### ***Facilitators***

Facilitators interviewed for this study perceive cross-cultural understanding as critical for business activity in Russia. Norwegian companies operating in Russia must know where to go, whom to talk with and what to do. *"Norwegians working in Russia often do not pay enough attention to these challenges, which if taken seriously before entering the market, can save both money and time,"* said Forbord at NRCC. Norwegian expats must, therefore,

get profound knowledge about Russia, as superficial a relationship to Russia is both disadvantageous and unfitting.

Lack of familiarity with cultural and historical aspects of Russia might lead to difficulties for Norwegian companies. As these features constitute a great part of Russia's national context, they affect every sphere of the nation. According to Forbord at *NRCC*, lack of information about culture and history, leads to misunderstandings and an eventual perception of Russia as a complicated market. With sufficient background information, Norwegian companies can escape many obstacles. It is, therefore, important to attain cross-cultural knowledge prior to investing.

Challenges Norwegian organizations meet in Russia are most often connected to insufficiency of cross-cultural understanding. As Russians are very sensitive about their culture and history, they become very proud when foreigners show interest and knowledge about these features. Bergersen at the *Barents Secretariat* said that the Norwegian employees working with the Russia-activity must become utterly familiar with the Russian culture. Such will make it easier for them to operate there and increase their chances of assimilation to the surroundings.

Difficulties caused by lack of understanding and familiarity with Russian context can be dealt with through several methods. One example is to hire Russian employees to work at the headquarters. Innovation Norway has done so. According to Welle-Watne, having Russian employees at the headquarters can make it easier understand the things with which Norwegian employees struggle.

Having language skills is important for operating in Russia. However, knowledge of history and culture is has been perceived by majority of the facilitators as more important. Familiarity with and understanding of these aspects would make Norwegian companies understand the decision patterns of Russians. Such is important, as many of the practices by which Russian businesspeople operate are not visible to the foreign eye, unless the foreigner is familiar with the Russian culture, history and society. "*Being able to speak the language will not by itself enable you to see these hidden structures,*" said Reiersen at *SIVA*.

While some are of the opinion that the language is less important than knowledge of culture and history, others think that being able to speak Russian language is very important. Forbord at *NRCC* said that prior to engaging in the activity on the Russian market, Norwegian companies should make sure that their expatriates are able to speak Russian. Without the language it might be challenging to communicate with Russians as a low number of them speak English, although this has improved in the largest Russian cities during the last 20 years. By learning the Russian language, expats will also learn much about the society, literature and culture. However, it will take a lot more than speaking the

language in order to succeed on the market. “Expats speaking Russian will have an advantage as they more rapidly establish contacts and grasp the developments in society than most other non- Russian speakers,” said Jarle Forbord.

### **Companies**

Majority of informants in the sample placed emphasis on the importance of cross-cultural understanding. However, not all had analyzed the cross-cultural aspects prior to investing in Russia. Companies that felt confident about their knowledge of the Russian context prior to investment were *DNV GL*, *Jotun*, *Akvaplan-niva*, *Elopak* and *Barel*. Informants in these companies said that their managements had put accent on attaining cross-cultural understanding before initiating activity on the market.

*DNV GL* puts great emphasis on knowledge of cultures and languages of their host-nations. Before initiating activity in Russia, the company used the international experience available inside the organization. Due to the many nationalities working there, they managed to accumulate relevant information on how to run activity in Russia. According to Gravdahl, Norwegian employees who spoke Russian got the responsibility for the first projects as well as having contact with customers in Russia. Due to their experience as expatriates, ability to speak Russian, and understanding of the culture, they now have the responsibility for the Russia-segment at headquarters of *DNV GL*.

Similarly to *DNV GL*, also *Jotun* places great emphasis on knowledge and understanding of the cross-cultural aspects. When the company hires people to work with the Russian unit for a long period, it expects the employees to learn Russian language, understand the culture and know the history. Based on many years of experience, Stolpestad in *Jotun* advocates that Russia is among the nations where familiarity to cross-cultural aspect is most important. Also, *Akvaplan-niva* has placed great emphasis on these features prior to investing. Due to their knowledge of Russian culture and history, the company managed to avoid the classic traps into which foreign companies might fall. Among such traps are failure of understanding norms, values and the meaning behind actions of Russians.

In the cases of *Statoil* and *Amedia*, levels of experience were moderate prior to investment. *Amedia* had familiarity with Russian cultural context through the social network of their Northern-region director, Reidar Karlsen. Karlsen’s personal experience of the culture helped the company to get accepted in the Russian surroundings. As for *Statoil*, some information was gained through *Hydro Agri*, which had been active in Russia prior to the merger of *Statoil and Hydro*. However, the company has in retrospect acknowledged that there should have been placed more focus on the cross-cultural aspects. According to

Strand at *Statoil*, having some language skill helps knowing that interpreters are not leaving anything un-translated, as some expressions do not exist in Russian or have a different meaning. In order to improve language skills of the company's employees in Russia, *Statoil* will focus more on language training. Thus, prior to starting in their jobs, new employees will be sent on a three-month intensive Russian language course.

As for *Telenor*, *Reinertsen* and *Wenaasgruppen*, the level of Russia-knowledge prior to investment was limited. *Telenor* entered Russia with fairly little background information and only a couple of employees with some language skills and contextual knowledge. "Back in the beginning, the management of the company did not grasp the importance of contextual-knowledge of the host-nation," said Halvorsen at *Telenor*. This insufficient understanding played in as a component in the conflict with *Alfa Group*, as the company did not understand the rationale behind *Alfa Group's* actions. Nowadays, *Telenor* places a lot of emphasis on language, history and culture. The company acknowledges that familiarity with the Russian cultural context not only helps them to understand Russia better, but also provides something to talk about with Russians.

Not all companies in the sample perceived cross-cultural aspects as important for operating in Russia. The investment company, *Wenaasgruppen*, did not have any contextual knowledge of Russia prior to investing. The company made their first investments in Russia in the hotel property segment. Two hotels were bought in Murmansk (2005) and St. Petersburg (2006). These first investments were rather small. By doing this, *Wenaasgruppen* had the possibility to withdraw from the market if they did not succeed. Along with their acquisition of the St. Petersburg hotel the company got a Russian general manager. At first, they did not think that his services would be necessary. However, it did not take long for them to learn the contrary. According to Wenaas, the management now understands the vast meaning of contextual knowledge. The company acknowledges that Russia is a nation different from Norway in many features, and that these differences must be accepted and respected. Through cooperation with a large hotel operator, *Rezidor*, and a Russian general manager, *Wenaasgruppen* acts in line with the local customs in Russia. Nowadays, the Russian market is a valuable investment area for the company.

In the case of *Reinertsen*, the decision of starting the activity in Russia was so rapid that the company did not have time to attain cross-cultural experience. As it took only three months from the final decision of investment was made till *Reinertsen* was operating in Russia, the company had to learn to know Russia through experience. According to Torkild R. Reinertsen, through hard work, enthusiasm and emphasis on language, the company has managed to hold its position in Russia.

For Elopak's activities in Russia, cross-cultural knowledge and understanding has been a crucial factor. The company had stressed the importance of understanding and respecting their surroundings. *"The most obvious way they can do this is by showing that they know Russian culture and history,"* explained Rønning at Elopak. *"Russians have a background, just like Norwegians. So, instead of getting frustrated over the Russian way of doing things, Norwegian companies should try to look behind the actions and try to understand their reasons,"* said Rønning. In this regard, Dahle at *Akvaplan-niva* argued that those who come to Russia with their pockets full of money, and without knowing anything of the national context, are easily tricked out of everything they own. *"Without proper background research, Russian businessmen will make fools out of naïve Norwegian investors,"* said Dahle.

Many Norwegian investors misunderstand how they should approach Russians and their culture. Some are of the opinion that in order to get on the good side with Russians, they need to get drunk with them. Gravdahl at *DNV GL* disagrees with this notion. He never drinks alcohol when in Russia. Instead, he likes to engage in conversations in Russian language about the Great Russian poets and the history of the nation. This gains him greater respect and stronger relationships than getting drunk does. *"This is because Russians appreciate understanding of culture and history more than drinking abilities,"* said Gravdahl. This perception is supported by majority of the informants in the sample.

The interviewed companies handled difficulties caused by cross-cultural factors in different ways. In the case of *Barel*, a Russia-coordinator was used in an early stage of the company's activity in Russia. Gustavsen at *Barel* explained that the company had a Russian employee working at headquarter prior to making the decision of investing in Russia. After deciding to outsource production to Russia, the company's management used this employee as a coordinator. Whenever an uncertainty occurred, *Barel* would use the coordinator for clarification of the vague situation. *"Since the coordinator knows both Russian culture and the language, the company escapes lots of misunderstandings,"* said Gustavsen.

During the development plans of the Shtokman gas-field, *Akvaplan-niva* saw good potential for business in Russia. Thus, the company invested in a subsidiary. Due to the postponement of Shtokman, the activity in the Russian subsidiary had to be reduced. Consequently, the company drew back its business, and took their Russian employees, to Norway. Afterwards, the work towards Russia was continued from the company's facilities in Tromsø. Management of *Akvaplan-niva* placed lots of emphasis on team building within their staff. Such created a culture of mutual understanding, respect and dependence among the employees of *Akvaplan-niva*.

Shortly after hiring their Russian team, *Reinertsen* took them to Norway for a three month-long workshop session at their facilities in Orkanger. Torkild R. Reinertsen described this as an amazing experience as it gave a valuable insight into the way their newly hired team worked. Management of the company was impressed by the high level of skill, optimism and motivation the Russian workers had.

In the case of *Amedia*, the Russian employees have knowledge of Norwegian culture and language. According to Kvadsheim, many of the Russian employees in central positions in *Amedia's* subsidiary, *Prime Print*, have taken some of their education in Norway through exchange programs between Norwegian and Russian Universities. During their time in Norway, these Russian employees learned to speak Norwegian. Due to this, the Russian staff of *Amedia* has great knowledge of the Norwegian culture and business. In such way *Prime Print* represents both Russian and Norwegian cultures.

By using the multi-local organizational model, *Orkla* covered a lot of the difficulties that could have been caused by cross-cultural factors. In a way, their practice could resemble the way *Wenaasgruppen* used their general manager and hotel operator, *Rezidor*. *Orkla's* lack of Russian language was resolved by hiring Russian employees who spoke English. According to Nakkim, even though the headquarters valued the fact that their Russian employees had knowledge of Western business culture and spoke English, they acknowledged that people with these qualities are not necessarily the best at doing business. *Orkla's* management now recognizes that more cultural understanding would probably have helped the activity.

### ***Analysis and discussion***

Knowledge of Russian history and culture is vital, as the dissimilarities between Norway and Russia are vast. These differences must be understood, accepted and respected. In order to increase chances of success, Norwegian companies should know that Russian history has shaped its modern culture and national society. The nation's historical roots appear in its contemporary cultural manifestations. Thus, in order to understand the reason behind Russian reality perspective, Norwegians need to be aware of these manifestations. Lack of insight to the history will make it difficult to grasp Russian mentality and know how to act. Having cross-cultural understanding will help Norwegian companies to gain legitimacy from their Russian surroundings. In this regard, it is essential to know on what aspects Norway and Russia differ. Then it will become possible to use the attained knowledge to navigate successfully on the Russian market (Moscow Times, 2012).

Cultural divergence theory advocates that the more interaction there is across cultures, the more visible do the contrasts between them become. In this respect,

internationalization theory suggests that the culture is an aspect that might cause difficulties for foreign investors (Dicken, 2011). Lack of a profound cultural understanding is also one of the major weaknesses of foreign companies compared to local companies on the market. Such can lead to difficulties with marketing as a foreign company struggles with understanding the mindset of the local customer. Furthermore, a business with shortage of such understanding might be seen as an illegitimate actor on the market (Michailova, 2000; Almås, 2012).

All informants for this study had put emphasis on cross-cultural understanding. Facilitators stated that in order to do business in Russia, Norwegian investors should become familiar with what constitutes the Russian cultural context. What they seemed to differ on was the importance of speaking Russian language. Some of the facilitators argued that knowledge of history and culture was more important than being able to speak the language. Norwegian companies would also gain greater insight to the Russian culture by learning the language.

Although they had contrasting opinions on the issue of language, all facilitators agreed that the Norwegian investor must get a deep understanding Russian culture prior to engaging in business activity. Such is especially important since the Russian businesspeople operate by hidden practices. Norwegian companies without sufficient knowledge of the culture and history will be operationally blind in the sense of not knowing how to act correctly. Thus, companies sending expats to Russia must make sure that they are familiar with concepts such as “*mutual responsibility*<sup>3</sup>,” “*false evidence*<sup>4</sup>,” “*administrative resources*,<sup>5</sup>” and “*Black PR*<sup>6</sup>,” as these factors are important components of the hidden power structures (Høiby & Kreuzenbeck, 2012). Furthermore, if Norwegian investors spend more time on studying their Russian surroundings, they will get an insight to how the “impact-chains” work in the area within which they plan on operating. In this way, many of the potential risks can be avoided.

Informants from companies participating in this study acknowledged the great importance of cross-cultural knowledge. However, not all companies had such knowledge prior to entering Russia. Companies that did not prepare themselves were, therefore, in greater danger of facing classical challenges such as failure of understanding the meaning behind actions of Russians, following standards, respecting values of and showing knowledge of Russian culture and history.

---

<sup>3</sup> “*One for all, and all for one*” mentality in a tight social group that helps each other whenever there is need.

<sup>4</sup> Fabricated evidence or information for use against competitors and enemies.

<sup>5</sup> Having good relations to people in the bureaucracy that can affect decision processes.

<sup>6</sup> Black PR and “dirt-packages” sold to the media for creation of bad reputation

Companies in the sample had different ways of dealing with cross-cultural differences. *DNV GL* used experience available in the broad specter of nationalities working at the company's headquarters in Høvik. *Jotun* required expats to learn Russian language and history. *Akvaplan-niva* used the downscaling of their Russian subsidiary to their advantage by taking their Russian staff with them to Norway and using them as consultants. *Wenaasgruppen* used the Russian general manager and the hotel operator, *Rezidor*, for dealing with cross-cultural aspects. *Reinertsen* brought their newly employed Russians to their workshop in Orkanger. *Barel* used a Russia-coordinator. All of these cross-cultural handling procedures did not only benefit the companies in terms of correct initiation of activity and lessening of cultural shock for their expatriates, but also in terms of easing cultural hitches and benefitting the organizational culture within the company. By gaining cultural-understanding and acting correctly in terms of Russian standards and values, it was easier for the companies to make their Russian employees understand the norms and values of the Norwegian company. Exemplified by the cases of *Akvaplan-niva* and *Amedia*, such methods to handle cultural differences have helped to develop unique business cultures. In turn, these companies became culturally sensitive and increasingly integrated.

As mentioned in the facilitator-interviews and theory chapter, companies that fail to familiarize with the Russian culture, history and language can go into the trap of doing the wrong things and failing to promote their products in the right way. Such was the case for both *Jysk* and *Selfa Arctic*, presented in the theory chapter. These companies did not prioritize to get familiar with the Russian culture, history and language before entering the market. Therefore they failed. In the case of *Orkla*, a lot more could have been done in regard of cross-cultural understanding. However, *Orkla's* case differs slightly from those of *Jysk* and *Selfa Arctic* in respect of why the firm needed cultural understanding. For *Jysk* and *Selfa Arctic*, cultural knowledge was critically needed for communication and assimilation with surroundings. Since *Orkla* was using the multi-local model, the problem of assimilation and communication with surroundings was not pressing. As their Russian employees spoke English and had understanding of western business, it seemed as if there was no need for learning Russian language and culture. However, even though their employees had such qualities, they were still Russians. Therefore, in order to understand what was going on within the organization, the management of *Orkla* should have engaged in interaction based on cultural understanding. In such manner, the company's management could have been able to create a more integrated business culture.

## 4.5 Legal system and bureaucracy

### *Facilitators*

Legal system and bureaucracy, in addition to cultural features, make up the context of a nation. Throughout interviews with the facilitators it was mentioned that the obstacles Norwegian companies often come across in Russia are connected to bureaucracy and legal system. Due to these aspects being substantially different from Norway, many fail to understand and adapt to them. According to Ine Charlott Paulsen, The Ministry of Trade, Industry and Fisheries gets feedback from Norwegian companies that they often experience these systems as less predictable than in Norway.

Russia's regulatory system has struggled in terms of honesty and predictability. According to Brekke at *Innovation Norway*, starting a business in Russia can be challenging, since Norwegian companies are stepping into a demanding reality, contrasting from the conditions at home. Earlier research has pointed to the Russian legal system as a particularly challenging aspect. In this respect, Bergersen at *Barents Secretariat* said that it is not necessarily the legal system in itself that creates the challenges. Often, problems have come up in respect of those who press charges. As these people often have an agenda, the legal system becomes a tool for them.

Some of the facilitators claim that during the last 20 years, Russian legal system has improved, and is considerably better today than it was in the 1990s. "*20 years since the fall of Soviet Union, Russia is finally beginning to get something that resembles a reasonable legal system*" said Reiersen at *SIVA*. Nonetheless, the system has a long way to go in terms of freeing itself from politics. According to Reiersen, this is because the Russian government seeks justification through "rule by law" rather than "rule of law."

Russian bureaucracy can feel overwhelming for Norwegian investors. The combination of long processing, tendencies of corruption and large volumes of paperwork can seem as difficult to handle. Nevertheless, the facilitators have stated that it is manageable. As long as the company has control over necessary documents and stamps, the bureaucracy should not be hampering. "*The hardest part of the Russian bureaucracy is the lack of coordination within the system,*" said Reiersen.

### *Companies*

The problems of doing business in Russia are often associated with the regulatory system. Therefore, Norwegian companies aiming at doing business in Russia must establish in a way that helps them steer out of difficulties caused by the Russian legal system. In this respect, Halvorsen at *Telenor* said that if companies *do* end up in this system, their chances of loosing are rather high. Therefore, they must take precautions and build leverage.

*Akvaplan-niva* places emphasis on using a skilled business manager to handle legal twists. The company figured out that this was smart after going through a challenging legal process. *“Often, no matter how unjust a fine might be, if not too big, it is better to pay than go to court and try to protect yourself from it. Even if you challenge the verdict, you have to pay a fine for avoiding losing your operating license. If you eventually should win the court case, the costs of your lawyers will often be as high as the fine you got in the first place,”* said Dahle at *Akvaplan-niva*.

Among the most central experiences *Wenaasgruppen* has made during their nine years in Russia are importance of endurance and respect for the system. Regarding their hotel-investments, the company has experienced some delays and less understandable regulatory situations, *“but that is more or less the same in other countries we operate,”* said Wenaas. The company has always waited for as long as needed and followed all required practices. Even though there were aspects they personally did not agree with, they accepted them and settled within the operational realities in Russia.

Amedia has also emphasized to live by the rule of always following the Russian legal framework. According to Kvadsheim, one thing is the laws and regulations; *“such things must always be obeyed”*. Another thing is the work of the institutions that control and regulate the legal framework. There is room for improvement of the latter. Still, Kvadsheim acknowledges that since this is the way the system functions, companies must accept, respect, and follow it. Consequently, Norwegian companies that want to succeed in Russia must be humble and law-abiding in order to avoid challenges.

Majority of the informants in this study said that they have used assistance for handling the legal framework of Russian. According to Rønning at *Elopak*, *“trying to save money on legal consultancy is not smart”*. Therefore, *Elopak* uses A-listed lawyers. In addition to increasing chances of winning potential court-cases, this signals that people with an agenda will have a hard time trying to run false cases against the company. Moreover, it gives the ability to attain correct position in respect of the legal framework.

Norwegian investors should calculate legal expenses into their business plans. Companies of a large size can afford to have big legal staffs constantly working for them. Smaller companies would have difficulties affording the same. Still, even budgets of SMEs should contain resources for legal advisors. *Barel* is an example in this respect, as the company hired two extra employees to have responsibility for monitoring finances and the external legal structure. *“This helped to increase predictability and transparency for the business,”* said Gustavsen. In such way, *Barel* has gained greater ability to navigate confidently through uncertainties.

In respect of bureaucracy, Norwegian investors need both patience and thoroughness with paperwork. According to Stolpestad at *Jotun*, it is important to make sure that all of the necessary papers are in order at all times. This way the Russian bureaucracy might feel less overwhelming. After all, the procedures are thoroughly explained officially. If companies bother to take time and understand these procedures, they will save themselves for lots of frustration.

*Orkla* experienced the Russian legal system and bureaucracy as difficult. In addition to many other Norwegian investors, *Orkla* ended up in a challenging court case. "*It has felt difficult for us to win in the Russian legal system,*" explained Nakkim. In respect of the bureaucratic system, *Orkla* experienced some issues with delays of the right licenses and documents.

### ***Analysis and Discussion***

Legal structure and bureaucracy are important parts of the host country's context. As these factors create the backbone of the nation's regulatory system, Norwegian companies must become familiar with them. Cavusgil (2008) has described the legal systems as a potential risk for internationalizing companies. The level of riskiness correlates with the level of contextual knowledge. Russia's legal sector is an important factor to be aware of due to the number of laws and the frequency of alternation of them.

Nevertheless its reputation for being complicated for foreigners to understand, the legal system in Russia has during the last 20 years experienced improvement. A lot of the procedures have become more transparent and fair towards foreigners. Norwegian companies have on several occasions won lawsuits filed against them. As was stated by the facilitators, the problem of lawsuits often has the core at the people who are pressing charges. Legal system in Russia becomes a tool for people with an agenda. In combination with a lack of transparency and tendencies of corruption, this is a possible source of challenges for Norwegian companies. Therefore, they should calculate for use of legal consultancy for their Russia-activity.

Majority of the companies in the sample have put emphasis on legal assistance. Some of them hired own lawyers staffs, while others used business coordinators to help them navigate in the Russian regulatory system. In addition to seeking advice for handling the legal system, Norwegian companies must be able to withstand the pressure from people with agendas who want to use the legal system as a tool against them. In this regard, the case of *Telenor* is a clear example of how standing the ground and resisting pressure pays off in the end. Sometimes, court cases in Russia can feel upsetting for Norwegian investors, as the apparatus around them seems to be biased. In order to succeed, Norwegian

companies need to be prepared for the worst, but stand their ground and hope for the best. In the case of *Orkla*, the outfall of the court case was negative. However, this does not mean that Norwegian companies cannot win in the Russian legal framework. *Telenor* is an example of it being possible.

Many have described bureaucracy in Russia as overwhelming due to large volumes of paperwork, long processing and tendencies of corruption. Many processes have often been slowed down due to bureaucratic delays. As presented in the theory chapter, there are historically and culturally rooted reasons for having such a system. Uncertainty avoidance, large distances to power, low degree of individuality have their impact here. Bureaucracy is also one of the cultural manifestations of Russia. It appears through the hierarchal form of structure, authority and communication in organizations. In such systems, things might take time. However, according to the informants for this study, as long as companies plan for it and set aside enough time, the Russian bureaucracy is fully manageable.

The legal system and bureaucracy of Russia should not be so difficult to handle as many have stated. Such is because there is official information with procedures available (Høiby & Kreuzenbeck, 2012). With the help from lawyers and other experts, it is possible to get an overview and do the right things. What there, however, is no information about are the mentioned informal practices, after which Russian businesspeople operate. These practices have evolved to make up for what the legal system and institutions lack. Simultaneously, they undermine the formal system. In order to manage these factors, Norwegian companies should seek advice from experienced investors and knowledge intensive networks. Doing so will increase their chances of success.

## **4.6 Dealing with corruption**

### ***Facilitators***

The issue of corruption has often been associated with doing business in Russia. Some sectors are more troubled by corruption than others. The facilitators described the public sector as a particularly bad case in respect of corruption.

Even though Russia has substantial problems considering corruption, the facilitators have said that Norwegian companies are good at staying away from murky business. "There is no need for being a con in order to do business in Russia," said Brekke at *Innovation Norway*. Forbord at *NRCC* shared this opinion by stating that it is fully possible to do good business in Russia without being corrupt. "*Otherwise, we would not have a bilateral trade of close to 19 billion NOK,*" said Forbord. The essence is to know your partner and keep up ethical and sound Norwegian attitudes and standards.

The facilitators interviewed for this study were of the general opinion that the majority of the Norwegian companies operating in Russia are good at avoiding corruption. Some of them pointed out that Norwegian companies operating in Russia are well aware of challenges connected to corruption, and therefore tend to have good CSR strategies and codes of conduct. The facilitators also agreed that being consequent on avoiding corruption would eventually give the company respect within the surroundings.

### ***Companies***

*The fact that there is corruption in Russia is not unique as this is a problem for many countries* - Svein Stolpestad, Group Vice-President – Business Development and Strategy at Jotun

Companies in the sample have all stated clearly that they distance themselves from corrupt business. Several of the informants said that the Russian bureaucracy has often been bothered with tendencies of corruption. According to Halvorsen at *Telenor*, processes might take very long time because someone in the bureaucracy is expecting to get paid in order to speed things up. Investors must, therefore, have patience and be clear that they will not play along on any corrupt actions. All of the informants from the respective companies in the sample uttered that after a while the corrupt actors will understand that there is no use in trying to get money from the Norwegian companies. It is important to be consistent in this respect and never pay anyone under the table.

The informants from the most internationally experienced companies in the sample uttered that corrupt practices can be found all over the world, and that tendencies of corruption have appeared even in Norwegian business. Thus, it is important to be aware of the fact that many other nations also struggle in this respect, not only Russia. Hence, investors do not need to be corrupt or criminal in order to do successful business there.

### ***Analysis and Discussion***

The problem of corruption is broadly extended in Russia. Consequently, most Norwegian companies in Russia have on many occasions come across this problem on a smaller or larger scale. Measured by Transparency International, and put emphasis on through Ease of Doing Business list, the corruption level in Russia is known for being high. Compared to Norway that is on 5th and 9th places on Transparency International and Ease of Doing Business's rankings, Russia is on 127th and 92nd place (Transparency International, 2013; Ease of Doing Business, 2014). Companies in this study have all stated that they took distance from corrupt practices. Nonetheless, it must be noted that even if they did commit corrupt activities, they would never admit it in an interview for this research. In this case, it

is a methodological challenge. There is, however, no reason to believe that the companies in the sample are anything other than law-abiding and legitimate in their practices.

According to several informants, after having rejected corruption several times, it stops being an issue. Hence, this means that even though corruption is so highly extended, Norwegian companies seem to be good at avoiding getting their hands dirty in corrupt business. Therefore, Norwegian companies aiming at succeeding with their business in Russia must never go along on corrupt activities. Although the corruption is a bigger problem in Russian than in Norway, it is equally illegal in both countries. After all, honest and law abiding investors have been able to do business in Russia just as easily as some Norwegians have involved themselves in corrupt activities both domestically and abroad.

#### **4.7 International experience**

##### ***Facilitators***

Majority of the interviewed facilitators said that before internationalizing to Russia, Norwegian companies should gain experience from culturally proximate markets. Such is reasoned with the belief that international experience prior to investing in Russia can help companies to perform better. According to Brekke at *Innovation Norway*, companies must gain international experience other places prior to entering Russia. International experience from other countries will make companies aware of the need to do things differently. *“By internationalizing to a culturally proximate nation the company will become aware how culture affects business in different nations...companies will discover the need to do things differently even in culturally proximate countries,”* said Bergersen at *Barents Secretariat*. Failure of acknowledging this might cause difficulties, especially in Russia.

In regard of gaining own international experience prior entering Russia, companies must choose host markets purposefully. According to Welle-Watne at *Innovation Norway*, investors should plan their internationalization strategically. Their expansion should, therefore, be initiated in culturally proximate countries. Afterwards, Norwegian firms can look to markets *“east of the Carpathian mountains.”*

Although international experience was perceived as important by majority of the facilitators, many of them said that it was not a mandatory precondition for doing business in Russia. Thus, companies without any international experience are fully able to internationalize successfully to Russia. However, in such cases they need to put emphasis on acquiring particular knowledge of the Russian culture, business and regulatory system. According to Paulsen at *the Ministry of Trade, Industry and Fisheries*, most companies that

operate in Russia experience that knowledge of the Russian context is equally important to international experience.

Investors must know what market and society they are about to enter. Seeking advice prior to investing should always be of high importance. Companies could get valuable information from interaction with those who entered the Russian market in the 1990s. By exchange of experience, potential new investors will get an insight and learn from mistakes made by the pioneers. *"This is exactly what the Norwegian-Russian Chamber of Commerce works for...we offer businesses in both countries arenas for personal contacts and exchange of experience,"* said Forbord at NRCC

### ***Companies***

Norwegian companies interviewed for this study had different approaches to internationalization in terms of experience. Some of the companies gained international experience in other countries prior to entering the Russian market. Others gained international experience through cooperation with foreign companies or by starting activity in Russia simultaneously as they entered other countries. The latter was the case for *Akvaplan-niva*. In parallel with the initiation of the activity in Russia, the company had engaged in Canada, Africa and the Middle East. The geographical closeness to Russia in the North, made it natural to have an interest for the large neighboring nation. In *Reinertsen's* case, both the levels of international experience and knowledge of Russian context were limited. Nevertheless, Torkild R. Reinertsen said that due to having taken his education abroad he had an *"international feeling."* Furthermore, the company had gained some experience through cooperation with Italian and British companies within the oil and gas segment.

*Elopak, DNV GL, and Jotun* are among the largest Norwegian companies and have significant positions in each their segment on the global market. Their activities in Russia went many years back and were started after they had expanded internationally. International experience these companies acquired had in each way helped them to handle the Russian context better. Nevertheless, it is important to acknowledge that these companies have put great emphasis on familiarity with the Russian context prior to investing and engaging heavily on the Russian market. According to Rønning at *Elopak*, even though international experience is significant, contextual knowledge of Russia is more important. *"Companies need to understand the history and culture of the host-nation they are about to enter,"* said Rønning.

Not all of the companies in the sample attained international experience before initiating activity in Russia. Still, some of them are among those who have succeeded the

most in Russia. *Telenor*, *Wenaasgruppen*, *Barel* and *Amedia* are examples of such companies. *Telenor* had neither international experience nor contextual knowledge prior to investing in Russia. As the management of the company did not do much analysis prior to entering the market, their road was, therefore, formed as they went. Nowadays, *Telenor* makes serious considerations prior to investing. *Halvorsen* explained that the risks *Telenor* took back then are greater than many would dare to take today.

In regard of *Wenaasgruppen*, *Barel* and *Amedia*, the informants stated that they had no international experience prior to going to Russia. Nonetheless, each of them had found their way to handle the Russian context directly, without internationalizing to culturally proximate markets first. *Wenaasgruppen* managed to cope with their direct investment in Russia by hiring a Russian general manager and cooperating with the international hotel operator, *Rezidor*. *Barel* did it through using one of their Russian employees as a coordinator, initiating the project “Raduga” and using the network of Geir Torbjørnsen<sup>7</sup>. *Amedia* gained confidence to enter Russia by leaning on the large social network of the director for the northern region in *Amedia*, Reidar Karlsen.

*Orkla* is one of the largest and oldest companies in Norway. For many years, the company has been active outside of the Norwegian borders. As has been mentioned, the main part of the company’s activity lies within the Nordic nations. Additionally, *Orkla* has activity in Austria and India. The company’s path to Russia went through a stage wise internationalization to other markets. Nevertheless, the company did not achieve success. Although the result of *Orkla*’s second investment to Russia was not successful, their path to the Russian market resembles that of *DNV GL*, *Elopak* and *Jotun*.

### ***Analysis and Discussion***

Russia is not like other countries. While no countries are totally identical, some are more alike than others. Russia, especially if compared to Norway differs particularly (Hofstede, et. al., 2010). Such entails that Norwegian companies that wish to start a business there should be well prepared in terms of being internationally active in order to minimize risks of failure (Cavusgil et. al., 2008). Stage theory of Uppsala School suggests a stage-wise international expansion for reducing business risks. In doing so, the stage theory suggests that a company should begin internationalizing by expanding to a geographically or culturally close host-market (Johanson & Vahlne, 2003). The company can use the experience gained in the proximate countries when moving to further stages of internationalization.

---

<sup>7</sup> Geir Torbjørnsen founded *Barel* in 1993.

Most of the facilitators interviewed for this study advocated for a stage-wise expansion. They supported such internationalization by a belief that companies would become aware of the need to do things differently than on the home market even if they first went to culturally close countries. There was, however, some among the facilitators that slightly disagreed with this point of view. In their opinion, since Russia differs substantially from the West, it would do little good to have international experience from nations such as Sweden. As the national context of Russia to a large degree differs from Norway, gaining experience in culturally proximate countries to Norway would have rather little effect. Companies should, therefore, build up their knowledge about Russia in order to increase their chances of performing well there. In this respect, Welle-Watne at *Innovation Norway* suggested that Norwegian companies should gain relevant international experience from countries further east, as their cultures resemble the Russian, but are often more modified to Western practices.

The respective companies in the sample chose different paths to Russia. Even though a stage-wise expansion was presented as the most rational way of internationalization, not all companies in the sample chose this path. Some of them invested in Russia as their first international market. *Barel* and *Amedia* are good examples in this respect. Still, their performances have been among the best in the history of Norwegian business in Russia. In this manner, their way of international expansion brakes with recommendation of the facilitators. Moreover, it brakes with the stage-wise approach suggested by the Uppsala School. In this regard, Carlsson and Dale's (2011) study on the internationalization being a diversified activity, which does not seem to follow any particular stages or cultural proximity rules, seems to suit. Another important aspect is that Orkla and Jysk failed even though they had followed stage-wise path to Russia (Moscow Times, 2012)

## **4.8 Networking**

### ***Facilitators***

Participation in networks helps foreign investors get control over the environments in the host-nation. "*Based on the experiences of Norwegian companies, the ministry has an impression that networking is essential in Russia. We, therefore, think that Norwegians going to Russia should seek networks for advice and support for handling cross-cultural aspects and other contextual elements of Russia,*" said Paulsen in the Ministry of Trade, Industry and Fisheries.

In this regard, Bergersen at *Barents Secretariat* stated that Norwegian companies would get a broader view of the Russian market by participating in network activities. “*It will become easier to figure out with whom they should do business and whom they should stay away from,*” explained Bergersen. In this sense, it is important to be aware of when and where the networking takes place. Norwegians are used to going home from work at 16:00. Such is not the practice in Russia, he said. At 16:00 o clock the formal workday ends and informal networking begins. “*Taking part in them is Alfa and Omega,*” said Bergersen.

Russia is a network-nation. According to Brekke at *Innovation Norway*, its economy is mostly based on relations. Therefore, in order to operate successfully, Norwegian investors need to participate in networks. Participation in networks is unavoidable due to Russia being network-oriented nations. The networks are both of formal and informal characters. According to Celius at *DNB*, participation in social networks is the fundament of survivability for Norwegian companies in Russia. The networks should be thoroughly and strategically made, meaning that its members should have functions and positions valuable for the Norwegian company.

Access to decision-makers is significant in Russia. “*Investors should aim at gaining access to the highest-ranking people in their surroundings,*” said Reiersen at *SIVA*. However, gaining such access is easier said than done. In order to gain access to the networks of high-ranking actors, Norwegian investors must have something valuable to offer. Moreover, the ability to access important people and their networks differs in respect of business size and activity. Welle-Watne at *Innovation Norway* said that it often is easier for companies of larger size to get in touch with decision-makers than for SMEs. He bases this argument on yearlong experience of seeing that larger companies have greater mechanisms for networking and are often perceived as more important on the market. “*It takes a lot before a small company manages to build relationships on the same level as a large corporation. Therefore, it is not common that small and medium companies establish contacts at the same level as large companies,*” said Welle-Watne. Smaller companies often struggle with reaching the right people. Therefore, ability to build strong and influential networks depends on the company’s size.

There are many ways through which a Norwegian company can build a network in Russia. According to Brekke at *Innovation Norway*, an efficient way of gaining access to a network is by having a local contact or partner with a well-developed network in Russia. Such, however, entails that Norwegian investors looking for Russian partners or contacts must consider the size and level of their personal networks. So is important because the local contact with a well-developed network will help to establish good relationships in the

surroundings where the business is going to operate. Such strategic work with network-establishment should be a part of the company's business plan.

However it is important to acknowledge that networking in Russia does not stop at establishment of the acquaintance. After having built a relationship it is important to nurture it regularly. Despite today's communication improvements within digital media, personal contact cannot be replaced. It is exactly such contact that Russians value so highly. "*They want to look you in the eyes and make a personal evaluation...in this respect, Norwegian investors have a way to go,*" said Forbord at NRCC.

### ***Companies***

The informants at companies in the sample stated that networks are important for doing business in Russia. According to Halvorsen in *Telenor*, Russians are more relation oriented than Norwegians. He adds that *Telenor* learned the value of working with the governmental authorities of the nation through their operational experience in Russia. Therefore, they have a representation office in Russia, so that they can take part in the Russian network.

For *Reinertsen*, relation building on a high level has been very helpful. Especially on minister level. "*It is necessary to have good relation with the authorities in the region of operation,*" said Reinertsen. In the case of the company, getting in touch with the right people showed to be very helpful when the company experienced delays of construction approvals from the local authorities. During a Murmansk visit by the Norwegian Minister of Foreign Affairs, management of *Reinertsen* got the chance to speak with the Russian Minister of Foreign Affairs, Sergej Lavrov. The company used this opportunity to mention the situation with the production facility. Not long after, the construction approval was granted. Such might have happened as an indirect result of the conversation with Lavrov.

According to Strand at *Statoil*, high-level networking is vital for survival in Russia. Strand said that decision-makers always have advisors. It is, therefore, necessary to find out who these people are, and establish contact with them. Then, the company can use these contacts for protection and positioning on the market. However, according to Rønning at *Elopak*, majority of Norwegian businessmen seem to lack understanding of the importance networking has for doing business in Russia. Investors must get an interface with Russians that goes deep. The Norwegian company must, therefore, establish personal relations within its surroundings as good relations weigh more than contracts and revenues in Russia. As having contacts high up in the system provides protection, investors should know whom to contact and how to play on these contacts towards the surrounding.

For *Amedia*, *Akvaplan-niva* and *Barel*, networks have been important. Their informants said that due to participation in networks, the companies have increased their

performance and ability to survive in Russia. Director for the Northern region of *Amedia*, Reidar Karlsen, was an exceptional networker who was strongly involved from the start. “Russians perceived him as a reliable person with whom they wanted to do business,” said Kvadsheim. If it had not been for networking, *Amedia* would probably not have had activity in Russia.

*Barel* has had good use of its network. The company’s founder had built an extensive social network. “He knew people in Kirkenes who were working towards Russia. He also had contacts in Murmansk,” explained Gustavsen. This network was used to establish *Barel* in Murmansk. “Within nations where relationships have a lot to say for business, such as Russia, it is particularly important to build and participate in networks,” explained Gustavsen. In this regard, Dahle at *Akvaplan-niva* said that especially for small companies, having good and trustworthy partners in their networks seems to be important. Dahle said that *Akvaplan-niva* has known many of its Russian partners for over 20 years.

Companies with global networks often tend to get prerequisite due to their valuable contacts and international references. Often, they follow their customers to new markets. Such has been the case for *Elopak*, *DNV GL* and *Jotun*. Informants at *DNV GL* and *Jotun* uttered that due to the majority of clients being multinational actors, their networks are global. Nevertheless, they still perceive having good relations to major Russian businessmen and entities as highly important. In the case of *Jotun*, good references and global networks have contributed to benefits such as access to exclusive projects where only the largest and best global corporations gain access.

For *Orkla*, participation in networks was limited. The Russian management had a well-established network, which they used. In this way, the company had access to the broad network of their Russian staff. As for *Orkla*’s Norwegian management, network activity was rather small. According to Nakkim, the company attended some meetings arranged by *NRCC* and had contact with *Eastern Europe Group*, which also is a facilitator for Norwegian business. However, there was no frequent participation in knowledge intensive networks with other companies.

### ***Analysis and Discussion***

Earlier research has shown that social networking is of great value in Russia. As the Russian economy is based on relations, Norwegian companies should gain access to valuable contacts. Good relations to important people can make it easier to do the right things and avoiding unpleasant surprises in the surroundings. However, they can also be demanding as Russians want favors in return for the favors they grant. Corruption might occur in such “grey-zones.” In order to increase chances of success, Norwegian companies

must be aware of these practices. Seeking advice and knowledge in networks of experienced Norwegian investors can be very helpful in this regard (Solberg, Ablerdu, Eliseeva, 2008).

The strong network-dependence in Russia can be perceived as a way of compensating for the lack of effectiveness of Russian institutions in respect of following up laws and regulations. As stated by the facilitators in this research, in order to get legitimacy and respect in Russia, Norwegian investors must assimilate to their surroundings. However, such dependency on the surroundings creates uncertainties, for the business.

Perspectives on the importance of networks have to some degree differed between facilitators and companies. The general impression is that the facilitators have advocated for a stronger significance than some of the companies have in respect of what networks have to say for success in Russia. For *DNV GL*, good reputation has had greater value than for *Akvaplan-niva*. A lot also depends on the business within which the company is engaged. However, as both earlier research and information collected from facilitators and majority of the companies have said, Russia has a relation-based economy. Naturally, participation in networks will only be positive for the business, even if they live off their reputation.

## **4.9 Business Plan**

### ***Facilitators***

Thorough planning increases chances of success for companies that internationalize. According to Reiersen at *SIVA*, planning has a positive effect on doing the right things once entering the market. Spending enough time on preparation before investing in the Russian market helps saving resources. Companies should, therefore, plan well and set aside enough time prior to entering the Russian market. "*Those who do this seem to be performing well in Russia,*" said Brekke at *Innovation Norway*.

Based on information from the business community, Paulsen in the *Ministry of Trade, Industry and Fisheries* said that the main path to success in Russia seems to be extensive and precise preparations. Through preparing and setting aside sufficient amount of resources, investors become capable of handling alternations that might occur on the market. "*Investors must know the market and have the ability to adjust to changes within it,*" said Paulsen. Therefore, large parts of their business plans should be built on knowledge of history, culture and the language prior to investing. It is also important to look to what others have done, argued Paulsen. Through preparations, the company might be able to foresee different scenarios for what can happen on the market. Hence, it might increase chances of success.

According to Bergersen at *Barents Secretariat*, some Norwegian companies are surprisingly poorly prepared before entering Russia. “*Norwegian investors must be aware of the need for creating tactics and strategies that are compatible with the framework of the Russian market,*” said Reiersen at *SIVA*. Both tactics and strategy should according to him preferably be made while being in Russia as strategies and tactics created in Norway will most likely not work as intended when investors cross the border over to Russia.

The amount of time and money put in business plans also depends on the sectors within which companies aim at operating. Forbord at NRCC is of the opinion that the business challenges for Norwegian enterprises in Russia depend on whether they operate in the strategic sectors or not. “*Those who operate in such sectors should pay close attention to restrictions for foreign investors, observe rules and regulations which might be changed and have a solid knowledge before investing,*” said Forbord. Companies aiming at operation in these sectors should, therefore, prepare to spend more time on planning than those operating in other non- strategic sectors.

All of the facilitators argued that planning is crucial for internationalization of business activity to Russia. However, there is a fine balance between necessary and redundant amounts of planning. Even though planning is essential, spending a redundant amount of time on it will only cost the company extra resources. Moreover, as the market is not static, many things can change during the time spent on preparations.

### ***Companies***

According to Rønning at *Elopak*, detailed planning will give investors greater feeling of control over their actions and situation in Russia. In this regard, Gustavsen at *Barel* said that companies must seek control over their surroundings. Such control can only be acquired through full insight and understanding of the consequences of each action the company undertakes. If the company has done a thorough job in regard of analysis and planning, it will be easier to handle the surroundings within the host-nation.

Companies in the sample of this study had different approaches to planning prior to investing. The consideration each of them undertook differed substantially both in time spent and level of analytical thoroughness. Some of these differences derive from the different amount of risks in their segments of operation.

According to Halvorsen, the first business plans made by *Telenor* were not particularly optimistic. He explained that the first investment made by the company was made on a not so optimistic background. The telecommunication industry was more or less non-existent and the general economic level of Russia was low due to recent regime change

and economic reforms. Nevertheless, the Russian market growth came much sooner than expected; this made their case much better than anticipated.

Similar to the case of *Reinertsen*, *Amedia* had not worked out specific plans for their investment prior to initiating them. Their Russia investment was primarily based on the social network of their district manager, Reidar Karlsen. However, even though their business plans were rather minor, the management of the company had clear preconditions for starting the activity. A major requirement was that half of the capacity at the printing-facility was booked prior to starting up the activity.

Before investing money in its own entities, *Barel* and *Akvaplan-niva* spent many years engaging in familiarization projects in Russia. Prior to initiating its own projects in the Russian market *Akvaplan-niva* decided to travel around with their Russian colleagues in Northwest Russia, said Dahle. *"This was done to get an overview of the environmental situation on the Russian side...we were gaining perspective alongside of filling in blank spots on the map,"* explained Dahle. In the case of *Barel*, a project called "raduga," was initiated as part of the Russia-activity. In total, it took about five years from *Barel* began planning to enter the Russian market till a unit was operating in Murmansk.

Lots of time and efforts were put in thorough analyses and consideration before the remaining companies in the sample entered the Russian market. In the case of *Statoil*, planning has been particularly important. Since the company operates in a strategic sector, they plan each of their actions carefully. *"Lots of time has been spent on strategic plans,"* said Strand. *Statoil* has managed to get results based on good plans. He added that prior to the Shtokman-project, lots of time was spent on analyzing networks of Russian decision makers and other key actors.

Also, *Wenaasgruppen* considered thorough planning as particularly important. Prior to entering Russia they spent much time on calculating the economic risks of operating there. Wenaas said they attained figures from investors from whom they planned on buying properties. *Wenaasgruppen* also used the experience records from investment activity in Norway.

However, even though Norwegian companies need to put emphasis on planning, they must acknowledge that things do not always go as scheduled. Often, companies need to spend more time and money than they had anticipated. *"But this is rather usual no matter what nation you enter,"* said Stolpestad at *Jotun*. Therefore, companies must have resource buffers for handling the extra costs that might occur.

### *Analysis and Discussion*

Planning helps reducing the uncertainties in respect of entering a new market. Cavusgil (2008) argues that internationalizing companies become exposed to risks through cross-cultural, financial, political and commercial aspects. Unfamiliarity with these features lessens chances of success. Business plans for activity in Russia should, therefore, contain systematic analyses of risks and profits. Thus, risk assessments can help companies to become aware of potential threats to their business (Cavusgil et. al., 2008; Jacobsen & Thorsvik, 2007; Fey & Shekshnia 2010). Naturally, for investment to be profitable, risks must not overdo revenues. Such assessment of risks is important because they help to avoid traps and obstacles (Cavusgil et. al., 2008).

Level of performance with internationalization is reliant on whether the process was planned or spontaneous. In this respect, companies in the sample chose different approaches. Some had spent many years on sequential planning and development of activity. Others had not planned at all and based their Russia-investment on a more or less spontaneous basis. The main detail here is that all of the companies were steady enough to handle the way they internationalized. Even *Reinertsen*, that made the decision of entering Russia on a late evening in January, managed to succeed. Hence, this entails that as long as the investor has enough resources, optimism and willingness, everything can be possible. Such might be the case where things went wrong for *Orkla*. The company had the resources and even earlier experience in Russia. Optimism and core willingness to succeed have, however, seemed to be absent. *Orkla's* case resembles that of *Selfa Arctic* and *Jysk* in respect of lacking preparations. These companies lacked insight on what it would be like to operate in Russia. Prior to entering Russia the second time, *Orkla* perceived that it would be as the success of *BBH*. This market entry thus seems to be based on the plans from the first investment. As the management found out that the competition had become increasingly challenging, some of the optimism and willingness to stay faded. Accordingly, in order to succeed in Russia, the investor must be aware of the exact situation within the context they are within which they are to be operating. Furthermore, she or he must be certain that they still can, and want to do this.

### **4.10 Summary**

Throughout this chapter, different variables with significance for performance in Russia have been presented. The importance of each variable has been defined by theoretical relevance, earlier research and emphasis the informants have placed on them. In this manner, it has been possible to pin down some of the factors that affect the ability of

Norwegian companies to succeed on the Russian market. During this research it has become obvious that no matter the size, business sector or amount of resources, companies must face more or less the same factors. What distinguish companies that fail in those who succeed are their approaches to handling of the factors represented by the variables. Throughout this chapter, an attempt has been made to analyze and systemize such techniques. Companies can achieve more success by intelligently building on the knowledge acquired by those who have gone to Russia before them (Fey & Shekshnia, 2010). Gathering and analyzing methods of those who succeed can in this way contribute to helping future Norwegian companies establish in Russia.

The variable of the business plan was presented lastly due to it being intertwined with all of the other variables. As has been stated by facilitators, importance of planning prior to investing is great. Unfortunately, Norwegian companies have not always been particularly good in this regard. Therefore, in order to gain better chances of success in Russia, the investors should incorporate all of the abovementioned variables into business plans. In this way, they will become better equipped for business activity in Russia. However, it is important to set limits for the planning so that it does not go into an overwhelmingly long process. When all of the necessary aspects prior to market entry are covered, investors should not spend more time on preparations. Instead, they should seek more practical information, preferably through interaction with experienced investors in knowledge-intensive networks. It is also important to add that planning has to be dynamic. Conditions change, and keeping plans updated is at least as important as making them in the first place.

According to Fey and Shekshnia (2010), the difficulty of doing business in Russia is beneficial for those who have learned to operate in that business culture. With the specialized operational experience, these companies can reap greater profits since their unique experience is hard for others to replicate. Simultaneously, if such information is gathered, systemized and made available, it will benefit both Norwegian investors and the Russian market. Norwegian companies aiming at achieving good performance in Russia should, therefore, seek such information. Hence, such entails both prior to investment and during the Russia activity.

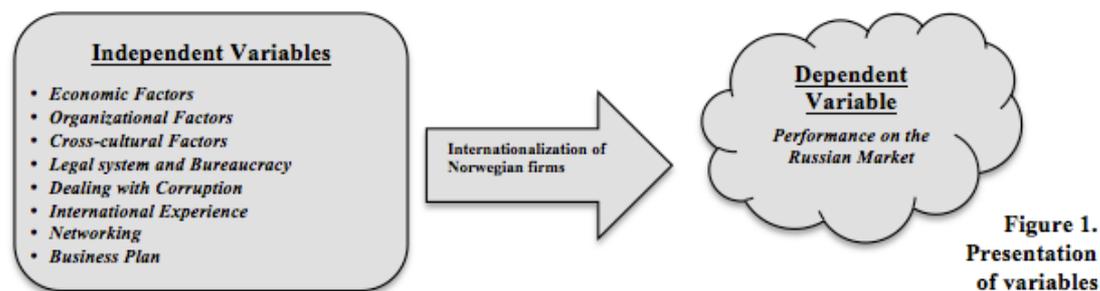
In regard of companies in the current sample, the gathered information has not given the impression of their having gained help from other companies prior to investing in Russia. The general impression is that the companies that have performed well in Russia know rather little about each other. Several of the informants have said that they take part in conferences and network meetings arranged by different facilitators. However, except this, they have little direct contact. When asked about whether they receive questions of help,

some of the companies with most Russia-experience have said that more inexperienced Norwegian companies seldom approach them. Suggestion to further research can, therefore, be to study ways in which Norwegian companies doing business in Russia can come together in communities and help each other to succeed by sharing their experiences and knowledge. Another suggestion for further research is to look deeper into practices of companies in different business segments.



## 5. CONCLUSION

The purpose of this study has been to look at what it takes for Norwegian companies to achieve success with their internationalization to Russia. Internationalization undertaken by transnational corporations is both a cause and a result of globalization. Companies expand to foreign markets in pursuit of new profit opportunities. In this regard, Norwegian companies internationalizing their activities to the Russian market are contributing to driving the processes of globalization. As was mentioned in the introduction, internationalization of companies is in this study perceived as an integrated process of globalization. Figure 1 presented what was perceived as main variables affecting whether Norwegian company internationalizing to Russia will succeed.



The model has proven to have a wide explanatory power in respect of what features affect performance on the Russian market. The independent variables have each showed their relevance for the performance of Norwegian companies in Russia. The model's wide character has allowed studying companies of different size and business segment. Therefore, a clear strength provided by combination of current model and study sample is the possibility to look for resemblances of practice undertaken by different companies. As a result, some main characters and aspects of what it takes for Norwegian companies to succeed with their internationalization to Russia will be presented bellow.

Internationalization theory suggests that companies need some firm-specific assets and resources in order to operate in a foreign country. Hence, Norwegian companies going to Russia need to have sufficient resource base and a healthy economy. In Russia, things might take time in terms of the regulatory system, as well as establishment of business, networks and name on the market. Business plans and strategies must, therefore, be thrifty and account for a period without any profits. Consequently, in order to succeed on the Russian market, Norwegian companies must not count on enjoying fast revenues. They must instead have a long-term perspective and be patient. Furthermore, companies must account for having to spend much more resources than initially anticipated.

Transnational corporations have often been associated with bigness due to the understanding that a business needs substantial resource base in order to survive an

expansion to a foreign market. Such has correlated with the general belief about what sizes of companies are likely to succeed in Russia. Based on the need to have a long-term perspective due to slow regaining of investment, Russia has been perceived as a market most appropriate for large companies. As Norwegian business has a small share of large companies, the character of the Russian market seems to be diametrically different compared to the character of Norwegian business. Nevertheless, cases of Akvaplan-niva, Wenaasgruppen and Barel can serve as proof that small and medium enterprises have the potential to succeed on the Russian market.

Since the company is never better than its employees, even large corporations can make mistakes. The case of Orkla can in this regard serve as evidence that large companies can fail (just as easily as small companies). Thus, as long as SMEs work professionally, are dedicated and send their best and culturally informed people, they have a fair chance of success on the Russian market. It must, however, be taken into account that the stakes are usually higher for companies of smaller size as their resource bases tend to be smaller than those of large companies.

Cultural differences between Norway and Russia are significant. These dissimilarities make themselves visible through both business culture, and the mentality of customers. Norwegian companies retain characteristics from their home nation. Thus, they are used to a relatively organic culture, with a network-shaped authority, control and communication as well as a rather low power distance. Since Russia business culture has a bureaucratic character, with hierarchy and power distance, Norwegian companies in Russia will experience the need to operate differently than they do in Norway. Moreover, they will need to follow demands of customers who have, due to a different culture, a different mentality. In turn, this affects both character of product demand and marketing strategies. These obstacles can be dealt with by use of different strategies. Firstly, the companies should create its business plan based on relevant observations of the Russian national context. Secondly, the company should put emphasis on the use of human resource management. This way, expats will be prepared for the need to work differently than at home. Thirdly, the company can hire Russian coordinators to work at the headquarters of the company in addition to participating in relevant networking-arenas for Norwegian business in Russia.

Internationalizations theory suggests that in order to be active on a foreign market, the company must offer something that none of the local companies has. However, the offer must go in line with the mentality and needs of the customer. An example of this can be how the Danish company, Jysk, failed to take into account that their assortments might not be fitting with the Russian way of living. Thus, there is no point in offering a product for

which there is no market demand. Therefore, before investing, Norwegian companies must know whether there is demand for their products or services.

After having ensured that there is a market for their product, Norwegian companies must find out how to do effective marketing. A lot depends on the business segment in which the company operates. For some of the companies in the sample business to business were the common method for marketing, while, for others, direct marketing towards customers was used. In either way, the management must be aware of the business structure and general marketing strategies used in Russia. As the Russian power structure has become increasingly centralized, so has the market. Therefore, a reasonable place to have focus is Moscow, as it is the capital of Russia and the main hub for foreign direct investments to Russia. Furthermore, as Norway has a good reputation in Russia, basing some of the marketing on the Norwegian origin of the company might increase chances of success.

In order to succeed in Russia, Norwegian companies must have stayer-ability. Such ability does not only stem from economic resources, but also from the courage and willingness to fight for market position and assets. Russia is a tough market, and the competition there can be fierce. Due to substantially different business cultures, Norwegian companies have tended to be too soft and naïve when doing business in Russia. In order to succeed, Norwegian companies must become tougher and be prepared to protect their assets. In this regard, Telenor is a good example. The difficulties they have faced in Russia are among the most severe Norwegian companies have met abroad. Their problems in Russia have raised the perception of Russia as a difficult country for business. Nevertheless, by standing their ground and fighting to protect their assets, Telenor managed to withstand the pressure. Due to this, the company gained considerable respect. Moreover, the case of Telenor has shown that if Norwegian investors dare to stand against the pressure in Russia, they can succeed.

In order to increase the chances of success, Norwegian companies must be prepared to handle the Russian bureaucracy and legal system in a proper manner. Thus, the companies should seek legal advice for navigating through the large number of laws. Especially if companies plan on operating in the strategic sectors of Russia, they must be sure to run correctly. Both the large and some of the smaller companies in the sample have solved insecurities connected to legal aspects by hiring business consultants and legal staffs. The general belief among the informants was that saving money on legal advisors and lawyers is without sense when operating in Russia. In regard of bureaucracy, Norwegian companies must brace themselves with patience. As the bureaucratic system often works slowly and has tendencies of corruption, companies need to calculate for spending much time on acquiring the right documents with the right types of stamps on them. They must

also have in mind that although the Russian regulatory system has been described as challenging it is fully manageable as official information for all of the mandatory procedures is available online.

Due to mischiefs in efficiency of law enhancement institutions, many informal practices have been formed among Russian businessmen. These are hidden power structures within social networks that have developed in order to make up for insufficiencies of the regulatory system. Norwegian companies planning to do business in Russia must be aware of the existence of such hidden power structures. They must make sure to know who is participating in them so that they can know how to act right in the surroundings. If companies fail to see these structures, they might not understand from where the potential pressure against them comes. In the case of Selfa Arctic, this was among the reasons to failure.

In order to succeed with the business in Russia, Norwegian companies must understand that the Russian economy is relationship based; meaning that a relation weighs more than a contract. Norwegian investors must, therefore, build solid networks and spend time on building trust to actors within their surroundings. Informants in this study have said that networks should be built on as high levels as possible. The participants in networks should be actors significant position for the company's activity on the market. Furthermore, facilitators in the sample have said that seeking information in networks of experienced investors before the investment will give the company valuable insight into how it should operate in Russia. Thus, mistakes made by previous investors can be used to lower the number of failures in the future. Together with information about successful activity, it will be possible to create appropriate business strategies for operation in Russia.

International expansion should according to the stage theory of Uppsala School, follow sequential patterns. This internationalization method is perceived as a risk reducing in terms of the amount of international experience a company acquires. If a company moves through a sequential pattern of internationalization it will understand that even in culturally proximate markets it must do things differently. Companies in the sample had different approaches to internationalizing. While some followed a sequential pattern, others established in Russia on a more direct and even spontaneous basis. However, common for all of the companies was that they were determent on following through with their investments and standing their ground in terms of asset-protection. It must also be taken into account that although Orkla followed a sequential pattern to Russia, they did not succeed. Such weakens the correlation between a stage-wise expansion and success. Thus, internationalization has in the case of Norwegian business in Russia proven to be a diversified activity, which does not follow any particular stages or cultural proximity rules.

Russians are very proud of their culture and historical roots. It is, therefore, a great benefit for Norwegian companies to have knowledge of the Russian culture, and history. According to the informants, lack of historical and cultural knowledge can make it difficult for Norwegian companies to understand the rationale behind decisions made by Russian businesspeople. Several of the informants have uttered that, however, important international experience is, having knowledge of Russia is at least equally important. Furthermore, companies planning on following a stage-wise expansion should seek international experience in markets more like the Russian prior to entering Russia. According to many of the informants, being able to speak Russian language is important, but having knowledge of the history and culture is even more important. However, it is advantageous to learn the Russian language, as it will help understanding the culture and history better. Furthermore, knowing Russian language will make it easier for Norwegian investors to engage in Russian networking. In order to increase cross-cultural understanding it is beneficial to hire Russians at the headquarters. Having Russian employees will help to get clarification on situations that the Norwegian management has trouble with grasping.

Having a Russian style of organization is perceived as the most common and effective in Russia, since Russians are used to hierarchal structure and authoritative leaders. Much also depends on the mode of entry. If the Norwegian company chooses to enter the Russian market through a brownfield investment, it will often take over the already existing culture and structure. If, on the other hand, the company chooses to enter through a greenfield, it is free to build its own culture and structure from scratch. However, most importantly, managements of Norwegian companies must choose organizational styles that fit with their operational activity and visions for the future.

No matter how the company chooses to structure its organization, it is important to have full attention on the Russia activity. The activity must, therefore, not only be managed from Norway. The Norwegian management must be in place at the Russian entity, at least by frequent visits from employees with decision-making authority. It is also important to have close and frequent interaction between headquarter and the foreign entity. An important attribute to success in Russia is to have engaged management that through clear guidelines and goals has control and authority over the Russian entity. At the same time, the Norwegian manager must have empathy and respect for the Russian employees. Together with the abovementioned, aspects of risk-willingness and optimism help Norwegian companies achieve success on the Russian market.



## 6. BIBLIOGRAPHY

- Almås, E. (2012)** *Norske ledere i Russland : hvordan virker norsk ledelsesstil i Russland?* Master's thesis, Norwegian University of Life Sciences in Ås
- Bendiksen, B.I. Nilssen, F. og Voldnes, G. (2005)** *Hva forklarer endringene i torskeleveransene fra Nordvest-Russland?* Tromsø : Fiskeriforskning.
- Bryman, A. (cop. 2012)** *Social research methods*, Oxford: Oxford University Press.
- Business Insider, (2013)** *Investment Fund CEO: Here's How To Succeed In Modern Russia*, URL: <http://www.businessinsider.com/business-in-modern-russia-2013-6#ixzz32jHJMxMl> (Retrieved: 12.05.2014)
- Carlsson, E. and Dale, B. (2011)** *Internationalization of knowledge-intensive SMEs: the case of petroleum-related suppliers*, Norwegian Journal of Geography 65:4
- Cavusgil, S.T. Knight, G. and Reisenberger, J.R. (2008).** *International business: strategy, management, and the new realities*. Pearson Education, Inc.
- Consulate General in Murmansk, (2013)** *Næringslivet samlet i Generalkonsulatets storstue*, URL:: [http://www.norvegia.ru/Norsk/Ambassade-og-konsulater/GKMurmansk/Team-Norway/Provetekst/#.U3ugyFh\\_tA5](http://www.norvegia.ru/Norsk/Ambassade-og-konsulater/GKMurmansk/Team-Norway/Provetekst/#.U3ugyFh_tA5) (Retrieved 03.02.2014)
- Deloitte, (2013)** *Doing Business in Russia*, ZAO "Deloitte & Touche CIS
- Dicken, P. and Malmberg, P. (2001)** *Companies in territories: a relational perspective*, Economic Geography, 77 (4)
- Dicken, P. (2011)** *Global Shift, Sixth Edition*. New York : Guilford Press.
- Doing Business (2014)** *Economy Rankings*. Tilgjengelig fra: <http://www.doingbusiness.org/rankings> (Retrieved: 14.03.2014).
- Domsch, M. og Lidokhover, T. (c2007)** *Human resource management in Russia / edited by Michel E. Domsch and Tatjana Lidokhover*. Aldershot, Hants, England: Ashgate Pub.
- Dunning, J. (1988)** *The eclectic paradigm of international production: a restatement and some possible extensions*. Journal of International Business Studies (Spring), pp. 1-31.

**Dunning, J.H. (2001)** *The Eclectic (OLI) Paradigm of International Production: Past, Present and Future*. International Journal of the Economics of Business, 8(2)

**European Commission, (2004a)** *What is an SME?*. URL:  
[http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index\\_en.htm](http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm) (Retrievedt: 20.03. 2014).

**Evans, J. and Mavondo, F.T (2002)** *"Dynamics of Psychic Distance in International Retailing"* in International Retailing Reader, London, UK

**Fey, C. F. (1996)** *Importance design characteristics for Russian-foreign joint venture success*, London: Western Business School Research and Publications

**Fey, C. F. and Shekshnia, S. (2010)** *Key Commandments for doing business in Russia*, Stockholm: Stockholm School of Economics

**Geert Hofstede, Gert Jan Hofstede and Michael Minkov, (2000)** *Cultures and Organizations: Software of the Mind. Revised and Expanded 3rd Edition*. McGraw-Hill

**Glückler J (2006)** A relational assessment of international market entry in management consulting. *Journal of Economic Geography* 6

**Gratchev, M. and Hisrich, R. (2001)**, *The ethical dimensions of Russian and American entrepreneurs*. Journal of Small Business and Enterprise Development , 8(1)

**Held, D. (2000)** *Regulation Globalization? The reinvention of politics*. London: SAGE

**Hervas-Oliver J.L and Albors-Garrigos, J. (2009)** *The role of the company's internal and relational capabilities in clusters: when distance and embeddedness are not enough to explain innovation* Journal of economic geography, 9(2)

**Hollensen, S. (2004)** *Global marketing: a decision-oriented approach*, Essex: Pearson Education Limited

**Hymer, S. (1960)** *The international operations of national companies: a study of foreign direct investment*. The MIT Press: Cambridge,

- Høiby, K. and Kreuzenbeck, U. (2012)** “Den besværlige virkeligheten” Norske bedrifters erfaringer fra næringsvirksomhet I Nordvest-Russland 1990-2010. Sherpa Consult. URL: [www.aksjonsprogrammet.no/vedlegg/Sherpa\\_rapportNVRussland2012.pdf](http://www.aksjonsprogrammet.no/vedlegg/Sherpa_rapportNVRussland2012.pdf) (Retrieved: 10.02.2014).
- Jacobsen, D.I. og Thorsvik, J. (c2007)** *Hvordan organisasjoner fungerer / Dag Ingvar Jacobsen and Jan Thorsvik*. Bergen : Fagbokforlaget
- Javalgi, R.G. and Martin, C.L (2007)** "Internationalization of services: identifying the building-blocks for future research", *Journal of Services Marketing*, Vol. 21 Iss: 6
- Johanson, J. and Vahlne, J.E. (1977)** *The Internationalization process of the company – a model of knowledge development and increasing foreign market commitments*. In *Journal of International Business Studies*
- Johanson, J. and Vahlne, J.E. (2003)** *Business relationship learning and commitment in the internationalization process*, *Journal of International Entrepreneurship*, 1(1)
- Joynt, P. and Warner, M. (eds.) (2002)** *Managing across cultures: issues and perspectives*. London: Thomson Learning, 2nd edition.
- Karnani, A. (2012)** Chapter ‘Competitiveness.’ In *Palgrave Encyclopedia of Strategic Management*, David Teece and Mie Augier, Editors, Palgrave Macmillan, 2012.
- Karusheva, E.G and Kopilevich, B.B, (2007)** *Проблемы адаптации западных компаний к российским условиям рыночного устройства/Adaptation problems of foreign companies to the Russian market conditions*. Tomsk State University
- Koparanova, M. og Vos, R. (2011)** *Globalization and Economic Diversification*, London: Bloomsbury Publishing.
- Kvale, S. (1996)**. *Interviews: an introduction to qualitative research interviewing*, Thousand Oaks: Sage.
- Ledeneva, A.V (2006)** *How Russia really works – the informal practices that shaped post-soviet politics and business*, Cornell University Press

- Matthews, B., & Ross, (2010),** *Research Methods: A practical guide for the Social Sciences*, Pearson Education Limited
- May Decrees of the Russian Federation (2012)** Указы Президента Российской Федерации В.В. Путина от 7 мая 2012 года/ Decrees of the President of the Russian Federation Vladimir V. Putin, on May 7, 2012 №№ 594, 596, 597, 598, 599, 600, 601, 602, 603, 604, 605, 606
- May, R.C, Puffer, S. and McCarthy, D.J. (2005)** *Transferring management knowledge to Russia: a culturally based approach*, the academy of management executive 19(2)
- Maskell, P., Eskelinen, H., Hannibalsson, I., Malmberg, A. and Varne, E. (1998)** *Competitiveness, localized learning and regional development: specialization and prosperity in small, open economies*, London: Routledge
- McCarthy, D.J and Puffer, S. (2002)** *Corporate governance in Russia: towards a European, US or Russian model?* European Management Journal 20(6)
- McCarthy, D.J, and Puffer, S., (2008),** *Interpreting the ethicality of corporate governance decisions in Russia: Utilizing integrative social contracts theory to evaluate the relevance of agency theory norms*, Academy of Management Review 33 (1)
- Melkumov, D. (2009)** *International background as a determinant of boards of directors' internal and external roles: The case of Russia*. Journal of World Business, 44
- Michailova, S. (2000)** *Contrasts in culture: Russia and Western perspectives on organizational change*, The Academy of Management Executive, 14(4)
- Moscow Times, (2013)** *Why Lego Succeeded While Jysk Failed in Russia | Business*. URL: <http://www.themoscowtimes.com/business/article/why-lego-succeeded-while-jysk-failed-in-russia/490394.html> (Retrieved: 12.5.2014).
- Moscow Times (2014)** *Russia is Worst Place for Foreign Investment, Poll Says | Business*. URL: <http://www.themoscowtimes.com/business/article/russia-is-worst-place-for-foreign-investment-poll-says/500038.html> (Retrieved 03.04.2014)
- NRK by Larsen, J. H (2014)** *BRICS må vike for MINT i en verden full av akronymer*. URL.: <http://www.nrk.no/verden/brics-ma-vike-for-mint-1.11478432> (Retrieved: 18.02.2014).

- Nærings og Handelsdepartementet, (2012)** *Norge 2020*, URL::  
[www.regjeringen.no/upload/NHD/Vedlegg/Rapporter\\_2012/Norge2020\\_innledning\\_norgeiverden.pdf](http://www.regjeringen.no/upload/NHD/Vedlegg/Rapporter_2012/Norge2020_innledning_norgeiverden.pdf) (Retreved: 04.03.2014).
- OECD, (2014)** *OECD Economic Surveys: Russian Federation*. URL:  
[http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-surveys-russian-federation-2013\\_eco\\_surveys-rus-2013-en#page4](http://www.keepeek.com/Digital-Asset-Management/oecd/economics/oecd-economic-surveys-russian-federation-2013_eco_surveys-rus-2013-en#page4)
- El-Ojeili, C. og Hayden, P. (2006)** *Critical theories of globalization* Basingstoke: Palgrave Macmillan.
- Pomeranz, W. E. (2010):** “*Russian Protectionism and the Strategic Sectors Law.*” American University International Law Review 25, no.2
- Rautio, R., Bambulyak, A., Hahl, M., (2012)** *Economic cooperation in the Barents Region*, Tromsø: Akvaplan-niva AS Report 6265
- Remington, T.F. (2012)** *Politics in Russia*, Boston : Pearson/Longman.
- Ruda, W., Martin, T.A., Arnold, W., Danko., B. (2012)** *Comparing start-up propensities and entrepreneurship characteristics of students in Russia and Germany*, Acta Polytechnica Hungarica 9 (3)
- Saunders, M.N.K. (2006).** Gatekeeper. In *Sage Dictionary of Social Research Methods*. URL: <http://srmo.sagepub.com/view/the-sage-dictionary-of-social-research-methods/n85.xml> (checked 21.07.2013).
- Schramm, W. (1971),** *Notes on case studies for instructional media projects*. Working paper for Academy of Educational Development, Washington DC.
- Sergejeva, A. (c2008)** *Koden til det russiske hodet : russerne: væremåte, tradisjoner, mentalitet; [oversatt av Espen Fremming]*, Kirkenes: Barentsforlaget
- Shenton, A. K. (2004).** *Strategies for ensuring trustworthiness in qualitative research projects*. Education for Information, 22(2),
- Solberg, C. A., Ablerdu, C., Eliseeva, A. (2008)** *Untangling Russian Business Culture: Two Cases of Buyer Behaviour*

**Taras, V., and Steel, P (2009).** *Beyond Hofstede: Challenging the ten testaments of cross-cultural research.* In C. Nakata (Ed.), *Beyond Hofstede: Culture Frameworks for Global Marketing and Management.* Chicago, IL: Macmillan/Palgrave

**Transparency International (2013)** *Corruption perception index* URL:  
<http://www.transparency.org/cpi2013/results> (Retrieved: 15.03.2014).

**Usunier, J.C. and Lee, J. (2005)** *Marketing across cultures,* New Jersey: Prentice Hall

**World Bank. (2013).** *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises.* Washington, DC: World Bank Group. DOI:10.1596/978-0-8213-9615-5. License: Creative Commons Attribution CC BY 3.0

**Yin, R.K. (2003).** *Case Study Research: Design and Methods.* SAGE Publications