A BUSINESS-NETWORK VIEW ON MANAGING MNC RELATIONSHIPS WITH STATE ACTORS — Russian public officials in Finnish MNC business networks

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ABSTRACT

This dissertation focuses on the managerial aspects of relations with Russian public officials in two Finnish multinational corporations. Multinational corporations have shown increasing interest in conducting business especially in Brazil, Russia, India and China. It has been indicated that Russia poses more challenges than the other economies mentioned, and that encounters with Russian state actors are particularly difficult. Given the increasing interest and apparent management challenges facing multinational corporations in Russia, the main objective of this study is to empirically examine the management of state relations in a Russian context.

The theoretical framework derives from the literature on company and multinational-corporation management in business networks, and on the role of state actors in the business networks of multinational corporations. This choice is based on the identified theoretical development towards acknowledging co-operation and network elements in studies on relations between multinational corporations and the state, and also on the acknowledged scarcity of studies addressing managerial issues in this context.

Detailed examination of this research reveals the multidimensional complexity of the relations of the Finnish multinational corporations in question with the Russian State, and the consequent management implications. Related managerial issues are identified on the structural, relational and cognitive dimensions, as well as on the vertical, horizontal, cross-relational and knowledge dimensions. Relations with Russian state actors are not restricted to headquarters and local subsidiaries, but also involve other corporate subsidiaries and external actors such as customers, suppliers, intermediaries and auditors. The role of individuals, as key actors and as intermediaries, is also brought to the surface. Building on the theoretical literature and the empirical evidence the study offers an empirically grounded framework as an outcome.

The final conclusion of the study is that the complexity of the multinational corporation should not be overlooked in studies on its state relations or in its management. The findings of this dissertation also imply that multinational corporations may, to some extent, be able to influence the challenges related to their relations with Russian state actors.

Key words: multinational corporation management, multinational corporation-state relations, Russia, public officials, business networks, Finnish multinational corporations

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When the Going Gets Tough, the Tough Get Going.

(a well known English-language proverb)

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Porvoo, December 4, 2011

Katja

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PROLOGUE

Day 1

Hello Jussi.

I was given your information by a colleague because you guys do a lot of export to Russia. I am a project manager at MNC U.S. [U.S. subunit of a multinational corporation headquartered in Finland] currently having a project to ship 35 pieces of equipment – consisting 2 pieces of EQUIP-ex [ex=explosion proof] from an EU country, and 33 pieces of various EQUIP components (from SUBCON–1 and SUBCON–2, U.S.) to Russia partly in the end of next month and partly within three months. Customer is picking up directly from the EU country and U.S.

I was told we need:

Bilingual (Russian/English) technical passports

GOST-C (Certificate of Compliance)

GOST-EX (Certificate for explosion proof devices)

Permit to use

Do you or your department deal with these documents regularly? Is there a way your department can help us out in obtaining these?

This project is X500220. The customer said we only need all 4 certs for the EQUIP-ex (1 GOST-C for both EQUIP-ex but the other 3 docs needed for each EQUIP-ex). The rest from U.S. will only need 1 GOST-C. (see attached for details) [attachment not included here]. I'm asking this question because I have no experience dealing with Russia; hopefully you can give me an answer or direct me to someone who might be able to help out...

Attached is a list of equipment. Thanks in advance for your help!

John Smith Project Manager MNC U.S.

The above e-mail started a chain of e-mails within a multinational corporation (henceforth MNC) headquartered in Finland in autumn 2009. Despite the numerous technical details, it is reported as authentically as possible in order to help the reader to grasp the nature of the observations that initiated this dissertation.

The names of the firms, people, towns and equipment have been changed, and the attachments excluded.

To start with, Jussi is a director of a MNC subsidiary in Finland. He has several years of experience related to the Russian market. He received the e-mail, and forwarded it to Sergeij, a Russian colleague also working at the Finnish subsidiary. Sergeij is familiar with the technical documentation requirements for the Russian market and personally keeps in contact with two Russian co-operation partners in acquiring product certificates and usage permits for the MNC's equipment in relation to Russian market operations. He replies to John.

Day 4

Hello John,

I'll try to help you. Concerning EQUIP products: MNC has GOST certificates for type EQUIP and EQUIP-ex equipment. If EQUIPComp-ex will be delivered separately, it's necessary to get a new GOST certificate of compliance for your EQUIPComp-ex type equipment (only one document, not two). Additionally permit to use and passport.

We've got such kind of certificate for EQUIP-ex from a Russian certification company "Gamma". Also they can provide permit to use. I can ask for an offer if you are interested in. Passport for the EQUIP-ex can be made by MNC's subsidiary in St Petersburg or Finland. I would ask for the details. Concerning other equipment: GOST certificate can be made by "Delta" company (in Russia). Our department can help you with communications with both certification companies.

For all the certificates detailed information of the equipment will be needed. For EQUIPComp-ex most probably inspectors have to visit customer's site and check the equipment, I would clarify this. So that's the main idea and how I propose to operate,

BR, Sergeij [MNC Finland]

John now requests some further advice.

Day 4

Hi Sergeij,

Please help me ask about all the things you've mentioned. I'm attaching my OA [order acknowledgements] for the 2 EQUIPComp-ex. Attached are 2 Order Acknowledgements for the 2 EQUIPComp-ex. In there, there's a "passport to Russia" included.

For all other equipment, do they need full details of "every piece" of items or just the general name/tag number/model number? And only one GOST-C is required, correct?

John [MNC U.S.]

He adds a post-script.

Day 4

Hi Sergeij,

Just to clarify – part of the equipment is mostly non-MNC equipment (from SUBCON-1 and SUBCON-2)

Anyway, please see if you could provide us with a quote, and lead time information.

Thanks again!

Best regards, John [MNC U.S.]

Sergeij responds.

Day 5

Hi John,

Main principles of the GOST certification are:

- 1) We have to mention define type of the equipment in the certificate, for example EQUIP or EQUIPComp or EQUIP with EQUIPComp". If certificate for EQUIP it is possible to use this certificate for EQUIP with EQUIPComp but we can not use it for the separate EQUIPComp! The reason is that EQUIP and EQUIPComp have different customs codes, these codes are in the certificate.
- 2) Certificate usually is given for one manufacturer of the equipment. Please find attached table [not included here] where I added two columns for equipment classification, "type of the equipment" and "manufacturer". Please fill these columns.

So in the worst case we would need a separate certificate for each type of production and/or for each manufacturer. But I'll discuss it with certification company, rules are changing every day and may be they can combine few types. Also attached MNC GOST-C for EQUIPS-ex and EQUIPT-ex [not included here] – you can see it's only one document.

Concerning passports for the EQUIPComps: if you have ordered them, that is ok, our Finnish factory is taking care. Special passports for other equipment is not needed – only operating manuals in Russian.

BR, Sergeij [MNC Finland]

Sergeij then needs one more piece of information...

Day 5

Hi John,

Could you please clarify, who is the end-customer in this project and what is the role of MNC U.S.?

I asked to understand which company would be certificate owner and how we should co-operate between departments.

BR, Sergeij [MNC Finland]

John responds promptly.

Day 5

Hi Sergeij,

End user is U.S. Large Customer Limited. The "buyer" (our customer) is U.S. Customer (Inc.).

John [MNC U.S.]

Sergeij now contacts Andreij, his colleague at the MNC's Russian subsidiary. Andrej is responsible for product certification and co-operates with the certification company "Delta". [This e-mail was originally written in Russian.]

Day 6

Hi Andreij!

Our colleagues from our MNC U.S. have sold equipment to be delivered to Russia. Now they have turned to us for help with product certificates and permits. A list of equipment is attached. For 2 pieces of EQUIPComp-ex they need a certificate and usage permit. For other equipment they need a certificate.

The project details are the following: MNC U.S. sells equipment to U.S. Customer (Inc.), which is a subcontractor in a Russian project. The end customer is U.S. Large Customer Limited. EQUIPComp-exes are delivered to Russia from Germany and other equipment from the U.S. Some of the equipment is not manufactured by the MNC, but is purchased from subcontractors.

The plan is as follows: EQUIPComp-ex certificates to be acquired from "Gamma" and the rest from "Delta". We will make one-off certificates.

I am now coordinating this process "for free" but from now on we will charge MNC U.S. for all working hours related to this project at MNC St Petersburg as well as the cost of the certificates and so on. I suggest that we now discuss the situation and send a list of questions to our colleague at the US subsidiary. Because of the different time zones they answer us in the evening and I read the replies the next morning.

My questions to "Delta" are as follows: (I think I know the answers but it is better to check)

- For our own equipment, is it possible to write the certificate in the name of MNC Russia could our U.S. customer use this certificate for import-declaration purposes in this case?
- For other manufacturers' equipment, is it possible to write the certificate in the name of MNC Russia and could our U.S. customer use it for import-declaration purposes in this case?

My questions to our U.S. subsidiary are:

- What company takes care of the import declaration in Russia? We need the number and date of the sales agreement between the seller and the purchaser when we order the certificates.

- What are the terms of delivery for our U.S. subsidiary? I assume that customs declaration is not their responsibility but they did agree to deliver all the certificates and permits requested so...
- Are we sure that our U.S. subsidiary sells U.S. Customer Inc. the equipment produced by some other company?

So far the questions are just about how to organise all this – the technical questions will follow a little bit later.

Yours sincerely, Sergeij [MNC Finland]

Then Sergeij contacts John once again.

Day 6

Hi John.

GOST-C is used for custom clearance of the equipment mentioned in the certificate. "Certificate owner" = company that ordered and paid for the certificate. For GOST-C for the group of equipment it's necessary to include the number and date of the contract (contract between "Certificate owner" and Seller). Usually "Certificate owner" makes customs clearance. So to my mind the most difficult part in this certification procedure is to share duties between MNC Russia, MNC Finland, MNC U.S., U.S. Customer Inc., and U.S. Large Customer Limited.

Our questions:

- Who will make the customs clearance of the equipment in Russia, U.S. Customer Inc. or U.S. Large Customer Limited?
- Is it so that MNC U.S. sells all the equipment (also non-MNC equipment) to U.S. Customer Inc.?
- Does MNC U.S. provide GOST certificates of all the equipment (also non-MNC equipment) to U.S. Customer Inc.?

BR, Sergeij [MNC Finland]

Sergeij has also received some further information from the certification centre and informs John.

Day 7

Hi John,

I sent all necessary information to certification company and they promised to give us a bid tomorrow. So I'll forward this bid to you immediately.

Preliminary they are ready to take this order and combine all the non-exproof equipment in one GOST certificate. This means lower price as each extra certificate costs money.

Lets see their final decision tomorrow.

BR, Sergeij [MNC Finland]

The next day Sergeij informs John.

Day 8

Hi John

I guessed that only EQUIPComp-ex equipment would need permission to use, but the certification company said that all the products need this in order to avoid difficulties with "Rostechnadzor" (Rostechnadzor is the official state organisation that gets Permits to use and control the exploitation of our equipment in Russia).

Certification company combined products in 5 groups, so it would be 5 different permits.

All the equipment needs documentation in Russian, passports and operating manuals according to local rules of safety. Customer should provide documents in English (manuals) and necessary documentation will be made by the certification company. It takes 20 days after getting downpayment and original documentation from the customer (MNC U.S.)

5*600 = 3000 USD

Certification of the equipment. 3 certificates 3*6 000 = 18 000 USD

+ two official letters for the customs with explanation that this kind of equipment do not need obligatory certification.

Duration is 20 days. After getting certificates and letters, equipment can be delivered to Russia.

Preparation of testing procedures programs, getting agreement of the programs in Rostechnadzor, testing of the equipment (on site!), documenting of testing results, sending documents to Rostechnadzor. Duration is 20 days. Getting permissions to use in 45 days after sending all of the documents to Rostechnadzor.

5*6000 = 18000 USD

= 51~000~USD.

Duration is 60 days + 45 days for getting permits + express delivery to the customer. Please find enclosed the original bid from the certification company (in Russian).

P.S. This certification company has good reputation and MNC has ordered there certification for serial manufacturing of other type of equipment. Also I know that they have made GOST certificates for MNC's other subsidiary in Europe. I can't advise anything else, our second certificate supplier – "Delta" does not provide certificates for this type of equipment and refuses in situation with different foreign manufacturer/importer/customer.

BR, Sergeij [MNC Finland]

Sergeij notices a mistake and corrects it.

Day 8

Hi John,

Sorry for my mistake in 3rd section: $5*6000 = 30\ 000\ US\ dollars$. See original bid.

Sergeij [MNC Finland]

John gives Sergeij a prompt answer.

Day 8

Holy cow! That's a lot of money for some certificates! I'll need to review my budget to see if we can even afford this...

John [MNC U.S.]

At the time of the e-mail exchange the MNC had been present in the Russian Federation (henceforth Russia) for over a decade. It had a subsidiary there with a number of experienced employees. Apart from occasionally assembling one type of component, it had no production facilities in Russia. Generally the Russian subsidiary imported equipment, components and spare parts produced at the MNC's manufacturing subunits or by external suppliers into Russia and sold them to Russian customers.

Even though an increasing proportion of the MNC's equipment sales in Russia were passed off as local sales by the Russian subsidiary, significant amounts of the imports were still logistically channelled through its Finnish subsidiary, which also sold equipment directly to some Russian customers. Its US-based subsidiary occasionally offered equipment to the Russian market as well. The above e-mail exchange was related to this kind of activity.

The e-mail exchange illustrates the type of challenge faced by the MNC as an operator in the Russian market. Several of its subunits in different geographical locations are directly and indirectly involved in these operations. Detailed information about the equipment and the parties involved is exchanged. An MNC employee in a Russian subsidiary and its Russian employee based in a Finnish subsidiary help its employee in the U.S. subsidiary to meet the specific requirements related to equipment delivery to Russia.

Co-operation between the individuals seems to be working well in this case, but there are many things to be clarified and some doubt in the air as well. On day 6 Sergeij, for example, writes to Andreij "are we sure that our U.S. subsidiary is selling U.S. Customer Inc. the equipment produced by some other company?" Some doubt about their consultancy or the passing of advice to MNC-external actors free of charge is evident.

In sum, the observation triggering the research interest of the present study could be expressed as follows: "It is managerially challenging for an MNC to deal with Russian public officials". In other words, the main motivation for the study was the type of management challenge that Russia poses to MNCs.

1 INTRODUCTION

1.1 Why study MNC relations with Russian state actors?

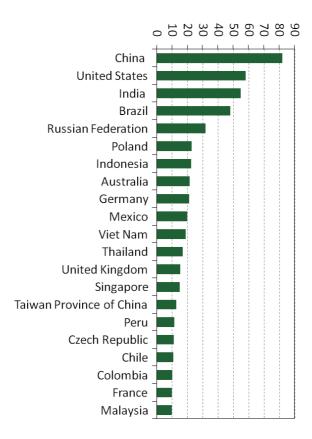
MNCs have, in recent years, become increasingly interested in investing outside developed economies². Even if a sharp decline in foreign direct investment (henceforth FDI) was evidenced in 2009, and only a moderate increase in 2010, the amount hosted by developing or transition economies has been on the increase since 2007: in 2010, over half of global FDI inflow was hosted by other than developed countries. This tendency is expected to continue and the economies concerned have even been referred to as the leaders of the FDI recovery (UNCTAD 2008; 2009; 2010; 2011).

Brazil, Russia, India and China (henceforth the BRIC countries) in particular have attracted the attention of MNCs. As illustrated in Figure 1, the BRIC countries are ranked high as host economies, attracting MNC FDI in 2011-2013. This level of interest is also reflected in the actual FDI inflows: according to the global FDI inflow statistics for 2010, China was ranked second, Brazil fifth, Russia eighth and India fourteenth. In figures, the global FDI inflow in 2010 was USD 1,244 billion of which China accounted for USD 106 billion, Brazil USD 48 billion, Russia USD 41 billion and India USD 25 billion. Moreover, the significant role of non-equity modes of international production and development has been noted especially in relation to MNCs' operations in developing and transition economies (WIPS 2010; UNCTAD 2011).

The focus of the present study is on the Russian operations of MNCs head-quartered outside Russia, and consequently the development in FDI inflow in relation to the Russian market is of particular interest. Russia has interested investors in natural-resource-related industries. Drivers of the FDI inflow to Russia also include the power-generating industry, the automotive industry and real-estate services. The fast-growing local consumer market has attracted foreign investors as well (UNCTAD 2009; 2010; 2011). According to the statistics for 2007-2008, a substantial amount of the inflow comprises the returning offshore capital of Russian residents, although EU member countries also make a contribution (UNCTAD 2009, 74).

The country grouping used (developed, developing and transition economies) is based on United Nations country grouping and presented in more detail in Appendix 1.

It has been suggested that the EU is the biggest foreign investor in Russia, and that up to 75 per cent of the FDI stocks there originate from EU member states (EU Russia bilateral relations 2011). According to EU statistics, these amounted to EUR 89 billion in 2009 (Eurostat 2011). The EU is also Russia's main trading partner (EU Russia bilateral relations 2011; EU Russia statistics 2011).



Source: UNCTAD, forthcoming a.

Note: Number of times the country is mentioned as top FDI

priority by respondent TNCs.

Figure 1 Top host economies for FDI in 2011-2013 (UNCTAD 2011, 19)

Why focus on Russia in the present study, then, and not on China as the leader in terms of FDI inflow among the BRIC countries? Recent reports comparing competitiveness and market conditions indicate that Russia has not succeeded in keeping pace with developments in market competitiveness

compared with China and the other BRIC countries. Despite its large market size and reasonable macroeconomic stability, there are many structural weaknesses still to be tackled (World Economic Forum 2009). Corruption is one of them (e.g., UNCTAD 2010). According to the 2009 Global Corruption Report, Russia ranked 147 out of 180 countries, whereas India ranked 85, Brazil 80 and China 72 (GCR 2009).

The case of the Swedish furniture retailer IKEA, one of Russia's largest foreign investors, is one example of an MNC operating in Russia. It was reported in the international press in summer 2009 that the company had all further investment in Russia on hold on account of the unpredictability of the administrative processes. Journalists referred to outside experts as implying that IKEA's statement referred to intolerable bribe taking on the part of Russian officials (Kramer 2009).

There is hardly anything new in the implication of widespread corruption and burdensome bureaucracy in corporate encounters with Russian public officials, which have even been characterised as one of the main challenges facing business firms in Russia (e.g., Liuhto 1998; World Bank 2005). There is a positive note in references to recent developments in the investment climate in Russia, however (FIAC 2008). Even though there still seem to be many problems, there are also indications that the Russian government is intent on improving the situation (FIAC 2010; 2011).

The State of Russia has become an active player in big business. Regulations in strategic industries were tightened during the first decade of the 21st century, and increasing state dominance has been noted in certain industries that are sensitive in terms of national security. A strategic governance matrix of Russia's key industries, illustrated in Figure 2, highlights the differences in importance of various industries to Russia's national and economic security, and also shows how the situation is evolving rather than static (Liuhto 2007; 2008).

It has been suggested that, related to the power of the Russian state, a system of excessive regulation has been created that allows the authorities to punish any company if they so wish. Its multi-level organisational structure seems to create tensions in business–state interaction. Such interaction is categorised as taking place on three levels: the federal government, the regional authorities in large cities and oil-producing areas, and the local authorities in the other regions. Despite the fact that the state had apparently gained absolute dominance over business by 2004, there are numerous potential strategies available enabling businesses to interact with the state on account of the high degree of economic openness and the heterogeneity in public administration (Yakovlev 2006).

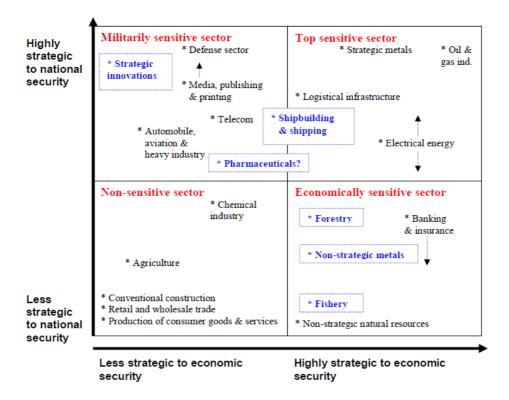


Figure 2 Positioning Russia's key industries in the strategic governance matrix (Liuhto 2008, 14)

Somewhat in the same vein, Russian business networks have been categorised as market, siloviki and oligarchic networks. Oligarchs are defined as "a small number of very large and powerful financial—industrial groups operating in highly concentrated industries in the private sector, predominantly in natural resources" (Puffer – McCarthy 2007, 5). The roots of the siloviki are in the formerly powerful Ministry of Defence and Ministry of Internal Affairs, as well as the military and security forces. Increasing state involvement in business is reported to have increased siloviki appointments in private as well as state-owned companies. Even firms operating in a competition-free market are said to rely on networks to tackle various bureaucratic obstacles. These three types of network are portrayed as existing within the environment of a powerful state (Puffer – McCarthy 2007).

Personal relationships and networking have been generally associated with successful business in Russia (e.g., Batjargal 2003; Salmi 2004). Indeed, personal relationships are reported to stabilise the market uncertainties, and are consequently considered instrumental in business. They may function as a source of information or a base for new activities (Johansson 2004; Salmi 2004). The important role of personal relationships in relations with tax

authorities, customs and district administrations has also been noted (Ledeneva 1998; Michailova – Worm 2003).

In sum, the increasing presence of MNCs in Russia, combined with the challenging business context even compared with other BRIC countries, constitute the motivation behind the present study. Numerous MNCs are already operating in Russia and the growing interest in the market is evident. Encounters with state actors, and especially public officials, have been identified as a specific challenge. It is consequently postulated that MNCs operating in Russia are challenged managerially, and also that MNCs considering start-up operations in Russia have concerns with regard to managing relations with Russian state actors.

As will be shown in the next section, there are few, if any, empirical studies focusing on state actors in MNC business networks in Russia from a managerial perspective. This is the research gap identified and addressed in this dissertation. Given the evident business need and acknowledged scarcity of relevant empirical studies, it is argued that the identified research gap deserves comprehensive examination.

1.2 Earlier empirical literature on MNC–state relations outside developed economies

Researchers from several different disciplines, including political science, economics, sociology and management, have shown an interest in business—state relations (Shaffer 1995). In terms of disciplinary domain, the present study focuses on international business.

The growth of firms across national borders and the emergence of MNCs have inspired studies on relations with their home and host states. It is acknowledged that nation states and multinationals are profoundly influenced by the increasing globalisation. Vernon's (1971) book, Sovereignty at Bay, is often associated with concerns about large MNCs having power over national governments, and the diminishing sovereignty of nations (Vernon 1971; Brewer 1992; Kobrin 2009).

On the other hand, it has been pointed out that in the context of globalisation, businesses may have to tolerate more co-ordinated and effective measures with regard to public control. Somewhat in this vein, issues such as jurisdictional asymmetry and overlap in the context of MNC–state relations have been addressed (Vernon 1968; Kobrin 2009).

There is extensive literature on MNC-state relations (Peng 2000; Kobrin 2009), offering both macro- and micro-level perspectives, for example. On the macro-level are the Sovereignty at Bay model, the dependency model and the

neo-mercantilist model. The focus in the first of these is on the conflictual or adversarial aspects of relations between MNCs and host countries. The dependency model describes the co-operative partnership of MNCs with industrial home governments and the conflictual-adversarial relations with less developed host governments, acknowledging the dependent or weak position of the host government. Finally, the emphasis in the neo-mercantilist model is on the weakness of home governments in the face of MNCs in relation to the freedom of choice in national security and economic goals (Brewer 1992).

On the micro-level certain approaches are based on bargaining or eclectic theory. The basic idea behind the bargaining model is that the outcomes of MNC-state relations depend on the relative stakes and resources of the parties concerned (Brewer 1992). Acceptance of non-market forces is highlighted in the eclectic approach. Political aspects are integrated into the MNC-state relations, the implication being that market imperfections may arise through political behaviour (Boddewyn 1988; Brewer 1992).

More recently, a coopetition perspective on MNC-state relations has emerged. The term coopetition is used to indicate that "cooperation and competition simultaneously function in increasingly interdependent MNC-government relations" (Luo 2004, 431–432). The emphasis is on the increasing interdependence between MNCs and the state, and the relationship is seen as a mixture of co-operation and competition. Co-operation is motivated by joint payoffs and goals, and competition arises from bargaining, control, and related conflicts (Luo 2004). The importance of collaborative interaction between businesses and government in successful strategy implementation has been noted earlier (Murtha – Lenway 1994).

The business-network perspective also builds on theories of MNC-state interdependence and co-operation. Political actors are pictured as integral in MNC business networks, and the MNC is seen as building trust, commitment and legitimacy in the socio-political as well as the business market (Hadjikhani – Lee – Ghauri 2008).

Studies on MNCs and public policies have been categorised as following the normative or behavioural and the resource-based approach to the firm. The normative approach is based on neoclassical welfare economics and it focuses on efficiency aspects of MNC and state, the behavioural approach assumes "self-interested actors in the political domain who can influence policy formation" and the resource-based approach or strategic perspective builds on MNC choices attributable to its resources as well as to institutional characteristics of different countries (Rugman – Verbeke 2009, 228–229). The issues related to state are also inherent in the institution-based view on international business (e.g., Peng – Khoury 2009).

The business-network perspective builds on the behavioural view of organisations (e.g., Björkman – Forsgren 2000; Weisfelder 2001), focusing on business relationships and specific actors rather than faceless institutions (e.g., Forsgren – Holm – Johanson 2005, 187).

It has been suggested that state influence is of specific significance to firms operating outside developed economies (Hoskisson – Eden – Lau – Wright 2000). The policy regime tends to be more interventionist than in developed economies (Aswicahyono – Hill 1995).

Certain industries are also considered to attract more state scrutiny (Doz 1976). The state historically had a central role in the former planned economies, and increasing state intervention in business has recently been noted in two of the larger ones, China and Russia (Liuhto 2007; Luo 2007; Liuhto 2008). In the case of Russia it seems to focus on industrial sectors that are highly strategic in terms of national and economic security to such an extent as to provoke prognoses of intensifying economic nationalism in Russia (Liuhto 2007; 2008; Liuhto – Heikkilä – Laaksonen 2009).

Business scholars have been criticised for assuming that nation states have similar and functionally effective business institutions (Loveridge 2006, 190). Managerial views on business–state relations developed later, possibly because managers do not consider them an integral part of primary business (Shaffer 1995; Hillman – Keim – Schuler 2004).

It should be noted, however, that an intriguing analysis of MNC management and national policies in the context of salient industries defined as "industries that attract constant government attention and scrutiny" was conducted some years ago (Doz 1976, I–13). Different managerial modes are identified in this study of three large multinational companies operating in salient industries. The duality in managerial focus and the related tensions within the MNC are highlighted. The conclusions emphasise the complexity of managing salience, and call for smooth, at first sight almost invisible, administrative changes in order to avoid conflicts (Doz 1976).

The above-mentioned study clearly departs from the behavioural view of the firm, and highlights the managerial decisions made by top management. It is nevertheless mentioned that there are managerial challenges due to a lack of managerial homogeneity in social and cultural terms, for example. Reference is also made to the lack of administrative unity on the government side, as well as to the differences in logic between the government and the MNC (Doz 1976).

In order to move closer to the research focus of the present study, the author carried out a review of earlier empirical research on MNC-state relations in Russia. It is worth emphasising at this point that, given the interest in this particular dissertation on managerial aspects of MNC-state relations, the

inclusion criterion was reference to an MNC, a multinational enterprise (later MNE) or a transnational corporation (TNC), rather than just a foreign firm.

The initial literature review was conducted via the EBSCO Business Source Complete research database, which has a comprehensive coverage of peer-reviewed, business-related journals. It includes indices and abstracts covering respected scholarly publications, including top-tier journals in international business, marketing and management³. The database was therefore considered a suitable source of information on earlier academic research covering MNC-state relations in Russia.

The words "MNC", "MNE" or "TNC", and "state" or "government" combined with "Russia" were used in the database search⁴. These keywords were allowed to appear in any field of the database. The search resulted in 16 possible matches. Following elimination of the duplicate hits, the articles were analysed. No explicit academic studies on MNC relations with the Russian state came to light.

The next stage in the search was to combine the words "MNC", "MNE" or "TNC" with "Russia". This produced only a few new matches. All the academic articles identified were taken for closer examination, as they were considered potential sources of more implicit empirical findings on MNC relations with the Russian state. The articles were reviewed with a specific focus on any findings related to Russian state actors in the context of MNC operations in Russia. The findings of this analysis are briefly reviewed below.

Some of the articles concerned Russian MNCs (Väätänen – Podmetina – Pillania 2009), whereas others covered MNCs from the BRIC countries (Deepak 2009) or outward Russian FDI (Kalotay – Sulstarova 2010). Given the focus of the present dissertation on MNCs headquartered outside Russia, those headquartered in Russia are beyond its scope.

Several of the articles investigate MNC human-resource-management practices in Russia (e.g., Fey – Björkman 2001; Park – Mitsuhashi – Fey – Björkman 2003; Björkman – Fey – Park 2007; Fey – Morgulis-Yakushev – Park – Björkman 2009). These are quantitative studies with no references to Russian state actors. Minbaeva, Pedersen, Björkman, Fey, and Park (2003) investigate the relationship between MNC subsidiary human-resource practices, the level of absorptive capacity, and knowledge transfer in the USA,

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³ Business Source Complete has several years of indexing and abstract, coverage, of the following academic journals, among others: Business Eastern Europe, Industrial Marketing Management, International Business Review, International Marketing Review, Journal for East European Management Studies, Journal of East-West Business, Journal of International Business Studies, Journal of International Management, Journal of World Business, and Management International Review.

Searches were made on several occasions during the research process between June 2006 and April 2011.

Russia and Finland. This study is also quantitative and makes no comment on Russian state actors. Holtbrügge and Schillo (2011) explore the use of virtual delegations in MNCs in the BRIC countries, and do not refer to Russian state actors either.

Engelhard and Nägele (2003) focus on barriers to learning in MNC subsidiaries in Russia. Prašnikar, Pahor, and Svetlik (2008) examine the influence of national cultures on managerial cultures in Russia, Serbia and Slovenia, whereas Hamilton and Knouse (2001) discuss ethical conflicts over crosscultural issues in the Russian context. Li, Fetscherin, Alon, Lattemann and Yeh (2010), in turn, examine MNC attributes behind the extent of corporate communications about corporate social responsibility in the BRIC countries.

Only three of the articles identified in the database search discuss state actors in relation to MNC operations in Russia. McCarthy and Puffer (1997) analyse the strategies of American MNCs in Russia: the MNCs knew the value of a heavy investment strategy. Several of them, especially those operating in the area of extractive natural resources, were forming partnerships with various Russian state actors. The role of local partners and state or other actors is highlighted in that the MNCs are able to take advantage of their contacts with state actors on various levels, for example. Knowledgeable partners help to ease business obstacles such as oppressive tax policies and excessive bureaucracy (McCarthy – Puffer 1997).

Holtbrügge, Berg, and Puck (2007) analyse political stakeholders and political activities in German MNC subsidiaries operating in China, France, India, Russia, the US and the home country. The two main results of the study, according to the authors, are that MNCs are confronted by political stakeholders in addition to market actors, and that the larger the MNC the higher the perceived influence of the political stakeholders. The study is quantitative and the analysis does not differentiate the results by country. In line with evidence from Russia, however, it is suggested that the perceived influence of political stakeholders may decline with expatriate tenure. The findings also reveal that the influence of international organisations was very weak. Particular emphasis is placed on the statement that neither the Indian nor the Russian government would readily accept advice from outside (Holtbrügge – Berg – Puck 2007).

Further evidence of the relevance of the study is the failed investment in Russia of the German tyre manufacturer Continental, which was refused permission by the city of Moscow to establish a production site in the capital after three years of negotiations. Continental made the decision to withdraw from the Russian market at the same time as its main European competitor Michelin was establishing a factory in a Moscow suburb. It is suspected that

Michelin's success had to do with its close relations with local authorities (Holtbrügge – Berg – Puck 2007).

The stakeholder networks of three German firms⁵ operating in Russia have also been analysed, the conclusion being that it is necessary for foreign firms to develop stakeholder networks in order to achieve success. The role of central, regional and local governments as stakeholders is highlighted. It is also noted that firms reach relevant stakeholders through both direct and indirect relations (Holtbrügge – Puck 2009).

Another study identified in the database search examines the role of multiple knowledge flows in the market entry of Swedish MNCs into Russia, China and Japan. The international retailer IKEA is used as a case study to illustrate the importance of a flexible organisation, and of forward, reverse and lateral knowledge flows in entering Russian markets. There are also references to Russian state actors. Relationships with bureaucratic authorities are mentioned as one of the major challenges facing IKEA, and it is also reported that the company has been forced to develop new routines related to incoming goods, for example. It is further noted that, as a strategic investor IKEA enjoyed special import duties in Russia for some time, but the government was put under pressure by Russian industry and import duties increased. Earlier experiences in other countries similar to those faced in Russia helped the MNC in terms of coping with the challenges (Jonsson 2008).

There is also evidence of knowledge sharing within IKEA during its international expansion to Russia. Challenges related to the Russian authorities are reported in more detail here: it seems, for example, that local authorities prohibited store openings in more than one location. The need for a specific type of market knowledge related to the infrastructure and the relevant laws and regulations is discussed with regard to IKEA's market entry. Close personal contacts are a prerequisite for the acquisition of such knowledge, which is developed in a close working relationship with customs authorities, for example. On the MNC side, internationalisation knowledge and corporate knowledge also played central roles (Jonsson 2007).

A few empirical studies reporting implicit findings on MNC-state relations in Russia were identified during the research process. Fellow participants at academic conferences sharing similar research interests, and reviewers at doctoral seminars, encouraged the writer to review interesting research papers. Several studies were analysed of which only the most relevant are reported here. Given the specific focus of this particular study on managerial aspects of MNC-state relations in Russia, the main criterion in this review process was that the firm should be referred to as an MNC, MNE or a TNC.

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⁵ It is emphasised that the firms investigated in this study are not labelled MNCs.

Salmi (1995) has analysed the changing business networks of a Finnish MNC in the Soviet Union, Russia and the Baltic States between 1983 and 1993. Given that this period includes the collapse of the Soviet Union, the study provides evidence on the abolishment of bilateral trade and the clearing system in Finnish–Soviet trade. The focus in the empirical part is on one legal unit, the focal company⁶, and on the development of its business network. The company's interest in Russia declined somewhat after the collapse of the Soviet Union and consequently the study gives rare insights into the role of Russian state actors in its business networks. It is noted, however, that the reorganisation of Soviet public administration and state organisations was challenging to the focal company in that it lost its existing good connections in the Russian market (Salmi 1995). On the other hand, the company was sold to another MNC during the research period, pointing to the inner turbulence and the consequences as far as its business networks were concerned.

A study analysing the case of Coca-Cola in Russia reports on the inefficiencies in the legal system on account of which Coca-Cola has an in-house legal team, the role of which is to unravel the complexity and even clarify conflicting regulations at different levels of the Russian legal system. Coca-Cola initially implemented its own land-leasing and registration system, which the Russian government adopted later on. Coca-Cola is known for its strategy of voluntary heavy investment in Russia, and states its commitment to paying taxes, avoiding bribes and providing employment, for example (Morgan – Thorpe 2001).

There is one study investigating the ways in which Finnish companies manage and adjust to the social environment in Russia, Estonia and China. It touches on the topic of networked internationalising firms, but the empirical analysis is based on data from Finnish companies, with no explicit information on their multinational nature. The firms operating in all three countries had encountered problems related to unstable legislation, bureaucracy, the enforcement of formal rules and corruption, but Russia was perceived as the most challenging market in these respects (Kosonen – Kettunen – Kotilainen 2008).

The various levels of the state sector (international, national, regional and local) in Russia added to the challenges. As a solution the firms adopted various informal methods and practices, including showing good citizenship by renovating a neighbourhood school, or delegating corruption to local contacts and thereby passively accepting it. By way of a conclusion the authors identify four key management issues related to managing relations

The focal company in this study (Salmi 1995) is Nokia Data Oy, a Finnish subsidiary within Nokia Group.

with the state in Russia, China and Estonia: knowledge creation in respect of formal rules at the different administrative levels in the host country, the setting up of network links to public authorities, the cultivation of face-to-face contacts, and the establishment of trust between the parties (Kosonen – Kettunen – Kotilainen 2008).

The concept of matching is applied in a study on the Swedish furniture retailer IKEA's market entry into Russia, the purpose being to describe how a foreign multinational interacts with actors on the local market, including state actors, in order to obtain their support and understand the need for market adaptation (Elg – Ghauri – Tarnovskaya 2008). The matching model illustrates how to deal with dissimilarities in the economic environment between two countries when international companies start operations in transitional or less developed economies. The process of foreign-market establishment is divided into the search phase, the project phase and the establishment phase. The company's position in the network is formulated during each phase, depending on its matching and relationship-development activities (Holstius 1990; 1991; Hallén – Johanson – Seyed-Mohammed 1991; Ghauri – Holstius 1996).

In the case of IKEA in Russia, matching on the global level is reported to have taken place when the Swedish Minister for Industry and Trade announced his support of Russia as they prepared their WTO membership application. Macro-level matching took place between the company representatives and the state representatives, and also through the open relationship with the Russian media. The political network was critical in the first phase, but its role decreased as the entry process advanced and that of local-level decision makers increased (Elg – Ghauri – Tarnovskaya 2008). Micro- or company-level matching appears to be pivotal in the establishment phase (Ghauri – Holstius 1996; Elg – Ghauri – Tarnovskaya 2008).

Close relationships between IKEA and Russian customs authorities were observed. This took the form of information exchange, for example, in that IKEA had advised Russian customs officials on drawing up more efficient customs rules. Mention is also made of the complex government structure and the lack of transparency regarding the interpretation and enforcement of laws. The assistance of local partners was essential in interpreting the regulations and organising contacts with government officials. The study refers to a joint project on sustainable forestry that was initiated by IKEA and involved state and regional authorities. IKEA's founder is reported to have had a meeting with the then President Putin, during which problems with the Russian customs and IKEA's investment plans were discussed (Elg – Ghauri – Tarnovskaya 2008).

Building up local trust and generating positive publicity are essential in micro -level matching. IKEA is reported to have invested in personal contacts

on different hierarchical levels among the authorities and communities, including the fire brigade. Such contacts are assumed to increase understanding of the local market and to be a source of competitive advantage (Elg – Ghauri – Tarnovskaya 2008).

In sum, the empirical studies reviewed above on MNCs in Russia and their relationships with state actors highlight the central role of political and state actors in MNC operations. Elg, Ghauri and Tarnovskaya (2008) also point to the importance of macro-level matching in the search phase of internationalisation, and to micro-level matching in the establishment phase. On the other hand, Jonsson (2007; 2008) emphasises the interplay of market, internationalisation and corporate knowledge, and discusses how the development of market knowledge might also be related to state actors.

The review of earlier empirical literature was then expanded to cover studies on MNC-state relations in developing and transition economies more generally. This review process could be described as emergent (e.g., Michailova – Clark 2004; Jormanainen 2010). Academic articles containing literature reviews (e.g., Peng 2000) led to further literature, which was then reviewed. The results of this review are reported in chronological order and with a focus on empirical findings on the managerial aspects of MNC-state relations.

A history of the large American MNC ITT⁷, published in the 1970s, reports on its experiences in Hungary, Chile and Russia. On the company's encounters with Russian state representatives it is reported, for example, that the Soviet State Committee for Science and Technology (SCST) attempted to find out as much as possible about Western technology from the company, and insisted on the cross-licensing of Soviet technologies, co-production and specific purchasing arrangements (Sampson 1973). This study could be categorised as representing the Sovereignty at Bay model in that the conflictual-adversarial aspects of the MNC and host countries are brought to the forefront.

One of the empirical studies reviewed focuses on the internal structure of the Brazilian elite, connecting Brazil's development closely to developments in more advanced countries, and especially with regard to international capital. Even though this study resembles the so-called dependency model, and its main interest lies in macro-economic issues such as capital flows and alliances, it reports interesting findings with regard to MNCs. Dependency theory is based on the idea that a dependent country's development is conditioned by the development of another country. Multinationals are considered organisational embodiments of international capital, and are treated as key actors in this respect (Evans 1979).

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⁷ ITT is the abbreviation used for The International Telephone and Telegraph Corporation.

First of all, Evans (1979, 5) acknowledges the complex nature of the MNC: "analyzing the role of multinationals provides an opportunity to use the sociological literature on complex organizations, a literature whose potential contribution to the study of development is still very underexploited". He also discusses the co-operative links or interlocking of large MNCs in Brazil through the local "bourgeoisie⁸". Local actors are reported as having resources to offer, and it is suggested that they carry out integrative tasks. The local bourgeoisie also appears to have personal ties to the state apparatus. The best cards of the locals are referred to as political, and of the MNCs as technical (Evans 1979).

Secondly, nationalist interests are reported within MNCs, even if to a limited extent. It is pointed out, for example, that "[n]o manager can afford to be viewed as putting his parochial interests ahead of the interest of his corporation; his arguments with the center must be in terms of misunderstandings rather than conflicts of interest" (Evans 1979, 197). Denationalisation, in fact, is referred to as a major concern. Local top managers with a global perspective could ease the tendency towards nationalism within the MNC, and tight relations between the subsidiaries and the parent company are assumed to limit the influence of local partners (Evans 1979).

Empirical research on MNC-state relations in less developed economies has examined the influence of various MNC resources on the outcome of negotiations with host governments, and the extent of foreign ownership in subsidiaries. A search of the Harvard Business School's Multinational Enterprise Databank, based on only one measure of a bargain struck between the host country and the investor, namely equity ownership, produced some support for the research hypothesis that bargains struck between a foreign investor and a host government in less developed countries are influenced by the amount of foreign investor resources to be brought in, and the number of other firms offering similar resources (Fagre – Wells 1982).

Earlier research on government intervention in MNC operations in less developed countries has focused on ways of reducing it. According to a survey of government intervention in 104 MNC subsidiaries in Tanzania, Zambia, Indonesia and Kenya covering the years from 1970 to 1975, host governments in the less developed countries discriminated among foreign companies in terms of intervening with their operations. Firms of strategic importance in the host country, as well as large firms, were also found to experience above-average intervention (Poynter 1982).

Firms were found to be capable of influencing such interference: the "subsidiary's managerial and operational complexity; the volume of exports;

The bourgeoisie refers to the middle class (www.merriam-webster.com).

the subsidiary's and parent company's control over the sourcing of production inputs and sales to associated firms; and the proportion of foreigners in managerial and technical positions" were associated with the extent of host-government intervention (Poynter 1982, 21).

The basic premises of bargaining theory and dependency theory have been tested in the context of foreign MNCs in the computer industry operating in India. Bargaining theory is supported in that, over time, the Indian government increased its bargaining power, whereas in accordance with dependency theory it "should have failed in its negotiations with the international computer industry" (Grieco 1982, 630–631).

Variables influencing the host government's choice of organisational structures in FDI negotiations, and their impact, have been examined in Singapore, the Philippines, Indonesia and India. Field interviews concerning 20 greenfield investment negotiations held between 1978 and 1982 revealed that governments do not negotiate as monoliths: the approach varies on a continuum ranging from diffusion through co-ordination to delegation. The likeliness of a diffused pattern of negotiations with foreign investors was connected with a less favourable host-government attitude towards FDI (Encarnation – Wells 1985).

The dynamics of bargaining power over time in US manufacturing investments to less developed countries have also been examined. Having analysed survey data from 75 US manufacturing firms the author concludes that a shift in bargaining power to the host country is most likely in non-globally integrated low-technology industries (Kobrin 1987). This is in line with earlier findings reported by Grieco (1982) concerning MNCs in the computer industry in India.

Weiss (1990) studied large US-based MNC investment negotiations in Mexico, specifically between IBM and the Mexican government. He concludes that large organisational parties may not be internally unified, and suggests in particular that various actors and multiple levels of behaviour call for the development of methods through which to identify, describe and evaluate parties to MNC–state negotiations. IBM and the Mexican government used formal and informal consultations, and the parties seemed to exchange knowledge about computer technology and local conditions. The study also reports the use of tough tactics such as threats.

Stopford, Strange and Henley's (1991) detailed analysis of MNC relationships with the host states of Brazil, Kenya and Malaysia identified on-going transactions between the local MNC management and state agencies, and emphasises the importance of expatriate management assimilation into political networks in Kenya in particular. The need to develop "personalissimo" in relationships with local political and trading networks is also

mentioned (Henley 1991). Henley (1991, 196) refers to Triandis (1984, 88) in defining "personalissimo" as "the social process of knowing somebody, who knows somebody, who knows the person from whom you need a service".

In their examination of the strategies used by 13 West European MNCs in India, Jansson, Saqib and Sharma (1995) identified several levels of interaction with the Indian government, of which middle-level bureaucracy contacts were the most important. On the MNC side, middle-level managers were effective contact partners. The strategic management of government relationships was decentralised, being in the hands of the local subsidiary.

The connectedness between one MNC-state relationship and other relationships was analysed in a case study of the Swedish MNC Bofors operating in India. Bofors was accused of paying bribes to the Indian decision makers on a deal in 1986, and had to withdraw from the market on account of the ensuing political turmoil. Other Swedish companies in India were also affected by this specific problematic relationship, to a greater or lesser extent depending on their position in the network. Given the findings of the study, the researchers highlighted the need to differentiate between non-business actors: ruling political actors are heterogeneous and dependent on the general public, the media, and the numerous bureaucrats implementing the rules. Heterogeneity in these various actors' value systems and intentions is a potential source of MNC influence (Hadjikhani – Håkansson 1996).

According to an analysis of the role of the Central and Eastern European transitional governments as stakeholders in international joint-venture negotiations, which was based on case studies of eight joint-venture negotiations between MNCs and state-owned enterprises in Hungary and Romania, the transitional governments intervened in the negotiations at different stages, and changed the power balance, sometimes even to the detriment of their own state-owned enterprise (Brouthers – Bamossy 1997).

Government dealings with MNCs in China were analysed in a case study of three joint-venture companies⁹. There was evidence of significant conflicts of interest between the state and the MNCs, but local governments moderated the relationships by acting as agents of the agents. Several layers of government within the Chinese hierarchy were identified, each with their own cost-benefit analyses covering their dealings with the MNCs (Peng 2000).

Co-operation-based relations between MNCs and China as the host government have also been surveyed ¹⁰: a significant and positive influence on the MNC overseas performance measures was found. Good relations with the regional authorities improved both financial and sales-related performance,

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The MNCs in question were Beijing Jeep, Shanghai Volkswagen, and Guangzhou Peugeot.

⁵⁰⁰ questionnaires were sent out, of which 131 were returned.

whereas positive relations with authorities beyond the focal region only enhanced sales-related performance. The empirical results revealed the importance of co-operation-based relations with host-government representatives in terms of both depth and breadth for MNCs seeking market development. Focusing on breath was found to be extremely costly, however (Luo 2001).

Loveridge (2006) studied the interface of European-based MNCs and agencies of the host states in Malaysia, Singapore, Thailand and Brunei during the period from November 1997 to late 1999, and mentions the transferring of technological knowledge from MNCs in less developed states. The embedding processes that are shaped by external interfaces as well as by the internal MNC networks are discussed and associated with the "firm's capabilities to act in an innovative manner along local networks". The role of local operational networks in this process, or the "act of translation", is also highlighted (Loveridge 2006, 191).

The legitimating role of firm activities in multiple networks is noted and related to business success. The role of human resource management, and more specifically of expatriate managers, is also related to state actors in this study. Senior executives of MNCs that had been involved in the industrial development of less developed host countries early on, for example, were found to have diplomatic status. Moreover, those engaged in defence or infrastructural projects were more involved in the host-country governance structures than those operating in local consumer markets or serving the MNC's global supply chain (Loveridge 2006).

Expatriate managers appeared to fall into two groups: "locals" who were permanently identified with the local communities, and "fast trackers" who identified more strongly with the MNC and its internal management. Interestingly, headquarters (henceforth HQ) executives were found to trust the locals less. Fast trackers working with locals as their second-in-command were also found to share these ideas, but the locals fulfilled an important translator role for them. The social discrimination or social closure faced by expatriate locals was a significant barrier to the MNC in terms of absorbing the local technology and exploiting local knowledge (Loveridge 2006).

As mentioned, the studies reviewed above were reported in chronological order. Figure 3 positions them according to the theoretical emphasis on conflict or co-operation in MNC-host-state relations, and according to the focus of the study on normal daily operational encounters or more unusual encounters as foreign-investment negotiations. Sampson (1979) and Evans (1979) could be categorised as macro-level studies and are not included in the figure, although the latter also builds on co-operative premises on the micro-level.

Fagre and Wells (1982) and Kobrin (1987) represent the bargaining view and specific encounters, whereas Poynter (1982) relates more to the normal

daily operations of MNC's within the state. Encarnation and Wells (1985) and Weiss (1990) focus on FDI negotiations. Although based on bargaining theory, both question the view of government as an internally unified negotiation party: Weiss (1990) explicitly calls for the development of new methods for identifying multiple parties in negotiations.

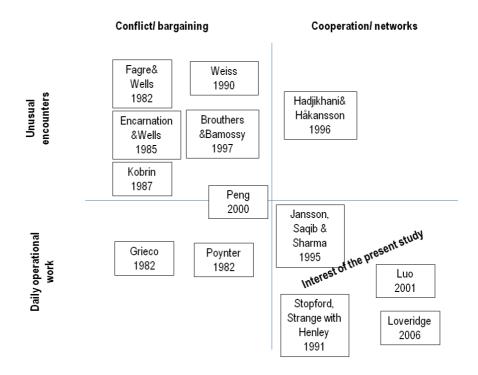


Figure 3 The reviewed studies positioned according to their theoretical interest and the focus of the present study

Jansson, Saqib and Sharma (1995) and Hadjikhani and Håkansson (1996) incorporated network elements into their investigations and are positioned as representing the co-operative view. Whereas the former focuses on operational issues, the latter investigates the specific issue of network connectedness in relation to a scandal in MNC-state relations. Brouthers and Bamossy (1997) utilise bargaining and resource-dependency theory in their study of international joint-venture negotiations. Peng (2000) based his study on MNC joint ventures with the Chinese state on agency theory, positioned between exceptional encounters (J/V) and daily operational work. Luo (2001) builds on the co-operative view of MNC-state relations with reference to MNC operations in China. Stopford, Strange and Henley (1991) and Loveridge (2006) represent the co-operative view, and also concern daily operational relations.

It could be concluded from the analysis and the categorisation depicted in Figure 3 that the earlier studies on MNC-state relations outside developed economies were based, at least to some extent, on the bargaining view (cf. Brewer, 1992). More than one of them also focused on exceptional encounters between the MNC and the less developed host country, such as FDI and joint-venture negotiations. The empirical research reveals an increasingly multilayered and co-operative picture of MNC-state relationships.

The heterogeneity of the state as an actor is mentioned in more than one of the studies (Encarnation – Wells 1985; Weiss 1990; Jansson – Saqib – Sharma 1995; Peng 2000; Luo 2001). The discriminating nature of state activities towards different MNCs is also noted (Poynter 1982; Jansson – Saqib – Sharma 1995), offering conclusions about the ability of MNCs to influence the outcomes of MNC–state relations (Poynter 1982; Luo 2001). Local governments have been found to support MNCs even against hierarchically higher-level actors within the state (Peng 2000), and the state has been found to support MNCs in forging links with local business actors (Brouthers – Bamossy 1997). Co-operation-based relations with regional authorities have also been found to improve financial and sales performance in MNCs (Luo 2001).

It would be unfair to suggest that there is a total lack of empirical research on MNC-state relations in Russia. However, the review of earlier literature presented in this chapter identified no explicit studies. Of those reporting on MNC-Russian state relations more implicitly, Sampson's study (1973) is reasonably old, and concerns ITT's encounters with the Soviet Union. Evidence on MNC-Russian-state-actor relations in Salmi's (1995) dissertation is also scant due to a declining interest in the Russian market in the MNC in question after the collapse of the Soviet Union. Kosonen, Kettunen and Kotilainen (2008) share the interest of the present study to some extent, but they do not explicitly refer to the firm as an MNC.

It could be concluded from the above literature review that there is a lack of empirical knowledge about MNC relations with state actors in Russia from a managerial perspective. It is also apparent that there have been gradual theoretical developments promoting a more multi-layered and co-operative approach, and this development influenced the choices made in the present research. First of all, the decision was made to focus on the daily operations of the MNC rather than on unusual encounters. One reason for this was the sensitivity of the topic, and the assumption that less sensitivity is attached to normal than to unusual encounters. Second, given the above-mentioned theoretical development and the recent theoretical advances in this research stream, the decision was made to adopt a theoretical approach that allowed the examination of co-operative and network elements. Third, Poynter's (1982) findings on the influence of MNC complexity on state intervention justified

the decision to focus on an MNC rather than any other type of firm. Consequently, the decision was made not to expand the literature review further to cover foreign firms' relations with the Russian state. The more specific objectives of this dissertation are elaborated further in next Chapter 1.3 below.

1.3 The objectives and structure of the study

The main objective of this dissertation is to empirically examine how multinational corporation–state relations are managed in the context of MNCs headquartered outside Russia operating in Russia. On the evidence of the literature review presented in the Chapter 1.2 above, it is argued that, even though there are studies implicitly reporting on MNC–state relations in Russia, there is a lack of international business research broadcasted to the wider scientific community and focusing explicitly on such relationships. On the other hand, there is evidence that narrowing this research gap would be relevant, especially from the managerial point of view: MNCs conduct business in the challenging business environment in Russia, and some plan to enter the Russian market.

The present study approaches MNC-state relations from a managerial perspective, which is also an area that lacks research attention. Loveridge (2006), for example, points to the neglected nature of the interaction between organisational practice and the socio-political context in international business. This managerial perspective highlights a focal issue in this dissertation, namely that it is highly relevant to refer to the firm as a MNC (or MNE or TNC), and not simply as a firm, in the context of MNC-state relations. Many of the studies reviewed above highlight the heterogeneity and multilevel structure of the state as an organisation (e.g., Peng 2000), but only a few acknowledge that the MNC in itself is also a complex and heterogeneous organisation (e.g., Poynter 1982; Jansson – Saqib – Sharma 1995).

There are exceptions, however. Doz (1976), for example, identifies a duality of focus in MNC management, and related tensions in salient industries. Evans (1979) discusses "denationalisation" within the MNC, whereas Poynter (1982) provides evidence that MNC complexity has to do with the extent of state intervention in its operations in less developed economies. Adding to MNC complexity, Loveridge (2006) discusses social discrimination and the lack of trust faced by expatriates considered locals by HQ executives.

Consequently, MNC complexity is a central issue in this dissertation, given the managerial focus. Several recent studies on Russia focus on foreign firms' responses to the institutional changes taking place (e.g., Heininen – Mashkina

Karhunen – Kosonen 2008; Heliste – Karhunen – Kosonen 2008; Karhunen 2008; Karhunen – Kosonen 2008), including taking on extra personnel to deal with the heavy bureaucracy. The low wages of public-sector employees hinder attempts to abolish corruption, and irrational law enforcement, a lack of transparency and the prevalence of corruption are continuing challenges (Heininen – Mashkina – Karhunen – Kosonen 2008; Heliste – Karhunen – Kosonen 2008).

On account of the ambiguity that characterises Russian legislation and its implementation, managers in the hotel industry, for example, use personal contacts in city administration to obtain information. It seems that having good relations with the authorities decreases the need for bribes, although small gestures of appreciation such as a dinner invitation or a box of chocolates are considered essential. More interestingly, having high-profile operations and a good reputation seems to reduce opportunistic behaviour on the part of the authorities (Karhunen 2008). This dissertation differs fundamentally from the type of study mentioned above in its focus on the MNC as a complex organisation in a relationship with a state.

The review of earlier literature on MNC-state relations outside developed economies supports the inclusion of co-operative elements. Empirical evidence concerning two MNCs in Russia, namely IKEA and Coca-Cola, for example, points to co-operation with the state. Salmi (1995), Elg, Ghauri, and Tarnovskaya (2008), and Holtbrügge and Puck (2009) highlight the role of multiple stakeholders and networks in MNC operations in Russia. It is also worth recalling that Evans (1979) highlights the role of the local bourgeoisie in MNC-state relations in Brazil, and that somewhat similar findings have been reported in the context of Russia. There is, for example, evidence that some companies cultivate local contacts (Kosonen – Kettunen – Kotilainen 2008). Consequently, given the theoretical development and earlier empirical evidence on MNC-state relations in Russia, the business-network perspective (Weisfelder 2001) is adopted as a theoretical basis in the present study.

This dissertation research is presented as a monograph and to guide the reader it is highlighted that the research process has been more iterative (e.g., Eisenhardt 1989) than what is seen from the final thesis. The initial aim of the study, to empirically examine how multinational corporation–state relations are managed in the Russian context, was during the research process accompanied with another aim. This second aim of the study, to build a theoretical framework of MNC management in the context of MNC-state relations, was apparent only after an iterative process involving theoretical literature and collected empirical evidence. Research process utilised has similarities with in vivo approach in which a single theory is the starting point of the study (Andersen – Kragh 2011).

As a guide to the reader, the key concepts applied in this dissertation are introduced in Chapter 1.4 below. Chapter 2 presents a business-network view on the management of MNC relationships with state actors in Russia. The aim is to introduce the relevant literature consulted during the empirical part of the study. The chapter starts with a brief description of the central tenets of business-network theory applied in the study, and continues with a review of the literature on MNCs and their management from this perspective, synthesised in the form of a management framework in Chapter 2.1.3.

The discussion in Chapter 2.2 turns to state actors in business networks. As will be shown, there is growing interest in socio-political actors in international business research. For the purposes of the present study, it could be argued that the theory is not yet well developed in terms of MNC complexity and managerial focus. Consequently, the managerial perspective on the role of state actors in foreign MNC business networks is synthesised as a preliminary theoretical framework for the empirical study at the end of Chapter 2.2.

Chapter 2.3 reviews studies focusing on business networks in the Russian context, and Chapter 2.4 summarises the main theoretical statements on which the empirical part of this dissertation is built.

The methodological choices are discussed in Chapter 3. The reasoning behind the decision to adopt a qualitative case-study approach and the more practical decisions related to the data collection and analysis is explained. The chapter ends with an evaluation of the empirical part of the study.

Chapter 4 presents the case descriptions, including a cross-case analysis. The main empirical findings are discussed and summarised in Chapter 5. Finally, the conclusions of the study are discussed in Chapter 6, together with the acknowledged limitations and suggestions for further research.

1.4 Key concepts

There are certain concepts that frequently recur and are focal given the aim of this study to empirically examine how MNC-state relations are managed in the context of MNCs headquartered outside Russia operating in Russia. Inherent in these concepts are some underlying assumptions related to the chosen theoretical approach. The aim in this Chapter 1.4 is to elaborate on these assumptions.

Adopting a business-network perspective has major implications, even in terms of problem definition. First, it is challenging to conceptualise a MNC or any other organisation. A MNC could be seen merely as a linking unit (Håkansson – Snehota 1995) "embedded in a network of ongoing business and non-business relationships" (Ritter – Wilkinson – Johnston 2004, 175).

Alternatively, it could be considered to have some specific characteristics due to its legal ownership ties in a web of companies, and the consequent power and authority of some actors in this web of relationships (Forsgren – Holm – Johanson 2005). For the purpose of the present study:

A MNC is defined "as an administrative/legal unit that includes several business firms, subsidiaries, located in at least two countries" (Forsgren – Holm – Johanson 2005, 78).

It is worth noting that the conceptualisation of the MNC as an inter-organisational (Ghoshal – Bartlett 1990) or internally differentiated (Ghoshal – Nohria 1989) network could equally well apply to the present study. The choice of Forsgren, Holm and Johanson's (2005) conceptualisation nevertheless implies alignment with a theoretical view sometimes referred to as the Nordic network perspective (Björkman – Forsgren 2000; Weisfelder 2001), and is related to the conceptualisation of MNC management that is discussed later on in this Chapter 1.4 and in Chapter 2.1.3.

Secondly, this study is about MNC relationships with state actors. A state could be considered a faceless institution that does not, as such, fit the business-network perspective, the focus of which is on business relationships with specific business actors (Forsgren – Holm – Johanson 2005, 187). This deliberate emphasis on the state as a heterogeneous organisation is also related to the empirical evidence on state heterogeneity mentioned earlier (e.g., Weiss 1990). Therefore the state is defined more specifically as an actor in the present study.

Research based on business-network theory has typically focused on the relationships of business actors with suppliers, customers, distributors and competitors (cf. Forsgren 2008, 118). However, there is growing research interest in firms' relationships with non-business, political or socio-political actors (e.g., Welch – Wilkinson 2004; Hadjikhani – Thilenius 2005a; Hadjikhani – Lee – Ghauri 2008, Bengtson – Pahlberg – Pourmand 2009; Hadjikhani – Thilenius 2009).

Political actors are assumed in some studies to comprise "bureaucrats, government ministers, members of parliament, opposition parties, interest groups and the media" (Welch – Wilkinson 2004, 218). Other studies draw a rough distinction between non-business or socio-political actors and business actors (e.g., Hadjikhani – Ghauri 2001; Hadjikhani – Lee – Ghauri 2008), or characterise the former as "belonging to the non-market environment" (cf. Boddewyn 1988, 343). Boddewyn (2003) even notes that the non-market concept is sometimes used to refer to government, but usually remains poorly defined.

In order to avoid this deficiency in definition in the present study, the role of the state as an actor in MNC business networks is further elaborated below.

Earlier categorisations of network actors are discussed in relation to the focus beyond suppliers, customers, distributors and competitors. The actors comprising the subjects of the present study are then specified.

Hallén (1992, 78), for example, separates infrastructural networks from business networks in that "infrastructural contact networks are not designed for specific business deals". Infrastructural networks are associated with acquiring advance information, influencing the business framework and facilitating communication on some specific occasions. Members of such networks are categorised as business and non-business actors, the latter being defined with reference to Boddewyn (1988) as "relationships and environment which do not involve the firm's buying and selling relationships" (Hallén 1992, 78).

Table 1 illustrates Hallén's (1992) categorisation. Business relationships are oriented towards a business purpose on a continuum from low to high, and the relationships on level 1, for example, are directly connected with business deals. Non-business actors are part of a business network or an infrastructural network.

No distinction is made in the present study between business networks and infrastructural networks. With reference to Hallén's (1992) categorisation, the primary focus is on non-market relations and organisation-centred infrastructural relations, although business and person-centred infrastructural relations are not excluded. State actors are considered non-business actors, but are part of the MNC business network. It is worth noting that the state in the role of a buyer/customer for the MNC, for example, could also be considered a business actor, but this type of activity is not addressed in this study.

Table 1 Business networks and infrastructural networks (modified from Hallén 1992, 79)

NETWORK ACTORS					Land
			Business	Non-Business	Level
TASK ORIEN- TATION	High	Business Networks	business relations	non-market relations	1
	_	Infra-	organisation-centred structural relations	infra-	2
		structural	person-centred infra-	Focus of the present study	
	Low		structural relations		3

Tables 2 and 3, which are based on a study analysing interaction between the host government and a MNC in India, illustrate other kinds of categorisation. Table 2 shows four levels of government contact (P, A1, A2, and A3): ministers are categorised as political (P-level) level and all other contacts are categorised as administrative, on a high (A1), middle (A2) and low (A3) level (Jansson – Saqib – Sharma 1995).

As a comparison, and with reference to Hadjikhani and Håkansson (1996), Welch and Wilkinson (2004, 218) use the concept of political actor and include "bureaucrats, government ministers, members of parliament, opposition parties, interest groups and the media". Jansson, Saqib and Sharma (1995) also refer to low (A3) administrative-level government authorities as clerks, resembling Welch and Wilkinson's (2004) conceptualisation of a bureaucrat. On account of the sensitivity of the topic covered in the present study, the focus is on administrative-level contacts (A1–A3).

Table 2 Position table for government (modified from Jansson – Saqib – Sharma 1995, 88)

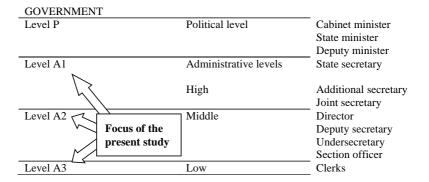
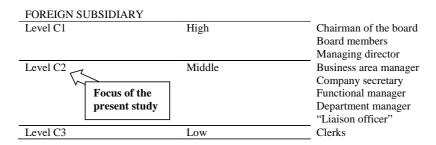


Table 3, which is based on the above-mentioned study on MNC relationships with the state of India, shows three levels of contact (C1, C2, and C3) on the foreign-subsidiary side: board members and the managing director of a foreign subsidiary are categorised as high-level contacts (C1), middle-level (C2) contacts include functional and department managers, and clerks are on the low (C3) level (Jansson – Saqib – Sharma 1995). In line with businessnetwork perspective on MNC management (elaborated further in Chapter 2), the focus in this study is on the middle (C2) rather than the high (C1) or the low (C3) level.

Table 3 Position table for foreign-subsidiary (modified from Jansson – Saqib – Sharma 1995, 88)



Categorisations such as those proposed above in Tables 2 and 3 are not always clear in that actors may hold multiple positions in networks. Although they do acknowledge the state as an actor in MNC business networks, one particular group of state actors, namely public officials, is conceptualised somewhat differently in the present study, and is defined in terms of MNC activities rather than in the form of position tables:

Public officials are defined as a group of state actors with which the MNC is in contact in furtherance of its aims to comply with local, regional and federal laws and regulations related to daily/normal business operations.

The categorisation is based on earlier empirical studies on MNC-state relations outside developed economies, as illustrated in Figure 3 in Chapter 1.2. The reviewed studies were placed in two categories: those dealing with unusual or specific encounters such as FDI negotiations, joint-venture negotiations or scandals, and those dealing with daily or normal encounters. The present dissertation belongs to the latter group. Under this definition, for example, licence approval for operating in the market and other such interactions with state representatives are excluded.

The borderline between a firm and the market is less clear from a business-network perspective (e.g., Björkman – Forsgren 2000), and external actors are integral parts of MNC business networks (e.g., Forsgren – Holm – Johanson 2005). As noted in the literature review, the bourgeoisie played a major role in MNC relations with state actors in Brazil (Evans 1979). The role of local contacts has been discussed in the context of Russia (Kosonen – Kettunen – Kotilainen 2008), and the role of intermediaries in small firms' interactions with political organisations in the EU has been noted (Bengtson – Pahlberg – Pourmand 2009).

Consequently, the literature on business networks was explored in order to incorporate into the analysis both internal and external actors that could potentially be connected to MNC relationships with public officials.

Somewhat in line with these notions, Salmi (1995) developed the concept of the focal net in order to extend one actor's (focal organisation) viewpoint or perception of the network. She refers to it as "a bridging concept between focusing totally on either the organisation or the environment" (Salmi 1995, 45). Anderson, Håkansson and Johanson (1994, 4), in turn, use the concepts of network horizon and network context to distinguish between "how extended the actor's view of the network is" and what part of it the actor considers relevant. A new concept, namely that of a matching scheme, is introduced in the present study in order to define the specific group of actors connected to MNC–state relationships, within and beyond its legal boundaries.

A matching scheme is defined as a group of internal and external actors connected to the MNC's relationships with Russian public officials from the MNC perspective.

The matching-scheme concept allows the analysis to extend somewhat beyond the legal borders of the MNC. Håkansson and Snehota (1989), for example, highlight the interdependence between an organisation and other entities to the extent that a business organisation may lose its identity if it is disconnected from its network. Consequently, the aim in this study is to maintain the MNC's identity by allowing the incorporation of outside entities into the analysis.

Membership of the matching scheme, or in other words a linkage to it, is in the present study based on the perceptions of individual actors within the MNC who are connected actors. This linkage may also take many forms as, for example, personal contact or technical link. There are no tests of the relevance of such perceptions in this dissertation, and no separation between the network horizon and the network context in this dissertation (Anderson – Håkansson – Johanson 1994). Departing from Salmi's (1995) focal-net concept, which is not considered applicable here, the study concentrates on one group of actors in the MNC net, namely those connected to Russian public officials.

The meaning and significance of the concept *foreign* MNC as used in the present study needs some further clarification. Many of the empirical studies reviewed in Chapter 1.2 involve West European or US-based MNCs operating outside a developed country. Forsgren (2008, 111) emphasises that, in research on business networks, "the traditional analysis of differences between the countries in which a multinational is active must be complemented with an analysis of the differences in the business networks". It is therefore acknowledged that networks and country borders do not necessarily coincide, and that business environments differ to some extent in different countries (e.g., Hallén – Johanson 1990; Forsgren – Holm – Johanson 2005).

Given the focus in the present study on relations between public officials in a specific country (Russia) and a MNC headquartered outside this country, public officials are considered a group of actors that are a source of certain differences in MNC's business networks in the host country and in the home country.

It is also an assumption in this study that this kind of setup raises specific managerial issues in MNCs. According to Forsgren, Holm and Johanson (2005, 187), "[f]undamental to the MNC [...] is that it is involved in more than one business environment, regardless of whether or not the institutional environments are the same". In the present study the point is not the different countries as such but the multiplicity of business environments in which the MNC is involved. More specifically, public officials are assumed to contribute to the differences in the business networks in the various geographical locations in which the MNC operates. On the level of individual actors within and beyond the MNC, network actors in one country could be considered outsiders (Forsgren 2008, 121; Johanson – Vahlne 2009) in respect of the activities going on in another country.

Somewhat in the same vein as the concept of outsidership in relation to MNCs, Zaheer (1995, 342) uses the concept 'liability of foreignness' in referring to "the costs of doing business abroad that result in competitive disadvantage for an MNE subunit". The present dissertation does not approach the phenomenon under investigation from an economic or a cost perspective.

Given the focus of the present study on MNC relations with public officials in Russia, the concept of a foreign MNC to specify the liability of outsidership within it and within the matching scheme, conceptualised earlier with regard to the MNC's relationships with Russian public officials, is an essential one. The position of the individuals is also of prime importance in this respect in that it is individuals in organisations who interact (Aharoni 1966; Salmi 1995).

A foreign MNC is defined as a MNC dealing with public officials in one country and having headquarters and subunits outside this country, as well as individuals of other nationalities involved in its matching scheme with the particular public officials in the country in question.

The aim of this dissertation is to provide a managerial view of MNC-state relations. Referring to what is meant by a managerial theory, Doz (2004, 3) states: "[s]uch theory has to provide a conceptual link between academic disciplines (traditional science or at least academic research) and practical knowledge (learning from action)". He (Doz 2004, 4) also calls for the adoption of a complementary rather than a oppositional approach in relation to different international business schools.

The cumulative and complementary nature of international business research is acknowledged in this dissertation, even though it relies quite heavily on Nordic network studies. The main issues that directed the research towards theoretical literature that could be categorised as the business-network approach, and separated from the stream of literature building on the notion of the MNC as a complex and networked organisation but focusing on efficiency and managerial capability (Barner-Rasmussen – Piekkari – Scott-Kennel – Welch 2010, 94), included the possibility to incorporate external and non-business actors into the analysis, and to explore the managerial capability within the MNC.

The complexity of the MNC and the implications for management research are well documented in studies on international business studies (e.g., Birkinshaw – Arvidsson 2004). Structural indeterminacy, internal differentiation, integrative optimization referring to decision trade-offs due to multiple priorities, information intensity, latent linkages, fuzzy boundaries, learning and continuity are listed as seven demands that a organisation theory of MNC needs to take into account (Doz – Prahalad 1991).

The implications of networks in considering the ways and means of managing a firm (e.g., McLoughlin – Horan 2000; Ford – Gadde – Håkansson – Snehota 2003; Ritter – Wilkinson – Johnston 2004; Forsgren – Holm – Johanson 2005; Järvensivu – Möller 2009) are acknowledged in the view developed in this study. There are radically different views on the degree of managerial capability in networks (cf. Håkansson – Ford 2002; Järvensivu – Möller 2009). MNC management is discussed in more detail in Chapter 2.1.3. At this point the following statement suffices.

MNC management is conceptualised as multidimensional, incorporating vertical (hierarchical), horizontal and cross—relational dimensions, and also structural, relational and cognitive management dimensions. The means of management vary from the use of managerial tools to reliance on concepts and wisdom (cf. Möller – Halinen 1999, 424). Issues related to knowledge are pivotal and MNC external actors may also be involved.

In conclusion, the aim in the present study is to enhance understanding of MNC-state relations in the context of a foreign MNC operating in Russia. The theoretical basis is the business-network approach considered from a MNC management perspective, and the key concepts defined above are in line with the chosen theoretical thinking. The empirical part of the study focuses on managerial issues related to Russian public officials in foreign MNC business networks. These choices guide the theoretical focus on state actors and MNC management in business networks. Chapter 2 reviews the literature on the business-network perspective in order to facilitate the drawing up of a theoretical framework incorporating the managerial view of state actors in foreign MNC's business networks.

2 A MANAGERIAL VIEW OF STATE ACTORS IN FOREIGN MNCS' BUSINESS NETWORKS IN RUSSIA

2.1 MNC management in business networks

2.1.1 The origins and central tenets of the business-network perspective

This study adopts a business-network perspective on MNC management (e.g., Forsgren 2008). The following issues identified during the review of earlier empirical studies on foreign-MNC-state relations outside developed economies motivated this choice: heterogeneity of both MNC and state actors, co-operational elements, the role of external actors in MNC-state relations, and MNC complexity.

The origins of this stream of theoretical literature are in empirical studies on the international operations of Swedish industrial firms (e.g., Johanson – Wiedersheim-Paul 1975) and in Swedish and, somewhat later, more general European studies on buyer – seller relationships in industrial markets (e.g., Håkanson – Östberg 1975; Håkanson 1982; Turnbull – Valla 1986).

Loose-coupling image of the organisation (Scott 1981), bounded rationality (Carlson 1951; Cyert – March 1963; Aharoni 1966) in terms of sequential attention to goals, incomplete knowledge, organisational learning and uncertainty avoidance are attributes in this research stream (Björkman – Forsgren 2000; Weisfelder 2001). Studies adopting a business-network perspective represent somewhat alternative views while sharing basic assumptions (Easton 1997, 103). The position of the present study within the network perspective is thus briefly discussed in this sub-section.

This dissertation stands apart from the mainstream studies of the Industrial Marketing and Purchasing Group (henceforth IMP), in which networks or relationships are typically the unit of analysis, rather than the firm (Salmi 1995; Easton 1997). Some basic conceptions explored in these studies are nevertheless highly relevant to the present study: the importance and the longevity of business relationships, and a focus on individual actors rather than passive markets, for example (Gadde – Håkansson 2010). This study builds on the conceptualisation of an MNC and MNC management put forward by Forsgren, Holm and Johanson (2005), among others, as the following discussion illustrates.

According to the business-network perspective, the market is not impersonal, but materialises in the actors and relationships involved (Håkansson – Snehota 1995). This is sometimes referred to as giving the environment a "face" (Björkman – Forsgren 2000, 9). Social and cognitive ties form, and they influence the firm's activities (Axelsson – Johanson 1992; Coviello – Munro 1997). Actor bonds, resource ties and activity links have been identified as layers of a business relationship (Håkansson – Snehota 1995). Considerable amounts of time and resources are also invested in the relationship in the form of adaptations to products, processes and routines (Håkansson – Snehota 1995; Forsgren 2008; Gadde – Håkansson 2010). The firm's relationships are also considered the main source of its costs and revenues (Håkansson – Snehota 1995).

The approach builds on empirical findings that firms in industrial business-to-business markets have long-lasting relationships with important customers and suppliers (Håkansson – Östberg 1975; Håkansson 1982), which is one factor contributing to the fuzzy boundary between the firm and the market (Doz – Prahalad 1991; Björkman – Forsgren 2000). On the basis of these findings, it is assumed in the present study that network characteristics extend beyond the MNC's organisational structure (cf. Egelhoff 2010, 107).

Firms in a business network could be considered mere linking units (Håkansson – Snehota 1995) "embedded in a network of ongoing business and non–business relationships" (Ritter – Wilkinson – Johnston 2004, 175). Alternatively, they may have specific characteristics due to the legal ownership ties in webs of companies, and the consequent power and authority carried by some actors in them (Forsgren – Holm – Johanson 2005).

Relationship connectedness is a central tenet in the business-network perspective (Håkansson – Snehota 1995; Forsgren – Holm – Johanson 2005). It has even been suggested that the specific capabilities of a firm emerge from the "particular way in which its business relationships are connected" (Forsgren – Holm – Johanson 2005, 22).

The international dimension has been present in research on business networks from the beginning (Björkman – Forsgren 2000). FDI and the reasons behind it are of major interest in international business, and in network perspective to internationalisation firms are assumed to establish and develop relationships, or to connect existing networks, in different countries (Johanson – Mattsson 1988; Björkman – Forsgren 2000). On the other hand, according to the Uppsala model of the internationalisation process, managerial knowledge accumulated through the firm's practical experience in foreign markets is a major attribute explaining the incremental internationalisation of its operations (Johanson – Wiedersheim – Paul 1975; Johanson – Vahlne 1977; 2009).

The development of market knowledge was the main driver leading to increasing commitment to foreign markets in the early version of the Uppsala model. Later versions specify several types of knowledge: general market knowledge, general internationalisation knowledge, relationship-specific knowledge and general relationship knowledge. Network elements have come into the picture more recently, and both knowledge development and the learning process are considered more complex than in the original model. Learning in business networks is assumed to be less straightforward, for example, as it involves partners located in different countries. Experiential learning is still pictured as a crucial or basic, but not the only mechanism of knowledge development explaining the internationalisation process of a firm (Johanson – Vahlne 1990; 2003; 2009).

The main difference between the two research streams mentioned above appears to lie in the assumption that the foreign market is a distinct entity in the internationalisation-process model (Forsgren 2008, 106). In recent developments of the internationalisation process model, however, networks are acknowledged as borderless, and the uncertainty related to foreign-market entry and expansion due to a lack of knowledge of the foreign market (liability of foreignness) has been replaced with the notion of the liability of outsidership with regard to the relevant network (Johanson – Vahlne 2009, 1423).

An example serves to illustrate the artificial character of organizational borders and the role of insider or outsider status in the context of a Danish MNC operating in Russia. Michailova and Anisimova (1999) categorise middle managers and specialists as "hosting insiders" and "hosting outsiders" depending on their ability to communicate and share information within the MNC. The "hosting outsiders" were part of the MNC as an organisation but felt like outsiders due to perceptions of not being part of its life. A lack of English-language skills among Russians was identified as one aspect related to the outsider position (Michailova – Anisimova 1999).

From the network perspective business relationships are invisible in the sense that personal involvement or insidership is necessary for understanding what is going on in them (Forsgren – Holm – Johanson 2005, 23). It is for this reason that many studies on business networks adopt the lower-management rather than the top-management view, and the subsidiary rather than the headquarters perspective (Björkman – Forsgren 2000; Weisfelder 2001).

Another difference between the Uppsala model and the business-network theory of internationalisation is highlighted in Forsgren and Johanson (2010) and their discussion of the "locus of learning" and the "locus of decision making" in the Uppsala model (Buckley 2010). Even though they do not explicitly reveal the position of the model in this respect, in business-network theory the tension between "locus of learning" and "locus of decision making"

is seen as a major managerial challenge in large MNCs, for example: the locus of learning is thought to reside among front-line managers, and decision-making at the top-manager level is thus considered problematic (Forsgren – Johanson 2010, 294).

Even though the business-network perspective as followed in the present study and the literature on the MNC as an inter-organisational network (e.g., Hedlund 1986; Ghoshal – Nohria 1989; Ghoshal – Bartlett 1990) share some ideas, the business-network perspective on MNC management has been distinguished as a separate approach (e.g., Forsgren 2008, Barner-Rasmussen – Piekkari – Scott-Kennel – Welch 2010; Yamin – Ghauri 2010). In both cases the MNC is seen as a complex inter-organisational network, but there are differences in the extent of managerial capability allocated to top management (Yamin – Ghauri 2010, 125), and in the extent of knowledge-transfer potential (Björkman – Forsgren 2000, 16).

The business-network approach to MNC management stresses the difficulties attributable to subsidiary embeddedness. Studies within the inter-organisational approach have, to a great extent, focused on efficiency of creation and the internal transfer of knowledge (Björkman – Forsgren 2000, 16). It is nevertheless acknowledged that the above-mentioned research streams overlap to some extent (Barner-Rasmussen – Piekkari – Scott-Kennel – Welch 2010, 86), and that knowledge is a central issue in both, albeit approached somewhat differently.

In sum, the present study adopts the behavioural view of the firm, and more specifically follows the stream of literature depicting the potential of top management and HQ to manage MNC subsidiaries as restricted. Hence, it highlights the difficulties or tensions in managing the MNC. The relationships between the MNC and external actors, and their connectedness, are also acknowledged as influencing MNC management.

2.1.2 The complex and embedded MNC

Figure 4 depicts the MNC as a complex web of actors with a number of subsidiaries or other sub-units spread out in different countries. It is thus physically dispersed. Each subsidiary has its own business network, comprising both internal and external actors related to its operations. Internal actors in this context include other MNC subunits and headquarters, whereas external actors are customers, suppliers, competitors, regulators and others. The subsidiary is a key actor in the MNC, and is depicted as the owner of local business relationships (Hedlund 1986; Ghoshal – Bartlett 1990; Forsgren – Holm – Johanson 2005).

Even though not illustrated in Figure 4, it is also acknowledged that HQ may have network linkages with actors in the subsidiary's business network, especially in geographically close subsidiaries that are financially high performers, possess important resources, or operate in a turbulent market (Nell – Ambos – Schlegelmilch 2009). This kind of embeddedness overlap has been more prevalent in cases that subsidiaries operate in uncertain local environment and have connections with multinational actors, for example, even though the additional cost due to duplication of relationships is evident (Nell – Ambos – Schlegelmilch 2011).

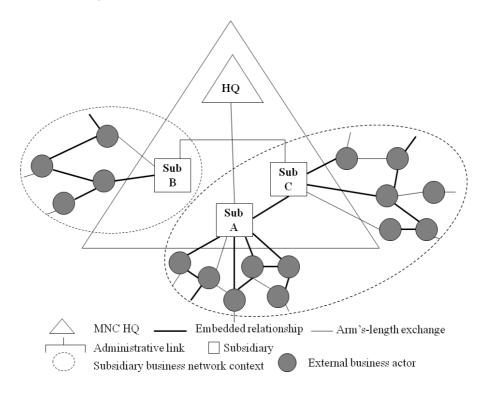


Figure 4 The embedded multinational (Forsgren – Holm – Johanson 2005, 97)

MNC relationships contribute to the resources of a specific subsidiary (Forsgren – Holm – Johanson 2005). Given that these relationship configurations are different for each subsidiary, the MNC's resources are highly dispersed (Ghoshal – Bartlett 1990; Forsgren – Holm – Johanson 2005). The differences in resources among the subunits could be considered an attribute of inter-unit exchange relationships, as well as of the interdependence between the different subunits (Ghoshal – Nohria 1989). The interdependence among both internal and external actors focuses attention on how business relationships are connected. The specific capability of a business firm has even been

associated with "the particular way in which its business relationships are connected" (Forsgren – Holm – Johanson 2005, 22). Furthermore, this connectedness does not refer only to the MNC's internal subunits (Andersson – Forsgren – Holm 2002; Scott-Kennel – Enderwick 2004; Forsgren – Holm – Johanson 2005).

Subsidiaries, as internal actors, are embedded in what has been called the structured or corporate context. On the other hand, each subsidiary is embedded in its own network context, which differs from the contexts of other subsidiaries (Forsgren – Holm – Johanson 2005). This relates to the notion of the MNC as a goal-disparate organisation (Ghoshal – Bartlett 1990). Subsidiaries may be more influenced by their business network than the corporate context. The subsidiary is consequently part of an owner system and a business network, and its role in each may differ, or even be inconsistent, to the extent of causing tension (Doz – Bartlett – Prahalad 1981; Forsgren – Johanson 1992b).

In a similar vein, Kostova and Zaheer (1999) discuss the complexity of legitimacy in relation to MNCs. Subunit legitimacy refers to "its acceptance by the specific host country institutional environment" (Kostova – Zaheer 1999, 68). The challenge of determining the legitimacy of the MNC as a whole and of the different subunits in different host environments is also acknowledged. There is a difference between external and internal legitimacy, and the subunits come under the influence of both (Kostova – Zaheer 1999).

In sum, the MNC is a complex constellation. The complexity is multidimensional, as Figure 5 illustrates. Multidimensionality in this context is understood in a different way than what discussed in Forsgren (2008). He discusses multidimensionality of MNC as a result of applying different theories to it. Somewhat in line with the present study, Hedlund (1986, 22), building on Koestler's (1978) ideas of intertwined vertical and horizontal connections in organisations, discusses mixed and multidimensional organising principles within a heterarchic MNC, which is more varied and flexible than a matrix structure. Hedlund (1986, 23) gives the practical example of an R&D centre within a MNC that "may not have all other R&D departments reporting to it or have the right to give them orders" but "may have a "softer" coordinating role".

The vertical and horizontal dimensions aptly illustrate MNC complexity in business networks (Hedlund 1986). MNC actors in corporate HQ, divisional HQ and the subunits constitute the hierarchical levels on the vertical dimension, whereas chains of connected MNC actors in different geographical locations represent the horizontal dimension. External actors (Forsgren – Holm – Johanson 2005) appear on both dimensions. Corporate auditors, for example, represent the vertical dimension and have authority over the MNC, whereas

suppliers and customers are closely connected to its operations on the horizontal dimension (cf. Möller – Halinen 1999).

MNC COMPLEXITY	STRUCTURAL	RELATIONAL
VERTICAL (=hierarchical)	*Corporate HQ *Division HQ *Subsidiary *External actors an integral part	*Actors embedded in different ways - outsidership - differences in activity legitimacy - subsidiary the owner of critical resources (relationships)
HORIZONTAL	*Connected actors in different geographical locations *External actors an integral part	*Actors embedded in different ways - outsidership - differences in activity legitimacy - heterogeneity in subunit resources (inter-unit exchange relationships/interdependency)

Figure 5 Dimensions of MNC complexity

Complexity could also be categorised as structural or relational. Structural complexity refers to the multiplicity of connected actors involved in resource exchange on both the vertical and the horizontal dimensions, whereas relational complexity comes from the fact that actors are differently embedded and have different goals and activity legitimacy on both dimensions (Ghoshal – Bartlett 1990; Kostova – Zaheer 1999; Forsgren – Johanson 1992b). This may result in one actor's outsidership with respect to the other actor's activities (Johanson – Vahlne 2009) and thus cause tensions (Forsgren – Johanson 1992b). The intertwined and somewhat flexible nature of these four dimensions should be acknowledged (Hedlund 1986).

Common to both the business-network perspective and the literature on the MNC as an inter-organisational network is the notion of the MNC as a complex entity. Stating that the present study follows the business-network perspective with Nordic roots communicates that it leans on the theoretical view positing that the complexity restricts MNC management in many ways. The aim in the next Chapter (2.1.3) is to specify in more detail the conceptualisation of MNC management applied in this study.

2.1.3 MNC management in business networks

Proponents of the business-network perspective question the design, or contingency view of MNC management in terms of the quest for efficiency and a belief in managerial agency (Barner-Rasmussen – Piekkari – Scott-Kennel – Welch 2010, 94). The complex nature of the MNC has implications for its management (Doz – Prahalad 1991). Hedlund (1986, 9)¹¹ describes it as a heterarchy and, somewhat in line with the design view, compares this to a hologram: "In a hologram, each part contains information sufficient to reproduce the whole original image, albeit somewhat blurred".

From the business-network perspective it could be argued that the complexity goes beyond heterarchy in that external actors influence MNC management in many ways (e.g., Hallén – Johanson – Seyed-Mohamed 1991). This additional complexity may also be the reason why this "reproduction of the original image" in each part of it is questioned. The MNC is pictured as a web of actors, and one actor's ability to comprehend another actor's network context is constrained (Forsgren 2008, 121).

Co-ordination, control, centralisation and formalisation are MNC-management issues that have come under scrutiny in international business research (e.g., Gates – Egelhoff 1986; Martinez – Jarillo 1989; Martinez – Jarillo 1991; Harzing – Sorge 2003; Paik – Sohn 2004). In the business-network perspective, HQ is constrained in its ability to *co-ordinate*, *control*, *centralise* and *formalise*, for example, due to a lack of knowledge about the subsidiaries' business networks. Each subsidiary has a unique set of business relationships with the MNC's internal and external actors. All of these relationships matter to the subsidiary in terms of its current operations and future development. Consequently, the subsidiary is an influential actor within the MNC, and its network context is also of significance to HQ (Holm – Johanson – Thilenius 1995; Forsgren – Holm – Johanson 2005).

MNC subsidiaries are pictured as autonomous and the subsidiary autonomy may vary in different business functions having, for example, different effects on subsidiary performance (Varblane – Männik – Hannula 2005). MNC subsidiaries are also entrepreneurial and initiative in various degrees (Birkinshaw 1997). The extent to which HQ can influence the subsidiary's activities depends on its knowledge of the subsidiary's network context. It may obtain such knowledge, but in order to do so would need to get involved. All in all, HQ could be considered somewhat of an outsider in this respect. Getting deeply involved in the different subsidiaries' business networks may

Hedlund (1986) is not perceived as subscribing purely to the design view put forward by Barner-Rasmussen. Piekkari, Scott-Kennel and Welch (2010, 94).

be an impossible task for top managers in large dispersed MNCs (Holm – Johanson – Thilenius 1995; Forsgren – Holm – Johanson 2005).

In the business-network perspective HQ control is affected by subsidiary embeddedness in local business networks. Andersson and Forsgren (1996) distinguish between external and corporate embeddedness. They found that the greater the extent of the subsidiary's external embeddedness, the lower was the perceived level of control, whereas the greater the extent of corporate embeddedness the stronger was the perceived control. As a result, external actors and HQ compete for influence over the subsidiary. External actors that have long-lasting relationships with the subsidiary, for example, may wish to influence its behaviour in a way that conflicts with the wishes of HQ (Andersson – Forsgren 1996; Forsgren – Holm – Johanson 2005).

Two dimensions of HQ control have been identified: formal control and influence. As mentioned earlier, both the subsidiary's external and corporate embeddedness, and HQ's knowledge of its network context play a role in this battle for influence over the subsidiary's behaviour. A fourth element, namely the extent to which the subsidiary is dependent on HQ resources, has been found to be a significant explanatory variable for both formal control and influence. HQ influence arising from its knowledge of the subsidiary's network context, as discussed above, seems to have less significance. It has also been reported that the less HQ knows about subsidiary's operations, the less decentralised the decision-making is (Andersson – Forsgren 1996; Forsgren – Holm – Johanson 2005).

Knowledge of the subsidiary's network context is a source of HQ influence. On the other hand, it should be borne in mind that knowledge is not automatically associated with any formal position (Forsgren – Holm – Johanson 2005), and that given the opaque nature of business networks, the more distant actors may not be able to fully comprehend the relationships of other actors (Forsgren – Johanson 1992a). In order to exert this type of influence, top management needs to accumulate network knowledge, which in a large multinational is both challenging and costly (Forsgren – Holm – Johanson 2005; Andersson – Forsgren – Holm 2007).

The subsidiary is a key actor in the MNC in that it possesses critical resources in the form of business relationships (Ghauri 1992; Yamin – Ghauri 2010). This also includes knowledge of local business relationships. It is suggested that HQ's knowledge of the subsidiary's external network complements HQ authority, and also that acquiring such knowledge, at least with regard to the main subsidiaries is a top-management priority (Andersson – Forsgren – Holm 2007, 816). Relocating HQ close to the subsidiary is one solution, but such a decision clearly has several other attributes as well

(Yamin – Ghauri 2010, 129). Internal transfer of managers as sending out expatriates may be mentioned in this context as well (Harzing 2001).

The extent of subsidiary embeddedness affects the use of so-called normative control mechanisms within the MNC. Subsidiary values are argued to be "rooted in the subsidiary's own business context", and adopting a shared-values approach to MNC management may not be straightforward. The difficulties involved in changing subsidiary values given their context-specific nature are acknowledged in the business-network perspective (Forsgren – Holm – Johanson 2005, 155).

The subsidiary's network context is not simply a constraint on HQ control within the MNC: external embeddedness may enhance subsidiary role as a centre of excellence within the MNC (Andersson – Forsgren 2000). Its external business relationships could be considered a resource that may be used as a source of power and influence within the MNC, and also a strategic resource for the whole MNC in terms of performance and competence development (Andersson – Forsgren 2000; Andersson – Forsgren – Holm 2002). This type of power based on critical resources (e.g., relationships) is multidirectional, and also flows upwards from the subsidiary to headquarters (Forsgren – Johanson 1992b).

The MNC is modelled as a federation in more recent developments of the business-network perspective. Given the different power bases in HQ and the subsidiaries, there is presumably a bargaining process going on between them (Andersson – Forsgren – Holm 2007). Internal competition among the subsidiaries (Birkinshaw – Hood 1998) also reinforces the notion of the MNC as a federation. This view downgrades the MNC's headquarters to being one player among many others (Provan 1983), and emphasises the uneven distribution of power between HQ and the subsidiaries. Moreover, the competition is both vertical and horizontal (Andersson – Forsgren – Holm 2007).

The role of knowledge has been of prime interest in the research on MNC management for some time (cf. Foss 2006). There is a specific stream of literature in which the MNCs' ability to combine and transfer knowledge from its subunits located in different geographical locations is considered a core advantage (e.g., Kogut – Zander 1993; Gupta – Govindarajan 2000). The importance of individuals and the organizational context in knowledge transfer is emphasised in this research stream (e.g., Kogut – Zander 1992). The low context-embeddedness of studies on knowledge management has been pointed out recently, however, as has the need to focus on contextualized knowledge and knowledge creation rather than on knowledge transfer, especially when the emphasis is on knowledge management in transition economies (Michailova – Sidorova 2010). Foss (2006) has also stated that knowledge stocks are under-emphasised in MNC literature.

From a business-network perspective, first-hand experience is a prerequisite for acquiring knowledge (e.g., Forsgren 2008, 104), and consequently the key issue in MNC management is the lack of knowledge (Forsgren 2002), or restricted knowledge-ability (Goodall – Roberts 2003), rather than knowledge transfer. In this Goodall and Roberts (2003, 1156) "emphasize the often ignored connection between knowledge and situated action" ¹².

Knowledge-ability in geographically dispersed organisations is considered problematic due to the socially embedded nature of knowledge (Goodall – Roberts 2003). The literature on absorptive capacity of a firm (e.g., Cohen – Levinthal 1990; Zahra – George 2002) is relevant in this context, although seemingly incorporating a higher level of managerial agency within the firm than Goodall and Roberts (2003), for example. This is illustrated in the two examples provided below.

Cohen and Levinthal (1990, 150) state:

"[W]hile the current discussion addresses key features of organizational structure that determine a firm's absorptive capacity and provides evidence that investment is responsive to the need to develop this capability, more research is necessary to understand the decision processes that determine organizations' investments in absorptive capacity."

According to Goodall and Roberts (2003, 1169), on the other hand:

"Arguably, the problem of knowledge in Euroil lay as much in the certainty of the center (its apparent refusal to entertain seriously its own ignorance) as in the remoteness of the asset managers."

Goodall and Roberts (2003) base their concept of knowledge-ability on Tsoukas (1996), who highlights the management implications of having distributed knowledge systems such as an MNC. As with business networks, Tsoukas (1996, 11) pictures firms as lacking an overseeing "mind", and highlights the role of "those 'lower down' finding more and more ways of getting connected and interrelating the knowledge each one has" (Tsoukas 1996, 22).

Minbaeva, Pedersen, Björkman, Fey, and Park (2003) discuss absorptive capacity, which in their view comprises not only employees' ability but also their motivation. Cohen and Levinthal (1990) note the difference in absorptive capacity between the organisation and its individual members. Then again, Lane and Lubatkin (1998, 461) refer to its relative nature, arguing that it is a dyad-level construct, in other words that the "firm's ability to learn from

They base the concept to the term `knowledge-able´ by Giddens (1979) who has discussed action together with existing knowledge resources.

another firm" depends "on the similarity of both firms' (1) knowledge bases, (2) organizational structures and compensation policies, and (3) dominant logics".

The above quotations suggest that the concept of knowledge-ability is more in line with the underlying ideas of the business-network perspective built on in the present study. The diverse nature of absorptive capacity is nevertheless acknowledged (cf. Zahra – George 2002), and some conceptualisations such as the notion of relative absorptive capacity as a dyad-level construct (Lane – Lubatkin 1998), seem to fit the business-network perspective as well. The relevance of employee motivation in the context of knowledge (Minbaeva et al. 2003) is also noted. Goodall and Roberts (2003), in turn, highlight action in combination with knowledge in their definition of knowledge-ability.

Minbaeva and Michailova (2004) focus on ability and willingness in knowledge transfer, highlighting the role of collaborative effort - namely the absorptive capacity of the recipients and the attitudes and behaviour, in other words the disseminative capacity, of the sender. The concept of knowledge-ability as used in this study incorporates both sides of the knowledge-exchange equation in that it concerns knowledge in combination with action. Action could, to some extent, be considered to be contingent on the sender's and the recipient's ability and willingness to exchange knowledge.

Whereas Goodall and Roberts (2003, 1153) discuss knowledge-ability in terms of MNC local managers seeking to communicate knowledge to the "remote center" and to gather knowledge of "what is happening remotely", Minbaeva et al. (2003) discuss the essence of absorptive capacity in the receiving unit, basing their study on empirical evidence gathered from MNC subsidiaries operating in the USA, Russia and Finland. The direction or focus of these two studies differs.

Ambos, Ambos and Schlegelmilch (2006) draw attention to the multiple directions of knowledge transfer, and more specifically to the benefits of reverse knowledge flows, in other words transfer from the subsidiaries to headquarters. Jonsson (2008), in turn, illustrates the role of forward, reverse and lateral knowledge flows in Swedish MNC operations in Russia. Forward knowledge flow goes from HQ to the subsidiaries, reverse knowledge flow from the subsidiaries to HQ, and lateral knowledge flow goes between the subsidiaries (Ambos – Ambos – Schlegelmilch 2006; Jonsson 2008).

The managerial issues discussed above are positioned in Figure 6 along the dimensions of MNC complexity introduced earlier in Chapter 2.1.2 (Figure 5). It seems that formal co-ordination, centralisation, formalisation, authority, control and shared values are not totally abandoned as management mechanisms from the business-network perspective: it is rather that their challenging

and less predictable nature is highlighted. This concerns challenges related to knowledge and knowledge-ability within the MNC.

The role of the subsidiary in MNC management is a focal aspect of business-network theory. Subsidiaries are assumed not to be so dependent on the parent company or headquarters, and not so tightly controlled by top managers. This has to do with the central role of external actors in the subsidiary's business context. Subsidiaries, as owners of their business relationships, may influence other actors within the MNC, and there may be internal competition within the subunits. HQ and other MNC actors also possess resources, of course. This resource heterogeneity triggers influence or bargaining processes within the MNC.

The interest of the present study lies on both the horizontal and the vertical MNC dimensions. The literature reviewed above provides guidance given the focus on (complex) MNC relationships with Russian state actors. The business-network-based literature on MNC management has been criticised for being "inward looking", concentrating mostly on relationships between divisional HQ and subsidiary managers, even though the role of external actors is acknowledged (Yamin – Ghauri 2010, 131). This HQ-subsidiary relationship represents the vertical dimension of MNC management, as illustrated in Figure 6. Hedlund (1986) emphasises the primacy of the vertical (hierarchical) connections in complex MNC networks.

MNC COMPLEXITY	STRUCTURAL	RELATIONAL	
VERTICAL (=hierarchical)	*Problems with co-ordination, control, centralisation, formali- sation *The subsidiary is a linking actor	*Problems with authority, control, shared values *Influence/bargaining based on actor resources and knowledge *The subsidiary is a key actor *HQ is one player among many others	
	*Lack of knowledge	*Problems related to knowledge-ability	
HORIZONTAL	*Problems with co-ordination *The subsidiary is a linking actor	*Problems with shared values *Influence/bargaining based on actor resources and knowledge *Internal competition within the subsidiaries based on heterogene- ous resources	

Figure 6 Issues related to various dimensions of MNC management

The above review of the literature on MNC management supports the criticism of being inward-looking, but only to some extent. Subsidiary-centeredness, as well as influence, bargaining and internal competition, as discussed in the literature, are considered management issues on the horizontal dimension as well. The idea of multiple directions of knowledge flows (Ambos – Ambos – Schlegelmilch 2006; Jonsson 2008) also fit into the dimensional framework: forward and reverse flows could be positioned along the vertical dimension and lateral flows along the horizontal dimension.

Additional literature on management in networks was explored in order to shed more light on MNC management, especially along the horizontal dimension. There is extensive literature on management in networks (cf. Järvensivu – Möller 2009). Möller and Halinen (1999) separate four levels of network management, each of which concerns different managerial issues. Level one, industries as networks, is about understanding firm behaviour in industrial and social networks. Level two, the firm in a network, concerns how the firm relates to its environment – its role and position. Level three focuses on managing relationship portfolios, meaning the "internal management of resources, capabilities and activities in the context of exchange relationships" (Möller – Halinen 1999, 416). Finally, level four is about managing dyadic exchange relationships. As far as the firm is concerned, the authors note, managerial capability on all four levels is of crucial importance.

Ritter, Wilkinson and Johnston (2004) discuss the firm's ability to manage in networks, and identify both proactive and reactive elements. The proactive element comprises leading, determining and organising, whereas the reactive element refers to coping with a given situation. The authors also highlight the importance of interfacing intra- and inter-firm relationships. In this vein, McLoughlin and Horan (2000) discuss the matching of relational strategies between a firm and its buyers or suppliers.

Ritter, Wilkinson and Johnston (2004) identify five levels of relationship and network management: the actor, the dyad, the portfolio, connected relations and the network. They define the management of connected relationships as "dealing with the indirect effects of management action in one relationship on other relationship in the network" and describe the firm's relationship portfolio as the range of relationships in which it participates, further divided into a number of sub-portfolios based on the type of relationship partner (Ritter – Wilkinson – Johnston 2004, 179).

With regard to the specific interest of the present study, state actors are categorised as complementors "that can be important in entering new markets or in keeping informed about legislative developments". More specifically, government agencies are included in a group of actors named complementors, defined more generally as "many types of firms whose outputs or functions

increase the value of their outputs" (Ritter – Wilkinson – Johnston 2004, 177). The authors also highlight the separation of relationship-specific and cross-relational tasks, the former being related to managing interactions in one relationship, and the latter involving the simultaneous management of several relationships as well as the interconnections. The neglect of cross-relational tasks in the literature is also noted (Ritter – Wilkinson – Johnston 2004).

Somewhat in line with the focus of the present study, Dahlgren and Söderlund (2001) analyse the management and organisation of inter-firm industrial projects. They discuss and develop the concepts of matching and synchronising in order to enhance understanding of the management of inter-firm projects. They describe hierarchies of interacting parties as matched. They also refer to the varying pace, cycle and rhythm of activities in interacting organisations, and suggest that organisations become attuned or synchronised in a well-functioning relationship (Dahlgren –Söderlund 2001).

It was mentioned earlier that the specific capability of a business firm is attached to "the particular way in which its business relationships are connected", and that this connectedness does not only refer to MNC internal subunits (Forsgren – Holm – Johanson 2005, 22). It is thus suggested that matching and synchronising may take place along the horizontal dimension of MNC management. Ritter, Wilkinson and Johnston (2004, 180) also discuss the "synchronising efforts of different actors which goes beyond pure exchange".

A brief definition of a matching scheme is given in Chapter 1.4, based on the above discussion. It has issues in common with the focal net (Salmi 1995), resembling somewhat the net-management category (level two) suggested by Möller and Halinen (1999). The MNC, as a firm, is the main focus of interest in the present study. External actors, however, are an integral part of network analysis, and the concept of the focal net allows such actors to be identified, in other words "to have a face", in the analysis. Restricting the analysis to relationships with public officials would mean restricting this research to only part of the MNC's focal net, hence the development of a new concept, the matching scheme.

The matching scheme represents the management of a dyad (Ritter – Wilkinson – Johnston 2004) comprising the MNC and public officials, but allows for the existence of intermediaries or other external parties as an integral part of it. It could also be pictured as a chain emanating from a specific public official (organisation), connected to the MNC directly or indirectly, and extending within and beyond it due to the connectedness of the relationships. Supply activities have been described as chains of connected actors. According to Peck and Juttner (2000, 34), for example, "[S]upply chains integrate a range of partly independent organizations".

Building on Weick's (1993) focus on cognition in the context of decision-making, Henneberg, Naudé and Mouzas (2009) point out the role of sense-making and managerial cognition in the management of complexity in business networks. They linked the degree of diversity in how the various actors picture their network to certain outcomes, and found that high similarity and high difference in the pictures of top-level decision makers, for example, led to sub-optimal network decisions (Henneberg – Naudé – Mouzas 2009).

Ritter (1999) elaborates on network competence in a networking company, thereby moving the discussion to network-management qualifications on a personal level, and the aligned actions of several people involved in relationship management. He identified the variables contributing to the degree of network competence in a firm as including the availability of internal resources, the network orientation of its HRM, the integration of its communication structure, and the openness of the corporate culture (Ritter 1999).

In elaborating on the issue of managing contemporary (complex) MNCs, Yamin and Ghauri (2010, 131) discuss the increasing influence of financial stakeholders over top management. They refer to the emergence of a "financial" or "portfolio" MNC conception according to which corporate HQ extends the pressure down the hierarchy and increases central control, and suggest that developments in information technology and production modularity enhance control capability (Yamin – Ghauri, 2010, 133).

According to Birkinshaw and Pedersen (2009, 368), even though MNCs now tend to have series of value-adding activities rather than national subsidiaries in developed countries, there are still national subsidiaries with a strong country manager to be found outside developed economies. This is attributable to the need for good political connections and a local presence in these countries (Birkinshaw – Pedersen 2009).

It appears from the above brief review of the literature on management in networks that relevant dimensions are missing from earlier illustrations of MNC complexity (Figure 5). The discussion on the role of network competence (Ritter 1999) and individual sense making (Henneberg – Naudé – Mouzas 2009) in network management reveals a cognitive dimension that could also play a part. In this regard, decision-making bias and individual managers' judgements should be taken into consideration in studies on managerial decision-making in international business (Aharoni 1966; Aharoni – Tihanyi – Connelly 2011). Doz and Prahalad (1991) also discuss the role of the cognitive orientations of individual managers in studies on MNC management.

The cognitive dimension is added to Figure 7 below, and individual actors' cognition and the diversity in different network pictures are positioned along it. These issues may be related to a lack of knowledge and restricted

knowledge-ability within the MNC. There is more discussion on knowledge later in this chapter. A cross-relational dimension (Ritter – Wilkinson – Johnston 2004) is also added to Figure 7, along which the simultaneous management of several relationships and their interconnections are positioned. Figure 7 is thus a revised picture of the dimensions of MNC complexity. It should be noted that Nahapiet and Ghoshal (1998) name the three dimensions of social capital the structural, the relational and the cognitive, which they state are interrelated.

MNC COMPLEXITY	STRUCTURAL	RELATIONAL	COGNITIVE
VERTICAL (=hierarchical)	*Corporate HQ *Division HQ *Subsidiary *External actors an integral part	*Actors embedded in different ways - outsidership - differences in activity legitimacy - subsidiary the owner of critical resources (relationships)	*Heterogeneity in cognition among individual actors *Diversity in actors' network pictures
HORIZONTAL	*Connected actors in different geographical locations *External actors an integral part	*Actors embedded in different ways - outsidership - differences in activity legitimacy - heterogeneity in subunit resources	*Heterogeneity in cognition among individual actors *Diversity in actors' network pictures
CROSS- RELATIONAL	/ *Interconnections / among several / relationships	*Different pace of actors	/ *(as in vertical / and horizontal / dimensions)

Figure 7 A revised illustration of the dimensions of MNC complexity

The focus on knowledge in MNC management was mentioned earlier. There was also discussion about the emphasis on lacking knowledge in the business-network perspective, and the restricted knowledge-ability challenging the management of geographically dispersed MNCs. Given the complexity of knowledge as a concept (e.g., Goodall – Roberts 2003, 1154), there is further discussion on the topic below, the aim being to incorporate it into the different dimensions of MNC complexity.

First of all, different types of knowledge have been identified. Of major relevance to the present study is the development of market-specific knowledge through experience in the internationalisation process (Johanson – Vahlne 1977). The original model of the internationalisation process has been criticised for being path-dependent in that the accumulation of market knowledge is expected to lead to further commitment on the part of the firm.

This path-dependency has been moderated in later developments, and experiential knowledge is attached to the identification of opportunities through existing business relationships (Johanson – Vahlne 2009).

The revised model (Johansson – Vahlne 2009) also acknowledges the complexity related to the various types of knowledge that exist: institutional as well as business-market knowledge, general market knowledge as well as general internationalisation knowledge (Eriksson – Johanson – Majkgård – Sharma 1997), and relationship-specific knowledge as well as general relationship knowledge (Johanson – Vahlne 2009).

Coming closer to the specific interest of the present study, namely Russia, Jonsson (2007) investigated knowledge sharing within IKEA during its expansion into Russia. The discussion covers the importance of a specific type of market knowledge related to the infrastructure, laws and regulations during the market-entry process. The forming of close personal contacts was considered important in developing this type of market knowledge, through working closely with customs authorities, for example. On the MNC side not only market knowledge, but also internationalisation and corporate knowledge, are vital (Jonsson 2007).

In addition to discussing the role of different types of knowledge in the MNC internationalisation process, Jonsson (2007) also draws a distinction between data/information, knowledge and knowing. This categorisation reflects the structural, relational and cognitive dimensions of knowledge in line with the dimensions of MNC complexity discussed earlier. Data or information would then be positioned on the structural dimension, knowledge on the relational dimension, and knowing, which is related to wisdom, practice and competence, on the cognitive dimension, and more specifically related to individual capabilities. The concept of knowledge-ability (Goodall – Roberts 2003) is adopted in this study, thereby bringing to the surface individual action (e.g., Aharoni 1966) and sense making (Henneberg – Naudé – Mouzas 2009) in combination with knowledge.

Figure 8 below draws together the theoretical discussion and illustrates the multiple dimensions of MNC management. More traditional management tools such as co-ordination and control are positioned on the structural-vertical dimension; authority, influence and shared values are positioned on the relational dimension; and the cognitive dimension highlights the role of individual cognition and capabilities in MNC management. With regard to the horizontal dimension, the connecting of actors is a management issue on the structural level, and the relational dimension brings actor differences and internal competition into the picture. The cross-relational dimension is separate and covers interconnection issues related to the need to link several

relationships on the structural level and align and pace these multiple relationships on the relational level.

	managerial tools managerial concepts/wisdom		
MNC COMPLEXITY	STRUCTURAL	RELATIONAL	COGNITIVE
VERTICAL (=hierarchical)	*Problems with co- ordination, control, cen- tralisation, formalisation *The subsidiary is a linking actor	*Problems with authority, control, shared values *The subsidiary is a focal actor *Influence/bargaining is based on actor resources and knowledge *HQ is one player among many others	*Heterogeneity in an individual actor's cognition *Diversity in actors' network pictures
	*Problems related to a lack of data	*Problems related to a lack of knowledge	*Problems related to restricted knowledge-ability
HORIZONTAL CROSS- RELATIONAL	*Problems with co- ordination *The subsidiary is a linking actor / *Interconnecting / several relation-	*Problems with shared values *The subsidiary is a focal actor *Internal competition / / *Aligning and	*Heterogeneity in an individual actor's cognition *Diversity in actors' network pictures / *(as in the / vertical and hori-
	ships	pacing	zontal dimensions)

Figure 8 The multidimensionality of MNC management

Figure 8 depicts the focal position of knowledge in MNC management in that knowledge issues are positioned in the centre. Data (information), knowledge, and knowledge-ability (cf. Jonsson 2007) are used as categories, positioned on the structural, relational and cognitive dimension, respectively. It is also acknowledged that multiple types of knowledge, such as market knowledge (or more specifically institutional market knowledge), corporate knowledge, internationalisation knowledge, and relationship-specific or general relationship knowledge have a potential role on all of the dimensions (e.g., Eriksson – Johanson – Majkgård –Sharma 1997; Johansson – Vahlne 2009). Knowledge flows are multidirectional (Ambos – Ambos – Schlegelmilch 2006; Jonsson 2008).

Möller and Halinen (1999) elaborate on the dualistic character of network management: just as low relational complexity is associated with managerial tools, high relational complexity is related to managerial concepts and wisdom. It is suggested that a MNC-management focus on the structural,

relational and cognitive dimensions varies from reliance on managerial tools to the application of concepts and wisdom.

In sum, rather than questioning the influence capacity of a subsidiary based on local embeddedness, and building on the increased level of HQ control (cf. Yamin – Ghauri 2010), the present study briefly explores the literature on managing in networks in order to gain additional insight. This exploration resulted in the multidimensional conceptualisation of MNC management illustrated in Figure 8 above, in which knowledge has a central position. Given the stream of literature within business-network theory focusing on interactions between business and socio-political actors, the discussion now proceeds in that direction.

2.2 State actors in the MNC's business network

Even though the roots of business-network theory can be traced to empirical studies on buyer–seller relationships, the theory has been expanded to cover networks of relationships more broadly (e.g., Möller – Halinen 1999, Hadjikhani – Ghauri 2001, Welch – Wilkinson 2004). Easton and Araujo (1992), for example, point out that even though organisational relationships could be divided between those that involve financial exchange and those that do not, the latter are also important, and it may be challenging to distinguish between the two categories.

The network context of a firm comprises multiple actors, including customers, suppliers and competitors, the media, the government and other public agencies, specialists and associations, as Figure 9 illustrates. Competitors, government, other public agencies, universities and research institutions are positioned on the horizontal dimension, whereas suppliers, distributors and customers are on the vertical dimension (Möller – Halinen 1999). It should be noted that the horizontal and vertical dimensions identified in Figure 9 both mainly represent the horizontal dimension of the MNC in this particular study.

Technological complexity, globalisation, increasing interdependency, and electronic interfaces are acknowledged as driving forces behind the network era. The interrelated nature of the relationships on the vertical and horizontal dimensions is noted, as is the increasing importance of both horizontal and vertical relationships. Horizontal relationships with non-commercial actors such as universities and governmental agencies are related to R&D activities, attempts to influence legislation, norms and regulations, and the gaining of access to regulated markets (Möller – Halinen 1999).

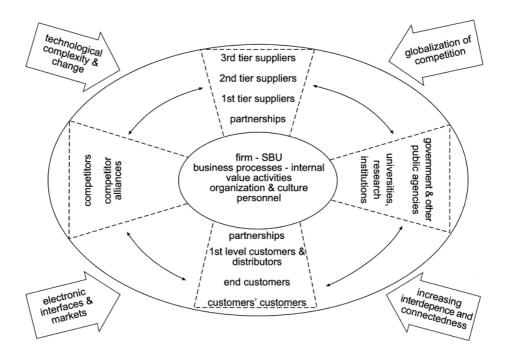


Figure 9 Business relationships and networks – a focal firm perspective (Möller – Halinen 1999, 415)

Hadjikhani and Thilenius (2005b, 2009) also incorporate both horizontal and vertical connections into the same model. Horizontal connections refer to competitors and non-business organisations, hereas vertical connections refer to suppliers and customers. The focus in the earlier work was on Iranian customers' relationships with foreign suppliers, and the authors incorporated non-business actors into their analysis. They found that political connections to government and bureaucratic organisations had a significant impact on the focal relationship with the foreign supplier. In the later publication they elaborate on primary and secondary functions in business networks. According to their findings, the primary function of a focal dyadic relationship relates to cultivating the business relationship or forging connections in the distributive exchange channel, whereas the secondary function concerns political, ancillary or competitive relationships, and strengthens the primary function (Hadjikhani – Thilenius 2005b; 2009).

There is growing interest in research on firms' relationships with governments and other non-business (or political) actors (e.g., Hadjikhani 2000; Hadjikhani – Ghauri 2001; Hadjikhani – Thilenius 2005a; Hadjikhani – Lee – Ghauri 2008; Bengtson – Pahlberg – Pourmand 2009). Among the early

empirical contributions to this research stream, Hadjikhani and Johanson (1996) found that Swedish MNCs' ¹³ relations with political actors played an operational role during market turbulence in Iran. In a similar vein, Halinen and Törnroos (1998) reported that political embeddedness gave market access and network-development opportunities to Finnish companies operating in Estonia.

Consequently, the influence of non-business actors in business activities is acknowledged, and firms' political activities are considered to support their business activities. It is not only a question of adapting to the socio-political climate, and it appears that firms can influence their business market by means of proactive participation (Hadjikhani – Thilenius 2005a; Hadjikhani – Lee – Ghauri 2008). With regard to political actors, it could be said that business-network theory argues against the passive role (adaptation) of firms in their relationships, against their homogeneous influence on firms (Jansson – Saqib – Sharma 1995; Hadjikhani – Håkansson 1996; Hadjikhani – Johanson 1996; Hadjikhani – Sharma 1999; Hadjikhani 2000), and against the simplicity of the decision-making related to political activities (Hadjikhani – Sharma 1999).

Market imperfections, even on the part of state or government actors, are considered part of the existing reality in business-network theory (Jansson – Saqib – Sharma 1995, 16). It is also worth noting that Doz (1976) discusses this type of issue in relation to salient industries. Some studies on business–government interaction may have failed to detect the presence of opportunism, misleading information, or misuse of office, under the assumption that some ideal type of bureaucracy characterised by impersonality prevails (cf. Boddewyn 1988, 345; Jansson – Saqib – Sharma 1995, 16; Loveridge 2006, 189–190).

Hadjikhani and Ghauri (2001) identify co-operative and relational elements of interaction, such as commitment and support, in the firm's relations with political actors, and depict political actors as supporting its activities or taking coercive actions against it. Moreover, Murtha and Lenway (1994) acknowledge the importance of collaborative interaction between business and government in successful strategy implementation. As a very practical example, co-operative task forces between business and government actors have been witnessed in Australia (Ghaudhri – Samson 2000).

Business-network research on non-business markets has focused on political actors (Hadjikhani – Thilenius 2005a). As discussed earlier in Chapter 1.4, political actors are referred to in some studies as "bureaucrats, government ministers, members of parliament, opposition parties, interest groups and the media" (Welch – Wilkinson 2004, 218). Other studies roughly separate

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The MNCs concerned were Atlas Copco, Volvo and Asea.

non-business or socio-political actors from business actors (e.g., Hadjikhani – Ghauri 2001; Hadjikhani – Lee – Ghauri 2008), or refer to them as "belonging to the non-market environment" (Boddewyn 1988, 343).

Concepts such as political actors, non-business actors and non-market actors are challenging and occasionally poorly defined (cf. Boddewyn 2003). For example, state actors may also be MNC customers. The market and non-market distinction may also be challenging in that a type of non-economic exchange is acknowledged to take place in the firm's relationships with sociopolitical actors (Easton – Araujo 1992). In order to tackle the challenge, the discussion in the present study concerns a more specific group of state actors, namely public officials (see Chapter 1.4).

Welch and Wilkinson (2004, 218) define political activities as "actions and interactions of political actors and firms as they intersect with business". From the business-network perspective a firm's political activities have been pictured as an "essential and distinguishable part that supplement the business activities", and high commitment and political knowledge have even been associated with positive outcomes and gains in the business sphere (Hadjikhani – Ghauri 2001, 273). There are ideas in common here with studies on lobbying (cf. Jansson – Saqib – Sharma 1995; Hadjikhani – Lee – Ghauri 2008). Welch and Wilkinson (2004) further define political resources as comprising what firms hope to gain from political activity in the form of political goods such as contracts, licences, approvals, tax concessions and tariffs.

The role of intermediaries in a firm's relations with political actors has also been noted. Hadjikhani and Thilenius (2005a) identified an industrial zone, an intermediary zone and a political zone in their study on Iran. They found that intermediary actors played an affiliate role, and reduced the uncertainty on behalf of political actors. They also had a strong position and were able to influence political actors. Bengtson, Pahlberg and Pourmand (2009) also highlight the role of intermediaries in small firms' relations with political actors. As Ford (1980) put it, the intermediary role bridges geographical, cultural, physical or technological gaps between business and political actors.

There is evidence that organisational relationships with socio-political actors tend to be long-term and mutual in nature. The trust, commitment and legitimacy built into business relationships appear to influence relationships with socio-political actors, and vice versa, but the nature of these elements differs (Hadjikhani – Lee – Ghauri 2008). Differences in the value systems of business and political actors, for example, are acknowledged (Jansson – Saqib – Sharma 1995; Hadjikhani – Thilenius 2005a).

The difference between exchange relationships with business and non-business actors is suggested to lie in what is conceptualised as legitimacy:

"Legitimacy of an actor is constructed on the surrounding actors' knowledge on how actor's performance preserves the rule of mutuality and maintains its own interest and that of others" (Hadjikhani – Lee – Ghauri 2008, 914). Legitimacy is also seen as the main goal or objective of MNCs operating in the socio-political market (Jansson – Saqib – Sharma 1995; Hadjikhani – Lee – Ghauri 2008).

Various bases of legitimacy have been identified. In the case of a business organisation it may comprise business legitimacy leveraged from the market and institutional legitimacy leveraged from political and administrative organisations. Business legitimacy is based on the firm's efficiency in terms of profitability and growth, or its technical legitimacy. Its willingness to comply with norms and regulations guarded by bureaucrats contributes to its administrative or procedural legitimacy (Jansson – Saqib – Sharma 1995; Hadjikhani – Thilenius 2005a).

The concepts of trust and commitment are also used in the context of business relationships (e.g., Forsgren – Holm – Johanson 2005, 17). As discussed above, a relationship between two business actors and one between a business and a socio-political actor differ in terms of the actors' value systems and activity legitimacy, as well as in the resources exchanged. Moreover, a specific type of knowledge, namely political knowledge is incorporated into relationships with political actors (Hadjikhani – Lee – Ghauri 2008).

With regard to research specifically on MNC relations with political actors, Boddewyn's (1988) paper is often referred to as seminal. He integrates political aspects into MNC theory (eclectic theory) and highlights the acceptance of non-market forces, thereby implying that market imperfections may be enacted through political behaviour. Ring, Lenway, and Govekar (1990) were also among the early contributors to the more proactive view of a firm in its relations with political actors in international business. In relation to MNCs in salient industries, Doz (1976, III-81) states: "[c] orporate management has to recognize local authorities' direct influence upon the management of its subsidiaries, and accept civil servants almost as part of the management".

As far as the specific interest of the present study, i.e. managerial issues in MNC relations with state actors, is concerned, the theory development could be called scanty. Doz (1976) reflects the same interest in his analysis of multinational management and national policies in salient industries, offering interesting conclusions concerning the need for close co-operation to the extent of even accepting civil servants as part of management.

Hadjikhani, Lee and Ghauri (2008) examine MNC relationships with sociopolitical actors from a managerial point of view. On the basis of their analysis of the socio-political behaviour of a Korean and a Swedish MNC in

the EU, they depict MNCs as building trust, commitment and legitimacy among both business and socio-political actors.

Some of the studies referred to earlier in this chapter concern MNC relations with non-business actors (e.g., Boddewyn 1988; Hadjikhani – Johanson 1996; Hadjikhani 2000; Hadjikhani – Ghauri 2001), but only a few address MNC interactions with non-business actors outside developed economies. Hadjikhani and Johanson (1996) investigated Swedish MNCs in Iran from 1975 to 1992, and found that market turbulence created a strong imbalance in terms of market knowledge and market commitment, and that the MNCs responded to the imbalance differently. Despite the difficulties, the MNCs in question did not exit the country, and consequently forged better relations with commercial and political actors after the turbulence (Hadjikhani – Johanson 1996, 71).

Even though not purely representing the business-network perspective ¹⁴, Jansson, Saqib and Sharma (1995) illustrate the structural complexity of MNC contacts with government organisations in a study of Swedish and German MNCs operating in India. The existence of several different government institutions, with their departments and delegation of authority and responsibility, has been found to challenge companies. The above-mentioned study illustrates the structural complexity of MNCs to some extent, categorising foreign-subsidiary actors as of a high, medium or low level in their relationships with government contacts in India. They found medium-level contacts important in nurturing government contacts. High-level managers had the role of door opener and legitimiser in this status-conscious country. There was frequent contact between the MNCs and the government representatives, which included face-to-face interaction. Non-personal media were also utilised, and were considered complementary to personal contacts (Jansson – Saqib – Sharma 1995).

The local subsidiary plays an essential role in managing government relationships. Given the complex bureaucracy, rules and regulations, learning takes place in this respect. The role of certain key persons in maintaining contacts with the government is also emphasised. These persons are considered a critical resource on account of the time-consuming nature of building competence with regard to local procedures and the creation of trust (Jansson – Saqib – Sharma 1995, 105). Doz (1976, IV-24) also points to the criticality of individuals with reference to the different patterns of thought a person or an organisational entity applies to a decision problem: as he

The study represents the so-called institutional network perspective. Jansson, Saqib and Sharma (1995, 38) discuss. 'institutionalised rules', for example.

suggests, "in-depth knowledge of the industry would considerably facilitate the management of salience".

In sum, a specific stream of literature within the business-network perspective focuses on the role of non-business actors. Firms are depicted as acting proactively in the non-business as well as in the business market, and these two markets are considered interdependent (e.g., Hadjikhani – Lee – Ghauri 2008). Relationships with business and non-business actors are connected, and also represent primary and secondary functions in business networks (Hadjikhani – Thilenius 2005b; 2009). Local subsidiaries and middle management together with higher-level management are key actors in maintaining relationships with political actors on behalf of the MNC (Jansson – Saqib – Sharma 1995). There are differences in value systems, activity legitimacy, and business and political resources, and political knowledge also plays a role (e.g., Hadjikhani – Lee – Ghauri 2008).

MNC COMPLEXITY	STRUCTURAL	RELATIONAL	COGNITIVE		
VERTICAL (=hierarchical)	*The local subsidiary is a linking MNC actor	*The local subsidiary is a key actor * Middle management has a key role *Multiple legitimacies of the actors	*The criticality of the key persons *Learning and com- petence building in respect of local pro- cedures is time- consuming		
	*Importance of political knowledge				
HORIZONTAL	*The local subsidiary is a linking MNC actor *Intermediaries exist	*The local subsidiary is a key actor *Middle management has a key role *Multiple legitimacies of the actors	a *The criticality of the key persons *Learning and com- petence building in		
CROSS- RELATIONAL	* Business and non-business actor connectedness	/ *Secondary / function of politi / cal relationships	consuming		

Figure 10 A managerial view on state actors in a foreign MNC's business network

The specific stream of literature reviewed in this section focuses on non-business or political actors in business networks. Issues relevant to MNC management were identified and positioned in the multiple dimensions elaborated earlier. As an outcome, Figure 10 presents a managerial view on state actors in a foreign MNC's business network. With regard to the discussion on

multidimensionality in Chapter 2.1.3, it could be stated that the interest in state actors in the business network indicates the crucial nature of the horizontal and cross-relational dimensions of MNC management in the present study.

On the structural level, the local subsidiary could be described as an actor linking the MNC with state actors (Jansson – Saqib – Sharma 1995), although intermediaries (Ford 1980; Hadjikhani and Thilenius 2005a) and other MNC external actors may also be involved in the matching scheme (Hadjikhani – Thilenius 2005b). The key role of the subsidiary and middle management (Jansson – Saqib – Sharma 1995) features on the relational dimension of MNC management, on both the vertical and the horizontal levels. The multiple legitimacies of the actors feature on both of these relational dimensions as well (e.g., Hadjikhani – Lee – Ghauri 2008). The critical role of key persons and the time-consuming nature of learning and competence building with regard to local procedures belong to the cognitive dimension (Jansson – Saqib – Sharma 1995). The secondary function of political relationships represents the cross-relational dimension of MNC (Hadjikhani – Thilenius 2009). Political knowledge (Hadjikhani – Lee – Ghauri 2008) is positioned in the middle of Figure 10, indicating its role in all of the management dimensions.

2.3 Russian business networks

Business networks in Russia reportedly differ from those in West European economies to such an extent that MNCs face different strategic situations (Jansson 2006). This section describes some characteristics linked to Russian business networks, focusing specifically on their heterogeneity and how they have been compared with networks originating from other countries.

Although the evidence points to differences between Russian and both West European and Chinese business networks, discretion is called for in referring to business networks, and especially to the individuals involved, in Russia and any other country as being of a certain type. Westwood (2004), for example, discusses the challenges related to representational and appropriation strategies in the research on international business and comparative management. It is suggested that inherent in the MNC context are individuals with bicultural identities and multicultural work teams (Brannen – Thomas 2010; Birkinshaw – Brannen – Tung 2011; Doz 2011).

Consequently, the aim in the following discussion on Russian business networks is to increase awareness of the heterogeneity in international business networks rather than to prescribe their characteristics. Salmi and Sharafutdinova (2008), for example, point out in their review of changes in Russian socio-cultural factors that there is regional variance as well as change

in the dynamics over time. Based on a study of value honesty among Russian population in Russia, Estonia, Latvia and Lithuania, Vadi and Jaakson (2011) highlight the importance of societal factors rather than cultural factors. From a managerial perspective it would seem more relevant to acknowledge the "interplay of old and new" (Salmi – Sharafutdinova 2008, 384) in networks originating in Russia rather than assuming that they are of a certain type.

First, on the *structural* level, differences between Russia and Western market economies in the organisation of activity chains ¹⁵, specifically in the activities of suppliers and customers, and in the level of mutual adaptation have been identified. Russian customers have been reported to engage in activities usually carried out by the supplier in Western markets, for example. Moreover, there is evidence of activity holes in chains involving a Russian supplier and a foreign customer, thereby providing opportunities both for existing customers and suppliers and for other firms that can identify and narrow these gaps (Johanson 2004).

Lorentz (2009) analysed supply-chain constraints in the Russian market for food and consumer goods. Retail outlets in Russia are categorised as traditional (indirect) or modern (direct). Modern supply networks are simpler, shorter and more direct than traditional networks. From a managerial perspective, it is considered necessary in the current situation for food-industry firms to use both of these channels in order to achieve satisfactory sales volumes. Modern outlets are concentrated in major urban centres, and traditional retail formats are gradually making way for modern practices. Co-operation between firms and regional authorities in terms of developing the supply-chain infrastructure is also acknowledged (Lorentz 2009).

Business networks in Russia appear to differ on the *relational level* from those in China and West Europe, for example. Jansson, Johanson and Ramström (2007) discuss business networks originating in different institutional settings, comparing those originating in Chinese, Russian and West European markets on nine aspects: the self, time, causality, achieved vs. ascribed status, inner vs. outer direction, universalism vs. particularism, trust, authority and sanctions. These types of attributes could be positioned on the relational-management network level in the context of the present study (Jansson – Johanson – Ramström 2007).

The Russian context has been associated with centralised or formal authority, with sanction mechanisms based on customs and leading to punishment. Authority in the Western European context is described as more decentralised, and laws and incentives play a major role in regulating activities (Ramström –

Johanson (2004) is based on four case studies in the wood-processing industry in Russia, with a focus on activities in supplier relationships.

Jansson – Johanson 2006). According to comparisons among Russian, Chinese and West European¹⁶ business networks, a paternalistic authority system prevails in both Russia and China. Superior power was found to be much greater in paternalistic systems, based not only on hierarchical authority but also on respect for the ruler's traditional status (Jansson – Johanson – Ramström 2007).

Networks in Russia and China are pictured as closed and opaque compared with those in West European business contexts due to differences in the processes of trust development. Trust in the Russian context has been attached to social trustworthiness, whereas in the West European context it is associated with professional trustworthiness and competence. Social trustworthiness is also emphasised in the Chinese context, but there are differences compared with Russia: there is reportedly a higher level of suspicion at the relationshipestablishment stage in the Russian context, for example. Moreover, business managers appear not to trust the official authority system in Russia, and there is evidence that social relationships play a role in the formation of business networks (Jansson – Johanson – Ramström 2007).

The importance of personal networking is acknowledged in both Russia and China. A specific type of networking called "blat" has been identified in the Russian context, and it has been differentiated from personal networking in individualistic societies such as the USA. There are also apparent differences between Russian "blat" and Chinese "guanxi" (Michailova –Worm 2003). Exchange relations in Russia have been described as over-socialised, and the situation has even been said to encourage illegal activities (Salmi 2004). Wide dependence on personal relationships in dealing with the public sector has been attached to occasional corruption and bribery (e.g., Heininen – Mashkina – Karhunen – Kosonen 2008; Heliste – Karhunen – Kosonen 2008; Karhunen 2008). It has even been suggested that double morality is a prevailing feature in Russia, to the extent that society beyond personal networks is perceived as potentially hostile (Schrader 2004).

Traditional Russian leaders are characterised as keen on control, with a top-down orientation promoting subordinate dependency and resistance to change. The roots of this leadership style have been traced to the Soviet economic system, and to various institutional and cultural forces in Russia (McCarthy – Puffer – May – Legerwood – Stewart 2008). In order to pinpoint the existing heterogeneity, which is of the essence in the present study, it is worth noting that attributes such as dynamism, ambitiousness, and individualism have been

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West European business networks in this study refer to the EU-15 market economies, Chinese networks include China, Hong Kong and Taiwan, and Russian business networks include countries of the former Soviet Union.

attached to young Russian managers and a growing number of market-oriented executives (Puffer 1996; Camiah – Hollinshead 2003; Prašnikar – Pahor – Scetlik 2008). On the other hand, there are also findings revealing that the effect of Soviet work culture among older generation of Russians is not significantly evident (Vadi – Jaakson 2011). Moreover, an increasing number of management-team members in Russian companies, not only in the state capitals but also in the provinces, have experience in Western companies (Golikova 2009).

In the context of this study, the *cognitive* management dimension is associated with the individual actor's cognition and network diversity. The structural and relational issues discussed briefly above illustrate the existing complexity and heterogeneity in international business networks and in Russian business networks more specifically. Given the situation in Russia, that places "different demands on managerial competence and organisation design" (Johanson – Johanson 2006, 203), the need to develop a managerial capability to understand the interdependences that characterise business networks has been highlighted (Salmi 1995; 1996).

Furthermore, on the firm level, foreign firms may have more freedom when acting in another network context, or they could be expected to behave in a different manner (Jansson – Ramström 2005). Some firms leverage relationships rooted in the old Soviet organisations, whereas others engage in pure market transactions. Russian firms appear to be quite persistent in structuring exchange relations in the old way, whereas foreign firms are at least expected to encourage change. Foreign firms could be considered role models promoting the adoption of new rules, and some actively search for new local actors who might be more eager to adopt fresh ideas. It has been found, for example, that foreign investors build new networks in Russia through the careful selection of local partners, which they integrate into their global production networks (Salmi 2004).

Foreign firms operating in Russia may find their experiential market knowledge obsolete due to the persistent *market turbulence*. Even if experiential knowledge does not completely lose its value in turbulent markets, the continuous questioning of it and the constant need to revise expectations are brought to the forefront as critical processes in these firms. Furthermore, the ability to adapt to discoveries is strongly related to the people involved in the business activities (Johanson 2002). *Improvisation* has been found to have a major role in corporate activities in Russia, in fact. Awareness of ignorance and turbulence are furthermore pinpointed as aspects of knowledge that have an effect on activities in turbulent markets such as Russia (Johanson – Johanson 2006).

Other issues discussed above are also associated with *knowledge*, which is a key management issue in the business-network perspective and consequently also in this particular study. Some features associated with the Russian culture appear to reflect many of the general problems of knowledge sharing: little incentive to share knowledge and a fear of making mistakes, for example. It has been reported that Russians, as knowledge receivers, reinforce the not-invented-here (NIH) syndrome, and lack absorptive capacity, whereas Western managers have the propensity to discuss problems more openly. Hierarchical differences and physical distance have been also mentioned as impediments to knowledge sharing in Russian organisations (Husted – Michailova 2002).

On the other hand, it has been suggested that Chinese and Russians are even more inclined to share knowledge than people in Western industrial countries. This propensity has been related to in-groups rather than out-groups, however (Hutchings – Michailova 2006; Michailova – Hutchings 2006). Indeed, the time it takes for Western managers to become incorporated into Chinese and Russian networks has been emphasised, given the nature of the trust-development processes in these markets. Intermediaries have been mentioned as potential supporters of Western managers trying to build new knowledge-sharing networks, and the use of departmental managers as intermediaries within organisations is considered instrumental in establishing connections (Hutchings – Michailova 2006).

More recently the discussion has focused on the absorptive capacity of Western managers and the ability and willingness of Western firms to transfer knowledge, and a more balanced view of knowledge transfer between Western and Russian firms has been called for (Michailova – Jormanainen 2011). This kind of balance is evident, for example, in a study conducted by Camiah and Hollinshead (2003) addressing the issue of cross-cultural working between young Russian managers and Western expatriates. The authors conclude that efficiency in terms of knowledge management requires both Russians and Westerners to adjust their modes of thinking. Barriers to learning have also been attributed to MNC expatriates and local employees in Russia (Engelhard – Nägele 2003). Feminine relational skills in networking as equals also appear to play a role in the optimal sharing of local and international knowledge in the Western-Russian context (Camiah – Hollinshead 2003).

In sum, business networks originating in different countries have some specific features arising from institutional and cultural influences (e.g., Ramström – Jansson – Johanson 2006). Those originating in Russia, for example, tend to be structurally indirect or long. Moreover, activity holes identified in activity chains promote the use of intermediaries (Johanson 2004). On the cross-relational dimension, firms seem to use both traditional (indirect) and modern (direct) activity chains in parallel (Lorentz 2009). Actor

heterogeneity is acknowledged on the relational dimension: some actors persist in doing things the old way, and some promote change (e.g., Puffer 1996; Salmi 2004). On the cognitive dimension, the complexity related to the heterogeneity and turbulence in Russian business networks has highlighted the role of managerial competence and cognition (Salmi 1995; 1996; Johanson – Johanson 2006). Certain national and organisational cultural aspects in Russia, such as the importance of in-group status and the primacy of hierarchical status, influence knowledge sharing with Russian actors involved in business networks. Intermediaries in the form of organisations and individuals have been found to be of help to Western managers working in Russian networks. A more balanced view of knowledge sharing in a Russian–Western context has been achieved more recently. To ensure efficiency in knowledge sharing, the need to adjust thinking on both sides has been noted, for example (Camiah – Hollinshead 2003; Michailova – Jormanainen 2011).

The discussion in this and the following section constitutes the bridge from the theoretical to the empirical part of the dissertation. Building on the above review of earlier empirical findings on Russian business networks, and their loose positioning on the different dimensions of MNC management, Chapter 2.4 below briefly summarises the main theoretical issues elaborated in the empirical part.

2.4 Towards the empirical study

It could be concluded from the review of prior empirical studies that the business-network perspective offers a promising starting point for the present study on the managerial aspects of foreign-MNC-state relations in Russia: actor heterogeneity, actor connectedness, actor externality and MNC complexity could all be incorporated as attributes into the examination.

On the theoretical level the study combines two research streams with slightly different foci: the theoretical stream reviewed in Chapter 2.1 focusing on MNC management, and the literature reviewed in Chapter 2.2 that brings the non-business actors in business networks to light and identifies their role in firms' business activities.

The theoretical framework built on in the present study is now briefly reviewed in the light of the earlier theoretical discussion. It offers no theoretical model to test, but makes explicit the theoretical issues on which the empirical part of the study leans and that guide the analysis.

At this point it should, once again, be noted that the main unit of analysis is the MNC. There are certain theoretical issues addressed that relate to the MNC as an organisation. First of all, it is pictured as large, physically dispersed and goal-disparate (e.g., Ghoshal – Bartlett 1990; Forsgren – Holm – Johanson 2005). Secondly, external actors exert an influence (e.g., Hallén – Johanson – Seyed – Mohamed 1991). Thirdly, the subsidiary concerned is a key actor in the MNC's local business networks and is thus influenced by the local business and the corporate context (e.g., Forsgren – Johanson 1992b).

The more specific theoretical interest of the present study is in MNC relations with state actors. The main theoretical issues are made explicit below. First, the environment a firm encounters is not passive, but comprises specific actors and relationships (e.g., Gadde – Håkansson 2010). This is why the empirical part of the study focuses on MNC relations with a specific group of state actors, namely public officials. Secondly, business and socio-political actors are pictured as interdependent (e.g., Hadjikhani – Lee – Ghauri 2008), and their activities as connected (e.g., Hadjikhani – Håkansson 1996). Hence the concept of a matching scheme was developed, which postulates that business and non-business actors may be integral in fostering relationships between the MNC and public officials.

Thirdly, the local subsidiary may have a major role in MNC-state relations (Jansson – Saqib – Sharma 1995), as may intermediaries (e.g., Hadjikhani – Thilenius 2005a). Fourthly, the focal dyadic relationship has a primary and a secondary function: the former is connected to the distributive exchange channel, and the latter to the political relationships (Hadjikhani – Thilenius 2005b, 2009). Fifthly, the legitimacy of firms' activities in relationships with business and socio-political actors may vary (Jansson – Saqib – Sharma 1995; Hadjikhani – Thilenius 2005a; Hadjikhani – Lee – Ghauri 2008).

The focus in the present study is on managerial issues in MNC relations with state actors. In line with the theoretical discussion, MNC management is seen as multidimensional (Figure 8 in Chapter 2.1.3). Complementing the vertical (hierarchical), horizontal and cross-relational dimensions are the structural, relational and cognitive dimensions, along which the management means vary from the use of managerial tools to reliance on concepts and wisdom (Möller – Halinen 1999, 424). The different types of knowledge (Jonsson 2007; Johanson – Vahlne 2009), a lack of knowledge (Forsgren 2002), ignorance (Johansson 2002) and restricted knowledge-ability (Goodall – Roberts 2003) all have a role to play.

The discussion in Chapter 2.3 turned to Russian business networks, which constitute the research context for the present study. The purpose of the discussion is to illustrate the existing complexity and heterogeneity (e.g., Salmi – Sharafutdinova 2008), rather than to add attributes to the theoretical framework, or to assign characteristics to Russian business networks (cf. Westwood 2004).

In conclusion, the theoretical framework introduced in the present section does not represent a testable model, but rather serves the empirical purpose of this dissertation. The empirical objective is to gain further insight into managerial issues related to the role of Russian public officials in foreign MNCs' business networks. The following chapter deals more specifically with the choices made, and the design and conducting of the empirical part of the research process.

3 RESEARCH DESIGN

3.1 The qualitative case study as a research strategy

The overall purpose of this dissertation is to increase understanding of how foreign MNCs manage their relationships with Russian state actors. Given the emphasis on understanding and gaining insight rather than on testing and verification (Ghauri – Gronhaug 2005), and the reliance on non-quantitative modes of data collection and analysis, the study could be categorised as qualitative (Prasad – Prasad 2002; Cassell – Symon 2004).

The suitability of qualitative methods to studies on international business has been connected to the many complexities inherent in this field. The importance of context in international business, and more specifically in research on international management, has also been highlighted. The qualitative research approach is in keeping with the aim of this dissertation to give a holistic and contextual portrayal of the phenomenon under study (Marschan-Piekkari – Welch 2004; Michailova 2011; Birkinshaw – Brannen – Tung 2011).

The present study focuses on the MNC, a complex organisation with multiple dimensions, as discussed in Chapter 2.1.2. Given the complexities, it is also worth examining the phenomenon from multiple perspectives (Lewis – Grimes 1999). Triangulation aspect and the adding of value from multiple angles are also compatible with the ideas behind the mixed-methods approach (Jick 1979; Hurmerinta-Peltomäki – Nummela 2004; Hurmerinta-Peltomäki – Nummela 2006).

In the early phases of the research process the literature review revealed inadequacies on the theoretical level. This also supported the use of qualitative methods, which are considered suitable for exploratory business research (Ghauri – Grønhaug 2005), as well as for theory building in management studies (Birkinshaw – Brannen – Tung 2011; Doz 2011).

Given the inherent complexities and the explorative nature of the study, flexibility in the data collection and access to multiple sources of evidence were essential, further supporting the qualitative-case-study strategy (Yin 2003, Ghauri – Grønhaug 2005). The case study has established its value in research on international business (Ghauri 2004; Piekkari – Welch 2011), the origins of which go back to qualitative case studies that allow the richness and complexity of the phenomenon to emerge (Doz 2011).

Other research approaches were also considered. The survey method was considered inappropriate given the explorative nature of the study, the aim to enhance understanding rather than to predict, and the sensitivity of the research topic (Ghauri – Grønhaug 2005). Experimentation was not feasible due to the uncontrollable nature of the phenomenon. There was no access to behavioural events either, mainly because of the sensitive nature of the topic (cf. Hadjikhani – Lee – Ghauri 2008, 916). Historical methods are recommended when there is no access or control, and were used to some extent. Case-study techniques and historical approaches may well overlap (Yin 2003).

The focus in this dissertation is on contemporary events, which favours the case study rather than the historical approach (Yin 2003). As Dubois and Araujo (2004, 210) put it, the focus in a case study is on "logical and theorystamped association of events", whereas historians focus on temporal succession. The qualitative case study was considered applicable given the objective of the study to enhance understanding of foreign MNCs' relations with state actors in Russia from a managerial perspective, and to offer multiple insights into the phenomenon (Ghauri – Grønhaug 2005).

As noted in the theory chapter, the study leans heavily on the Nordic disciplinary traditions of international business and industrial marketing. The case method is highly applicable to the study of business networks given the potential challenges involved in setting network boundaries and temporal frames (Dubois – Araujo 2004; Halinen – Törnroos 2005; Easton 2010). It is noted that it is not the aim in this dissertation to contribute to the methodological discussion on case studies that is taking place in the field of international business and industrial marketing (e.g., Piekkari – Welch – Paavilainen 2009; Piekkari – Plakoyiannaki – Welch 2010).

Case studies are sometimes categorised as inductive or deductive. In the present study the theoretical exploration preceded to the data collection. Chapter 2 reviews the relevant literature and outlines a preliminary theoretical framework. Existing knowledge of the research area was broadly utilised in the dissertation process (e.g., Halinen 1994), but in a tentative manner in order to avoid bias and to limit the findings (Eisenhardt 1989).

The inability of the researcher to approach the reality as a tabula rasa in relation to pre-existing theory is sometimes pointed out (e.g., Andersen – Kragh 2010) and considered problematic. In response, it could be said that in this case the research process was more iterative than it might appear. When the interviews were conducted the theoretical framework described in Chapter 2 was very loose and undeveloped, and evolved "simultaneously and interactively with empirical observation" (Dubois – Gibbert 2010, 131). Although much of the theoretical literature was consulted prior to the data collection, new literature was introduced during the analysis phase and, more importantly,

after the data collection. The empirical observations guided the researcher in her search for similar findings in the literature (Dubois – Gadde 2002).

In vivo and ex ante are approaches to the role of theory in case research, the former being associated with critical realist assumptions and the latter with postmodernist assumptions. A further difference is that, wheras the in-vivo process starts with a single theory and gradually proceeds towards deeper knowledge, the ex-ante process starts with several theories and exploits their contradictions (Andersen – Kragh 2011).

The in-vivo approach is more to the fore in this dissertation. The literature review was conducted at the beginning of the research process, the purpose being to find a suitable theory and to apply it in the Russian context. Business-network theory seemed to provide a good basis for this research given the possibility to incorporate external actors into the analysis, for example. Some theoretical weaknesses were nevertheless identified and built on. The theory appeared to lack a systematic assessment of the complex nature of the MNC in the context of MNC–state relations. Consequently, it seemed appropriate to design the study with a view not only to portraying the phenomenon under investigation based on the received theory but also to gaining new insight.

According to Andersen and Kragh (2010, 51), one role of existing theory is to avoid the production of "massive amounts of data without any clarity with respect to how this data can lead to novel insights". Here the theory served to add rigour to the data collection and the analysis (Gibbert – Ruigrok – Wicki 2008).

Case studies have been categorised as exploratory, descriptive or causal (Ghauri – Grønhaug 2005). It seemed to the researcher that the problem to be addressed was somewhat inadequately understood. It was suspected ¹⁷, for example, that MNC complexity played a role in relations with the state, and there is partial support for this in prior empirical studies (e.g., Poynter 1982; Jansson – Saqib – Sharma 1995). However, there was no systematic analysis of its role in relations with the state in the literature reviewed. This supported the exploratory approach in the empirical research.

The study involves two case companies. The reason for choosing the two-case design was not to increase the generalisability of the findings (Yin 2003), thus Yin's (2003, 40–41) criteria justifying a single-case approach were applied: the case should be critical, extreme, typical, revelatory or longitudinal. Ghauri and Grønhaug (2005, 120) add pilot and exploratory cases to this list. As already mentioned, the present study is exploratory on account of the inadequacies identified in the theory.

Ghauri and Grønhaug (2005, 58) state that the researcher may have suspicions.

The sensitivity of the topic made it necessary to adopt a two-case approach, however. It has been suggested that a single-case approach is risky for a doctoral student (Leonard – Barton 1990; Yin 2003), and it would have been more difficult to ensure the anonymity of the respondents¹⁸. Furthermore, having two case companies facilitated deeper analysis (Yin 2003).

3.2 Case selection

Selecting the case or cases is an important and multifaceted issue (Ghauri 2004; Fletcher – Plakoyiannaki 2011). The process includes setting criteria that are consistent with the research problem, and also issues related to access (Ghauri 2004).

The primary focus of the research was on relations between foreign MNCs and the Russian state from a managerial perspective. It is stated in Chapter 1.4, which introduces the key concepts used, that one network actor's liability of outsidership (Forsgren 2008; Johanson – Vahlne 2009) with respect to the business environment of the other actors is behind the concept of "foreign" in the present study. Consequently, a foreign MNC is defined as a MNC dealing with public officials in one country and having headquarters and subunits outside this country, as well as individuals of other nationalities involved in its matching scheme with the particular public officials in the country in question. This definition was used as the main criterion in the selection of the case companies.

It is also acknowledged that business environments differ to some extent in different countries (e.g., Hallén – Johanson 1990; Forsgren – Holm – Johanson 2005). Thus, a MNC headquartered in any other country than Russia with subunits located outside Russia and non-Russian individuals involved in its matching scheme with Russian public officials would, to a certain extent, suit the purposes of the present study. Given that the researcher is a Finn, the suitability of MNCs headquartered in Finland was first assessed.

There are arguments supporting the use of MNCs headquartered in Finland and operating in Russia in the present context based on the liability of outsidership. Firstly, on the macroeconomic level, Russia is often categorised as a transition economy, whereas Finland is categorised as a developed economy (e.g., UNCTAD 2010). It was also mentioned at the beginning of this work that Russia ranked 147 out of 180 in the 2009 Global Corruption Report, whereas Finland ranked fifth. Given the interest of the present study in MNC relations with the state, it is noteworthy that, in Finland, only one per cent of

This refers to the anonymity of respondents within the case companies.

respondents to the above-mentioned study reported facing bribery in their dealings with the authorities, whereas in Russia the police and municipal bodies have been found especially challenging in this respect (GCR 2009). A further difference in the business environments in Finland and Russia is in the size of the two countries, which naturally implies differences in the management of the state apparatus.

Given the sensitive nature of the topic, challenges related to access were seriously assessed. Negotiating access and identifying the right informants is considered less challenging in smaller MNCs (Ghauri 2004). Consequently, in addition to the liability of outsidership, Finnish MNCs were considered suitable for the present study for reasons related to access. It has been suggested that the loose-coupling image of an organisation in the Nordic countries is related to the "relatively easy access to data from different levels of the firm" (Björkman – Forsgren 2000, 8).

It was quite evident from the initial phase of the research that even if the study focused on MNCs headquartered outside Russia, some of the fieldwork would take place in their Russian subsidiaries. The challenging nature of obtaining access to organisations in transition economies has been noted (Michailova – Liuhto 2000). Issues of convenience sampling and the importance of personal relationships in gaining access to organisations have been brought to the surface in the context of conducting fieldwork in Russia and China, for example (Michailova 2004; Tan - Nojonen 2011), but it has been also suggested that access challenges may not be as severe in foreigninvested firms, and that alternative way of gaining access could be to approach case companies directly or via personal networks. The choice of a two-case rather than a single-case strategy was related not only to riskiness and sensitivity issues, but also partly to awareness of the possible access challenges that could remain even though access had been granted at the corporate headquarters level (Tan – Nojonen 2011). In this case a direct approach was used, and the initial contact in both participating case companies was with the corporate headquarters in Finland.

The theory of business networks originated in studies of industrial markets (Björkman – Forsgren 2000). This further supports the use of MNCs in industrial markets in the present study. Given the sensitivity of the topic, highly sensitive industry sectors in Russia, as categorised by Liuhto (2008, 14) and illustrated in Figure 2, were considered risky and excluded. The researcher suspected that access and credibility (Lincoln – Guba 1985) would be too challenging in a case combining a sensitive topic and a highly sensitive industry.

In the light of earlier findings on the international market entry of firms from developed economies into transition economies, it was considered theoretically relevant to focus on MNCs with at least some form of established operations in Russia. The role of political actors has been found to diminish and the role of local-level decision makers to increase as the market-entry process matures from the search to the establishment phase (Ghauri – Holstius 1996; Elg – Ghauri – Tarnovskaya 2008).

Following the denial by one Finnish industrial MNC of access to the company, two Finnish MNCs categorised as industrial were identified, considered suitable, and agreed to participate in the study. It was suspected, and later confirmed, that, within the MNCs, multiple MNC subunits in different countries were directly or indirectly involved in related operations in Russia. Both of the MNCs had been present in Russia for over 15 years and their operations were considered established.

In order to maintain their anonymity no detailed information about the case companies is revealed. Both are headquartered in Finland, have had a relatively long presence in Russia, and have production sites located outside Russia involved in their Russian operations. They differ in size and ownership structure. The difference in turnover volume and the number of employees is around six fold. Even the smaller MNC is present in over 15 countries globally, however.

Forsgren and Johanson (1992b, 23) distinguish between first- and second-degree internationalisation. It should thus be mentioned that at the time of the interviews, both MNCs under scrutiny also had minor production operations in Russia. The diversity in size and ownership structure in the two case companies was considered beneficial given the exploratory approach of the study. Both were also later identified as diverse in their ways of conducting business in Russia, which was also in line with the interest of the study in the MNC as a complex organisation in its relationships with the state.

3.3 Data collection

The case study is a research strategy that allows the utilisation of multiple data sources. Six different sources of evidence have been categorised: documentation, archival records, interviews, direct observations, participant observations and physical artefacts. Interviews are mentioned as one of the major sources of information (Yin 2003).

Interviews were the primary data source in the present study on account of its exploratory nature, and also because of the need to obtain insightful and as close to real-time data as possible (Eisenhardt 1989, Ghauri – Grønhaug 2005). Interviews are a good data-collection method in exploratory and theory-building international business research when the potential respondent

population is small or deep rapport is aimed at. Survey questionnaires may be inadequate if there is much to learn (Daniels – Cannice 2004, 186–187). To some extent, the present study meets these criteria.

Documents constituted a secondary data source. One respondent had gathered a chain of relevant e-mail messages, as mentioned in the prologue. Some of the respondents provided the researcher with letters, copies of product certificates, company establishment records and excel files, for example, to illustrate the issues discussed during the interview session (Ghauri – Grønhaug 2010).

In order to build up a general understanding of the topic during the research process the researcher followed the Finnish media, and visited the Internet pages of the Finnish MNCs, the Russian state apparatus, and the Finnish and Russian intermediaries. The main purpose of this process was to increase the researcher's credibility in the interview situation and the credibility of the study.

There are different types of interviews, including the structured, the semi-structured and the un-structured (Ghauri – Grønhaug 2005). In this case the researcher drew up a loose interview guide covering issues to be addressed (see Appendix 2). The guide was adapted to some extent to fit each interview situation. Given the explorative nature of the study, the guide was also designed to allow the respondents to discuss the topic first in an unstructured way, in the form of stories. As Ghauri and Grønhaug (2005, 133) suggest with regard to exploratory studies, there was room for further elaboration of the responses and exploration of attitudes during the interviews.

The term 'guided conversation' (Yin 2003) aptly describes the interview type utilised in the present study. The interview guide was in quite an open thematic form, with a view to moderating the bias related to interviewee reflexivity. The interviewer aimed at triggering discussion on quite neutral and general issues related to the topic, rather than asking specific questions or questions on sensitive issues (Ghauri – Grønhaug 2010). The interviewer also paid attention to the ordering of the themes. At the beginning of the interview, by way of orientation, the respondents were asked to talk generally about their recent encounters with Russian public officials (King 2004). It should be noted, that the main interest of the present study was the contemporary situation, and thus problems with recall (e.g., Golden 1992) were not considered too serious.

Yin (2003) discusses the somewhat thin line between key informants and interview respondents. In this case, a few key individuals were identified as knowledgeable or possessing more information about the research issues during the interview process. However, the key-informant approach was not used given the challenges involved in relying on the data. The researcher

considered that the use of multiple informants would be a more appropriate approach in view of the explorative nature of the study (Kumar – Stern – Anderson 1993).

Special care was taken with regard to understanding the organisational roles of the people to be interviewed (e.g., Ghauri 2004). On the one hand, multiple viewpoints were considered valuable within the MNC, but on the other the aim was to find out how management worked in practice, rather than how the top managers perceived it to work, for example. In other words, the interviewees were supposedly knowledgeable about the research issue (Kumar – Stern – Anderson 1993).

It is acknowledged that some of the interviewees might have belonged to so-called corporate elites with a high status within the company and considerable international and industry exposure. Elite interviewing in international business has been associated with possible access problems, asymmetry in power between the interviewer and the interviewee, calculative answers, and censorship in the feedback process (Welch – Marschan-Piekkari – Penttinen – Tahvanainen 2002). The respondents interviewed for this dissertation represented several different hierarchical levels and organisational roles.

In both case companies the first interviews were held at the corporate and divisional HQ level, and continued at the subsidiary level in Russia. Figures 11 and 12 illustrate the process of selecting and finding respondents in the two case companies (see Appendix 3 for a more detailed list of interviews).

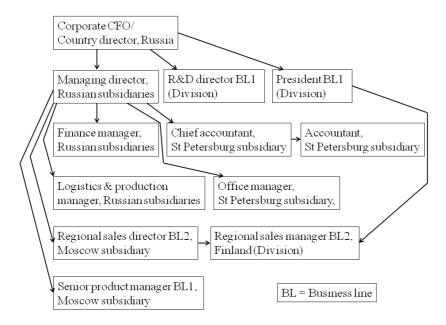


Figure 11 Selecting/finding respondents at Alpha

The first contact with the Alpha corporate CFO was to find out if the company was willing to participate in the study. The CFO also happened to be the country director for Russia, and the first interview was agreed upon with him. Afterwards he made recommendations and helped to arrange further interviews with the managing director of the MNC's Russian subsidiaries, the divisional president of product line 1, and the R&D director of product line 1. The managing director of the Russian subsidiaries then helped to arrange further interviews at the subsidiaries. A few interviews were arranged on the recommendation of other respondents, as illustrated in Figure 11.

The initial contact with the corporate vice president of marketing and communications at Beta was through his secretary. He directed the interviews to the regional export department located in Finland. The corporate vice president of the regional organisation, including Russia, was also contacted, and he also directed the interviews to the regional export department. More specifically, he named the managing director of the Russian subsidiary as a suitable contact person. The managing director was interviewed, and he assisted in arranging further interviews by enlisting the help of the finance director of the Russian subsidiary, as illustrated in Figure 12.

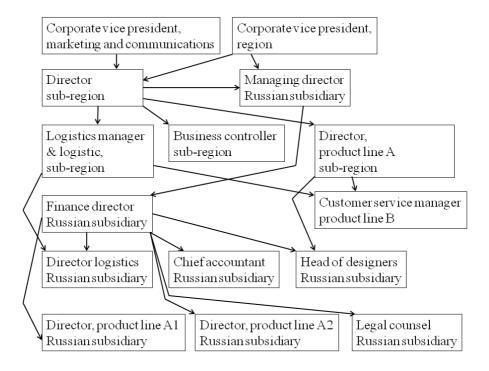


Figure 12 Selecting/finding respondents at Beta

Initial access to both MNCs was obtained via corporate headquarters in Finland. The first contact person at Alpha was the chief financial officer, and at Beta it was the vice president of marketing and communications. The next step at Alpha was to approach the Russian organisation, and at Beta to approach the regional-level and the Russian organisation. Access was obtained at the regional/subsidiary level as well. The managing director of the local subsidiary at Alpha was a Finn, whereas at Beta he was Russian but had lived for several years in Finland, and had worked at the MNC's Finnish organisation prior to working on assignment in Russia.

The first interviews were conducted in May 2009, and the last one in June 2010. The interviews in the Russian subsidiaries took place in November and December 2010. All in all, 26 employees were interviewed, and five of them were interviewed twice. E-mail exchange and short telephone conversations also took place with other interviewees after the interview in order to clarify the issues discussed. This type of contact is not reported in the interviews listed in Appendix 3. Given the focus of the study on the local-subsidiary level, it is worth noting that 16 of the 26 respondents were employees of the local subsidiary, and 10 were employees from other MNC units such as corporate and divisional HQ.

It is important in the abductive approach to specify in more detail in what way the research process is abductive (Dubois – Gibbert 2010). In the present case, the loose theoretical framework guiding the data-collection phase was the so-called actors–activities–resources model (henceforth the ARA model) (Håkansson – Snehota 1995). The preliminary theoretical framework prompted the researcher to ask about the role of the different actors related to the phenomenon under investigation.

In line with the theory explored prior to the data collection, external actors were incorporated as part of the phenomenon under examination. The preliminary theoretical framework put high emphasis on the subsidiary's role. In order to prevent the theory from guiding the research results it was deemed relevant to acknowledge this emphasis and to pay attention to the role of other actors as well. Some of the questions asked during the interviews related to co-operation between different actors, the purpose being to identify the sources of management tension, which is also emphasised in the theoretical literature utilised in the study.

The international dimension has research implications. The lack of familiarity with the environment and both cultural and language issues should be considered at different stages of the research process (Marschan-Piekkari – Reis 2004; Ghauri – Grønhaug 2005). This was taken into account in the present study through ensuring overall sensitivity (Michailova – Liuhto 2000; Ghauri – Grønhaug 2005) and adaptability, as things may not be or unfold as

expected (Wilkinson – Young 2004; Jormanainen 2010). There were no surprises, however. Interviews took place as planned, and there were no major interruptions.

Michailova and Liuhto (2000) and Michailova (2004) discuss issues that may challenge business researchers in East European transition countries, including Russia. Michailova and Liuhto (2000) refer to the need for creativity in obtaining access to organisations in these countries, the importance of language skills and an overall understanding of local conditions, and the challenges involved in having a tape recorder. Even though the case companies were foreign MNCs, several respondents were employees of a local subsidiary located in Russia, and were native Russians. As most of the Russian respondents had been working in a foreign MNC for several years, the contextualisation needs were acknowledged but not expected to be too extensive (Tan – Nojonen 2011). A tape recorder was used in all except three interviews, for example, and did not appear to disturb the interviewees.

Respondent anonymity, applied in the study, was articulated at the beginning of the interviews, and the purpose of the study was stated (Michailova 2004). It was understood that even within a large MNC the informant might be recognised based on his comments (Welch – Marschan-Piekkari – Penttinen – Tahvanainen 2002). This was a major reason for choosing a two-case strategy over a single-case strategy. It is also why the quotes in Chapters 5.2, 5.3 and 5.4 are lacking in detail in terms of company name and organisational role.

Michailova (2004, 375) discusses the importance of contextualising the researcher, and the dangers of making assumptions in culturally familiar environments. The researcher in this case was a Finn with previous work experience in Russia and other Eastern European countries. The danger of making assumptions related to MNC operations in these countries was acknowledged, and thus it was necessary to distance the researcher from the MNC daily operations in terms of time. The focus on theoretical study at the beginning of the research process helped in this respect.

Language issues are at the heart of international business research, specifically in the interviewing process (cf. Marschan-Piekkari – Reis, 2004). A multilingual approach was adopted in the present study, meaning that the respondents were free to choose Finnish, English or Russian as their language of response. The interviews with the Finnish respondents were conducted in Finnish, and with the Russian respondents in English or Russian. Sometimes both English and Russian were used to ensure understanding between the interviewer and the respondent.

This was justified given the explorative nature of the study as well as the conversational approach. Not being a native Russian also gave the interviewer a 'natural' reason to ask the interviewee to repeat or explain in other words

what he meant. As most of the interviews were tape-recorded the researcher was able to return to the issues under discussion later on. This was an important consideration given that the researcher was a native Finn.

Discussion on corruption and the role of personal relationships was intentionally moderated in the interview situation. It was stated to the respondents at the beginning of the interview that the study was not about corruption and they were not asked questions of this type of aspects. They were rather encouraged to talk about their work with public officials on the practical level.

3.4 Data analysis

The analysis of qualitative data is demanding due to the unstructured nature of the research problem, as well as the large quantity of data involved in different forms (Miles 1979; Yin 1981; Ghauri – Grønhaug 2005). There is also a lack of clear guidance (Eisenhardt 1989), perhaps due to the variety of methods that could be labelled qualitative (Symon – Cassell 2004).

The processes of data analysis and collection in the present study were interweaving (Miles – Huberman 1994; Ghauri 2004) and manifold (Miles – Huberman 1994). The data-analysis, or data-reduction phase, began with the preparation of a number of matrixes that displayed the empirical findings (Miles – Huberman 1994; Nadin – Cassell 2004), based on the ARA model (Håkansson – Snehota 1995, 45).

One of the matrices is illustrated in Table 4. The ARA model is widely used in network studies, and helps the researcher to analyse "the effects of change in a relationship and/or to identify the factors that affect the possibilities of development of a relationship", and "to identify where and how to intervene in relationships in order to get some desired effects" (Håkansson – Snehota 1995, 44).

The data analysis began with a general search for actors, activities and resources. The departmental activities were separated in order to show how both MNCs conducted their relations with Russian public officials in practice. It was noted during the process that there were wide differences in the empirical evidence, even though it all represented MNC management. This encouraged the researcher to look for different dimensions of MNC management in the literature as part of the iterative research process.

Table 4 The use of a data matrix in the analysis of empirical data

	Actors	Activities	Resources
Finance, structural	Actors - Beta RUS, FIN, HQ - logistics - product management - financial director, Beta RUS - chief accountant, Beta RUS - accountants - financial controller, Beta FIN - business controller, Beta FIN - tax director, Beta HQ - 1S-system - electrical filing service provider - federal tax service in Moscow - regional head office of federal tax service in St. Petersburg - tax office (inspectors, commissions and head) in St Petersburg and regions - social fund officials in St. Petersburg and regions - regional tax offices in St. Petersburg and regions - state statistics office in St. Petersburg and regions - customers, courts - corporate auditor, local auditor - consultancy database provider - FSB, Labour inspection, Migration	Activities - taxpayer, tax agent - loan provider - consultancy - el.filings - filing of appeal - information requests, clarifications in person - actor changes - inspections every 2- 3 years - desk inspections - data/ clarification requests - receivable collection - consultancy, audit - consultancy - contact in the past	Resources - Russian language skills -1S –system – automated link to tax filings, fast filing and confirmation

The next stage of the analysis involved simple "story telling" (Ghauri 2004, 118), and the stories focused on the units of analysis that emerged from the data (logistics/ product management and sales/ finance activities within MNC). The final case-study reports, presented in Chapter 4, only reflect the finalised stories written during the analysis process (Yin 1981).

Miles and Huberman (1994) refer to visual data displays in the form of matrices and networks as analytical techniques for exploring and describing. In the present study, visual network illustrations in the form of matching schemes complemented the written case descriptions. Some of these are included in the case descriptions in Chapter 4.

The researcher was aware that there is specific software available for qualitative data analysis (Ghauri – Grønhaug 2005), but felt that the quantity of empirical data was manageable manually. There were only two case companies, and the number of interviewees was restricted in both.

3.5 Evaluation

The quality and rigour of qualitative case data can be evaluated on a variety of criteria. The criteria for evaluating the validity of qualitative research depend

on the underlying epistemological and ontological assumptions (Andersen – Skaates 2004, 475). Gibbert, Ruigrok and Wicki (2008, 1466) even suggest that quality "criteria hinge on what authors subscribe to as the preferred model of science." Given that the purpose of this study was to increase understanding rather than to produce statistically generalisable results, some quality criteria were considered not to be applicable. Evaluation criteria developed in relation to qualitative research (Lincoln – Guba 1985; Maxwell 1992; Andersen – Skaates 2004; Koro-Ljungberg 2005) were adopted instead.

Even if statistical generalisation was not a suitable quality criterion for the present study, the concept of generalisation was not totally abandoned. Lukka and Kasanen (1995) categorises views of generalisation in case studies in three groups: the first denies the possibility of generalisation due to the lack of statistical reasoning, the second finds no rationale in the aim to generalise, and the third connects the possibility to generalise with the proper execution and high quality of the study. This study reflects the third view, aiming at rigour in conducting the research, and at analytical generalisation (Yin 2003, 37). Consequently, the generalisability refers to generalising with respect to existing theory (Yin 2003, 38), and is closely related to the overall quality of the case study.

It is admitted that the transferability (Lincoln – Guba 1985) of the empirical results of the present study to another research context is restricted. MNCs vary in complexity, and the complexity evidenced in the case companies in question may be attributable to the industry, diversity in the product offering, the HQ location, the duration of its presence in the Russian market or its overall strategy, to any combination of these or to some other attributes. In this respect, the anonymity of the two case companies does restrict the transferability of the findings to some extent.

The transferability might improve if, for instance, the complexity could be attributed to Russia as a host market. On the other hand, a similar type of MNC complexity may be evidenced in other MNC home–host market combinations as well, meaning that the findings of the present study might be transferable beyond Finland as a home and Russia as a host market. This type of transfer demands careful evaluation of multiple aspects. Theoretically, however, on the basis of the evidence gleaned from earlier academic literature, the more general finding that multidimensional MNC complexity plays a role in the management of MNC–state relations is transferable.

Credibility (Lincoln – Guba 1985) refers to the conducting of the research so that the findings could feasibly correspond to the reality. The sensitivity of the research topic posed a serious threat to the credibility of the collected data in the present study. Measures were therefore taken to reduce the actual sensitivity and the sensitivity perceived by the respondents in the interview

situation. The case companies were chosen from less sensitive industries in Russia (Liuhto 2008), for example, and corruption as an explicit topic was excluded. The researcher did not suspect systematic response bias because the interview atmosphere was open and positive and the interviewees seemed motivated (Ghauri – Grønhaug 2005).

Another threat to the credibility of the study was the possible mixing of respondent perceptions with the reality. Particular attention was given to this in the interviewee selection and the interview process (e.g., Birkinshaw – Holm – Thilenius – Arvidsson 2000). One aim in the interview situation was to obtain information on how involved the respondents were in daily encounters with Russian public officials. The researcher was also sensitive to this in the data-analysis and reporting phase. The focus was on middle management rather than top management (Macdonald – Hellgren 2004), but the topmanagement view was not excluded. Care was also taken in the analysis phase not to accept the responses at face value as facts (Andersen – Skaates 2004, 473; Hellman 1994).

Dependability (Lincoln – Guba 1985) refers to the extent to which another researcher can replicate the findings. This is challenging on various levels in this study. Even though the data collection and analysis are documented (Yin 2003), the role of researcher contextualisation related to use of the conversational interview as the primary data-collection method could be problematic in terms of replicating the findings in the MNC and Russian context (Michailova 2004).

Confirmability (Lincoln – Guba 1985) is connected to the objectivity of the evidence obtained in the research. In the present study, the fact that the researcher had worked for several years in a MNC on closely related issues was considered a threat to objectivity. The researcher therefore distanced herself in time from practical work prior to collecting the data. She spent this time (from 2006 to 2009) reviewing the academic literature, thereby moderating her previous experiences and challenging her preconceptions.

It is also acknowledged that a priori theoretical constructs may pose a threat to objectivity. By way of a response to this type of criticism, it could be stated that the theoretical framework was rather adapted to suit the empirical findings¹⁹ than vice versa. In other words the a priori construct at the time of the interviews was very loose, and great care was taken in the design and conducting of the interviews not to provide answers or guidance to the respondents (e.g., Eisenhardt 1989).

¹⁹ The iterative nature of the research process is also discussed in Chapter 3.1 of the present study.

4 CASE DESCRIPTIONS AND ANALYSIS

4.1 Russian public officials in Alpha's business networks

4.1.1 Alpha in Russia

Alpha is a private multinational corporation headquartered in Finland. It operates in over 15 countries worldwide and has been present in Russia for over 15 years. Its first subsidiary in Russia was founded in the early 1990s in St Petersburg, and the second was founded a year later in Moscow. Alpha's market offering could be briefly described as products and engineering expertise related to the distribution of electrical power.

Alpha's end customers are both public organisations and private companies, although clear categorisation in this respect is sometimes challenging in that companies may be fully or partly owned by public organisations. Household customers are mainly served through distributors. Alpha thus operates in the business-to-business market, and some of its customers could even be categorised as belonging to sensitive industrial sectors in Russia²⁰.

Figure 13 gives a rough picture of Alpha's operational model in Russia in 2009. There are three globally operating business lines, and a so-called administrative platform in each country that services the three business lines on the local level. The production, sales and R&D functions are organised within each business line. In fact, Estonia should be added to this model because a large proportion of Alpha's products are manufactured at its plant there and exported through the Finnish subsidiary to Russia.

This refers to Liuhto's (2008) strategic-governance matrix introduced in Chapter 1.1.

		Business line 1	Business line 2	Business line 3	
FINLAND	Administrative platform -Finance -Logistics -Human resources -etc.	-Global product development -Global sales -Internal sales to Russia	-Global product development -Global sales -Internal sales to Russia	-Global product development -Global sales -Direct export to Russia	
RUSSIA	Administrative platform -Finance -Logistics -Human resources -etc.	-Sales to local customers -Equipment assembly	-Sales to local customers	(-distributors)	

Figure 13 Alpha's operational model in Russia in 2009

The local activities of Alpha's three business lines in Russia vary. Business line 1 sells products locally through the Moscow-based subsidiary. These products are mainly imported from Finland to Russia, and some from Estonia, and some products are assembled at Alpha's own production facilities in St Petersburg. Product development involving Russian customers does take place, but this happens in Finland. Business line 2 also sells products locally in Russia through the Moscow-based subsidiary, but there is no local production. Business line 3 operates in Russia by selling products to Russian distributors directly from Finland.

Figure 14 depicts the corporate legal entities involved in Alpha's Russian operations in 2009. The three business lines, including production, sales and R&D, are organised as separate legal entities in Finland. Business line 1 operations are organised under Alpha Sub 1, business line 2 operations under Alpha Sub 2, and business line 3 operations under Alpha Sub 3. HQ operations come under another legal entity, HQ Fin.

In business line 1, Alpha Sub 1 in Finland and Alpha Sub 4 in Estonia sell products and components for assembly to the Russian subsidiaries Alpha Sub 5 and Alpha Sub 6. Some products are assembled at Alpha Sub 5 in St Petersburg and sold on to Alpha Sub 6 in Moscow, which sells products to Russian customers. In business line 2 Alpha Sub 2 in Finland sells to Alpha

Sub 6 in Moscow, which sells them on to Russian customers. The products in business line 3 are sold directly from Alpha Sub 3 in Finland to Russian distributors.

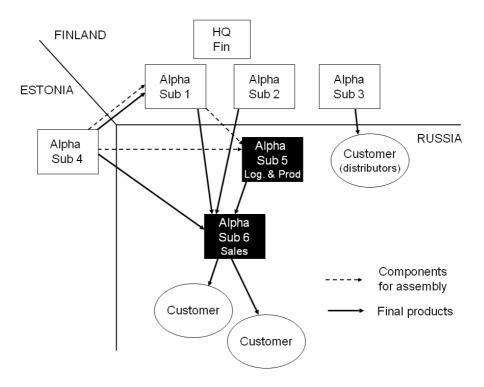


Figure 14 Alpha's Russian operations illustrated as corporate legal entities, 2009

There were some organisational changes in Alpha as of 2010. The three Finnish subsidiaries (Alpha Sub 1, 2, and 3) merged into one legal entity, as illustrated in Figure 15, and the three business lines were organised under one legal entity, Alpha Fin. HQ functions remained under a separate legal entity (HQ Fin), and Estonian subsidiary operations continued as earlier (Alpha Sub 4). There were no changes with respect to Alpha's Russian legal entities during this internal merger. It did, however, have some influence on Alpha's operations in Russia in that, for example, the Russian product certificates granted to the manufacturing subsidiaries in Finland (Alpha Sub 1–3) were transferred to the name of the new legal entity, Alpha Fin.

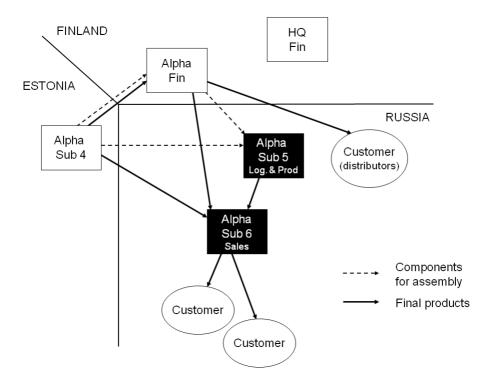


Figure 15 Alpha's legal entities participating in Russian operations as of Spring 2010

Alpha's personnel responsible for the administrative platform operations in Russia are located partly at the St Petersburg subsidiary (Alpha Sub 5) and partly at the Moscow subsidiary (Alpha Sub 6). These people co-operate with their counterparts at Alpha's subsidiaries in Finland (Alpha Fin) and Estonia (Alpha Sub 4), as well as with the corporate HQ people (HQ Fin) with regard to finance, human resources and logistics.

Logistics and import activities in Russia are the responsibility of Alpha's St Petersburg subsidiary. Both of its subsidiaries have a finance department responsible for bookkeeping, tax and legal issues, and an office manager responsible for human resources and other administrative matters. One managing director and a finance manager cover both Russian subsidiaries. The managing director is a native Finn but he has lived in Russia for several years. The finance manager joined Alpha in 2009, having worked earlier in a Russian subsidiary of a large multinational corporation headquartered in Western Europe.

Figure 16 depicts Alpha's overall matching scheme with Russian public officials. The Russian subsidiaries are focal corporate actors dealing with public officials in Russia, but Alpha Fin and Alpha's Estonian subsidiary (Sub 4), which regularly participate in Alpha's Russian market operations, are also indirectly connected with these officials, as well as is corporate HQ.

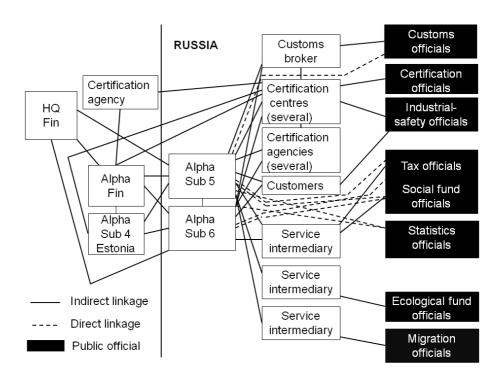


Figure 16 Alpha's matching scheme with Russian public officials

Alpha is connected to Russian customs officials through a customs broker, although there is also direct linkage. With regard to product certification, Alpha works in co-operation with several certification centres and agencies, as well as with test laboratories. These intermediaries link the company to certification officials and industrial-safety officials. There are also connections to industrial-safety officials through Alpha's customers. Both Russian subsidiaries are linked to tax officials, and to public officials in diverse social funds as well as state statistics offices. Service intermediaries are used, but there is also direct linkage to some of these public officials. Links with ecological fund and migration officials exist through service intermediaries.

Responsibility for relations with the various Russian public officials is shared among the departments at Alpha. Logistics and purchasing (henceforth logistics) staff are mainly responsible for activities involving customs officials and product management, whereas the sales people are mainly responsible for activities related to product certification and industrial safety. Responsibility for product certification in business line 1 is assigned to product-management/sales people located mainly in Moscow, whereas overall responsibility for product certification in business line 2 is assigned to a sales manager located at Alpha Fin, who is supported by the staff of the Russian subsidiary. Finance and administration (henceforth finance) people are mainly responsible for activities related to diverse tax officials and social funds. In order to enhance understanding of the role of Russian public officials in Alpha's business networks, separate descriptions are given covering logistics, product-management/sales and finance activities. It is emphasised that this reporting choice was guided by the empirical data.

4.1.2 Logistics activities

The logistics department at the St Petersburg subsidiary is the main actor in Alpha's logistics activities in Russia. The department consists of the logistics manager, the purchasing manager, a customs-clearance officer and a few people covering customer service and warehousing. Figure 17 depicts Alpha's logistics operations in Russia. It closely resembles the picture of legal entities involved in Alpha's Russian operations given in Figure 15. However, even though Alpha's Moscow subsidiary (Alpha Sub 6) is a legal entity and is involved in all Alpha's external sales operations in Russia, the product deliveries are channelled to Russian customers directly by the St Petersburg subsidiary, which in practice imports Alpha's products into Russia and delivers them further to its Russian customers²¹. There is a warehouse at the St Petersburg premises, and small warehousing facilities in Moscow via an external service provider.

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To clarify the situation, Alpha Sub 6 in Moscow buys logistics services (e.g., warehousing) from Alpha Sub 5 in St Petersburg, and thus legally owns the final products even though they are warehoused at Alpha Sub 5 in St Petersburg.

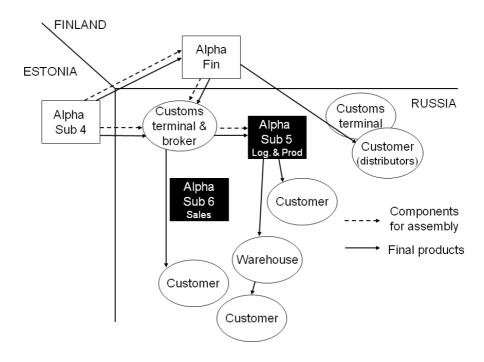


Figure 17 Alpha's logistics operations in Russia

Alpha's logistics people in St Petersburg are in contact with Russian customs officials in Russia, who are responsible for import procedures covering components and final products. Figure 18 depicts Alpha's matching scheme with Russian customs officials related to logistics. The St Petersburg subsidiary has been cooperating with the same customs broker in St Petersburg for several years, and he is known to have many large foreign firms as customers. He takes care of Alpha's import procedures quite independently. Customer contracts in English and Russian, export declarations, packing lists with weights and numbers of pieces, invoices and product certificates are delivered to the broker, who then takes care of the import-declaration procedures quite independently.

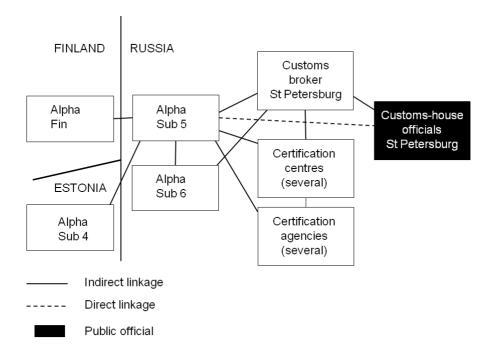


Figure 18 Alpha's matching scheme with Russian public officials related to logistics

The documentation needed for import-declaration purposes is delivered to the customs broker from several places. Some of the documentation required for importing goods into Russia originates from Alpha's subsidiaries in Finland and Estonia, produced by people responsible for logistics. Sales people at Alpha's subsidiary in Moscow (Alpha Sub 6) are responsible for the Russian product certification, and the certificates as received are delivered to the customs broker in St Petersburg to be utilised at the time of delivery. Occasionally, product certificates are acquired for single deliveries, in which case the logistics department in St Petersburg may organise them with the help of the customs broker, or through various certification agencies or centres that are used as co-operation partners.

There is occasional direct contact between Alpha's logistics personnel and customs officials, which is usually related to discrepancies in the import documents. Additional clarifications requested by the officials are mainly delivered through the customs broker, but in some cases the logistics manager meets the officials in person. During autumn 2009, for example, Russian customs officials questioned the internal invoice prices of some components and products that Alpha was importing into Russia, which they claimed were

too low because similar products had been imported by other firms at higher prices.

4.1.3 Product-management and sales activities

A product certificate known as the Russian certificate of compliance (GOST-R) is required for many of Alpha's products sold in Russia. It is not obligatory for some products, but Alpha has sometimes obtained it for salespromotion purposes. Generally GOST-R certificates cover three years, but certificates for one delivery are occasionally used as well. During the certification process the technical documentation related to the products is reviewed, manufacturing processes are inspected, and there are further technical tests the product has to pass before the certificate is granted.

Alpha does not work directly with public officials with regard to product-certification procedures, and rather uses intermediary companies, namely certification agencies and several certification centres. Business lines 1, 2 and 3 have somewhat different matching schemes with the relevant officials in acquiring the product certificates. Business line 1 has assigned people at the Moscow subsidiary who are responsible for Alpha's product certification in Russia. Certificates are acquired for the manufacturing units located in Finland and Estonia, and for a limited quantity of business-line-1 products in Russia. A sales manager in Finland is responsible for the certification process in business line 2, assisted by Moscow sales people when necessary. Business line 3 cooperates with a Finnish certification agency with regard to Russian product certificates.

Figure 19 depicts the matching scheme with Russian public officials related to Alpha's product-management and sales activities in business line 1. Several different intermediaries are used in the product-certification process. Three certification agencies are the main co-operation partners, and they co-operate with numerous certification centres. The centres are authorised by the federal agency²² to issue GOST–R certificates in Russia. Together with the sales department in Moscow, the logistics department in St Petersburg is occasionally involved in the certification process.

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²² In this case the Federal Agency of Technical Regulation and Metrology.

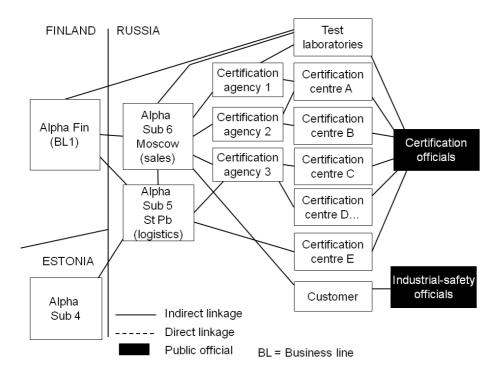


Figure 19 Alpha's business-line-1 matching scheme with Russian public officials related to product management and sales

Normally Alpha's business-line-1 products are certified for a three-year period, and the certificates are delivered as received to the customs broker for use during the customs-inspection process. In some cases the logistics people in St Petersburg may acquire single product certificates for deliveries quite independently, with the help of various intermediaries. The product-management team at Alpha Fin supports Alpha's people in the Russian subsidiaries by providing technical documentation and assisting with product testing if requested. The product-testing processes are extensive during the certification process, and the quality standards for these tests are considered high.

Business line 1 is also engaged in product development at Alpha Fin, especially for the Russian market and based on customer requests. This, again, involves co-operation with the product-testing laboratories, which Alpha contacts directly or indirectly through certification agencies.

Figure 20 depicts matching scheme with Russian public officials related to Alpha's product-certification activities in business line 2. The sales manager located in Finland (Alpha Fin) carries the main responsibility for Russian product certification, co-operating with the business-line sales people at Alpha's Moscow office and also working directly with the Russian external co-operation partners.

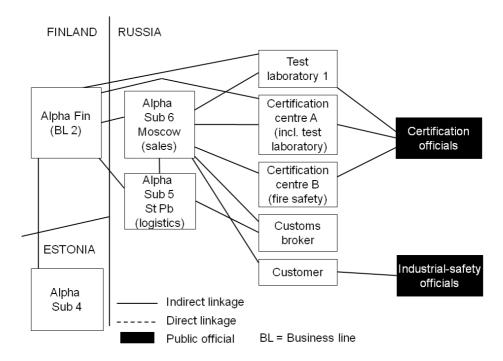


Figure 20 Alpha's business-line-2 matching scheme with Russian public officials related to product-management and sales activities

Alpha's business line 2 has been co-operating with one certification centre (Certification centre A) for several years, and also uses other centres because the main co-operation partner is not accredited for the whole range of products. It has succeeded in broadening its accreditation in recent years, however, and deeper co-operation has been established. It even has a test laboratory, but Alpha also occasionally uses another one (Test laboratory 1).

Various people at Alpha Fin, Alpha Sub 5 in St Petersburg and Alpha Sub 4 in Estonia are indirectly linked to the certification process in that different kinds of technical and commercial documentation are needed during the import of products to Russia. Alpha's sales people in Moscow, for example, deliver the existing product certificates to the customs broker in St Petersburg so that they are available at the time of importation.

One function of the product-certification process is to fulfil the documentation requirements of the Russian customs officials in order to ensure the successful import of Alpha's products into Russia, and the other is to comply with customer demands. Technical regulation and GOST–R certification are related to product safety, but there are also public officials supervising industrial-safety issues in Russia. Some of Alpha's customers are exposed to these

regulations, and this does impose additional demands on Alpha on behalf of its customers.

As an example, business line 2 at Alpha has acquired fire-safety certificates for some products that are not required for Alpha's products at the time of importation, but they are expected to promote co-operation with customers. Another certification centre (Certification centre B) is contacted for this purpose (as illustrated in Figure 20), because the main co-operation partner is not accredited for product certification related to fire safety.

4.1.4 Finance activities

The chief accountant and the accountant are the main people in contact with Russian public officials at Alpha's finance department in St Petersburg. The chief accountant is responsible for delivering the subsidiary's VAT declaration, profit and loss statement and balance sheet to the local tax officials, and for paying taxes according to the local regulations. The accountant is responsible for the quarterly and yearly reports and payments related to social taxes. The unified social tax²³ includes contributions to the federal budget and pension fund, the social insurance fund and the medical insurance fund.

The finance manager located at Alpha's Moscow subsidiary has the overall responsibility for Alpha's financial matters in Russia. In other words, he makes the final decisions regarding accounting, taxes and payments, whereas the chief accountant and the accountant take care of normal routine matters and contacts with various tax officials.

Figure 21 depicts Alpha's (St Petersburg subsidiary) matching scheme with public officials in Russia in relation to finance activities. The chief accountant and the accountant deliver the required reports to the tax officials and social funds mostly electronically via software provided by a specific company (Service intermediary 1) against an annual fee. The software facilitates delivery of the reports to the tax officials, and also allows the company to check the balances of its accounts. Reports to the pension fund are delivered electronically via the same software, but reports to social-insurance and medical-insurance funds are delivered in person. The quarterly reporting of the socialed ecological fee is outsourced (Service intermediary 2), and the finance department has no direct contact with the public officials.

Some changes were expected with regard to unified social tax (UST) as of the beginning of 2010. This dissertation is based on interviews conducted in 2009.

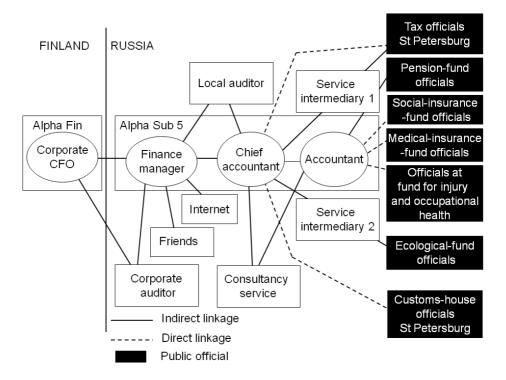


Figure 21 Alpha's matching scheme with Russian public officials related to finance activities

Alpha also has links to the fund for mandatory contributions related to injury and occupational health. The quarterly report to this fund is delivered in person and takes the accountant's time in terms of travel and queuing. The procedure is, in fact, very simple – the accountant hands in the report to the public official assigned to the task.

The chief accountant checks the tax balances every now and then, visiting the tax office in person. A personal visit is also necessary if there are mistakes in the reports, or if the tax officials require additional clarification. Alpha's chief accountant, for example, has occasionally had to explain in person why the company made a loss during the accounting period. Tax inspections take place, and are expected every three years based on the law. They are relatively lengthy, and the inspectors are based at the company's premises for the whole period, during which time there is personal contact with the inspector.

The fact that all company payments are made through the finance department means that it is also involved with the customs officials. The chief accountant regularly monitors the monetary balance with the customs office, and a certain amount of advance payment is held on the customs-house account.

The chief accountant and the accountant consult the finance manager on accounting and financial issues when necessary. They also use local consultancy-service software to obtain information on interpreting the law and on acceptable accounting practices. The service provider (Consultancy service) updates the data regularly. The company's local auditor is occasionally consulted on accounting matters.

The finance manager keeps in regular contact with the chief finance officer in Finland, and may discuss some issues with friends and former colleagues working in large foreign multinationals. There are also Internet discussions on interpretations of the law and its practices. At the time of the interview the finance manager had two major issues under investigation. The tax deductibility of the interest on a loan obtained from a bank was challenged due to the fact that it was possible to trace the loan guarantee to company headquarters in Finland, which complicated matters. The correct phrasing of the guarantee document would ensure the tax deductibility of the interest payments. The wording of a management-fee contract with Alpha headquarters in Finland was also under investigation. At the time of the interviews the company had not included the fee in its tax-deductible expenses in Russia²⁴.

The subsidiary's finance department uses two accounting software applications. Enterprise resource planning (ERP) software is widely used at Alpha's other subsidiaries, and the warehousing and finance modules are also in use at the St Petersburg subsidiary. The accounting data needed for the local reports (for tax officials) is extracted from the ERP modules in an Excel file that is tailored specifically for this purpose. The data is then loaded and delivered through a special Internet service to the tax officials. The other software application in use at Alpha is the Russian "One-S" system. There are very specific requirements covering the reporting of payroll and fixed assets figures to public officials in Russia, and "One-S" software automatically creates the reports in the format requested by local officials.

Alpha's subsidiary in Moscow is a separate legal entity with its own finance department, and matching scheme. The two subsidiaries share the same finance manager. Area offices are registered in different regions in Russia, and the financial administration is shared between local accountants and the Moscow subsidiary.

Management fees were later included as tax-deductible expenses.

4.2 Russian public officials in Beta's business networks

4.2.1 Beta in Russia

Beta is a multinational corporation headquartered in Finland. It operates in over 40 countries worldwide and has been present in Russia for over 15 years having a representative office in Moscow and a fully owned subsidiary in St Petersburg. Beta's market offering could be briefly described as industrial equipment and services. Its end customers are mainly private industrial companies in various industries. Thus, Beta operates in business-to-business markets, and some of its customers could be said to represent sensitive industrial sectors in Russia²⁵.

Beta has two globally operating business lines, and subsidiaries in numerous countries servicing the two lines on the local level. At the time of the study it had only minor equipment production and service operations in Russia, although its industrial equipment sales operations could be described as established. Figure 2 depicts the corporate legal entities involved in Beta's Russian operations until around the year 2000.

For several years Beta's St Petersburg subsidiary (Beta Rus) operated in Russia more or less as a satellite of a regional export department located in one of its Finnish subsidiaries (Beta Fin1). Beta Rus supported the regional export department's sales and logistics operations locally in Russia, whereas the main operational mode was direct export from the regional export department in Finland to Russian customers. Thus, the regional export department at Beta Fin1 was a key actor in Beta's operations in the Russian market. It was the legal owner of the sales contracts and reported to divisional and corporate headquarters on Russian market operations. Some minor contracts were channelled as local sales through Beta Rus. Occasionally some other Beta subsidiaries (Beta Oth) delivered equipment to Russian customers as well. The regional export department and Beta Rus usually had a consulting role in this type of operation.

This refers to Liuhto's (2008) strategic-governance matrix.

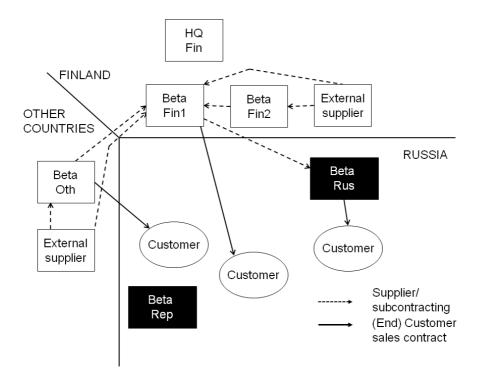


Figure 22 Beta's Russian operations illustrated as corporate legal entities involved until around the year 2000

Beta Rus and the representative office in Moscow (Beta Rep) co-operated with and reported to the regional export department. They helped in finding new customer contacts and were involved in customer negotiations. They also assisted with documentation translations, product-certification procedures and logistics. Beta's regional export department purchased products from internal (Beta Fin2 and Beta Oth) and external suppliers to sell on to Russian customers. Most of the equipment was channelled to Russia through a logistics centre located in Finland.

Work began on tailoring a specific IT application at the regional export department around the year 2000. The initial purpose was to facilitate the preparation of documentation required by the Russian customs. IT applications utilised in other departments at Beta Fin1 did not support the Cyrillic script or the detailed information required for successful import declaration in Russia. Beta's customers were located in diverse locations, and the import declarations were processed in local customs offices. The documentation demands of various Russian customs officials were therefore passed to Beta's regional export department at Beta Fin1. The documentation demands of the public officials were met in co-operation with the customers.

Beta Rus, as a legal entity in Russia, did not make much profit during this time. The regional export department financed local operations under a special service agreement, and Beta Rus mainly provided support for its sales and export activities. It nevertheless paid local taxes related to personnel and fixed assets, for example. Although tax officials occasionally questioned the low level of profits, no major challenges were forthcoming.

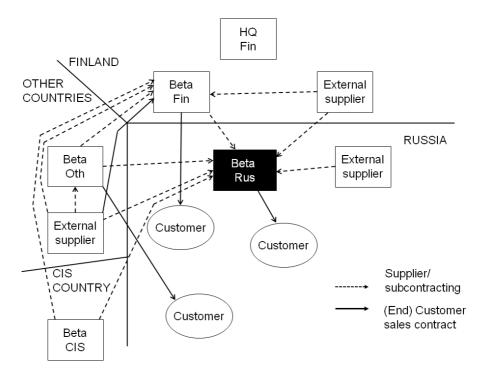


Figure 23 Beta's Russian operations illustrated as legal entities involved in Spring 2010

Beta started a gradual shift of operational responsibility for the Russian market from the regional export department to Beta Rus around the year 2000, and by 2010 there had been a substantial growth in its operational independence. Figure 23 illustrates Beta's operational model in the Russian market in 2010. The Finnish subsidiaries had been merged into one legal entity (Beta Fin), and the responsibilities of its product lines and support functions (e.g., sales or logistics and purchasing) extended to the Russian market as well.

The regional export department at Beta Fin was dismantled in 2010 and its personnel were transferred to different departments in the product-line organisation. Thus, their experience related to the Russian market was not lost during the organisational change.

Beta Fin has still exports directly to Russian customers, but Beta Rus has a substantial volume of local sales as well. Some customers just prefer to deal directly with Beta Fin. Diverse corporate subsidiaries (Beta Oth) occasionally offer their products directly to Russian customers, or to foreign multinationals in their home market that operate in Russia. They usually turn to the personnel of the former export department for help, given the challenges involved in product certification and customs procedures in the Russian market. This type of deal sometimes causes a lot of internal problems at the delivery phase, thus divisional and corporate headquarters have attempted to co-ordinate activities, announcing that all offers related to the delivery of equipment to Russia by diverse Beta units has to be approved by Beta Rus prior to being released to the customer.

Beta Rus, in addition to having an increasing number of local sales contracts, has gradually started to purchase equipment directly from various corporate and external suppliers. Beta's operations have also extended globally, and one corporate supplier is in place in another former planned economy (Beta CIS). Beta CIS mainly supplies components to the Russian market. Outsourced components are increasingly being purchased locally in Russia, but there are not many subcontractors there at present. It is sometimes more economical to purchase equipment through Beta Fin.

Beta Rus could be assigned a major corporate role in dealing with various public officials in Russia. Beta collaborates with other Finnish industrial firms in an association that supports its members' Russian operations by developing and maintaining contacts with business and political leaders. It is Beta's top management from headquarters (HQ Fin), however, that engages in this type of collaboration.

Beta's overall matching scheme with Russian public officials is illustrated in Figure 24. Beta Rus is a major corporate actor, although Beta Fin and Beta CIS also regularly take part in Beta's Russian operations and are thus, even though indirectly, involved in the matching scheme with Russian public officials. Corporate headquarters (HQ Fin) and Beta's other subsidiaries (Beta Oth), located in diverse countries, are more distant actors in the scheme, but they also have a role. Beta's external suppliers and customers, who have a part to play as well, are excluded from the figure.

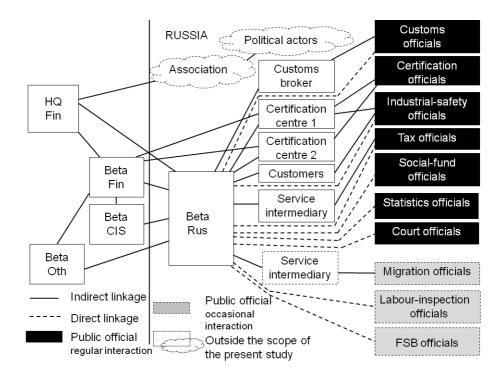


Figure 24 Beta's matching scheme with Russian public officials

Beta is linked to Russian customs officials through a customs broker, although there is direct linkage as well. It works in close co-operation with two certification centres in order to acquire the necessary product certificates, for example. The Russian subsidiary, as a Russian manufacturer, is subject to safety regulations monitored by industrial-safety officials. There are also links to these officials through customers who are exposed to Russian industrial-safety regulations. Beta interacts with industrial-safety officials through the certification centre, and also has direct links to some public officials in this same organisation.

The finance and administration department files reports to the tax officials impersonally using software provided by an external service provider. There is also direct linkage in that some financial reports are delivered in person to tax officials and officials of the social-security fund, for example.

Beta has a legal counsel at the St Petersburg subsidiary, which takes care of receivable collection that has recently resulted in court cases. Legal counsel also looks after the company's rights when various public officials approach Beta in the form of an inspection request, such as from the labour-inspection officials. Federal Security Service (FSB) officials have occasionally been in contact with Beta Rus. Beta's logistics director has also recently been in contact with migration officials through a service intermediary in connection

with applying for work permits for foreign citizens intending to work in Russia.

In sum, Beta Rus has contacts with several different public officials in Russia through both indirect and direct links. Indirect and direct contact with customs, product-certification, industrial-safety, and tax officials takes place regularly and could be considered related to the daily activities of the subsidiary.

Responsibility for relations with the different public officials is spread among various departments at Beta. Logistics people are mainly responsible for activities connected to customs matters, and product management and sales personnel for activities related to product certification and industrial safety. Finance covers matters related to diverse tax officials, including social funds and statistics, labour inspection and court issues. In order to enhance understanding of the role of Russian public officials in Beta's business networks, separate descriptions are given covering logistics, product-management/sales and finance activities. As in the case of Alpha, this reporting choice was guided by the empirical findings regarding Beta's operations in Russia.

4.2.2 Logistics activities

Beta has two main operational modes in Russia. Both focus on the importation of equipment from other countries, as Beta has only minor production facilities in Russia. Beta Fin sells some of Beta's equipment directly to Russian customers, and some of the sales are local through Beta Rus. The import procedures link Beta to Russian customs officials in both operational modes.

In the case of direct exports, Beta Fin logistics co-operates with Russian customers, but the customer is usually responsible for the import procedures. Sometimes the Beta Rus logistics department gives some assistance, but many customers act independently with regard to equipment-related import procedures. However, Beta Rus is increasingly assuming the role of the main importer of Beta's equipment in Russia.

Even in the case of direct exports from Beta Fin to its Russian customers Beta cannot ignore Russian customs officials. Customers need product certificates and other documentation to comply with import procedures. Much of this documentation originates from Beta, and some from Beta's suppliers.

Due to varying customer locations, direct exporting results in indirect contact via customers with Russian customs officials in different regions. This somewhat complicates Beta's role in the process given the varying requirements of customs officials. Nevertheless, customers have a key role in maintaining relations with customs officials in the matter of direct exports.

The second operational mode enabled Beta to organise import-declaration procedures in a more centralised manner. As Beta Rus is the importer, most of the equipment comes into Russia through two customs houses, one in St Petersburg and the other in another region. The St Petersburg customs house is the main one, and Beta Rus works closely with a customs broker in this respect.

Beta Rus had been channelling most of its imports through a certain customs house in St Petersburg for a few years. There was a restructuring of customs organisation in Russia in 2009/2010, however, resulting in the closure of some customs houses in Moscow in Autumn 2009, and some in St Petersburg at the beginning of 2010. The one Beta Rus used in St Petersburg was due to be closed in 2010.

Beta turned to another customs house in St Petersburg at the beginning of 2010. It was less familiar with the importation of industrial equipment, however, which complicated its co-operation with Beta. Beta Rus, together with its existing customs broker, therefore began searching for a new customs house along the Finnish–Russian border.

Figure 25 below illustrates Beta's matching scheme with Russian public officials, related to logistics activities. Beta Rus co-operates with a customs broker, which is its primary link to the customs officials, and contacts them when necessary. It is also assumed to have high-level contacts in the customs organisation. It carries fifty per cent of the risk related to the import declarations.

Beta started co-operating with its current customs broker a couple of years ago. This broker is known to have other large foreign MNCs as customers as well. It sometimes arranges GOST–R certificates for spare parts and some components, even though Beta Rus has direct contacts with two certification centres for this purpose. It has also been able to offer competitive prices for some certificates through the certification centre with which it co-operates.

Russia is a large country, and some of the Beta Rus deliveries require the import declarations to be made in another region, which necessitates cooperation with a regional customs broker and customs house. Given that Beta Fin exports directly, its Russian customers link it indirectly to the Russian customs officials in different regions as well.

Within Beta, the logistics personnel at Beta Rus work closely with the logistics personnel at Beta Fin and Beta CIS. Within the past few years Beta Rus has started to import components directly from Beta CIS to Russia. This co-operation is reported to work well. The shared language (Russian) is mentioned as speeding up the documentation preparation, for example.

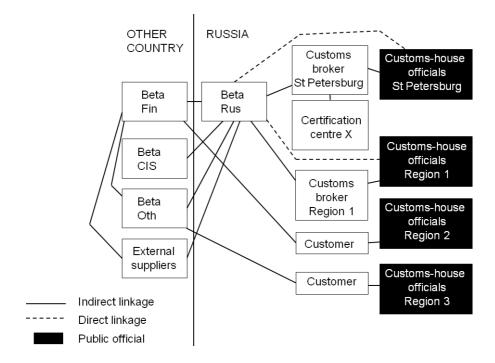


Figure 25 Beta's matching scheme with Russian public officials related to logistics

Cooperation between Beta Rus and Beta Fin was somewhat turbulent at the beginning of 2010 due to the on-going organisational changes at Beta Fin. In practice, new logistics personnel at Beta Fin were to be involved in the Russian operations. It was emphasised by more than one of the respondents that the logistics personnel from the former export department would support the new people involved in Russian operations. Beta Rus employees were also prepared to help. Beta Rus logistics personnel were already inputting some data into the tailored IT system at the end of 2009 so that the necessary delivery documents would be ready to be printed for the logistics personnel at Beta Fin. Although Beta CIS manufactured the equipment, at the time of the interviews a large proportion of the deliveries were being channelled to Beta Rus through Beta Fin.

The logistics director prefers not to have very close relations with the customs officials, and uses the customs broker as much as possible. Despite the use of a customs broker in the import procedures, there is also direct contact with customs officials, mostly inspectors. During the declaration process, for example, customs inspectors have asked Beta Rus to provide some additional information about the equipment. Further specifications have

been requested if there have been inconsistencies in the documentation, and if similar equipment with different customs values was being imported.

If face-to-face meetings with customs officials are necessary, it is usually the logistics director who attends them. According to the interviewees, customs inspections have become more frequent since the summer of 2009, and customs officials increasingly tend to unilaterally place higher import values on some equipment: customs duties and VAT payments are based on the import value. Beta mainly just agrees on the increases, which have thus far been reasonable.

In addition to the re-structuring of the customs organisation that was taking place in Russia in 2009–2010, there have also been frequent rotations in the customs-house personnel. The head of the customs house with which Beta had been co-operating retired some time ago, but no new head was appointed and temporary deputies took over. The logistics director of Beta Rus used to know some high-level customs officials at the St Petersburg customs house, but they were dismissed and no new corresponding contacts have been established. The customs houses are subjected to inspection every now and then, and this was reported as occasionally prolonging the release of Beta's cargo.

The tailored IT system in use at Beta was initially developed at Beta Fin to tackle the laborious process of data gathering and documentation preparation for the Russian customs. Since then, it has been developed to encompass the functions of an ERP system and is now in use at Beta Fin, Beta Rus and Beta CIS. At its core is an extensive database of Beta's equipment, parts and components listed in English and Russian. In addition to the item-by-item translations and weights, there is information on Russian customs codes, countries of origin, and product certification.

Key contract data, planned deliveries, actual deliveries, invoices and payments are also held in the system. Divisional and corporate headquarters have questioned the need for this tailored software on several occasions, not least following the organisational change in 2010 given that the majority of Beta's personnel use a global corporate ERP system.

Following the dismantling of the regional export department at the end of 2009, the people using the tailored IT system were spread among different departments in which it had not been in use. It was updated quite recently, however, and the maintenance has been outsourced to an external company. The future of the system was considered unclear, but so far no better solution is available, and it is still used in Beta Fin's sales contracts with Russian customers, as well as at Beta Rus and Beta CIS.

The tailored IT system provides a holistic view of Russian contracts. The logistics director at Beta Rus highlighted the value of this holistic picture when working with customs officials in Russia. He also co-operates closely

with the finance director at Beta Rus in order to ensure data consistency in logistics and finance activities. The system supports these tasks as well.

4.2.3 Product-management and sales activities

Beta sells industrial equipment in Russia, and most of it requires a Russian certificate of compliance called GOST–R. Some of it is also subject to industrial-safety regulations, which means that a separate usage permit may be necessary as well. Thus, Beta's product-management and sales activities are linked with Russian product-certification and industrial-safety officials for the purpose of obtaining the two documents: the GOST–R certificate of conformity and the usage permit for the equipment. The former is available from a limited number of government-licensed certification centres, but the latter is obtainable only from the departmental head office of Government Technical Supervision located in Moscow.

Most of Beta's equipment is GOST-R certified for three years at a time under a serial-production-certification scheme. Usage permits are usually applied for to cover a five-year period, and they may also be obtained for a line of technical devices. The different terms of validity for the two certificates cause some additional co-ordination work at Beta. The GOST-R certificate and, if applicable, the usage permit are sometimes obtained for one delivery at a time. Various tailor-made equipment may require separate certification.

In practice, the product certificates discussed above are needed at the time of import declaration at Russian customs. As mentioned earlier, Beta has two operational modes in Russia: direct export from Finland and local sales through Beta Rus. Nevertheless, the certificates are usually the same serial-production certificates granted to Beta as a foreign manufacturer of equipment. Beta Rus obtains product certificates for its minor production activities in St Petersburg.

When Beta Fin sells equipment to a Russian customer the customer is usually the importer, and needs the product certificates to satisfy customs-declaration requirements. When Beta Rus sells the equipment locally in Russia it is the importer, and is responsible for following the customs procedures. The logistics personnel utilise the product certificates at the time of import. In practice, it is the customs broker co-operating with Beta Rus logistics that takes care of the import-declaration procedures.

Product certificates are needed for purposes other than successful import declaration. Beta's customers are subject to Russian industrial-safety regulations, and in most cases interact with local and federal industrial-safety officials. There are different safety requirements depending on the customer's

industry and the type of equipment delivered. GOST-R certificates and usage permits, as well as other technical documentation may well be necessary for this purpose.

The customer may need to obtain the approval of the local industrial-safety officials before the equipment is commissioned and used. A technical passport is an important document in Russia, which Beta usually delivers to the customer. It contains technical information about the equipment, and Beta's customer may need to have it stamped by the industrial-safety officials prior to the commissioning. It ensures that the customer has appropriately registered the equipment Beta has delivered for use in Russia, and the stamp thus represents the final usage permit.

Figure 26 depicts the matching scheme with Russian public officials related to Beta's product-management and sales activities in Russia. Beta co-operates with two certification centres, one located in Moscow and the other in St Petersburg. These intermediaries are expert organisations working under a licence granted by a Russian federal agency. They issue GOST–R certificates, and assist Beta in obtaining usage permits by reviewing the documentation and giving expert opinions.

Beta has good working relations with both certification centres, and knows their price levels and operational strengths. Both presumably have good relations with high-level public officials. Cases are allocated to the certification centres depending on the specificities and service prices. Beta works directly with them, even though agents are available in Russia to co-ordinate the whole certification process on behalf of companies.

Beta Rus is a key actor in Beta's product-certification activities, even in the case of direct exports from Beta Fin to its Russian customers. The two certification centres are major co-operation partners in terms of product certification and industrial safety, and Beta's primary link with these public officials could be described as indirect through the centres.

There used to be a direct and somewhat informal link with a high-level product-certification official, which was used in some exceptional cases. However, these types of informal connection were broken a few years ago following changes in personnel at the product-certification office. The certification centres are assumed to have good relations with the certification and industrial-safety officials.

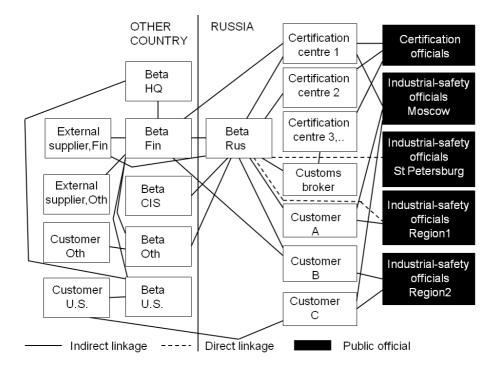


Figure 26 Beta's matching scheme with Russian public officials related to product management and sales activities.

There is, nevertheless, direct linkage to industrial-safety officials. Due to the small scale of its local production, Beta Rus is inspected annually as an equipment manufacturer by the inspector located in St Petersburg and working in the regional office. There is also an inspection at the Beta Fin premises before serial-production certificates are granted. As a foreign manufacturer, however, Beta has its production facilities checked by a delegation from the certification centre.

Customers located in different regions of Russia may have slightly different technical-documentation requirements for delivered equipment, due partly to the demands of local customs or industrial-safety officials, and partly to customer preferences. Beta has been operating in Russia for many years, and its personnel, especially those with experience at Beta Rus and Beta Fin, already have quite good knowledge about the variation in requirements among public officials, and can cope with it. The normal practice is to send a standard package of technical documentation to the customer.

Customers may request modifications to the standard documentation package depending on the requirements of their local officials. Beta has learned to deal with these types of request, and does not usually face significant challenges in this respect. Sometimes customers may request that the technical documentation package be translated into Russian. Beta's equipment comprises a number of components manufactured by various subsidiaries and also by external suppliers in different countries, and this would therefore be an extensive translation exercise. Fortunately, customers have usually accepted documentation attachments related to components as English documents, in which case they have to come to an agreement with their local public officials.

Beta's customers often need to register the equipment it delivers with Russian industrial-safety officials, who may also inspect it at the time of commissioning. Both the registration and the inspection are usually the customer's responsibility according to the contract. During the past couple of years, however, Beta has been asked by several customers to take more responsibility for the registration (the final permit to use the equipment in Russia). Beta occasionally agrees, and has been able to handle this process quite well with its co-operation partners.

Recently, however, Beta has faced challenges in sharing responsibilities with a large foreign multinational that is a customer in Russia. This customer did not have experience in the Russian market, and asked Beta to take full responsibility for the product certification, the usage permit, and the equipment-registration process. With HQ approval, Beta agreed to take more responsibility than normal, but jointly with the customer.

The same customer had an extensive list of demands related to document translation. Exceptional terms of agreement were again reached, with the approval of the Beta HQ. Customers' requests regarding the documentation are sometimes even more detailed than those of Russian public officials. Beta has learned to deal with these issues, and to resolve the problem of excessive customer demands through discussion. Customers with less experience in the Russian market are sometimes more challenging in this respect.

Within the corporation, the head of design at Beta Rus is a key actor in product certification. He works in close co-operation with project managers located at Beta Rus and Beta Fin, as well as with the quality manager at Beta CIS, often involving the gathering of technical documentation and information about the equipment. Beta Fin and Beta CIS are both major suppliers of Beta Rus. The co-operation with Beta CIS is described as easy. Beta CIS may even provide Russian documentation for Beta Rus if necessary. Project managers at Beta Fin and Beta Rus are focal actors in the product-certification process when technical information related to the equipment is collected. In the case of Beta Fin this is sometimes challenging. It may be advisable to explain to the Finnish personnel in more detail what type of information is needed and why. The technical passport, for example, includes detailed technical information about the equipment, which may be difficult to obtain within a corporation. The technical details may also differ somewhat from those in the original

agreements, in which case it may be necessary to discuss and resolve the discrepancies with the customer before the information is delivered to the public officials.

The detailed requirements of the Russian certification officials may sometimes be difficult for the foreign personnel to understand, especially those who are less experienced in the Russian market. There are people at Beta Fin who have worked in Russia for some time (such as those in the former regional export department), and there are also a few Russian engineers in the Beta Fin organisation who usually know the specificities of the certification procedures quite well. For new actors, however, the level of detail required by Russian officials may be more difficult to comprehend. There have also been personnel changes within Beta Fin, which have apparently slowed down the information-gathering process.

As external suppliers (subcontractors) are often in the picture as well, it is usually necessary to contact them for some technical information. This may make the process even more challenging and time-consuming. Some external suppliers are highly experienced in the Russian market, and have the product certificates readily available, whereas others find the document and data-gathering process more challenging.

The responsibility for certification activities rests mainly with Beta Rus, despite the two operational modes. In the case of direct sales from Beta Fin to its Russian customers, Beta Rus does some consultancy work. In other words, within the corporation, Beta Rus acts as a consultant to Beta Fin in the certification process, and invoices the labour and other related costs.

Other corporate subsidiaries have occasionally sold equipment to Russian customers, in which cases the head of design at Beta Rus may be directly or indirectly through Beta Fin in contact with the project managers of other corporate companies and provide consultation on certification issues. This also entails internal invoicing within Beta. These occasional operations in the Russian market have sometimes proved quite expensive in relation to the equipment certification, and Beta HQ has therefore taken some co-ordination measures. For example, all corporate offers involving equipment to be delivered to Russia are to be sent to Beta Rus for approval before handing them over to the customer.

4.2.4 Finance activities

Beta's Russian subsidiary, Beta Rus, is headquartered in St Petersburg and has branches in seven regions in Russia. As a Russian legal entity it is obliged to file tax and other documentation, as well as to pay taxes according to Russian

laws and regulations. Beta Fin also operates on the Russian market to some extent, but is not obliged to file tax reports or to pay taxes regularly in Russia. When necessary Beta Rus assumes the tax obligations of Beta Fin as a so-called tax agent.

Figure 27 depicts Beta's matching scheme with Russian public officials related to finance activities. The finance department is in regular contact with different tax and social-fund officials. Some of the tax reports are sent electronically to the assigned tax offices in St Petersburg and various regions, according to the dates stipulated in laws and regulations as well as in the accounting policy of Beta Rus. The service intermediary mentioned in Figure 27 is the provider of the software enabling the electronic filing. Reports to the various social funds are mainly delivered in person, which is a burden for some accountants.

There are accountants in the regional branches of Beta Rus who are responsible for filing the regional reports. There is some regional variation in tax-office requirements in that some accept electronic submission, some ask for paper copies and some request the data on floppy disks. The use of floppy disks is somewhat challenging for Beta, which otherwise has little use for such computer hardware.

The chief accountant in St Petersburg is responsible for all VAT and profittax reports and payments related to Beta Rus. Regional accountants are responsible for filing reports to social funds and the regional and local tax authorities. Reports for the state statistics office are compiled regularly in both St Petersburg and the regions.

As a result of the economic recession, Beta has faced some challenges related to customer payment over the last few years. This has resulted in fairly regular contact with the courts in different regions in Russia, and in the appointment of a legal counsel in St Petersburg responsible for this process. Payment-collection procedures are somewhat hampered by delays in the court process, which has made collection more difficult even if the final court decision is in Beta's favour.

Beta HQ and Beta Fin both feature in Figure 27. Beta Fin is the parent company of Beta Rus, and is responsible for its financial and operational management within the Beta Corporation. Thus, the finance director and the chief accountant at Beta Rus work closely with the financial controller at Beta Fin on matters of finance. The finance director at Beta Rus contacts the financial controller at Beta Fin on difficult matters related to accounting and taxes, and co-operates with the business controller at Beta Fin.

The corporate tax director is also occasionally involved in issues related to the financial activities of Beta Rus. For example, when Beta HQ provided Beta Rus with a loan, under Russian tax regulations the interest payments were liable to be taxed as dividends, and this was discussed with corporate HQ.

Beta Rus accountants regularly use the database provided by an external service provider for Russian accounting purposes. On more complicated matters the finance department may consult the local or the corporate auditor.

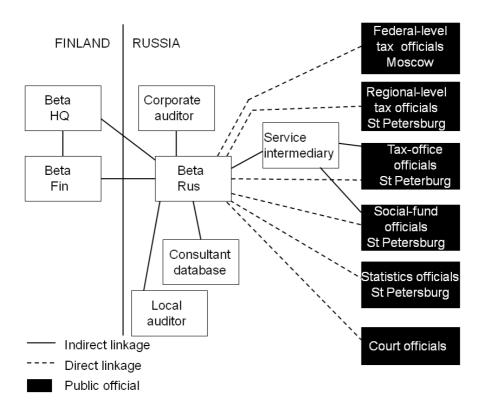


Figure 27 Beta's matching scheme with Russian public officials related to finance activities

Beta Fin is a manufacturer of Beta's equipment that is delivered to Russia by Beta Rus, and also sells equipment directly to Russian customers. Beta Rus assists Beta Fin on some administrative and operative matters in Russia. For the sake of tax efficiency, the costs related to this type of consultancy are invoiced by Beta Rus to Beta Fin. Thus, there is regular internal invoicing between the two. Beta Rus invoices Beta Fin for the costs it accumulates that relate to Beta Fin as an equipment manufacturer or supplier in Russia, which cover equipment guarantees and product-certification costs that are payable by the manufacturer of the equipment, for example. Some of these services are liable to Russian VAT, which is, in practice, paid by Beta Rus to the Russian tax officials on behalf of Beta Fin as a so-called tax agent. As such, Beta Rus

fulfils the VAT obligations on behalf of Beta Fin in Russia. Given the substantial growth in the overall operations of Beta in Russia during the past few years, there has been a corresponding increase in these consultancy or service-type activities.

Beta Rus has experienced some delays in receiving VAT refunds in Russia during the past few years. The refunds have been paid thus far if requested, but the delays have been of several months, and the tax office has questioned the right to the refund on several occasions. A further burden on the finance department at Beta Rus has been the so-called desk inspections of the VAT reports, which result in numerous requests to provide additional information to the tax office. There have also been inventory inspections. The Beta Rus finance people have been invited several times to the tax office to clarify certain issues to the officials. These discussions are described as quite normal, and the transparent operations of the company are considered a resource in this respect.

Beta HQ has financed Beta Rus in the form of a loan. Beta Rus has relatively low share capital, which means that the so-called thin capitalisation rules are applicable from time to time. Consequently, the interest payments Beta Rus is paying to Beta Fin could be considered dividend payments. Finland and Russia have a double-taxation treaty according to which interest payments are free of tax, but dividends are taxed at 12 or five per cent depending on the size of the share capital. The finance director had made extensive calculations to determine whether thin-capitalisation rules applied to Beta Rus. If they did, then the interest payments should be treated as dividend payments and Beta Rus is not entitled to include them as tax-deductible expenses. Beta Rus has been treating them as dividends-based and have thus not considered them tax-deductible. There have been some discussions on the issue of withholding tax with the HO tax people.

There may be another option, however. The Beta Rus finance director had heard that a foreign company had ignored the thin-capitalisation rules, counted all interest payments as tax-deductible and had not paid the withholding tax. When the tax inspection revealed this the company went to court and won the case. The finance director considers this somewhat risky, however, and Beta HQ has not clearly stated its willingness to fight tax issues in Russian courts.

There have been several discussions between Beta Rus and Beta HQ on drawing up a cost-sharing agreement, and in 2007 the corporate auditors were contacted and asked their opinion on the possibility of categorising such expenses as tax deductible in Russia. Given the extensive documentation requirements, and the fact that some activities of which the costs were to be shared were liable to Russian VAT, the decision was made not to sign such an agreement. The situation remained the same in 2009. The fact that Beta Rus

has operated in Russia for over 10 years without an agreement is considered a further disadvantage.

There is a somewhat similar challenge related to the partial invoicing by HQ of some corporate insurance policies to Beta Rus. It is difficult to count them as tax-deductible expenses in Russia, partly due to the extensive documentation requirements in applications for tax deductibility, and partly because the documentation would originate in Beta's units outside Russia.

Beta has a Russian "One-S" accounting system in use, and the process of sending tax reports is largely automated. The tax-filing software provided by an intermediary is linked to the local accounting system. It includes some data-checking options, and confirms the successful filing of reports. It also allows the checking of tax-account balances if necessary. The system has been further tailored at Beta Rus to increase the level of automation in creating corporate reporting from local accounting data. There is also a link from the tailored ERP system to the "One-S" system that facilitates automatic data transfer from logistics to the finance and accounting activities. Excel sheets and manual adjustments are available for corporate reporting purposes.

4.3 Cross-case analysis

4.3.1 The role of Russian public officials in MNC logistics activities

At both Alpha and Beta the *local subsidiary* was the *MNC* actor *link* with Russian public officials in logistics activities. On both the vertical and the cross-relational dimensions, in both companies, the respondents considered the *local sales* operational mode *the primary mode*, even though *multiple parallel matching schemes* in relation to logistics activities were identified.

Table 5 Operational modes related to the three main equipment types within business line 1 at Beta

	Main	Occasional	Rare
Business line	Local sales	Direct export	Indirect export
1/equipment type 1	/Beta Rus	/Beta Fin	/Beta Oth
Business line	Local sales	Direct export	Indirect export
1/equipment type 2	/Beta Rus	/Beta Fin	/Beta Oth
Business line	Direct export	Local sales	
1/equipment type 3	/Beta Fin	/Beta Rus	

Table 5 illustrates the operational modes within Beta by equipment type. Local sales constituted the main operational mode in equipment types 1 and 2

(Business line 1), with occasional direct exporting. Indirect exporting was rare in both cases. Direct exporting was the main operational mode for product type 3 (Business line 1) at Beta, although there were occasional local sales. These different modes resulted in somewhat different matching schemes with Russian public officials.

Table 6 Operational modes related to the three business lines within Alpha

	Main
Business line 1	Local sales
	/Alpha RUS
Business line 2	Local sales
	/Beta RUS
Business line 3	Direct export
	/Beta FIN

Similar structural complexity was evidenced at Alpha as well, but to a lesser extent, as illustrated in Table 6. Two of its three global business lines operated in Russia through the two local subsidiaries in the local-sales operational mode. Business-line 3 sales in Russia were moderate in volume and were handled through direct exporting. The corporate HQ functions in both companies were organised under separate legal entities.

The respondents attributed the primacy to the possibility to *centralise* relationships with customs officials in Russia when the local subsidiary was the importer of the MNC's equipment. Even though Alpha's logistics and sales activities comprised two legal entities in Russia, the logistics operations were more centralised than at Beta. Logistics operations were assigned as the main responsibility of Alpha's one local subsidiary as the other local subsidiary had the sales responsibility. The occasionally high volumes involved in the direct-export operational mode at Beta also support the finding that Alpha's logistics activities were more centralised.

It is also worth noting that, given its direct-export operational mode, Beta occasionally had to deal with customs officials and customs brokers in several regions in Russia, and that the various requirements differed slightly. *Customer preferences* at Beta were reported as supporting the direct-export operational mode, in which the local subsidiary's role is minor or non-existent. In the case of equipment type 3, the operational mode in Russia and globally was usually direct export from Finland. Consequently, the local subsidiary had a minor role in relationships with Russian public officials in logistics activities of equipment type 3.

Customer preferences and also divisional/headquarters production centralisation appeared, in the present study, to reflect the fact that the local subsidiary was not always the actor linking the MNC to the Russian public officials in logistics activities. Even though it was more evident at Beta, it is also worth noting that business line 3 at Alpha did not conduct its logistics activities through the local subsidiary either, but went through local dealers. The volumes involved at Alpha were low, however.

On the horizontal dimension, both the local subsidiary and the local customs broker provided an indirect link between the MNC subsidiary and the Russian customs officials at both Alpha and Beta. Moreover, there was evidence of direct links between the local subsidiary and the customs officials in both companies. Other external actors played a role in the matching scheme, too. Customer links to logistics activities are mentioned above. Supplier links were also evident, and the pivotal nature of the Finnish subsidiary's supplier role at both Alpha and Beta was, on some level, dependent on the Russian public officials. Respondents at both companies reported that the logistics activities to Russia through Finland functioned well. Business and non-business actor links were thus evident in both MNCs' matching schemes with Russian public officials in relation to logistics.

On the cross-relational dimension there were links to product-management and sales, and to finance. First of all, the *data/information link* was highlighted in that the *sharing of documentation* was considered important in dealings with customs officials. Secondly, and this may also be relevant to the horizontal dimension, the customs broker had a role in logistics and product management activities in that both MNCs reported using the services occasionally when acquiring product certificates. On these occasions the people normally responsible for product management and sales activities had a minor if any role in the document acquisition process.

The *local subsidiary* was a *key MNC actor* linking the MNC with the Russian customs officials for both Alpha and Beta, which could be related to the *primacy attached to local sales operations* by the respondents in both MNCs, as discussed earlier. On the other hand, Alpha's business-line-3 sales volumes in Russia were also reported as low. Beta's equipment-type-3 sales volumes through direct exports to Russia were occasionally high, but the key role of the local subsidiary could be attributable to the primacy of the local-sales operational mode, especially as expressed in the *MNC's future plans*, as well as to the local subsidiary's *consultancy role* in direct export deals.

The major role of middle management in logistics-related relationships with Russian public officials was also evident in both MNCs. On the vertical dimension the respondents at HQ and divisional HQ highlighted the fact that the people at the local subsidiary had the *knowledge and skills* to deal with the

local customs officials. In terms of logistics activities, a *key person* on the middle-management level was easily identifiable at the local subsidiary in both MNCs. The importance of this role is also evidenced by the fact that the middle-management-level respondents themselves reported being engaged in practical encounters with customs officials, mainly indirectly through a customs broker but also directly when necessary. It was also interesting that both MNCs exercised *caution in terms of higher-management involvement* in encounters with customs officials.

The above discussion supports the key role of the local-subsidiary middle management on the horizontal dimension of logistics activities. The customs broker played an integral part, however, in that both MNCs had worked with the same one for several years. In both cases the local-subsidiary respondents clearly stated that the role of the customs broker was important in logistics activities, and that *direct contact* with customs officials was *avoided* when possible.

The *customs house* also had a part to play. This was brought to the surface when one respondent commented on the challenges resulting from the reorganisation of the customs organisation in Russia that was taking place at the time of the study. The fact that the customs house and the customs broker both had accumulated *knowledge* of the MNCs' operations and products was assumed to contribute to the fluency of the logistics activities. Furthermore, *the individual actors' knowledge-ability* in terms of the *ability and willingness* to understand as well as *prior experience of MNC operations* or equivalent products seemed to enhance co-operation. The matching schemes involving the customs brokers and customs houses were reported as somewhat chaotic at the time of the interviews due to the market *turbulence* caused by the decision in the Russian State apparatus to close several customs houses. This challenged the co-operation in terms of knowledge-ability as new individuals were to be involved.

Discrepancies in the requirements or wishes of different public officials were specifically mentioned on the cross-relational level of logistics activities in both MNCs. Some customs officials reportedly preferred high import prices that increased customs income, but this did not necessarily coincide with the wishes of the tax officials.

On the cognitive dimension, the *criticality* of the *key persons* in logistics was somewhat in evidence at both companies in that only a few people were identified as suitable respondents. A few respondents from Beta explicitly referred to this, which may reflect its higher level of complexity, compared to Alpha, in terms of overall size, the parallel nature of its operations in Russia, and the overlap of products/equipment types in different operational modes. Some respondents also referred to the increasing sales volumes in the Russian

market, in which context the possible bottlenecks in logistics had been analysed. In this respect they highlighted a specific *attitude*, and also *a learning curve* among non-Russian individuals involved in the matching scheme related to specific issues in their dealings with Russian customs officials.

None of the respondents in either MNC reporting on logistics activities mentioned issues that could be related to political knowledge. Certain knowledge issues related to logistics were identified, however. *Data/information links*, starting from the customs officials, extended all the way to the external suppliers. Both *market knowledge*, possessed especially by the local subsidiary and the customs broker, and *corporate knowledge* at the local-subsidiary, the customs-broker, and the customs-official level had a role in the matching schemes of both MNCs. More than one respondent in each one also explicitly mentioned the *heterogeneity in the knowledge-ability* of individuals, *referring* in this context to *prior work experience*, *nationality and language skills*, *and individual attitudes*.

Table 7 summarises the empirical findings in terms of similarities and differences in logistics activities at Alpha and Beta. The *similarities* evidenced in the logistics activities of the case MNCs are multiple. At both the *local subsidiary* was identified as a *MNC link* with Russian public officials, and was also a *key actor* in this respect within the MNC. Both MNCs had several *parallel matching schemes* in which *direct and indirect links* with Russian customs officials were in place even though *indirect links* were *preferred*. *Suppliers* had an integral role in the matching scheme, and the respondent also linked the role of the *Finnish subsidiary as a main supplier* to the Russian public officials. Issues such as specific and detailed *data/information transfer needs*, *knowledge* and also the *knowledge-ability* of the individuals were discussed by the respondents in this context.

The customs broker was an integral MNC external actor in the logistics matching scheme in both MNCs. Customs brokers had a role in the data/information transfer, but their knowledge of local procedures as well as of MNC operations was also important. They also had evident links on the cross-relational dimension with certification centres, which were utilised in the logistics activities of both MNCs. Customs-house knowledge of MNC operations was reported as playing a role in the matching scheme, and actor turbulence in the customs organisation was reported to be challenging in this respect.

On the individual level, the *key actors* were easily identified and heterogeneity in individual knowledge-ability was evidenced in the matching schemes. *Higher management* was found to *distance* itself from Russian customs officials.

Table 7 A summary of the empirical findings with regard to logistics activities

Similarities at Alpha and Beta	Differences at Alpha and Beta
*Local subsidiary a link and also a key MNC actor *Multiple parallel matching schemes	*At Alpha, more centralised Russian market operations *At Beta, the customer's role is emphasised in relation to direct exports from Finland *At Alpha, logistics and sales activities are separated in two legal entities in Russia *At Beta, the local subsidiary acts as an MNC internal consultant (invoicing) *At Beta, regional variation reported in relation to the direct sales operational mode
*Direct and indirect links with customs officials *Indirect links preferred *Direct links related to additional specifications	
*Integral role of suppliers (MNC internal and external) *Finnish subsidiary a key MNC supplier to Russia	*Role of supplier experience and knowledge with regard to Russian market operations discussed more at Beta
*Integral role of the customs broker *Customs broker's link to the certification centres *Knowledge of the customs broker and customs house with regard to customs procedures and MNC activities highlighted *Turbulence in customs organisation created challenges	*At Alpha, the customs broker's role in data/information gathering is highlighted *At Beta, the data/information gathered through the tailored IT system is highlighted *Beta HQ questions the role of the tailored IT system from time to time
*Key individuals in middle management - their role is acknowledged by colleagues *Higher management distancing *Diversity in individual knowledge- ability	*Role of learning, motivation, and knowledge-ability is highlighted at Beta
*Cross-relational links to product management and sales, and finance activities are important *Reported differences in the legitimacy of customs officials and tax officials	*Role of the tailored IT system in respect of cross-relational links is highlighted at Beta

Cross-relational links from logistics activities to product-management and sales activities were considered important, and legitimacy differences or discrepancies in the preferences of customs officials and tax officials were evident.

Despite the many similarities in the matching schemes of the two MNCs, there were also differ several differences. They are differently embedded in terms of past activities, for example. Further, although there are some similarities in product offerings, the customers and product offerings may also be the cause of the identified differences. Both MNCs have more standardised product offering and tailored product offerings. However, Beta's Russian operations relied more on tailored equipment, whereas in the case of Alpha the standardised offering seemed to have a more significant role. These differences in MNC characteristics could contribute to the noted differences in the matching schemes.

Alpha's Russian-market operations were logistically more *centralised*, even though Alpha was supported by two legal entities in Russia, and Beta by one. Beta emphasised *customer preferences* in relation to the variations present in the logistics matching schemes, but there was also evidence of *HQ/divisional preferences* in terms of having various options. At Beta, the larger of the two MNCs, the local subsidiary was also found to *invoice other MNC units for consultation services* related to helping them in their dealings with Russian customs officials. This invoicing complied with the direct-export operational mode and local tax regulations but, the local subsidiary also received operational income from these activities.

The direct-export operational mode exposed Beta to *regional variation* in the logistics-matching scheme to a greater extent, even though *customer assistance* was helpful in this respect. The higher emphasis put on the *supplier role and experience* at Beta could reflect the tailored product offering, which played a larger role in its Russian operations. This difference could also be related to the fact that Alpha was *delegating data/information* gathering to the *customs broker*. In the case of a more standardised product offering, the outsourcing of these services may be an easier option.

Beta, even if not fully supported by corporate HQ, had a *tailored IT system* in order to tackle the variation in the product offering and its influence on activities in the matching scheme with Russian public officials. The complexity of its product offering could also have been behind the higher emphasis the respondents put on *learning, motivation and knowledge*. The complexity of the product offering and the lower level of centralisation in logistics activities could also have contributed to the evidenced higher emphasis on cross-relational links at Beta.

4.3.2 The role of Russian public officials in MNC product-management and sales activities

As in the case of logistics, the local *subsidiary* in both Alpha and Beta was the *MNC actor link* with Russian public officials in product-management and sales activities. However, a person from the Finnish subsidiary headed the product-certification activities in Alpha's business lines 2 and 3, with assistance from the local subsidiary if necessary. On the horizontal dimension, the *supplier/manufacturer* of the product/equipment played a key role in the product-management and sales matching scheme. Given that both MNCs had only minor production facilities in Russia, most of the equipment manufacturers were located outside Russia.

Again in line with logistics activities, there were *intermediaries* between the MNC and the Russian public officials in both companies. Both had more than one regular co-operation partner, and Alpha had more than Beta. The respondents related the *multiplicity of co-operation partners*, to the *scope of services* offered at the diverse certification centres, *pricing* issues, and the *ease of working* with a specific counterpart. The Beta respondents emphasised *long-term co-operation*, and mainly used two certification centres.

There appeared to be less *centralisation* and *co-ordination* at Alpha, although there was a more co-operative approach to using the certification centre in business line 2 than in business line 1. At this point it is also worth noting that the different business lines/equipment types are naturally subject to somewhat different product-certification and industrial-safety regulations, which was one reason for the occasional need to use different co-operation parties. Beta's higher *level of complexity* in terms of operational modes and a *tailored product offering* could be behind its *preference for deeper co-operation* with the certification centres. On the other hand, the *frequency of transactions* for each product/equipment type also played a role in the matching scheme given the availability of different certification processes (one-off/serial).

Customers were integral actors in product certification at both Alpha and Beta with regard to products/equipment that are subject to Russian industrial-safety regulations. Customer involvement was more evident in the case of Beta, and the fact that some of the duties related to public officials were passed on to Beta through its customers sometimes caused confusion. One instance of HQ authority being exercised in relation to a large foreign customer in Russia was considered particularly challenging in that HQ was supporting the customer on issues related to certification documentation regardless of the different opinion of the local subsidiary.

The local subsidiary was a key actor at both Alpha and Beta in terms of dealing with the Russian product-certification officials. However, in both cases too, subsidiaries outside Russia were also in contact with the certification centres without involving the local subsidiary. The consultancy activities of the local subsidiary with regard to product certification even resulted in internal invoicing within Beta. On the other hand, the supplier/manufacturer at both Alpha and Beta, located in most cases outside Russia, was also an integral player in the process. In this case the certification centres carried out the inspections at the production sites.

The key role of middle management in maintaining relationships with Russian public officials with regard to product-management and sales activities was also evident in both MNCs. As with logistics activities, the respondents at HQ and divisional HQ in both companies emphasised the fact that the people at the local subsidiary had the knowledge and skills to deal with the local rules. Key persons in middle management at the local subsidiary were also easily identifiable in both MNCs. On the horizontal level, both MNCs identified actors at their Finnish subsidiaries with Russian or Estonian nationality, who, according to a few respondents enhanced the data transfer and understanding related to product certification.

The above discussion confirms the key contribution of the local-subsidiary middle management on the horizontal dimension of product management. The *certification centres* also played an important role. Both MNCs had *direct* links to the product-certification officials only with regard to minor local production. In the case of foreign manufacturing, the certification centres were the actors that were contacted during the inspections.

Even though the product-certification activities were somewhat *centralised* in both MNCs, the *link to industrial-safety officials through customers* was evidence of the decentralising of product-management activities to various Russian regions. This was more obvious at Beta in that many of its customers in different regions of Russia were subject to regional industrial-safety regulations. This exposure to industrial-safety officials in different regions was considered a source of heterogeneity in customer requirements. *Customer preferences* were also sometimes *confused with the requirements of the industrial-safety officials*. It is worth mentioning in this context the evident customer primacy at Beta, especially among HQ representatives. This was highlighted with reference to one occasion when customer primacy was present to such an extent that it was challenging for the local subsidiary in terms of resolving issues with industrial-safety officials.

On the cognitive dimension, the *criticality of key persons* in product-certification activities was somewhat evident at both companies in that only a few people were identified as suitable respondents. There were more people

identified as being in contact with certification centres at Alpha, however. At Beta only a few key persons were knowledgeable about the various product-certification possibilities. The certification process combined with industrial-safety issues was considered challenging to those who were lacking in practical experience. The *link from product certification and industrial safety* to the sales process was also highlighted in this context at Beta.

None of the respondents at either MNC reporting on product-management and sales activities mentioned issues that could be related to *political knowledge*. More than one of the Beta respondents, however, highlighted the specific industrial-safety environment in the Russian market, and discussed the serious and widespread consequences if an accident happened that had to do with the company's products in Russia.

Data/information links, starting from the certification officials, the customers and the industrial-safety officials extended all the way to the manufacturers/subcontractors of the MNCs. Local market knowledge, possessed especially by the local subsidiary and the certification centres, and customer knowledge of certification and industrial-safety issues had a role in the matching scheme as well. In fact, respondents in both MNCs felt that the individuals involved in the matching scheme ought to understand the level of detail required by public officials, and also other market specificities (e.g., the role of product testing) in product management and sales. Heterogeneity in the knowledge-ability of different individuals involved in the matching scheme was highlighted and discussed, together with issues such as prior work experience, nationality, language issues, and individual attitudes.

Table 8 summarises the empirical findings in terms of similarities and differences in product-management and sales activities at Alpha and Beta. Despite the many similarities in the matching schemes there are also differences in several respects, some of which are explained in the text. In brief in terms of the similarities, the *local subsidiary* was the *MNC link* and the *key MNC actor* in both MNCs' matching schemes with Russian product-certification and industrial-safety officials.

Direct and indirect links with Russian public officials were evidenced. Indirect links were mostly utilised and direct links related to the local production. Different MNC internal and external suppliers, or more specifically production sites, had an integral role in the matching scheme in that they were subjected to regular inspections by certification centres or certification officials. Certification centres and other intermediaries offering a variety of services and competences were integral actors in the matching schemes, and their knowledge with respect to local procedures and MNC activities had a role to play.

Table 8 A summary of the empirical findings with regard to productmanagement and sales activities

Similarities at Alpha and Beta	Differences at Alpha and Beta
*Local subsidiary a link to Russian product-certification and industrial- safety officials and also a key MNC actor	*At Alpha, the business lines varied in their matching schemes *At Beta the certification process is more centralised, even though there is occasional variation *HQ authority in relation to a large foreign customer evidenced at Beta *At Beta there is local subsidiary invoicing to other MNC units for consultancy services
*Direct and indirect links with certification officials - indirect links usually utilised *Direct links related to local production	*Indirect link to diverse industrial-safety officials through customers highlighted at Beta
*Integral role of suppliers/production sites (MNC internal and external)	*Role of supplier experience and knowledge with regard to Russian mar- ket operations discussed more at Beta
*Integral role of the certification centres *Certification centres varying in operational scope *The role of the intermediaries' and certification officials' level of knowledge with regard to the certifica- tion procedures and MNC activities	*Beta worked mainly with two co-operation partners whereas Alpha had more, and also used certification agencies
*Key individuals in middle management *The acknowledged role of individual nationality/language skills *Higher management distancing *Diversity in individual knowledge- ability	*The role of individual knowledge- ability, learning, and motivation highlighted at Beta *Turbulence in MNC personnel reported as challenging the co-operation within the MNC
*Cross-relational links to logistics activities and customs officials *Industrial-safety officials closely related to product-certification activities	*At Alpha, the customs broker gathered documentation/product certificates *At Beta, the role of information gathered through the tailored IT system was highlighted *At Beta, regional variation in industrial safety and customs officials was highlighted *At Beta mixed customer and public official requests noted

On the individual level, key individuals in middle management were identified. Diversity in individual knowledge-ability was reported to play a role in the matching scheme, and nationality and language skills were mentioned in this respect. Higher-management distancing was also evidenced in both MNCs. Cross-relational links to logistics and customs officials were integral, and industrial-safety officials were linked to the matching scheme via product-certification officials in many instances.

There were also evident differences. Even though there was more centralisation in the logistics matching scheme at Alpha, there was more variation in product-management and sales activities. Beta thus had a more *centralised* matching scheme in product-management and sales activities, even though there was occasional variation. One respondent at Beta mentioned that the ability to effectively manage the product-certification procedures was a source of competitive advantage for the company. This could imply that Beta paid special attention to product-certification issues.

The higher emphasis on the *role of industrial-safety officials* at Beta could have been related to the differences in *product offering* at the two MNCs. The specificities of Beta's offering could also have resulted in the stronger emphasis on the role of *MNC-specific knowledge among the co-operation* partners as well as the wide utilisation of *the two main co-operation parties*. Higher emphasis on *supplier experience and knowledge* in the case of Beta could also have been attributable to the product offering. The *mixed wishes of customers and industrial-safety officials* were also acknowledged at Beta.

As with logistics activities, the *influence of customers* was more evident in Beta's product-management and sales activities. The *primacy of customer* and *sales activities* evidently led to challenges in the matching scheme of finance activities. The emphasis on the *urgency of fulfilling customer requests* could have arisen from the specificities of the customer industry. The Beta HQ link to the MNC global customer in Russia brought challenges in terms of fulfilling the documentation promises MNC actors with less Russian *local market knowledge* made to the large foreign customer. There was no reference at Alpha to any such MNC global customer in Russia during this study.

On the individual level, the role of *knowledge-ability*, *learning and motiva*tion were highlighted more at Beta, which could have been due to the characteristics of the product offering, and also to the organisational changes that were taking place during the study. Problems in the matching schemes arose when *new individuals* were brought in due to organisational change, and also to natural wastage among employees on the MNC side.

Alpha was *delegating* some aspects of the management of its product-certification documentation *to the customs broker*, possibly due to its more

standardised product offering. As in its logistics system, Beta also had product-certificate information in its tailored IT system.

4.3.3 The role of Russian public officials in MNC finance activities

At both Alpha and Beta the *local subsidiary* was the actor *linking* the MNC to Russian public officials with regard to finance activities. This could be considered self-evident in that, as Russian legal entities the subsidiaries are obliged to file tax reports and to pay taxes according to the Russian law. At Beta, however, other corporate units were also subject to Russian taxation on account of the internal invoicing practices. Nevertheless, the local subsidiary in Russia acted as a tax agent for these other MNC units.

On the vertical dimension there was an evident *link between the local subsidiary and the corporate and divisional HQ* in both companies. The main issues triggering the contact appeared to be the same: *management fees or cost-sharing agreements and corporate loans* to the local subsidiary. In both cases the tax-deductibility question was reported as challenging. Respondents from the local subsidiaries highlighted the *importance of detail in the documentation* provided by corporate/divisional HQ. Links to *corporate/local auditors* in this context were also evident in both MNCs.

At the crossroads of the vertical and the cross-relational dimensions, it is evident that *geographical expansion within Russia entailed further linkage* with public officials with regard to finance activities in both MNCs, and the local subsidiary staff had a central role in this regional expansion. The management of relationships with regional public officials was largely delegated to individuals located at the regional offices, however, while local subsidiary management was then participating in issues they considered important. According to the respondents, the *regional variation* in the requirements of tax officials was sometimes challenging. On one occasion, for example, the lack of IT hardware (floppy disks) made it difficult to meet the technical-reporting requirements in one region.

On the horizontal dimension, an *intermediary* between the local subsidiary and the tax and pension-fund officials was used in both MNCs in connection with *automated data transfer*. Alpha also used an intermediary to deal with ecological fees. *Direct* linkages with public officials were also evident, and were related to *data/information provision*. Some of the direct links reflected the *requirements of public officials* that reports were only to be delivered in person.

On the cross-relational dimension, the *link between finance and logistics* activities was acknowledged in both MNCs. The chief accountants at Alpha

and Beta considered it important to hold an *advance payment* in the customshouse account, and Beta considered it essential to *align the information* that logistics and finance personnel provided to the customs officials.

As in the other activities discussed above, the role of the *local subsidiary* and middle management was crucial in maintaining finance-related relationships with Russian public officials. The corporate/divisional HQ respondents in both MNCs highlighted the role of the local subsidiary, and even though higher management was reportedly aware of some of the more challenging issues, middle management handled normal day-to-day matters.

The role of *direct* linkages was emphasised in the case of more *challenging issues* that required *additional clarification* for the public officials. In this context it is worth noting that the Beta respondents placed more emphasis on the *complexity of MNC operations* and *the importance of individual public officials in understanding their nature*. This could reflect the differences in products/equipment and operational modes at Alpha and Beta. The Beta finance director was also active in *explaining the MNC's operations* to tax officials. Somewhat similarly, the chief accountant at Alpha was required to explain the reasons behind the company's losses to the tax officials.

Representatives of both companies mentioned the constantly *growing cash-flow expectations* in terms of tax payments among the tax officials. As a consequence, downturns in company profits due to slowing market demand or fluctuating business in terms of volumes and margins triggered clarification requests.

The link between finance and logistics activities was of prime importance, evident in the sharing of documentation. The alleged motives of customs officials to increase import prices, and of tax officials to increase the taxable income of the local subsidiary, were considered somewhat contradictory in both MNCs, and demanded balanced managerial action as well as carefully prepared documentation to support the decisions made. The role of the tailored IT system at Beta was reported to be crucial in this respect.

Customer primacy at Beta sometimes created challenges related to finance activities on the cross-relational dimension. There were occasions when more distant higher management had used its authority in favour of the customer and caused quite problematic situations at the local subsidiary in its dealings with public officials. These kinds of priority issues were challenging in terms of time, for example: customer wishes were to be fulfilled as quickly as possible, but the detailed preparation of the necessary documentation required by the tax officials needed time. This could be referred to as a pacing challenge between two matching schemes.

The *criticality of key persons* in finance activities was not as evident as in the other two activity types. Few people were identified as suitable

respondents and as addressing somewhat similar issues at either company. In particular, the chief accountant and the finance manager/director at the local subsidiary worked together on matters related to public officials. In the case of more challenging issues such as management fees and corporate loans the local finance manager/director played a key role, and was also active in explaining the local market specificities to actors on the corporate/divisional HO level.

The criticality of having a financial controller with *Estonian nationality* was highlighted at Beta, specifically in terms of having a good understanding of both the corporate and the local-subsidiary context, not to mention *language skills*. He had an important role as an intermediary between corporate/divisional HQ and the local subsidiary in terms of both language and the issues under discussion.

A more direct link between the finance manager and corporate HQ was evident at Alpha. This was attributed to Alpha's smaller size compared with Beta, and also to the fact that the finance manager and the corporate CFO were able to communicate directly in a *shared language*.

None of the respondents at either MNC reporting on finance activities mentioned issues that could have been related to political knowledge. Data/information links, starting from the tax officials, extended to the local subsidiary's suppliers. In terms of finance the links discussed most frequently were on the vertical and cross-relational dimensions. Respondents in both MNCs discussed the role of corporate internal documentation originating at corporate/divisional HQ and relating to corporate-level arrangements. Knowledge of the local context among corporate/divisional HQ personnel was emphasised. On the other hand, knowledge of the corporate context among public officials was highlighted by the respondents at Beta, and also discussed among those from Alpha. Respondents at both companies mentioned the heterogeneity of the knowledge-ability of different individuals in the matching scheme, specifically in relation to prior work experience, nationality, and language issues.

Table 9 summarises the empirical findings in terms of the similarities and differences in finance activities at Alpha and Beta. As in the other two activity types, there were many similarities in the matching schemes. As in logistics and product-management and sales activities, the *local subsidiary*, or in Alpha's case subsidiaries were *linked* the MNC to several Russian public officials related to finance activities.

The local subsidiary could thus be considered a key MNC actor in both sets of matching schemes analysed. In both of the MNCs the current regional expansion increased the level of contacts with Russian public officials, further highlighting the role of the local subsidiary. Direct and indirect links with

public officials were maintained for various reasons, and *indirect links* were *preferred*. Direct links were related to *audits and additional necessary specifications*, and also to the *specific reporting requirements* of public officials.

Table 9 A summary of the empirical findings on finance activities

Similarities at Alpha and Beta	Differences at Alpha and Beta
*Local subsidiary a link to several different Russian public officials and also a key MNC actor *Regional expansion increasing contacts with public officials in different regions	*At Beta, internal invoicing of consultancy work entails tax obligations in Russia for other MNC units as well
*Direct and indirect links with tax officials, indirect links preferred *Direct links related to additional specifications and audits *Direct links with some public officials due to public official requirements	*At Beta, employee turbulence at the tax organisation challenged co-operation with public officials due to the resulting gaps in knowledge of MNC operations
*Integral role of HQ and the local and corporate auditor *Friends and the Internet as data sources *Corporate-level arrangements such as management fees and corporate loans reported as challenging in terms of documentation and tax deductibility	*Alpha had a management-fee contract, Beta did not
*Intermediary role related to automated data transfer	*At Alpha, corporate bookkeeping system mainly adopted, local bookkeeping used for payroll and fixed assets *At Beta, local bookkeeping system utilised and linked to the tailored IT system
*Several key individuals in middle management identified *Higher management distancing *The role of key HQ individuals is acknowledged	*At Alpha, direct links between the corporate CFO and the finance manager at the local subsidiary *At Beta, links from the local subsidiary to HQ through multiple internal intermediaries *Diversity in individual knowledgeability highlighted at Beta
*Cross-relational links to logistics are important *Reported differences in the legitimacy of tax officials and customs officials	*Role of tailored IT system highlighted at Beta *Beta HQ questions the role of the tailored IT system from time to time *Primacy of customers and sales activities reported at Beta

The *integral role of HQ* was highlighted, especially in the context of *corpo-rate-level arrangements*, which were challenging to both MNCs in terms of tax deductibility and documentation. Both *local and corporate auditors* were utilised on such occasions, although there were occasional *discrepancies*. *Friends* and the *Internet* were additional information sources. *Intermediaries* assisted mostly in automated data transfer to public officials.

On the individual level, the *chief accountant and the financial manager/director* on the middle-management level were in *key roles*, and they *cooperated* in many respects. *Higher-management distancing* was evident, and was also appreciated by middle management. The role of *HQ individuals* in terms of *help with* documentation, for example, was acknowledged.

On the cross-relational dimension the *link with logistics* was important in both companies, and in this respect the *legitimacy differences* between tax and customs officials was mentioned in both MNCs as challenging.

There were also some differences identified between Alpha and Beta. The *internal invoicing* to MNC subunits outside Russia that was taking place at Beta with regard to consultation on logistics matters and product-management and sales activities caused tax obligations in Russia to other MNC subunits, which the local subsidiary as a tax agent took care of. This kind of internal invoicing was not in evidence at Alpha, possibly on account of the higher level of centralisation of its Russian operations. It was the direct-export operational mode that appeared to trigger the local-subsidiary consultation at Beta.

It was reported at Beta that the *employee turnover* at the tax organisation caused gaps in knowledge on the part of the public officials. This emphasis on the knowledge-ability of public officials could be related to Beta's more complex operations, as well as to the differences in product offering.

The corporate-level arrangements were challenging to both MNCs. Alpha had a management-fee contract in place, and Beta considered it from time to time but had nothing in place at the time of the study. Alpha HQ and its local-subsidiary management were clearly in favour of the practice, whereas Beta management had more doubts. Alpha management was not fully knowledgeable about the tax deductibility of the arrangement either, but they were willing to test and defend their case if the public officials questioned it.

Whereas Alpha utilised a corporate bookkeeping system, Beta had a local system in place. At this point it is worth mentioning that Beta was the larger of the two MNCs. Alpha also used a local bookkeeping system for matters to do with the payroll and fixed assets because of certain specific reporting requirements of public officials, and had a tailored link between the corporate reporting system and the local tax-filing system. Beta had a tailored link between the local bookkeeping and the tailored IT system.

At Alpha the finance manager of the local subsidiary had a direct link to the CFO on the corporate level, whereas at Beta there were usually multiple MNC internal intermediaries in between. The reasons behind this difference were related to the language skills of the individuals concerned and the size of the company. A further reason for the direct link at Alpha was that the CFO was the corporate-level country manager for Russia and was thus involved in Russian operations. The complexity due to the larger size of Beta could also have accounted for the heterogeneity in individual knowledge-ability.

The respondents at the Beta subsidiary and regional organisation high-lighted the role of the tailored IT system, but Beta HQ questioned the need for it from time to time. It did have a role to play in *aligning* the information between logistics and finance activities, which was important given the reported differences in legitimacy of various public officials. It was supposedly the specificities in its product offering that exposed the tailored IT system at Beta to these kinds of challenges. On the other hand, Alpha used a corporate-level ERP-system that incorporated information used for similar purposes.

Challenges related to the primacy of customer and sales activities were also reported at Beta on the cross-relational dimension as well. The difference from Alpha in this respect may have been due to the variation in product offerings and customers between the two companies.

5 DISCUSSION AND A SUMMARY OF THE MAIN EMPIRICAL FINDINGS

5.1 Structural issues in MNC management

5.1.1 The vertical dimension

In both of the case MNCs the *local subsidiary*, or in Alpha's case the two local subsidiaries, linked the Russian public officials with the MNC business networks. Similar empirical findings have been reported in the context of Swedish and German MNCs operating in India, for example (Jansson – Saqib – Sharma 1995). This finding also relates more generally to the theory of networked MNCs in which the local subsidiary is considered a key actor (Hedlund 1986; Ghoshal – Bartlett 1990; Forsgren – Holm – Johanson 2005).

More specifically, the local subsidiary's *middle-management* links to Russian public officials were mainly in evidence on the vertical management dimension. This finding is also in line with earlier findings concerning MNCs in India (Jansson – Saqib – Sharma 1995).

Even though the scope of the present study excluded links with political actors, there was evidence in one of the MNCs that *higher management* had links with higher-level state actors. This reflects, to some extent, earlier findings in an Indian context that a higher-level management role in MNC–state relations is more of a door opener and a legitimiser (Jansson – Saqib – Sharma 1995).

HQ network linkages with actors in the subsidiary's business network have been acknowleged (Nell – Ambos – Schlegelmilch 2009). The findings of the present study point more specifically to the *separation of these two levels of network links*, and to the presence of an *intermediary* actor between higher-level management and Russian higher-level state actors. There is empirical evidence concerning the role of intermediaries between firms and political actors in Iran and the EU, for example (Hadjikhani – Thilenius 2005a; Bengtson – Pahlberg – Pourmand 2009). According to the findings of this dissertation, different intermediaries operate between the MNC and political actors and between the MNC and public officials.

Within the MNC, on the structural-vertical management dimension, there was an evident *link between corporate and divisional headquarters and the matching schemes* in both MNCs. In the smaller of the two the link between

corporate and divisional HQ and the local subsidiary was direct, whereas in the larger one there were more hierarchical levels in between, even though there were also direct links. In addition to the *company size*, the language skills of the individual actors were also found to have an effect. The managerial issues linking the HQs to the local subsidiary and further to Russian public officials included the *corporate-level arrangements* with regard to finance activities, IT-system configuration and the role of a large foreign MNC as a customer in Russia.

In addition to the local subsidiary, *several MNC internal and external actors* featured as legal entities in the respective matching schemes with public officials in Russia. The fuzziness of MNC boundaries (e.g., Doz – Prahalad 1991) and the role of network connectedness in MNC–state relations have been acknowledged (Hadjikhani – Håkansson 1996). In the present study the links to *corporate and local auditors* were found to be relevant on the vertical dimension in both MNCs in terms of managing relations with Russian public officials with regard to finance activities. The evidence suggests that the links to both auditors were obligatory because the corporate auditors did not provide full-scale services in Russia. On the other hand, the search for a second opinion was a managerial issue evidenced in this context as well.

Co-ordinating action on behalf of divisional headquarters was evident in both MNCs, and pointed to the utilisation of the local subsidiary as the MNC actor link to public officials in its daily operations in Russia. Alpha had centralised the sales of its two main business lines in Russia through two local subsidiaries. Even though less centralisation in operational mode was evident at Beta, the HQ co-ordinating action reflected the higher-management aims to link the local subsidiary to the direct-export operational mode as well. This type of HQ co-ordination was closely linked to the data/information requirements of the Russian public officials and to the related market knowledge at the local-subsidiary level. In Beta's case the direct-export operational mode was not only customer-driven, but was also supported by divisional HQ management, serving as evidence of the decentralisation of operations to a certain extent. In sum, the multiple links identified illustrate the restricted nature of HQ co-ordination and centralisation activities (e.g., Holm – Johanson – Thilenius 1995; Forsgren – Holm – Johanson 2005).

With regard to product-management activities, the divisional functions of both MNCs were located in Finland, and were close to corporate headquarters. There may be a weak connection here with Sampson's (1973) discussion on Western technology, specifically the idea that the *provision of technical information/data* has *sensitive* aspects in an MNC–state context. It appears from the findings of this study that local MNC functions in Russia are linked to the divisional functions in that the divisional level *supported the technical*

data collection related to requests by Russian public officials. The detailed character of the data requests was related to challenges in the matching scheme.

In the case of product-management and sales activities there was evidence of a linkage between divisional and corporate *HQ actors* and a *large foreign MNC customer in Russia*. This type of actor link was related to the challenging managerial issues connected to the MNC's relations with Russian public officials. In the incident in question the *overlap* of the HQ network with the subsidiary network had a role to play (Nell – Ambos – Schlegelmilch 2011).

In terms of finance activities, both MNCs had *divisional and corporate HQ links* with the matching scheme covering particularly challenging and some corporate-level issues. *HQ involvement* was apparent in the *corporate financing arrangements*²⁶ and in drawing up *management-fee or cost-sharing agreements*. One of the challenges reported in both companies was the insecurity related to the tax deductibility of these *corporate-level arrangements* in Russia. Emphasis was placed on the need for *detailed documentation and the correct wording* of agreements. In the context of the present study particular emphasis was placed on the numerous and specific *details in the data* that were to be gathered at HQ and delivered *to the local subsidiary*. This finding may reflect the role of *forward and reverse knowledge flows* within MNCs (Ambos – Ambos – Schlegelmilch 2006; Jonsson 2008) even though, according to the empirical evidence reported in this dissertation, the emphasis in the structural dimension under discussion is on the specific character of data related to forward knowledge flows in Russia (cf. Jonsson 2007).

During the course of the study both MNCs were involved in *geographical expansion* in Russia. On the structural-vertical level, the local subsidiaries were organising the expansion and constituted a link between the Russian regional offices or branches and the divisional and corporate HQ. It could be said that the local subsidiary was acting as the *Russian headquarters*. The local branches were the owners of the relationships with the regional and local public officials, but the local subsidiary was also involved. The restricted nature of the co-ordination and centralisation activities by the corporate/divisional HQs could be mentioned in this context as well (Holm – Johanson – Thilenius 1995; Forsgren – Holm – Johanson 2005).

What turned out to be a structural-vertical and, to some extent, a cross-relational management issue was the *multiplicity of MNC legal entities* involved in Russian operations. Both MNCs underwent *organisational change* in 2010, which involved merging the operations of different business lines in Finland into one legal entity comprising all equipment types and business

Divisional or corporate HQ provided the Russian subsidiary with loans or loan guarantees.

lines. This organisational change decreased the number of MNC legal entities linked to Russian public officials, but it caused additional paperwork and required clarification on other issues. It was indicative of the *HQ centralisation* activities within the MNCs, which in the short run resulted in the need to revise the documentation and caused *turbulence* among the MNC actors involved in Russian operations.

In sum, in many cases the local subsidiary as a MNC actor provided a link on the structural–vertical dimension between the Russian public officials and the MNC's business networks in both case companies. There was a link from divisional and corporate HQ to the matching schemes with Russian public officials. On the other hand, there was evidence of links between MNC higher management and higher-level state actors, and between MNC middle management and Russian public officials. There was both separation and overlap in the HQ links to the matching schemes with Russian state actors. Both HQ and local-subsidiary co-ordination were apparent in the matching schemes. The geographical expansion in Russia taking place in both MNCs added a further hierarchical layer incorporating Russian public officials. With regard to MNC-external actors, the link to local and corporate auditors, and the link between HQ and the large foreign MNC customer were considered relevant management issues on the structural–vertical dimension.

5.1.2 The horizontal dimension

On the structural-horizontal dimension several MNC internal and external actors as legal entities were connected in the matching schemes with public officials in Russia in both case companies. Relationship connectedness is a focal issue from the business-network perspective (e.g., Håkansson – Snehota 1995). The *local subsidiaries* of the case MNCs, together with the *multiple intermediaries*, provided a link between the officials and the MNC's business networks. The role of intermediaries between business and political actors has been acknowledged (Ford 1980; Hadjikhani – Thilenius 2005a; Bengtson – Pahlberg – Pourmand 2009). In the present study the evidence provided on the horizontal dimension is more specifically related to the MNCs' relationships with public officials.

The links identified between the MNC and the state through the local subsidiary also reflect earlier empirical findings in India (Jansson – Saqib – Sharma 1995). In certain incidents observed in the present study, however, the local subsidiary was not involved or had a minor role, as in the case of direct export from the MNC to its Russian customers.

Within the MNC the local subsidiary and *other MNC subunits* were identified as actors on the horizontal dimension. This is in line with the notion of the networked MNC (Hedlund 1986; Ghoshal – Bartlett 1990; Forsgren – Holm – Johanson 2005). In both case companies the Finnish subsidiary not only represented *divisional HQ* functions at the local subsidiary, but was also a *corporate supplier*. In the case of Alpha, the Estonian subsidiary was also a major corporate supplier for the local subsidiary. At Beta, in turn, the CIS subsidiary also supplied the local subsidiary, but other corporate suppliers were in the picture as well. This reflects the notion that HQ is one player among many others (Provan 1983).

The *corporate and MNC-external suppliers* in both MNCs were linked to the local subsidiary mainly through the Finnish subsidiary. This *centralisation* of activities involved the Russian public officials in that the logistics activities had worked well through Finland. Beyond this, centralisation and *decentralisation* were found to operate in different ways in the matching schemes concerning the *different activities* and *operational modes* within the MNCs. The multiple variations in the form of options identified on the horizontal dimension of the matching schemes could be related to the *structural indeterminacy* of networked MNCs (Doz – Prahalad 1991).

There was evidence of other kinds of horizontal linkages within the MNCs. The local subsidiary provided *consultancy services* to the Finnish subsidiary (and occasionally to other corporate subsidiaries as well), and *internal invoicing* was in place. This finding provides concrete evidence of lateral knowledge flows in relation to market knowledge within the MNC (Ambos – Ambos – Schlegelmilch 2006; Jonsson 2007).

The finding could also be also related to the discussion on *internal competition* among MNC subsidiaries (Birkinshaw – Hood 1998) in that the local subsidiary received operational income from its consultation activities in other subsidiaries. Another invoicing-related issue concerned the *local tax regulations*: the costs related to the consultation were not tax-deductible unless there was income related to this activity at the local subsidiary.

Within the MNC and on the *individual* level, employees of Russian nationality were identified as actors in the Finnish subsidiary. This was evident at Beta during the study, and a similar arrangement had been in place at Alpha earlier. It was reported to have worked well and to have helped in the management of issues related to Russian public officials. In this case, as an alternative to relocating HQ close to the subsidiary (Yamin – Ghauri 2010), local subsidiary employees, or individuals with Russian nationality or Russian-language skills located close to the divisional HQ of the main corporate supplier, were recruited (cf. Harzing 2001).

Both corporate and *MNC-external suppliers* were evident in the matching schemes in the two case companies. This could generally reflect the acknowledged fuzziness of MNC boundaries (e.g., Doz – Prahalad 1991), or more specifically the role of customers and suppliers in industrial business-to-business markets (Håkansson – Östberg 1975; Håkansson 1981). Suppliers were linked to the local subsidiary both *directly and indirectly* through the Finnish subsidiary. The link to Russian public officials existed due to the *technical and commercial data* involved. Data requested by the Russian public officials originated at the multiple MNC internal and external suppliers. This finding could reflect the acknowledged role of *lateral knowledge flows*, or more specifically lateral data flows within MNCs (Ambos – Ambos – Schlegelmilch 2006; Jonsson 2008), and could be further extended to MNC-external actors.

On the structural-horizontal dimension, the connected MNC and MNC-external actors also had *different IT systems* in use, which facilitated the *tailoring of links* between the systems. The emphasis that Russian public officials placed on the specific form and details played a role in the IT-system configuration. With the tax officials, for example, the data transfer was, to a large extent, automated via electronic filing in both companies. This is evidence of the *matching and synchronising* needed between interacting parties (e.g., Dahlgren – Söderlund 2001).

MNC-external actors included, in addition to external suppliers (or subcontractors), *intermediaries* operating between the local subsidiary and the public officials in both case organisations. Although the role of intermediaries between business and political actors has been acknowledged (Ford 1980; Hadjikhani – Thilenius 2005a; Bengtson – Pahlberg – Pourmand 2009), in the present study there was more specific evidence of both *indirect and direct links* to the same public officials. Holtbrügge and Puck (2009) provide similar evidence in the Russian context. Lorentz (2009), in a supply-chain context in Russia, also refers to the need to utilise two channels, modern and traditional, in order to achieve satisfactory sales volumes.

The functions of direct and indirect linkages were found to differ. *Direct linkage* was connected with the *provision of additional information and clarification*, especially on logistics and finance activities. Direct linkages were also utilised in sharing more general type of information about MNC operations. Intermediaries, as well as direct and indirect linkage featured in all three matching schemes, illustrating the different activities, even though different public officials were involved.

Customers, as MNC external actors, had a role on the structural-horizontal dimension of the matching scheme as well. The MNCs were also linked to the Russian public officials *indirectly through customers*. Hadjikhani and Thilenius (2005b) provide evidence of the relevance of customer's political

connections to government and bureaucratic organisations. This was in evidence at Beta in particular, but also at Alpha: the requests of Russian industrial-safety officials were passed on to the MNC through the *indirect customer link*. Even *competitors* were indirectly linked to Alpha's matching scheme with Russian public officials (e.g., Möller – Halinen 1999) in that the customs officials compared the respective import prices, and Alpha was requested to provide clarification on the discrepancies.

There were changes on the level of individuals and entire organisations in the different matching schemes. *Actor turbulence* was evident in the MNCs, and among the intermediaries and public officials. This turbulence affected the MNC's relations with the public officials, especially with regard to *experience* and *knowledge* issues (Johanson 2002, 2006), as discussed further in Chapter 5.4.

In sum, the local subsidiary, other corporate subunits and MNC-external actors were all connected to the case MNCs' matching schemes with Russian public officials. Several of the identified links related to data/information flows initiated at the request of the officials. Some of these requests were passed on to the MNCs indirectly through customers and intermediaries, and some directly by the public officials. Multiple intermediaries provided links between the public officials and the case MNCs' business networks. Direct linkages between the parties were related to official requests to provide additional information or to explain discrepancies in the data. The direct contact also involved the sharing of more general type of information about MNC operations.

5.1.3 The cross-relational dimension

The different equipment types/business lines identified in both of the case MNCs adopted different operational modes in Russia, resulting in multiple, somewhat different and parallel matching schemes with Russian public officials. In other words, the multiple parallel operational modes in both MNCs on the Russian market resulted in multiple network positions vis-à-vis the same Russian public official in one MNC subunit (cf. Ghauri – Holstius 1996; Elg – Ghauri – Tarnovskaya 2008).

Both MNCs underwent organisational change during the course of the present study. For example, the different equipment types/business lines in Finland were merged into one all-encompassing *legal entity*, which somewhat streamlined management issues related to the cross-relational dimension. This organisational change caused *actor turbulence* within the MNC, and the need to *provide information* about the related changes to Russian public officials.

Hadjikhani and Johanson (1996) and Johanson (2002) considered market turbulence: in this study turbulence was evident also within the MNC with consequent changes in network links with Russian public officials.

The different product types/business lines within the MNCs nevertheless had different matching schemes with public officials in Russia due, for example, to the *different operational modes*. The different equipment types within Beta, and the business lines within Alpha, had the main or ideal operational mode on the Russian market, but there was also evidence of occasional or even rare additional or parallel modes. The *main operational mode* in both case companies was to sell through the local subsidiary or subsidiaries, and this *centralised the linkages with public officials geographically* to some extent²⁷. For various reasons, however, the *direct export* operational mode continued to exist alongside the *local sales* mode, with larger volumes at Beta, meaning that it would have been possible to further centralise the linkages with the public officials. Even though there are references to MNC structural complexity (e.g., Forsgren – Holm – Johanson 2005), the empirical evidence highlights the extent of overlap in the linkages (cf. Nell – Ambos – Schlegelmilch 2011).

In other words, in both of the MNCs in question, the *local subsidiary had co-ordination* functions that were important in relation to dealings with Russian public officials. Local subsidiaries monitored offers to Russian customers, thereby enabling them to *co-ordinate the price levels* and to make sure that corporate resources²⁸ were utilised effectively. This is in line with existing views on the subsidiary's role within embedded MNCs (e.g., Holm – Johanson – Thilenius 1995).

There was evidence of *co-ordination* activity at Beta between different corporate subunits, and also between different operational modes within one subunit, in terms of *import pricing*. The co-ordinating action took place at the local subsidiary. This kind of import-price comparison aspect was at Alpha met even in relation to a *competitor* that was importing equivalent equipment to Russia²⁹ at higher prices. The cross-relational links between *logistics and finance activities* through shared documentation were also important.

The different activities (logistics, product management and sales, and finance) had somewhat different matching schemes with public officials in Russia. Ghauri and Holstius (1996) discuss the possibility of dividing matching by different functions. Then again, Varblane, Männik and Hannula (2005) analyse differences in subsidiary autonomy by business functions in

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This operational mode centralised the interactions with the Russian customs officials.

This refers to existing product certificates.

Russian customs officials once accused Alpha of dumping because its internal prices were lower than those of a competitor importing equivalent products to external customers in Russia.

transition economy context. On the cross-relational dimension, the *matching* schemes of different activities and operational modes were also interlinked. The possibility of having a shared customs code for imported equipment in parallel operational modes for different equipment types/business lines was considered a relevant management issue requiring co-ordination, for example.

It should also be mentioned that even though the local sales operational mode *centralised* links with public officials on logistics activities, the geographical expansion in Russia evidenced in both MNCs increased the extent of the linkage, or *decentralised* links, in the matching scheme related to finance activities. Reference to the structural indeterminacy of networked MNCs could be made again in this context (Doz – Prahalad 1991).

Ritter, Wilkinson and Johnston (2004) point out the importance of managing interconnections among several relationships. The evidence in the present study also highlights the relevance of the cross-relational dimension due to the complexity that was found to originate, to a certain extent, in the case MNCs.

In sum, the presence of multiple subunits as legal entities, several different operational modes, and various activities in the MNCs' Russian operations resulted in multiple matching schemes with Russian public officials. Cross-relational links between these parallel schemes were found, and relevant management issues were identified in this respect. Occasionally the same type of equipment³⁰ was imported into Russia in different operational modes, which caused some management challenges in the matching scheme with customs officials, for example. Local subsidiaries acted as co-ordinators in these cases. Logistics and finance shared documentation to some extent, in other words the same documentation served both tax and customs officials. Logistics and product management shared documentation as well, thereby confirming the managerial relevance of cross-relational links between different or parallel matching schemes.

5.2 Relational issues in MNC management

5.2.1 The vertical dimension

In both MNCs the role of the local subsidiary, or in Alpha's case of the two *local subsidiaries*, was *central* and *influential* in the matching schemes with Russian public officials. Despite the evidence of some *internal competition* even on the vertical dimension, referred to by Birkinshaw and Hood (1998) as

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³⁰ It had the same customs code.

well as Andersson, Forsgren and Holm (2007), the local subsidiary had an influential role.

This influential role was related to market knowledge possessed at the local subsidiary (see, for example, Forsgren, Holm and Johanson 2005). The local subsidiaries in both MNCs were considered *centres of excellence* (cf. Andersson – Forsgren 2000), and the *key individuals were acknowledged* as specialists, by the corporate and divisional HQ management in terms of managing relations with the Russian public officials. This finding is in line with the results reported in Jansson, Saqib and Sharma (1995) in the context of Swedish and German MNCs in India.

Complementing the evidence provided in the graphical illustrations in Chapter 4, the interviewees at corporate and divisional HQ clearly stated that the local subsidiary had the responsibility to deal with public officials. Beta corporate and divisional HQ used its *authority* to ensure that all corporate units operating in Russia utilised the *market knowledge* possessed at the local subsidiary.

The competence of certain *key individuals*, mainly at the local subsidiary but also at the other MNC subsidiaries, to accomplish tasks related to Russian public officials was acknowledged. This is evident, for example, in the e-mail exchange provided in the prologue of this dissertation.

On the other hand, not only *HQ* but also *higher management* at the local subsidiary were somewhat *distanced* from the relationships with public officials in both MNCs. When asked who in the MNC dealt with the Russian public officials, one of the interviewees at corporate-HQ level stated:

"In practice, at least in a multinational company like ours, public officials are totally on the other side of the curtain [compared to HQ]. Some issues come to our [HQ] knowledge, even so, that there are some decisions to be made. It may be that some things differ so strongly from Finnish practices that they even result in changes in the ways business is conducted. In other words, the way to conduct business is different due to the requirements of public officials or local regulations."

In line with earlier findings reported by Jansson, Saqib and Sharma (1995) with regard to India, *middle management* and the staff had direct contact with the public officials. In this study, two of the middle-management respondents at the local subsidiary clearly stated that they did not allow their managing director to participate in the face-to-face meetings. One of them was worried that the managing director might remember some details incorrectly, making the issue under discussion more problematic.

Some of the actors identified in the matching schemes were more *embedded* in the *corporate context* and corporate ways of doing things, whereas others

were more embedded in the *local business network* and its ways of working (cf. Forsgren – Johanson 1992b). One HQ respondent commented as follows:

"I think that one challenge for multinational corporations is that wherever the headquarters is located, the other [host]countries' public officials have a different way of doing things than at the headquarter location."

Another respondent in the other MNC also addressed the same issue:

"Perhaps the issue really is this multinational character of the company. We, for example, have a strong legal department, and people there are used to doing things in a certain way, let's say the so-called "Western" way. And then they think that they can apply these ways of doing things everywhere, even in Russia. But when we go with these "standard ways" to Russia we collide.

The above statements could reflect the idea that more distant actors may not be able to fully comprehend the relationships of other actors. *Tensions* between HQ and operational management were identified that could be traced to differences in actor embeddedness (e.g., Forsgren – Johanson 1992b). The divisional or corporate HQ in both MNCs also questioned the use of local IT systems, or tailored IT systems at the local subsidiary.

One respondent also commented on the challenges involved in utilising *power* across different hierarchical levels in the matching scheme:

"The bureaucrat can always make himself important by placing the papers at the bottom of the pile or by slowing things down otherwise. Higher authorities may not force the bureaucrat to put a stamp on the paper and so on...because that is the incorrect way of doing things. Once we were promised help from high-level Finnish authorities. But this did not help the case. It maybe even had the opposite effect. The bureaucrat has always the possibility to turn to the law and say that something is illegal. Russian law is written that way."

In one of the MNCs corporate HQ had some links to *political decision makers* in Russia. However, they were not utilised to resolve problems with public officials, but were rather exploited in attempts to increase sales. Significant infrastructural projects were planned for the near future, for example, and the MNC wanted to be considered a reliable supplier. The implication is that the *separation* of the two levels of network links (cf. Nell – Ambos – Schlegelmilch 2011) was, to some extent, intentional in the matching schemes with Russian public officials.

Auditors represent *authority beyond the MNC* in the matching scheme. As the respondents stated, the *local auditor* and the *corporate auditor* were

separate legal entities, and the latter was not licensed to provide full-scale services in Russia. The local auditor was also considered more of a co-operation partner on issues related to local accounting. When the issues were more complicated both auditors were sometimes used. There were occasional *discrepancies* in the dealings with the two *parallel auditors*, which also relates to the cross-relational dimension.

In one of the MNCs, corporate and divisional *HQ* actors had taken the side of a *large foreign MNC customer* against the local subsidiary in Russia. This conflict was connected in many respects with the requirements of the Russian public officials. The corporate and divisional HQ used their *authority* to support the customer's requests even though the local subsidiary had a different opinion. This created *tensions* between corporate/divisional HQ and the local subsidiary, as the following statement shows:

"Not a long ago a big North-American customer operating in Russia wanted us to take some registration responsibilities that belonged to them (according to the Russian law). We had to provide them with practical examples or evidence in order to make them understand that these responsibilities could not be put on us. They asked us to do these things because they did not have prior experience in Russia. Finally we did agree, as requested by our HQ, to provide all documentation related to the deal in Russian and English. This is absurd. It's not possible to fulfil this promise in reality – and it's not even necessary"

The above quotation, in addition to illustrating the problems *related to HQ authority* (e.g., Forsgren 2008), provides an example of the *customer primacy* (cf. Hadjikhani – Thilenius 2009) that may prevail at HQ, and that turned out to be somewhat problematic in the matching scheme with Russian public officials.

Another comment related to the use of *authority* made by a respondent at the local subsidiary concerned the logistics activities in one of the MNCs:

"Sometimes, if we have problems [with customs], my boss just tells me to take care of the problem. I like it because then I can decide myself how to resolve the problem."

This comment may reflect not only authority but also the *distancing* among higher management. The respondent in this case considered such distancing good, "enabling action to take place". On the other hand, given the context-specific nature of values (e.g., Forsgren – Holm – Johanson 2005), this type of *combination* of *authority* and higher-management *distancing* could be considered problematic. It should be emphasised that the key individuals in both case companies were solidly embedded in the corporate context due to their experience, and they were also very aware of the corporate values.

The local subsidiary was a central actor in the *regional expansion* that was taking place in Russia in both MNCs. It could thus be considered a *Russian HQ*, and as such an *authority* in the new regional offices in contact with the various public officials. This, again, highlights the local subsidiary's role within the MNC (e.g., Ghauri 1992) and also its network structure.

Further, on the relational-vertical dimension and in the case of Beta, the *lack of a management fee/cost-sharing contract for several years* was considered a challenge in terms of implementing the contract later on. The role of the *timing* of corporate-level arrangements is highlighted in this case. Beta's turnover in Russia had increased significantly during the previous five years, and this may have attracted more HQ attention to the Russian operations only recently (Andersson – Forsgren – Holm 2007). More specifically, the increase in the volumes of local sales resulted in the accumulation of cash flow in the Russian legal entity. The issue of timing relates to the conclusion drawn by Doz (1976) that salience requires smooth, at first sight almost invisible, administrative changes if conflicts are to be avoided.

In sum, the local subsidiary, and more precisely its middle management and certain key individuals, were key and influential corporate actors in the relational-vertical dimension of the matching scheme. Even though higher management acknowledged the role of the local subsidiary as a centre of excellence in relation to market knowledge, there were also evident tensions between actors in corporate/divisional HQ and those in the local subsidiary. HQ and higher management distanced themselves from the Russian public officials. Examples of the exercising of HQ authority were also identified, and associated with tensions between HQ and the local subsidiary arising from problems in the matching scheme with the public officials. The evident sources of tension included the foreign MNC as a customer in Russia and IT-system configuration. The timing of corporate-level arrangements was reflected in the divisional/corporate HQ paid attention to these issues, and appeared to play a role in terms of its acceptability by public officials.

5.2.2 The horizontal dimension

Whereas the respondents at the Finnish subsidiaries in most cases pointed to the focal role of the *local subsidiary* and its *key individuals* in relations with Russian public officials, respondents at the local subsidiary highlighted the role of *intermediaries* and also of *suppliers*. Higher-management distancing was reported on the vertical MNC dimension, but *local-subsidiary distancing* was evident on the horizontal dimension. More than one of the subsidiary

informants stated clearly that they preferred *indirect* contact with public officials through intermediaries. One respondent commented:

"Customs...it's such a huge structure...huge authority. It's like the military or the police...they have a life of their own. And you can't do anything with them. Sometimes people from the financial department ask us to fight...prove our case. Probably against the tax authorities you can make some appeals but at customs... I have some friends in other foreign companies that have tried to fight with customs and finally they were forced to close their companies here. After bad conflicts with customs they would not let your goods across the border anymore."

It is worth noting that a few other respondents also said that co-operation with tax officials was easier than with customs officials. Those representing all three activities, however, preferred indirect links when dealing with public officials.

As mentioned in the previous section, there were some actors in the matching scheme who were more embedded in the *corporate context* and corporate ways of doing things, and others who were more embedded in the *local business context* and local ways (e.g., Forsgren – Johanson 1992b).

Further on the horizontal dimension, business actors and public officials had different ways of doing things, and intermediaries were utilised in between. It appears from the findings of this study that the *intermediaries* facilitated *action* in the matching scheme. This has been reported earlier in the case of business and political actors (Ford 1980; Hadjikhani – Thilenius 2005a). One informant commented on the co-operation with public officials through an intermediary as follows:

"It's a system...and it works. I don't see any reason to change it now."

Another informant, commented on the differences in industrial-safety systems in Finland and Russia:

"... about the work-safety regulations and authorities regulating work safety in Russia. There is a difference in the roles of Russian and Finnish authorities that look after work safety. We in Finland and also in Europe have insurance companies in case of an accident but there's no functional insurance system in place in Russia. If somebody gets injured at work, then it's only the government that pays a certain pension if he's not able to work anymore."

More distant actors in the matching scheme did not always comprehend the Russian public officials' way of doing things. This may be related to the discussions on the *liability of outsidership* in networks, especially in

international contexts (Johanson – Vahlne 2009). One respondent mentioned the practical challenges in the MNC related to differences in the ways of doing things:

"Sometimes there have been some computer mistakes in the declarations, namely in the customs import values. I tried to explain to my colleague in Finland that I can't use a computer mistake as an excuse at the customs. If I did that, they would ask to check all our declarations. I don't think that he understood but I just asked him to wait and let me take care of the problem."

On the horizontal dimension, various actors from many different countries were involved in the matching scheme as *suppliers/subcontractors* (e.g., Möller –Halinen). More specifically, in both case MNCs the Finnish subsidiary was the focal actor in Russian operations, but other suppliers were linked to the matching schemes as well.

The respondents categorised the MNC internal and external actors in the matching scheme as *experienced and inexperienced* in relation to how well they understood the specificities related to the Russian market. This reflects the discussion on differences in actor embeddedness (e.g., Forsgren – Johanson 1992b). Some suppliers, for example, were more experienced in Russian issues and some less. Some had Russian product certificates readily available, or provided the requested technical details promptly, whereas others, even within the MNC, found the detailed data requests more difficult to understand and to comply with.

It appeared that the Finnish subsidiaries acted as consultants or intermediaries to less experienced actors in terms of market knowledge related to Russian public officials. This kind of *matching or synchronisation* (Ghauri – Holstius 1996; Dahlgren – Söderlund 2001; Ritter – Wilkinson – Johanson 2004) of actors and applicable ways of doing things on both the *organisational* and the *individual* level was identified within the matching schemes on the relational-horizontal dimension.

Another kind of managerial issue arose with regard to customers. In the case of Russian customers the documentation requirements for suppliers were extensive, but were often moderated during negotiations. One informant at Beta commented on this type of challenge:

"We try to resolve these [documentation] challenges with the customer. We explain to them [the customer] that they don't need it [exceptionally extensive documentation including translations into Russian]. We say that we provide them with equipment and documentation that's agreed upon with the regional authorities and central authorities of

Rostechnadzor. Sometimes customers have very strict requirements and we have to compromise to some extent..."

The *demands from customers and from public officials* were *mixed*, and the local subsidiary needed to make *compromises* with regard to product-management activities. Some less experienced customers³¹ were reported as very challenging in this respect. One recent case at Beta was mentioned, involving a foreign MNC with less experience of operating in Russia. A Beta informant commented as follows:

"The customer might want us to do everything. We had this kind of situation recently. The negotiations were very difficult. The customer wanted us to be fully responsible for the registration of the whole factory we supplied our equipment to. We told them that according to the law we weren't allowed to do that as we weren't the owners of the factory."

Later the same informant continued:

"In my opinion this customer had no experience of working in Russia. Maybe this [suggested division of responsibility] was considered normal in their country, but in Russia this approach doesn't work. They couldn't understand why it wasn't possible. They thought that if something is agreed in the contract then it should be acceptable to the public officials."

Actor turbulence was evidenced in the matching schemes within the MNC and beyond. On the relational dimension this brought to the surface the differences in experience and embeddedness of actors discussed earlier in this chapter, and also highlighted issues related to actor knowledge as discussed further in Chapter 5.4.

In conclusion, both the local subsidiary and intermediaries were key actors in the MNC matching scheme with Russian public officials. Even though the MNCs were forced to work through intermediaries in some cases, intermediaries also helped in terms of distancing and synchronising. Suppliers and customers were also identified as integral actors in the matching scheme. The actors involved were differently embedded in terms of the corporate context and the local business context, meaning that there was also synchronisation among the connected actors beyond the local subsidiary—public official relationship.

This refers to customer experience of Russian operations.

5.2.3 The cross-relational dimension

The multiple operational modes and MNC activities created *multiple parallel matching schemes* with different and even the same public officials, which were evidently linked. These cross-relational interconnections (Ritter – Wilkinson –Johnston 2004) resulted in *alignment* activities within the MNC. *Data alignment* was essential with regard to import prices for certain customs codes, for example. At Beta it was necessary between different operational modes, and there was even an occasion at Alpha on which a competitor's import prices caused the Russian public officials to demand clarification.

Data and documentation alignment between MNC logistics and finance activities was considered important. At the extreme, this applied to historical transactions. Sometimes there were *discrepancies in data* due to human error, for example, which caused problems with the public officials.

Challenges related to data alignment included *legitimacy differences* among customs and tax officials (cf. Hadjikhani – Lee – Ghauri 2008). Customs officials appeared to be happy with high internal sales prices as this increased customs income, whereas from the point of view of the tax officials this would decrease MNC taxable income and profit tax.

Thirdly, the *primacy of customer and sales* activities within the MNC (cf. Hadjikhani – Thilenius 2009) sometimes caused *pacing* challenges in the parallel matching schemes related to different activities (cf. Dahlgren – Söderlund 2001). Customer requests were fulfilled as quickly as possible with regard to guarantee work, for example, whereas doing everything according to the demands of tax officials in order to ensure tax deductibility of expenses took more time. This outcome was not always the most desirable for the MNC. For example, if the documentation for guarantee costs, which required customer approval, was not prepared, dated, signed and stamped in time, the related costs were not tax deductible. This finding has similarities with findings on the different levels of autonomy in different business functions of foreign subsidiaries and consequent effects on subsidiary performance in the context of transition economies (Varblane – Männik – Hannula 2005).

Given the complexity of the MNCs' Russian operations, the aligning of data seemed to demand extra effort on the part of the local subsidiary staff, especially at Beta. Frequent and detailed inspections conducted on behalf of the customs and tax officials added to the problem. Detailed clarifications had to be prepared for the public officials during the inspections. At Beta, the tailored IT system had a key role in this process of collecting and aligning logistics and accounting data for the public officials.

In sum, on the cross-relational dimension the alignment of data between logistics and finance activities was challenging, and the challenges were

attributable partly to operational complexity and partly to discrepancies in the data and legitimacy differences among the public officials. The primacy of customer and sales activities also caused occasional aligning and pacing problems.

5.3 Cognitive issues related to MNC management

Intermediaries as organisations played a key role in the matching schemes on the horizontal dimension, whereas on the vertical dimension the MNC subsidiary was an intermediary for more distant actors such as HQ. Given the focus on the cognitive dimension on individual actors' cognition and differences in their network pictures, there was also evidence of individuals acting as intermediaries between more distant actors. Loveridge (2006) provides somewhat similar evidence of locals fulfilling an important translator role for MNC expatriates located outside developed economies. In the same vein, Hutchings and Michailova (2006) also suggest that departmental managers are instrumental in establishing connections in Russia.

Experienced staff in the regional export department at Beta, and one Russian employee working in the Finnish subsidiary, represented this type of intermediary. Moreover, one Alpha HQ respondent said that having a native Russian working at divisional HQ in Finland had been a good experience. On the other hand, there were also individuals in the local subsidiaries of Alpha and Beta who had a long work experience in foreign MNCs. Comments related to *individuals' experience and their ability to understand* the *local and the corporate ways* of doing things and the multiple interconnections of actors were also directed at individuals in organisations external to the MNCs, such as intermediaries, suppliers and public officials (cf. Salmi 1995, 1996).

It should be noted, however, that an actor who was less experienced or less embedded in the corporate or local business network context did not necessarily constitute a challenge. More experienced actors acted as consultants or intermediaries to the less experienced ones – within and outside the MNC. Nevertheless, some respondents reported that the less experienced actors in the matching scheme had occasionally made their work more complicated. In addition to making assumptions in terms of how things should be done, they sometimes did not understand some requests made by the experienced actors, as the following comment illustrates:

"Finns are so different...we have people who worked with Russian operations during the Soviet times, of course they know all the stuff that's going on. They understand us and they let us go. They let us do what we need to do. They also ask us what kind of way out we see.

Some don't understand...they aren't able to. They have never lived here. Well, maybe they don't even have to understand. For me the best thing is that they don't disturb me. It's like our general director, once he called me and asked me if I needed help. I asked him not to call me. When I'd resolved everything I called him myself. Sometimes we need understanding or support."

It could be concluded from the above that some kind of *matching and synchronisation of heterogeneous* actors and ways of doing things was evident in the matching scheme. Synchronisation was also apparent in relation to time, referred to as *pacing* (cf. Ghauri – Holstius 1996; Dahlgren – Söderlund 2001). One interviewee commented on the challenges in dealing with Russian customs officials as follows:

"Each time the challenge...as we're doing more or less the same thing every time... is to find out how things should be done this time. And the truth is that things can't be done too fast,..."

The same informant explained a similar issue somewhat differently later on:

"The customs office receives payment for cargos that are stopped at the border. That's what they do, they claim that there's something wrong with the cargo and put it in the cage. Then they keep it in the cage for some time and when they're happy, in that they have received enough money, then they stamp the transport documents and let the cargo go. We understand..."

There was reference earlier to the organisational change that was going on at Beta during the study. This meant that new people would be involved in the Russian operations of the MNC in question. One informant commented as follows:

"It would be great if this new department adopted the attitude that the rules are clear but the daily task is to find the interpretation that's valid today... So, it will be interesting to see if we're able to create new channels from [our company] to Russia. I mean there's nothing bad happening at the border...you just have to understand that this is the way things go. And that you should not give up, and complain that the customs officials did something against the rules and that there's nothing we can do. Let's see again tomorrow – it's a new day and a new interpretation. If you do everything right, then in time the cargo will go across the border. There's no cargo that has not gone across the border. Some cargo has returned and gone across the border with the same documents just a week later."

One respondent at the local subsidiary reported that it was difficult to obtain the necessary technical details from corporate suppliers, and another one said that not all costs were included in the tax-deductible expenses as there were no guarantees that HQ could provide a detailed enough specification. One of the respondents also reported that even though support from the parent company was necessary, sometimes some individuals were too actively involved in local matters, possibly even to an extent that could be called harassment. More distant actors' behaviour differed from what might be considered distancing to over-active involvement.

It was also suggested that an individual could end up in a so-called "inbetween" position, as exemplified in the statement below:

"I've had difficulties communicating with my boss. The words he uses do not always reveal what he wants to know. For example, the question "do we have corruption?" is challenging. How do we define corruption?"

The same person continued after a while:

"...But then the question remains - am I personally doing something wrong?"

The respondent and his boss in the above example are both native Finns. Another comment addressing a similar kind of cognitive issue on the vertical dimension was made by an employee of the Russian subsidiary: if there were problems at the customs the boss just told the respondent to take care of them. In this case the respondent considered this use of authority appropriate in that it enabled him to decide independently how to solve the problem. These comments may cause the reader to wonder if the means employed by the individual would correspond to the "accepted" means at corporate HQ in Finland. It is not the aim in this study to give answers to these types of question, however. The brief discussion above is rather meant to increase understanding of *individual heterogeneity* and the *role of individual cognition* (Salmi 1995; 1996; Johanson – Johanson 2006; Henneberg – Naude – Mouzas 2009) in the matching scheme.

Consequently, on the individual level, prior experience in the Russian market was not the only issue reported as promoting co-operation in the matching scheme. A few respondents mentioned that it was the counterpart's *attitude* towards the detailed data requests, for example, that counted (cf. Minbaeva – 2004). Michailova and Anisimova's (1999)'s discussion on "hosting insiders" and "hosting outsiders" based on an individual's ability to communicate and share information within the MNC could also be mentioned in this context.

Some actors questioned the need for technical details, for example, which made the data-collection activities time-consuming. This type of challenge is referred to in the following comment:

"At the moment I'm in Finland in order to gather information needed for the technical passports. Our customers aren't able to take the equipment into use before they get a stamp from their regional inspector in the technical passport. I'm collecting one piece of information here and one there...some project managers send me technical information by mail...well sometimes it's a document with no indication of the equipment to which it's related..."

In sum, the individuals involved in the matching schemes were many and various, and outsiders to varying degrees with regard to other actors' operational realities. They differed in terms of the level of understanding of the connectedness of actors on the vertical, horizontal and cross-relational dimensions. Some individuals acted as intermediaries or consultants between more distant actors. Consequently, matching or synchronisation and pacing were found to take place on the level of individuals in the matching scheme. The prior experience of the actors involved often seemed to promote co-operation, but actor attitudes and learning were also found to play a role in this context.

5.4 Knowledge

The findings related to knowledge were reported on many MNC dimensions, and are discussed above to some extent. The focus in this section is on the structural, relational and cognitive dimensions, namely data/information, knowledge and knowledge-ability.

On the *vertical dimension* and with regard to finance activities, *data/information needs from corporate/divisional headquarters* were linked to public officials in Russia in both MNCs. The local subsidiaries were *dependent on details and data originating at corporate and divisional HQ* connected with the tax deductibility of expenses related to corporate-level arrangements, for example.

Contracts covering management fees or cost sharing in Russia, and corporate loan arrangements were reported as challenging at both MNCs. In addition to the fact that these contracts were modified with the help of corporate and local auditors to suit the overall requirements of Russian public officials, there were other issues to be considered. One respondent at one of the local subsidiaries, for example, was not convinced that corporate/divisional HQ people were able to produce detailed enough documents and specifications to ensure tax deductibility referring to *challenges in the knowledge-ability of*

more distant actors (cf. Goodall – Roberts 2003). Inadequate documentation, again could lead to the denial of tax deductibility in case of a tax audit.

It could be concluded in this case that the specific *internationalisation and* corporate knowledge held at HQ and among the auditors should be combined with the specific market knowledge held at the local subsidiary and among the auditors in order to ensure the best possible outcome. This reflects, to some extent, the discussion on multidirectional flows of market, internationalisation and corporate knowledge within MNCs (Ambos – Ambos – Schlegelmilch 2006; Jonsson 2008). The evidence in this study also points to co-operation among multiple actors in possession of different knowledge bases or stocks (cf. Lane – Lubatkin 1998; Foss 2006), resulting in knowledge creation and combination (cf. Michailova – Sidorova 2010).

In both cases the divisional/corporate HQ co-ordinated the *IT-system configuration* within the MNC. At Alpha *corporate ERP and accounting systems* were utilised at the Russian subsidiary, but the *local accounting system* was used to some extent as well³², due to the detailed reporting requirements of the Russian public officials. Beta divisional/corporate headquarters found *the IT system tailored* to operations in the Russian market somewhat challenging. It was used at the Russian subsidiary, however, in conjunction with the local accounting system, and the corporate reporting was tailored with the help of excel sheets. Differences in the corporate and local business contexts (Forsgren – Johanson 1992b) resulted in double IT-system configurations at the local subsidiary.

On the *horizontal dimension*, the local subsidiary's links to corporate and external suppliers were important sources of technical information for the purpose of fulfilling the requests of Russian public officials. *Data-provision activities were extensive* in the matching scheme.

MNC actors provided technical and commercial data and shared more general knowledge about MNC operations in Russia, or even globally, with intermediaries and public officials. This could be considered to represent corporate knowledge (cf. Jonsson 2007), and was reported to play a central role in all activities. On the other hand, data and knowledge flows were also in evidence from the local subsidiary to other corporate subunits, especially at Beta in terms of its internal invoicing. This could be considered to represent market knowledge flows (cf. Jonsson 2007) within the matching scheme. The Russian employee identified at the Finnish subsidiary was also linked to information flows and knowledge sharing on the horizontal dimension.

The IT systems in both MNCs supported information sharing between the units and also with public officials. There were information systems in place

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³² The local accounting system was used in matters related to the payroll and fixed assets at Alpha.

linking the corporate IT systems to public officials. The tailored IT system at Beta was originally developed for the purpose of automating data collection for Russian export deals. Local accounting software used at Beta, and also to some extent at Alpha, linked easily to the electronic filing system of the Russian tax officials. One reason for utilising the local accounting system in relation to the *payroll and fixed assets* in both companies was the *detailed reporting requirements of Russian public officials*, and the ability of the accounting system to provide the necessary reports in the correct form. In the case of tax audits, *co-operation with the inspectors* was also reported to be easier if local accounting systems were used.

On the *cross-relational dimension*, one respondent commented on the functions of the tailored ERP system as follows:

"We [logistics] have to be deeply connected with accounting, because all the flow of documents must be the same from the import to the sales. All [documentation] must be very strict and very clear. So we traced all the connecting points with logistics and accounting. We even connected the ERP system with the One-S accounting system."

As discussed earlier, local-subsidiary actors preferred to work with public officials through intermediaries. Direct and personal contact did take place however, and sometimes quite frequently. In the case of logistics and finance activities it was related in both MNCs to the *provision of information or clarifications*. Middle management at the local subsidiaries took part in these meetings. In addition to providing the details requested by public officials they also explained the MNC operations more generally to them, as the following comment reveals:

"Sometimes it happens that they want to see us. Or if they send us their demands about the checking of the documents, I do it myself. Sometimes they don't understand what kind of project or what kind of equipment we are importing as a whole. They don't know the full story with [for example the different subsidiaries involved]. So, I go there myself for that kind of chat. ...Now we have inspections every month. If I have a couple of details about a document I send the driver"

Respondents from the local subsidiaries reported that some public officials understood MNC operations better than others. *Actor turbulence* on the public-official side inhibited the accumulation of this type of corporate knowledge (cf. Johanson 2002). One comment from a respondent involved in logistics activities supports this finding:

"Staff at the customs rotates all the time. They change the inspectors at the customs office every two months. We have rather complicated goods and not all inspectors can make normal clearance"

Furthermore:

"Our tax inspector didn't understand the complex exchange-rate calculations at our company [local subsidiary] at first. She was an older lady, and she hadn't worked with international companies earlier. Well, we explained to her how we prepared the calculations and told her more generally about our company's operations. Gradually, she learned to under-stand our complex operations better. We even became friends with her. She worked very respectfully. If she had any remarks that she had to re-port to her superiors, she always discussed them with us first. But then she was dismissed ..."

The reorganisation of Russian customs forced Beta to change customs house at the beginning of 2010. This was reported as challenging by the logistics staff in terms of dealing with new customs inspectors with no prior knowledge of Beta's sometimes somewhat complex operations. As one interviewee stated:

"Now it's a huge mess here. We started to use another customs office but the inspectors aren't ready for such complicated goods as we have."

Thus, *corporate knowledge* has a role to play in the matching scheme. Not only did the local subsidiary actors have to provide detailed data/information to the Russian public officials, they also had to explain the corporate operations.

Consultancy provided by the more experienced actors in the matching scheme compensated for the lack of market knowledge among less experienced or distant suppliers and customers. The local-subsidiary respondents considered the negligent attitude of more distant actors more problematic than the lack of market knowledge. Co-operation with less experienced actors who were willing to help in providing details, for example, functioned well with local subsidiary guidance.

In sum, data-gathering and provision activities were extensive in the matching scheme, and involved several actors and IT systems. Market, corporate, and internationalisation knowledge were identified as having different main loci, but also as being spread around. In order to provide the necessary information to public officials, co-operation between various actors was necessary, and individual actors' knowledge-ability had a central role in this respect. Actor turbulence caused challenges related to the knowledge-ability of individuals. Direct linkage with public officials was related to information provision, and especially to knowledge-sharing activities.

5.5 A summary of the main empirical findings

The empirical findings of this particular study are reported in Chapter 4, first as case descriptions and then as comparisons between the two case companies in terms of logistics, product-management and sales, and finance activities. Chapters 5.1 to 5.4 discuss the results according to the different MNC-management dimensions identified in the theoretical literature review comprising Chapter 2.

This Chapter (5.5) outlines the main empirical findings, which are presented in a single framework (Figure 28). This illustration refers back to the preliminary theoretical framework (Figure 10), and thus constitutes an empirically grounded framework of MNC relationship management with regard to state actors in Russia.

On the *vertical* dimension, the *local subsidiary was a central and influential MNC actor* in the matching scheme with Russian public officials. The *key individuals* identified, with only a few exceptions, were all *local-subsidiary employees*. They were embedded in the corporate and the local business context, and higher management *acknowledged their excellence*. More importantly, they understood the *local complexities* and also the *complexity of MNC* operations.

The role of *middle management* was central in the matching schemes. *HQ* and higher management actually distanced themselves from public officials, reflecting the lack of knowledge of local context. *HQ* authority was nevertheless exerted occasionally in both MNCs. The *HQ* link to a large foreign MNC customer was connected to HQ authority in one of the case companies, and to the tensions that arose between HQ and the local subsidiary concerning the lack of market knowledge at HQ and also at the foreign MNC. HQ primacy, in this case, lay with customers and sales, creating problems in the product-management activities of the local subsidiary and with Russian public officials.

Corporate and divisional *HQ co-ordination* and *centralisation* activities played a role in MNC relations with Russian public officials in the context of *mergers between legal entities*, for example, as evidenced in both MNCs. On the other hand, *regional expansion* was taking place in Russia, and the local subsidiary was acting as a "*Russian HQ*" in the regional branches that owned the *new relationships* with public officials on the regional level.

-	managerial tools	managerial concepts/wisdom					
MNC	STRUCTURAL	RELATIONAL	COGNITIVE				
COMPLEXITY							
VERTICAL (=hierarchical)	*Local subsidiary a linking MNC actor *Links to corpo- rate/divisional HQ *HQ-large foreign MNC customer link *Regional expansion increasing the number of links *Links to corporate and local auditors *Legal entity turbulence	*Local subsidiary a central and influential MNC actor – key individuals identified *Middle management in a central role – HQ/ higher management distancing *Problems with HQ authority *Problems with customer/sales primacy *Local subsidiary as the "Russian HO"	*Heterogeneity of individuals in terms of understanding the connectedness and multiple legitimacies *Individuals as intermediaries *Role of individual experience, learning and attitude				
KNOWLEDG	KNOWLEDGE						
*Not only to acquire and spread market knowledge within the MNC and suppliers but also to provide data and enhance corporate knowledge among intermediaries and public officials *Direct links with public officials used in information provision and in enhancing corporate knowledge *Subsidiaries, HQs, suppliers, intermediaries and auditors in possession of different types of knowledge – essence of co-operation and knowledge combinations used *Problems related to individual actors' knowledge-ability due to multi-dimensional connectedness and multiple legitimacies – experience, learning and attitudes enhance cooperation							
HORIZONTAL	*Local subsidiary a linking MNC actor *Links to suppliers, customers, intermediar- ies and competitors *Double links (direct/indirect) in place *Indirect links to public officials through customers *Actor turbulence	*Local subsidiary a central MNC actor – key individuals identified *Intermediaries in a central role – local-subsidiary distancing *Indirect links preferred *Mixed requests from customers & public officials *Gaps created by actor turbulence	*Heterogeneity of individuals in terms of understanding the connectedness and multiple legitimacies *Individuals as intermediaries *Role of individual experience, learning and attitude				
CROSS- RELATIONAL	*Links between parallel operational modes *Links between different activities	*Discrepancies in MNC operations *Legitimacy differences in parallel matching schemes *Customer/sales primacy	. *(as in the vertical and horizontal dimensions)				

Figure 28 An empirically grounded framework of MNC relationship management with regard to state actors in Russia

The HQ-local subsidiary link was crucial to *corporate-level arrangements* in terms of management fees and corporate loans, which were also linked to both *corporate and local auditors*. The *timing* of these arrangements appeared to play a role in the matching scheme with Russian public officials. The arrangements also highlighted the need to *combine different types of knowledge possessed by several different actors*. The role of *individual knowledge-ability* was highlighted in the execution phase.

Individuals acted as *intermediaries* for the upper hierarchical levels in the matching scheme, not only for language reasons but also due to the *different knowledge bases* possessed by the individuals involved. *Individual heterogeneity* in terms of *prior experience*, *learning and attitude* made room for intermediary actors within the MNC.

The local subsidiary was also a *link and a central MNC actor* in relations with Russian public officials on the *horizontal* dimension. The *key individuals* were almost without exception the same as on the vertical dimension. These key individuals in the matching scheme highlighted the importance of understanding the big picture in terms of the *chain of connected actors and issues* and their *expertise was also acknowledged and valued by their co-workers*.

The role of other MNC internal and external actors was also considered important. Intermediaries, customers and suppliers were integral in the matching scheme, and there were even links with competitors. As on the vertical dimension, individuals as intermediaries fostered co-operation between more distant or heterogeneous actors in terms of knowledge and understanding. Individual learning and attitudes were essential in order to compensate for the lack of experience and knowledge.

Double links with the same public officials were frequently identified, both indirect and direct. Indirect linkage was through intermediaries as well as customers. Even though the local subsidiary was a key MNC actor in the matching scheme, it also distanced itself from the officials through local intermediaries. Indirect links were preferred in relations with Russian public officials, although indirect links through customers occasionally led to challenges in separating customer wishes from the requirements of the officials.

Actor turbulence in the matching scheme also had its consequences, related to the consequent gaps in knowledge. On the horizontal dimension it was evidenced in the MNC, the intermediaries and the public officials, and had consequences on both the organisational and the individual level.

On the *cross-relational dimension*, both MNCs had multiple parallel operational modes in Russia, resulting in *parallel matching schemes* with some public officials. Moreover, different departmental activities were identified with different matching schemes. The variety of activities led to several matching schemes with different Russian public officials in one MNC. On the

other hand, different operational modes created several parallel matching schemes with the same officials. In both cases there were *links between the parallel matching schemes*, and this has implications for MNC management. These interconnections added to the challenges with regard to individual cognition and understanding.

The identified *parallel matching schemes* with the Russian public officials led to *data-alignment* activities. *Legitimacy differences* among customs and tax officials created challenges in terms of *aligning* data between different activities. *Primacy of customer and sales activities* was also found to occasionally result in problems with tax officials. *Pacing* challenges, for example, were identified in this respect, and *discrepancies in MNC operations* were also sometimes evident.

The extensive provision of data and information to public officials was noted on the knowledge dimension. The need to provide detailed technical information, combined with having several internal and external suppliers with different levels of market knowledge, constituted a challenge as far as the management of MNC relations with the Russian public officials was concerned. Extensive data-provision activities resulted in the use of local IT systems and IT-system tailoring in the two MNCs, and even in tailored-software build-up at one of them.

Furthermore, public officials were provided with more specific corporate information in order to enhance their *understanding of MNC operations, or in other words to embed them in the corporate context*. This was linked to the *direct contact* between local-subsidiary and public actors. Key individuals in middle management with corporate as well as market knowledge had direct contact with public officials for this kind of purpose. Less complicated data was also sometimes delivered directly to them, in which case other than key individuals were involved. Activities related to data and knowledge provision also involved *intermediaries*.

Then again, *market knowledge* located at the local subsidiary and in the intermediaries, for example, was used by more distant MNC actors. *Internationalisation knowledge* at HQ was also applied, and *combined with market knowledge* in drawing up the corporate loan agreement. *Co-operation between more distant actors* was attributable not only to *prior experience* but also to *learning* and *attitude*.

In sum, multiple MNC internal and external actors on the vertical, horizontal and cross-relational dimensions were evidently linked to the MNC's matching scheme with Russian public officials. Intermediaries on the organisational and individual levels had an integral role in the scheme in that the involved actors were differently embedded. The MNCs used both direct and indirect links in their relations with the officials. Parallel matching schemes

and multiple legitimacies increased the links and interconnections to be considered. Data-provision activities were extensive, and the knowledge-ability of the individuals involved was challenged by multi-dimensional connectedness and interconnections. Prior experience and the consequent knowledge base promoted co-operation, but individual learning abilities and attitude compensated for the lack of knowledge.

6 CONCLUSIONS

6.1 Summary

The initial aim of the present study was to *empirically examine foreign MNC-state relations in Russia from a managerial perspective*. The research topic appeared to be highly relevant in that MNCs are viewed with increasing interest in Russia, even though academic studies on Russia report on the strengthening of state power, tensions between the state and different interest groups, widespread corruption, and heterogeneity in the implementation of state rules in different regions and on various hierarchical levels. Finnish and international newspapers have also carried reports on foreign MNCs' challenging encounters with Russian state actors. Consequently, this was considered an empirical research gap highly worthy of being addressed.

The next step in the research process was to review earlier empirical research on MNC-state relations in Russia. Explicit studies in this research context, with a managerial focus, were not identified. Review of studies was extended further to cover studies on MNCs in Russia. Some more implicit findings that were close to the interest of this dissertation were identified, and also built on, in the research process. Noted importance of micro-level matching in the establishment phase of market entry into Russia could be mentioned in this respect, for example (Elg – Ghauri – Tarnovskaya 2008).

Empirical studies on MNC-state relations in developing and transition economies were also reviewed. Developments in the theoretical approaches to such relations outside developed economies indicated that the so-called business-network perspective would be a suitable theoretical starting point. Earlier studies reporting on the heterogeneity of the state as an actor had identified the role of intermediaries in business-state relations, for example. This supported the use of the business-network approach, which acknowledges actor heterogeneity and allows the incorporation of MNC external actors into the analysis. Moreover, given the recent increasing interest in political actors and their interdependency with business actors in this research stream, it was considered a suitable base to build on in the present dissertation.

On the theoretical level, three studies were identified as sharing the interest of the present study to some extent. Firstly, Hadjikhani, Lee and Ghauri (2008) examine MNC relationships with socio-political actors from a managerial point of view. They posit on the basis of their analysis of the

socio-political behaviour of a Korean and a Swedish MNC operating in the EU that MNCs build trust, commitment and legitimacy ties with both business and socio-political actors. However, the interest of the present study lies more in managerial issues within the MNC.

Secondly, Jansson, Saqib and Sharma (1995) found evidence of structural complexity in MNC contacts with government organisations in their study of a Swedish and a German MNC operating in India. The existence of several different government institutions with their departments and delegation of authority and responsibility was found to challenge companies. More importantly, MNC structural complexity is evident in MNC–state relations in the categorisation of foreign-subsidiary actors as of a high, medium or low level in relationships with government contacts in India.

The analysis of MNC management and national policies in the context of salient industries conducted by Doz (1976, I–13) offers interesting empirical findings, but it highlights the managerial decisions made by top management and scrutinises the management of MNC–state relations with regard to three managerial modes. One of these, the power-balance mode, is connected to matrix organizations and ambiguous structures. The present dissertation more or less starts from this kind of set-up.

Moreover, given the findings of Poynter (1982, 21) that the "subsidiary's managerial and operational complexity; the volume of exports; the subsidiary's and parent company's control over the sourcing of production inputs and sales to associated firms; and the proportion of foreigners in managerial and technical positions" are associated with the extent of host-government intervention in foreign firms, the role of MNC complexity was considered a relevant managerial issue, and was not systematically discussed in the studies mentioned above or in the theoretical literature on MNC–state relations.

At this point in the process a theoretical research gap was noted. Consequently, in order to accomplish the research task, in other words to enhance understanding of foreign-MNC-state relations in Russia from a managerial perspective, it was necessary to construct a theoretical framework. The literature review was expanded to cover research on embedded MNCs and their management, and also on firm management in networks. The result was the construction of a framework incorporating multiple dimensions of MNC and MNC management. One step in the research process was to conduct a review of the literature on state actors in MNC business networks, and to position the managerial issues identified in the different dimensions of MNC complexity in order to arrive at a theoretical framework in the more specific MNC-state context.

Given the explorative nature of the empirical study, a case-study strategy, with semi-structured interviews as the primary data-collection method, was

considered appropriate. Two Finnish industrial MNCs granted access to their Russian operations. These case companies were considered suitable and in line with the aims of the study. An a priori theoretical construct, even though built very loosely before engagement in the field, was considered essential in order to prevent data overflow and to improve the quality of the data. It was considered essential that the research design would allow new findings to emerge.

The iterative research process adopted in this study resulted in an empirically grounded framework of MNC relationship management with regard to state actors in Russia (Figure 28). It is argued that the aim to enhance understanding of MNC-state relations in Russia from a managerial perspective by examining how multinational corporation-state relations are managed in the context of Finnish MNCs operating in Russia was achieved. The next section assesses more specifically the academic contributions of this dissertation.

6.2 Contribution to literature

This study crosses a few different theoretical research streams within international business, which are commonly referred to as the markets-as-networks or business-network approach. The *initial aim* was to provide *new empirical evidence concerning foreign MNC relations with Russian state actors from a managerial perspective*. As stated in Chapter 1.2, no earlier studies were found that explicitly addressed MNC relations with the Russian State. During the course of the research it also became evident that, on the theoretical level, a managerial perspective on MNC–state relations was somewhat lacking. Consequently, *the development of a managerial view of state actors in foreign MNC's business networks* became the *second* and theoretical aim of the present study.

In terms of *empirical contributions*, it is stated in Chapter 1.2 that a search of empirical research on MNC relations with the Russian State revealed no explicit studies. One empirical study was identified, close to the focus of the present study, namely that conducted by Kosonen, Kettunen and Kotilainen (2008) analysing Finnish companies' ways of managing and adjusting to their social environment in Russia, Estonia and China. The authors conclude that the four key management issues related to managing relations with these states are knowledge creation in terms of formal rules at different administrative levels in the host country, the setting up of network linkages to public officials, the importance of face-to-face contacts and the creation of trust between parties (Kosonen – Kettunen – Kotilainen 2008).

It is argued that the present study adds to the findings reported by Kosonen, Kettunen and Kotilainen (2008) in terms of enhancing understanding of *the*

extensive information and knowledge-provision activities related to Russian public officials and the implications for MNC management. The findings also contribute in terms of highlighting the effect of combining different types of knowledge among multiple actors. It could also be claimed that it enhances understanding of MNC network linkages to public officials in terms of the MNC complexity evidenced in the parallel operational modes and different activities, for example. Furthermore, the study sheds light on the role of direct and indirect contacts in MNC relations with Russian public officials.

It is noted in the theoretical literature review that the research stream focusing on political actors in business networks lacked a systematic analysis of MNC complexity in their relations with such actors. On the other hand, earlier studies within this stream did include notions that could be construed as findings related to MNC complexity, such as the role of intermediaries (Hadjikhani – Thilenius 2005a; Bengtson – Pahlberg – Pourmand 2009), and the connectedness of business and political actors (Hadjikhani – Håkansson 1996).

Figure 10 in the present dissertation represents an a priori managerial perspective on state actors in foreign MNC business networks. The subsequent empirically grounded framework of MNC relationship management with regard to state actors in Russia (Figure 28) is based on the findings of this dissertation. The *multidimensional framework constructed* as a result of the investigation, and the value added in terms of *corroborating earlier empirical findings* and *presenting new empirical findings in the business—state context* represent the contribution of the present study to this particular stream of literature.

More specifically, the dissertation enhances understanding of the role of *MNC complexity* in a business–state context. The *role of divisional and corporate HQ* is added to the picture, together with the role of the *HQ-customer* link, consequently complementing the received theory in terms of the *connectedness of actors on the vertical dimension. Auditors*, both corporate and local, were also identified as having a role on the vertical dimension. Problems with HQ authority were also evident, and were related to a lack of market knowledge at HQ. The findings of the study link the *MNC reorganisation*, evident in its regional expansion in Russia and in its legal-entity merger, to the business–state context. *Actor turbulence on the individual level* within and outside the MNC was also found to play a role.

In addition to corroborating earlier findings on the intermediary role in business–state relations (Hadjikhani – Thilenius 2005a; Bengtson – Pahlberg – Pourmand 2009), this dissertation provides evidence of *direct and indirect links* through intermediaries with a somewhat *different function*. Direct links were related to the *enhancement of corporate knowledge* among public

officials. Indeed, the *corporate knowledge* possessed by intermediaries and by public officials was found to have a role to play in the matching scheme.

The multi-dimensional complexity inherent in MNC-state relations was evident, the *identification of a cross-relational dimension* adding to the existing literature. Given, for example, the theorising of Hadjikhani, Lee, and Ghauri (2008) that MNCs build trust, commitment and legitimacy with business and socio-political actors, the evidence of multiple parallel matching schemes reported in this dissertation enhances understanding of the challenging nature of these processes. The findings on data alignment and pacing relate more specifically to this issue.

A major contribution of this dissertation lies in the increased understanding of the role of *knowledge*, or more specifically of data, knowledge, and knowledge-ability, in MNC relations with state actors. First, it is argued that the *extensive nature of data-provision activities* aimed at Russian public officials and encompassing multiple actors in the matching scheme constitutes a contribution to the literature.

Second, and complementing earlier findings on the role of political knowledge (Hadjikhani – Ghauri 2001), *market, corporate and internationalisation knowledge* were found to play a part (Jonsson 2007) and to be influential in MNC relations with Russian public officials. The results also shed light on the possibly *diluted or mixed nature of market knowledge* given that requests from public officials are received partly indirectly through customers, and the wishes of customers and of public officials may differ somewhat.

Third, the *role of individual knowledge-ability* was highlighted due to the multidimensional connectedness and heterogeneity of the connected actors. Key individuals were identified as *intermediaries* within the MNC in this respect. Individual and organisational *experience* played a role in this, but individual *attitude* was an attribute that enhanced co-operation among the actors involved as well. Employee motivation or attitude has been discussed earlier in connection with employee ability (e.g., Minbaeva et al. 2003; Minbaeva – Michailova 2004).

In relating the findings of the present study to the theoretical literature on managing the embedded MNC, a few observations are in order. First, the *matching scheme conceptualised* in the study was useful in extending the research beyond the legal borders of the MNC. Second, with regard to the discussion on the role of knowledge in MNC management, evidence was produced supporting the tenets of the business-network approach concerning the *centrality of a lack of knowledge* (e.g., Forsgren 2002). The finding related to *HQ or higher-management distancing*, on the other hand, conflicts with suggestions that learning about the networks of important subsidiaries is a priority task for top managers (Andersson – Forsgren – Holm's 2007, 816).

Individual attitude was also found to compensate for a lack of knowledge on the individual level in some respects.

The results also highlight the various loci of different types of knowledge, and those in which this knowledge is of use (e.g., Forsgren – Johanson 2010). Technical data as a type of *corporate knowledge*, for example, was located at MNC internal and external suppliers, but was provided by the local subsidiary directly or indirectly through intermediaries to the public officials. In fact, the role of the *corporate knowledge* possessed by intermediaries and even public officials was found to be crucial in the context of the present study. *Internationalisation knowledge* was mainly located at HQ, and at the corporate and local auditors, but was of use at the local subsidiary. *Market knowledge* mainly resided in the local subsidiary, and its intermediary role in this respect was crucial, but market knowledge was also of use at MNC internal and external suppliers.

Adding to this stream of theoretical literature, *combinations of different types of knowledge* were found to be highly relevant. The specific type of internationalisation and corporate knowledge held at HQ and at the auditors, for example, was combined with the specific type of market knowledge held at the local subsidiary and at the auditors in corporate-level arrangements. The evidence also points to co-operation among multiple actors in possession of *different knowledge bases or stocks* (cf. Lane – Lubatkin 1998; Foss 2006), resulting in *knowledge creation and combination* (cf. Michailova – Sidorova 2010).

Then again, certain findings contribute to the discussion on forward, reverse, and lateral knowledge flows within the MNC (e.g., Ambos – Ambos – Schlegelmilch 2006; Jonsson 2007, 2008). The findings related to the role of such knowledge flows in MNC operations in Russia resemble those reported in Jonsson (2008). It could also be suggested on the basis of the present findings that *lateral knowledge flows can be further separated into horizontal and cross-relational knowledge flows*, given the high relevance of both in MNC operations.

Reflecting the theoretical literature on *outsidership* in the internationalisation process of a firm (Johanson – Vahlne 1990, 2003, 2009), and also differences in the network embeddedness of actors (e.g., Forsgren – Holm – Johanson 2005), this study provides further evidence of the *multidimensional nature of outsidership* and *embeddedness*. The role of the cross-relational dimension could also be mentioned in this context.

With regard to matching-based studies on the process of market entry into the Baltic States and Russia (Ghauri – Holstius 1996; Elg – Ghauri – Tarnovskaya 2008), the present dissertation focuses on micro-level matching during the establishment phase. Micro-level matching is considered

challenging for foreign firms, to the extent of causing over-optimistic expectations of future operations in the countries concerned. The matching of finance, production and R&D is also acknowledged to be difficult (Ghauri – Holstius 1996). The findings of the present study enhance understanding of the multidimensionality of the matching process in the establishment phase of market entry. The multidimensionality could even partly explain the challenging nature of this phase.

In conclusion, it is claimed that the present study has achieved its aim of enhancing understanding of foreign-MNC relations with state actors in Russia from a managerial perspective. A further contribution in addition to the new empirical evidence is the elaboration of the managerial perspective on the role of state actors in foreign-MNC business networks. Consequently, the main contribution of the study is to the research stream focusing on the interdependence of business and socio-political actors. It is also argued that the findings contribute to the research stream on MNC management, and to the research stream focusing on knowledge in MNC operations. A further contribution is to the research stream on firm internationalisation and market entry.

6.3 Managerial implications

One of the main empirical findings of the study, namely that even though the local subsidiary is a key actor within the MNC in its relations with public officials in Russia there are other integral actors in the matching scheme, has significant managerial implications. Most importantly, the local subsidiary may need *information-gathering support from other MNC subunits or external suppliers*, for example. This support may not be available without *HQ co-ordination and/or authority*. HQ authority could be used to *enhance the processes of information collection and provision*. Given the sensitivity that may be attached to certain MNC data, *clear guidelines* related to confidential company information may also enhance data-provision activities.

Some of the information the local subsidiary provided to the Russian public officials, directly or through intermediaries, was found to originate elsewhere, even outside the MNC. Thus, if the other actors involved do not understand the information requests of the local subsidiary, or are not co-operative, the situation may be very challenging for the subsidiary, and therefore for the MNC as a whole. Consequently, enhancing understanding of the specificities of requests coming from Russian public officials among the actors involved, including external actors could yield positive results. It may even be possible to choose suppliers based on criteria of this kind.

In the case of finance activities, some information originated from corporate HQ, implying that the local subsidiary may have a very concrete need for *information from corporate HQ*, as well as its support. HQ may also be heavily involved in internal *decisions related to the IT system*. The findings of this research imply that, in making these decisions, *sensitivity to the data-provision activities related to Russian public officials may pay off*.

It is thus suggested that *delegating* the management of foreign-MNC-state relations to the local subsidiary may have its disadvantages. Given the findings of the study, it may be that if very broad responsibility is given to the local subsidiary, some issues may be overlooked or sub-optimised: they may not be of major interest to the subsidiary, or the subsidiary may lack the relevant knowledge.

The higher levels of operational management (in many cases the divisional level) in the home country may not be interested or knowledgeable enough to make decisions related to issues such as VAT recovery and other tax matters. In other words, HQ specialists or outside consultants may need to be involved in some specific activities. If the specialists are distanced from the operations of the local subsidiary, their ability to support it in such situations may be restricted.

The discussion here is rather in favour of *HQ supporting* the role of the local subsidiary rather than making decisions on its behalf. Resorting to HQ authority was found to be problematic due to the lack of *specific* market knowledge, for example.

The findings of the study confirm the importance of forging *links between different firm activities, and enhancing information sharing among people in logistics and finance.* There is also reason to be *sensitive to the primacy of sales activities*. This kind of sales or *customer primacy* advocated by HQ was in evidence when a foreign MNC customer was served in Russia and had links to the MNC HQ. Overriding local-subsidiary opinion in this kind of case may cause problems. *Care in serving foreign MNCs in Russia* is thus called for.

In other words, *operational risks* may be involved in relations with customers. Fulfilling customer requests may be one source of this type of risk. People who are less familiar with the Russian market may promise customers things that are challenging to live up to, or at least require careful planning of the details and the documentation. Top management may be put under pressure to solve the problem (as they have the authority) if they are present in person at meetings with customers. Some promises, if not first checked with knowledgeable people, may result in complex equations.

The local subsidiary was a key actor in the *regional expansion* that was taking place in Russia in both MNCs and could thus be considered a *Russian HQ*, and as such an authority in the new regional offices in contact with the

various public officials. This raises the question of what kind of instructions or operational frameworks employees of the local subsidiary pass on to employees at the regional offices. *Local-subsidiary competence* is brought to the fore.

The findings of this dissertation are also *linked to the MNC's operational* costs or expenses. The numerous intermediaries identified are inevitably getting their share of the MNC profit. On the other hand, the multiple parallel operational modes in the Russian market, identified at both MNCs, may also carry some extra costs. Two auditors, corporate and local, were harnessed in some cases. A more indirect cost burden is the detailed information requests from multiple state actors, which may extend beyond the legal borders of the MNC in that external suppliers were involved in this process as well.

More hidden costs were also identified and related to detailed documentation requirements with regard to finance activities, for example. Operational expenses may be non-tax-deductible at the local subsidiary if the documentation is deficient. Tax deductibility is attached to detailed documentation requirements in Russia and, as mentioned earlier, not all of this documentation originates at the local subsidiary. If the people involved in drawing up the documents do not understand the detailed requirements of Russian public officials, for example, the tax deductibility may be questioned or even lost. Individuals at the local subsidiary are probably the ones making decisions about the adequacy of the documentation, and a new judgement is done by public officials in the case of a tax audit.

In terms of time, it should be noted that some aspects of MNC-state relations may be financially less significant now, but as the local turnover increases (as internationalisation proceeds) they may become more significant. The implication is that it may be advisable to plan even minor activities in the light of larger operations in the Russian market.

As there were *few key individuals* in the MNCs' matching schemes with public officials, it is worth noting that these individuals may be under heavy pressure to resolve complicated issues. The time pressures come from production and customers, the documentation requirements of public officials, and financial demands from management. In many cases the solutions are based on the best knowledge and preferences of an individual or a small group of people. If higher management is distant, there is less support and discussion.

In sum, the managerial issues on the structural dimension are related to *linking* actors on the hierarchical, horizontal and cross-relational dimensions. On the relational dimension the management is more about *supporting*, *synchronising* and coping with tensions, as well as aligning and pacing, whereas on the cognitive dimension it is about the *individual's* ability and *motivation* to act, and about *individuals* acting as intermediaries between more distant actors. Co-operation is necessary in order to collect the necessary

data as well as to *combine* and even to *create relevant knowledge*. On all of these dimensions managerial thinking should not be restricted to actors within the MNC border, but should extend somewhat beyond it.

6.4 Limitations

The topic under investigation could be considered sensitive. This sensitivity refers to the eventuality of the topic getting mixed with corruption in Russian context (cf. Heininen – Mashkina – Karhunen – Kosonen 2008). The way the sensitivity was dealt with in this dissertation led to certain limitations. It was assumed that the companies would not be willing to openly articulate their connections with political decision makers, for example, given the potential association between these kinds of connections, not to mention personal relationships with state actors, with corruption and bribery, especially in the Russian context. Thus, certain measures were taken during the course of the study to reduce the level of sensitivity.

First, the focus was switched to daily operative MNC issues, and political contacts were excluded. It was also stated to respondents in the interviews that the study was not about corruption or other illegal activities. It was considered important, however, that the participating companies and individuals were dealt as anonymous in the study, which necessitated a two-case rather than a single-case approach, for example. These choices could be seen as limitations in that the possibility of deeper analysis was compromised.

Corruption is a complex phenomenon (e.g., Breit 2011), and to exclude corruption as a topic in this study may be considered a limitation. On the other hand, there are studies reporting on issues such as corruption and bribery in relation to company operations in Russia, thus the focus on other issues in this dissertation is argued to have certain value as well.

This research *does not report on the economic transition or other historical events* that have taken place in Russia, which could also be considered a limitation. However, the research effort was intentionally directed to contemporary events, which again has value in itself. Somewhat in this vein, Vadi and Jaakson (2011, 66) for example conclude that "managers today do not have to be concerned about the lasting demoralising effect of the Soviet work culture". The exclusion of the transition process also means that there are no expectations or prognoses of future developments. The focus on the current situation is thus deliberate, and gives a slightly different view of the market, or at least one that is free from the sometimes taken-for-granted modernisation process. Moreover, it meant that the somewhat restricted research resources were not spread over too wide an area.

State actors may also be customers of foreign MNCs. *The State of Russia as a customer* is not dealt with in this dissertation, which is a further limitation.

Given that the main *focus of the research was on daily operational issues* some one-off or non-regular processes were ignored. For example, a company may need to acquire a licence to operate in Russia during the market-entry phase, but managerial issues related to this kind of process are not considered. Other *industry-specific issues* are neglected as well. This is certainly a limitation of the present study.

The focus of this dissertation is on *managerial issues* related to MNC-state relations in Russia, and no attempt is made to clarify or explain the multilevel structure of the Russian state apparatus. Public officials are mainly depicted as described by the respondents in the case companies. Secondary sources (see Appendix 3) were utilised to check some issues related to the Russian State, but the case descriptions should not be seen as matters of factual truth regarding the public officials of the Russian state in terms of official names, structure or functions.

The empirical part of the research was conducted during a *global economic recession* (Summer 2009–Spring 2010), which also had an influence on the Russian economy. This undoubtedly is a limitation of a kind. Some respondents, for example, stated that there had been more frequent interaction with public officials³³ since the onset of the recession. It may be that the phenomenon under investigation was more visible due to this kind of situation the in the global market.

An a priori theoretical framework could be considered a limitation in explorative research. It is nevertheless claimed that the present dissertation has been successful in providing new theoretical insights into the role of foreign-MNC complexity in the management of MNC-state relations, for example, and was not limited to the a priori construct. It is also acknowledged, however, that the theoretical framing of the study could have been further expanded beyond the chosen theoretical literature. The cycle of empirical research never ends (McGrath 1982).

Even though MNCs headquartered in Finland and operating in Russia were considered theoretically suitable for the present study, it should be noted that neither the two case MNCs, nor Finnish MNCs, are representative on a more general level (e.g., Ghauri 1992). Most Finnish MNCs, for example, are classified as small or medium-sized.

This was reported in more detail with regard to relations with tax and customs officials.

6.5 Suggestions for further research

Given the acknowledged scarcity of international business research on MNC–state relations from a managerial perspective, this study opens up many avenues for further investigation. In particular, the present dissertation provides a good basis on which to plan this type of research.

The empirically grounded framework of this study on managing MNC relationships with state actors in Russia could be used in similar studies focusing on other MNCs operating in Russia, and the findings compared. Given that the present study focused on two industrial MNCs, future research could adopt a quantitative approach and aim to identify some industry specific attributes behind the structural complexity evidenced here. It would also be interesting to find out whether Finnish MNCs differ in this respect from MNCs head-quartered in other countries. On the structural dimension, for example, it would be worth investigating the prevalence and attributes of parallel operational modes in MNCs' Russian operations.

The elaborated framework may facilitate comparison between the Russian operations of a MNC with the operations of the same MNC in another BRIC country, or any other country. This could motivate several new studies in different research contexts and provide interesting results in terms of differences and similarities. The present dissertation focused on daily or normal encounters, but unusual encounters also offer opportunities for future research.

More detailed examination of HQ linkages to large foreign customers in local subsidiary networks, and the implications of such linkages in terms of the tensions created in the local subsidiary's relationships with public officials, for example, could also be valuable. The issue of customer or sales primacy could be addressed more specifically in this research set-up as well.

Foreign MNC commitment is multifaceted (e.g., Hadjikhani – Lee – Ghauri 2008). High customer commitment may support foreign rather than local production for product-quality and/or product-safety reasons. This offers an interesting research avenue in relation to foreign-MNC operations in Russia. More specifically, it would be worth investigating to what extent customers promote or weaken foreign-MNC commitment to production in Russia.

The regional expansion of a foreign MNC within Russia might also offer an interesting research avenue in a business–state context. The role of the local subsidiary in regional expansion may be worth investigating, for example. The HQ distancing evidenced in the present study and its implications for local subsidiary operations also deserve a closer examination.

The role of both corporate and local auditors in MNCs' Russian operations, or indeed in their international operations more generally, is a further potential research avenue. The findings of the present study suggest that more detailed

understanding of the role and functions of corporate and local auditors in MNC operations might yield interesting results.

It is also suggested that a deeper analysis of the corporate-level arrangements of MNCs' Russian operations would be relevant. According to the findings reported in this dissertation, they represent the type of internationalisation knowledge in need of contextualisation and combination (cf. Michailova – Sidorova 2010).

On the individual level, it would be useful to explore the knowledge base of key or intermediary individuals. Aharoni, Tihanyi and Connelly (2011), refer to the construct of *managerial distance*. The results of this dissertation support the relevance of this type of research in that the intermediary individuals had a synchronising role among more distant actors. Somewhat related to this, it is suggested that a more specific typology of knowledge related to international operations would be helpful.

EPILOGUE

After our discussion on the encounters of the MNC with the Russian public officials I address one last question to Jussi:

"How would you then say that the MNC manages all this?"

Jussi, a director at the MNC's divisional headquarters in Finland, answers quickly and without ambivalence:

"Well, what was it that one of our former presidents said – the share of Russian trade should not exceed twenty per cent..."

This comment directed my thoughts to the additional dimensions of MNC management...

The above brief excerpt illustrates that there are dimensions of MNC management that are not discussed in the present study. A portfolio approach might enable higher management and HQ to take distance and allow the local subsidiary to take care of the daily operational issues. HQ support and the enhancement of co-operation among several linked actors might pay off as well.

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APPENDICES

APPENDIX 1 Grouping of developed, developing and transition economies/countries

Grouping is based on a list of country groupings and sub-groupings for the analytical studies of the United Nations world economic survey and other UN reports retrieved October 6th, 2011 from http://unpan1.un.org/intradoc/groups/public/documents/un/unpan008092.pdf

Developed economies (developed market economies):

Europe, excluding the European transition economies Canada and the United States of America Japan, Australia and New Zealand.

Economies in transition:

Central and Eastern European transition economies (CEETEs, sometimes contracted to "Eastern Europe"):

Albania, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia and successor States of the Socialist Federal Republic of Yugoslavia, namely, Bosnia and Herzegovina, Croatia, Slovenia, the former Yugoslav Republic of Macedonia, Yugoslavia.

Baltic States Estonia, Latvia and Lithuania.

Commonwealth of Independent States (CIS)

Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan.

Developing economies:

Africa

Asia and the Pacific (excluding Japan, Australia, New Zealand and the member States of CIS in Asia)

APPENDIX 2 Interview guide

INTERVIEW GUIDE

- Thank you for the interview time!
- Describe the research briefly
- (Russian public officials in MNC's daily operations not about corruption)
- Anonymity of MNC and respondents
- Tape recorder?
- Respondent's background
- Interviewee background (experience of Russian market operations)
- Has the company had some recent (abnormal) encounters with Russian public officials (bias?).

NORMAL DAILY WORK OF THE RESPONDENT

- HOW IS IT RELATED TO RUSSIAN PUBLIC OFFICIALS?

MEMORIZING RECENT ENCOUNTERS WITH RUSSIAN PUBLIC OFFCIALS

(NORMAL/ ABNORMAL)

- PERSONAL ROLE
- ACTORS INVOLVED?
 - MNC EXTERNAL/INTERNAL ACTORS
 - o CUSTOMER
 - o SUBCONTRACTOR
 - o HQ INVOLVEMENT (instructions)
 - o FRIENDS
- ACTIVITIES/ DEPARTMENTS
- RESOURCES
 - o DOCUMENTS/INFORMATION MONEY/TIME
- CO-OPERATION BETWEEN DIFFERENTACTORS
- TRUST COMMITMENT LEGITIMACY

APPENDIX 3 List of interviewees

Case company Alpha:

- Country director Russia/ Chief financial officer (Corporate HQ, Finland), 13.05.2009
- 2) R&D director, business line 1 (Divisional HQ, Finland), 28.05.2009
- 3) President, business line 1 (Divisional HQ, Finland), 29.05.2009
- 4) Managing director (Russian subsidiaries, Moscow & St Petersburg), 24.06, 2009
- 5) Chief accountant (St Petersburg subsidiary), 05.11.2009
- 6) Finance manager (Russian subsidiaries, Moscow & St Petersburg), 05.11.2009
- 7) Accountant (St Petersburg subsidiary), 05.11.2009
- 8) Logistic & production manager (Russian subsidiaries, Moscow & St Petersburg), 06.11.2009
- 9) Office manager (St Petersburg subsidiary), 06.11.2009
- 10) Country director Russia/ Chief financial officer (Corporate HQ, Finland), 13.04.2010
- 11) Regional sales director, business line 2 (Moscow subsidiary), 17.05.2010 (telephone interview)
- 12) Senior product manager, business line 1 (Moscow subsidiary), 09.06.2010 (telephone interview)
- 13) R&D director, business line 1 (Divisional HQ, Finland), 14.06.2010 (telephone interview)
- 14) Sales manager, business line 2 (Finnish subsidiary), 23.06.2010

Case company Beta:

- 1) Logistic (Regional export department, Sub 1, Finland), 09.09.2009
- 2) Logistics manager (Regional export department, Sub 1, Finland), 09.09.2009
- 3) Director (Regional export department, Sub 1, Finland), 25.09.2009
- 4) Business controller (Regional export department, Sub 1, Finland), 01.10.2009
- 5) Director, product line A (Regional export department, Sub 1, Finland) 21.10.2009
- 6) Customer service manager, product line B (Sales department, Sub 2, Finland), 29.10.2009
- 7) Finance director (St Petersburg subsidiary), 10.11. 2009
- 8) Director, logistics (St Petersburg subsidiary), 16.12.2009

- 9) Chief accountant (St Petersburg subsidiary), 16.12.2009
- 10) Head of designers (St Petersburg subsidiary), 16.12.2009
- 11) Director, product line A1 (St Petersburg subsidiary), 17.12.2009
- 12) Legal counsel (St Petersburg subsidiary), 17.12.2009
- 13) Director, product line A2 (St Petersburg subsidiary), 17.12.2009
- 14) Finance director (St Petersburg subsidiary), 17.12. 2009
- 15) Managing director (St Petersburg subsidiary), 17.12.2009
- 16) Director, logistics (St Petersburg subsidiary), 12.04.2010 (a telephone conversation)
- 17) Head of designers (St Petersburg subsidiary), 15.04.2010

APPENDIX 4 Secondary sources

Internet pages utilised:

- Official web site of State administration (Russian Federation) http://www.government.ru/
- Official web site of Federal Customs Service (Russian Federation) http://www.customs.ru/
- Official web site of Federal Tax Service (Russian Federation) http://www.nalog.ru/
- Official web site of Federal Agency for Technical Regulation and Metrology (Russian Federation) http://www.gost.ru
- Web site of SGS Group, a global provider of certification services http://www.gost.sgs.com/
- Web site of Bureau Veritas, a global provider of certification services http://www.bureauveritas.fi/

Seminar notes:

Peculiarities of accounting in Russia and their influence on doing transactions. Helsingin ekonomit (HEKO) seminar, held at PricewaterhouseCooper in Helsinki, Finland, March 30th, 2010 at 17.00–19.00. (Speakers Stanislav Chakhovich, PWC and Niko Haavisto, Oriola KD)

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Pikka-Maaria Laine
Toimijuus strategiakäytännöissä: Diskurssi- ja käytäntöteoreettisia avauksia
Juha V. Virtanen
Johtajana sairaalassa. Johtajan toimintakenttä julkisessa erikoissairaalassa keskijohtoon ja ylimpään johtoon kuuluvien lääkäri-
ja hoitajataustaisten johtajien näkökulmasta
Markus Vinnari
The past, present and future of eating meat in Finland
Arja Lemmetyinen
The coordination of cooperation in tourism business networks
Antti Fredriksson
Soft and hard information in bank-firm relationships - The effect of relationship intensity and reporting conservatism on loan pricing and relationship value
Tomi Kortela
The intertemporal choice of households under incomplete markets in general equilibrium
Hongxiu Li
E-service continuance: an insight into online travel services in
China
Harri Virolainen
"Kai sitä ihminen on vaan semmoinen laumaeläin" -
Virtuaalisen tiimin ilmapiiri
Marjo Kumpula
Vakuutusalan työn sisältö ja työntekijöiden ammatti-identiteetin muovautuvuus – Vakuutusvirkailijasta finanssialan myyjäksi?
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