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# **MANAGING FINNISH-RUSSIAN BUSINESS RELATIONSHIPS AND NETWORKS DURING CONFLICTS**

Master's Thesis  
in International Business

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# 1 INTRODUCTION

## 1.1 Background of the study

The current political conflict has resulted in trade embargoes in the Finnish-Russian trade and is forcing many companies to reassess their way of managing business relationships and networks. In the past few years the oil prices have plummeted which has affected the global economy significantly (BBC 2016). Russia and the Russian currency rouble has been affected drastically because of the declining oil price. In figure 1 the correlation between oil price and rouble is shown. Reasons for the radical decrease in oil prices is due to weaker demand for oil and oil producers have not regulated the supply of oil which has resulted in the decrease in oil prices globally (BBC 2016).

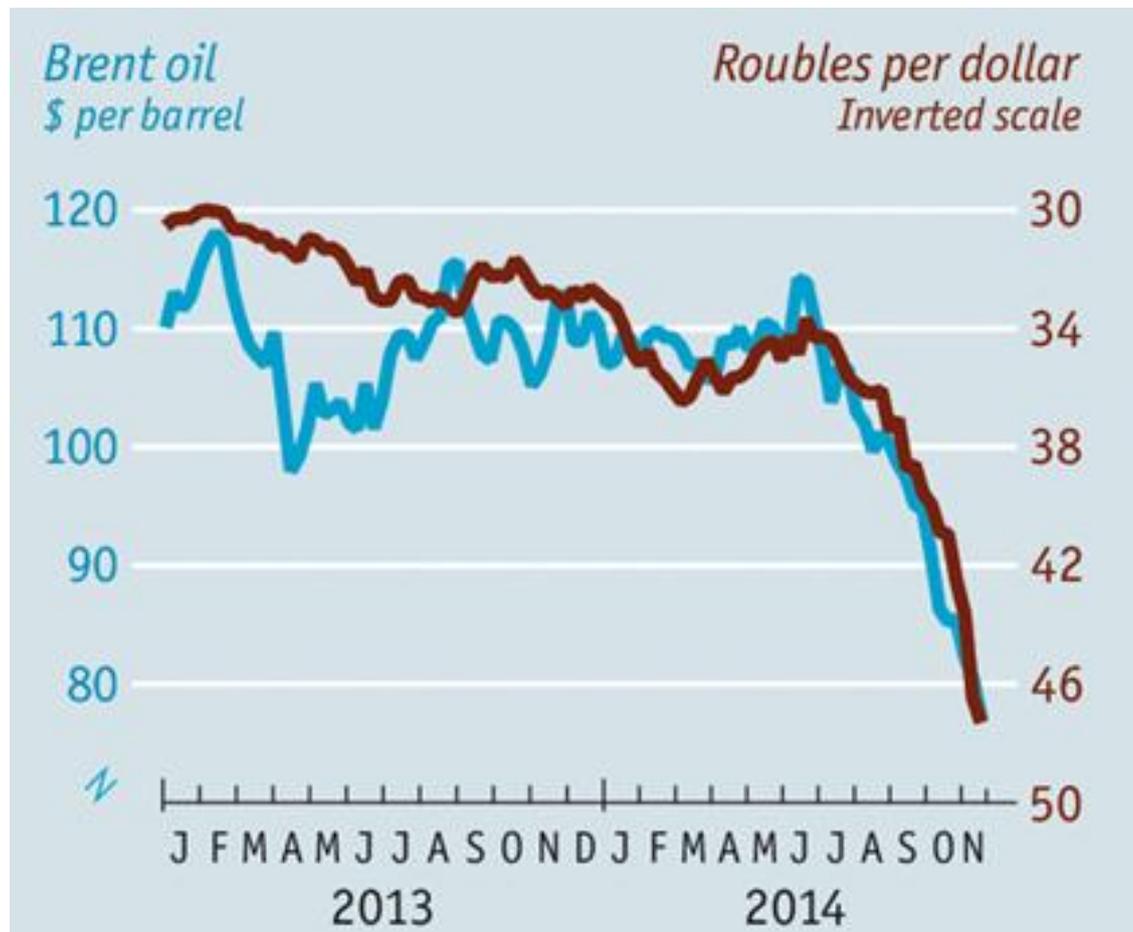


Figure 1 Oil price and Roubles per dollar in comparison (Reuters 2015)

In the last decade Russia has had substantial growth from income of oil and its economy has been based mainly on the income from oil. In 2016, Russia is suffering through recession due to the weakening currency rouble and the consumption in the economy is decreasing (Reuters 2016). Russia has been Finland's biggest trading

partner since 2007. However, due to the recent events such as the plummeting oil price, depreciation of Russian currency rouble and international political conflict in Ukraine, in 2014 Germany became the biggest export trading partner surpassing Russia. In 2014, Finland's exports to Russia dropped by 12 per cent and import share plummeted 15 per cent

Figures 2 and 3 illustrate the difference in foreign trade of Finland in 2013 and 2015. In Figure 2, the distribution of foreign trade is shown. Finland's biggest trading partner is Russia and the total amount of trade was around 15 billion euros. After Russia, Finland's biggest trading partners were Sweden and Germany.

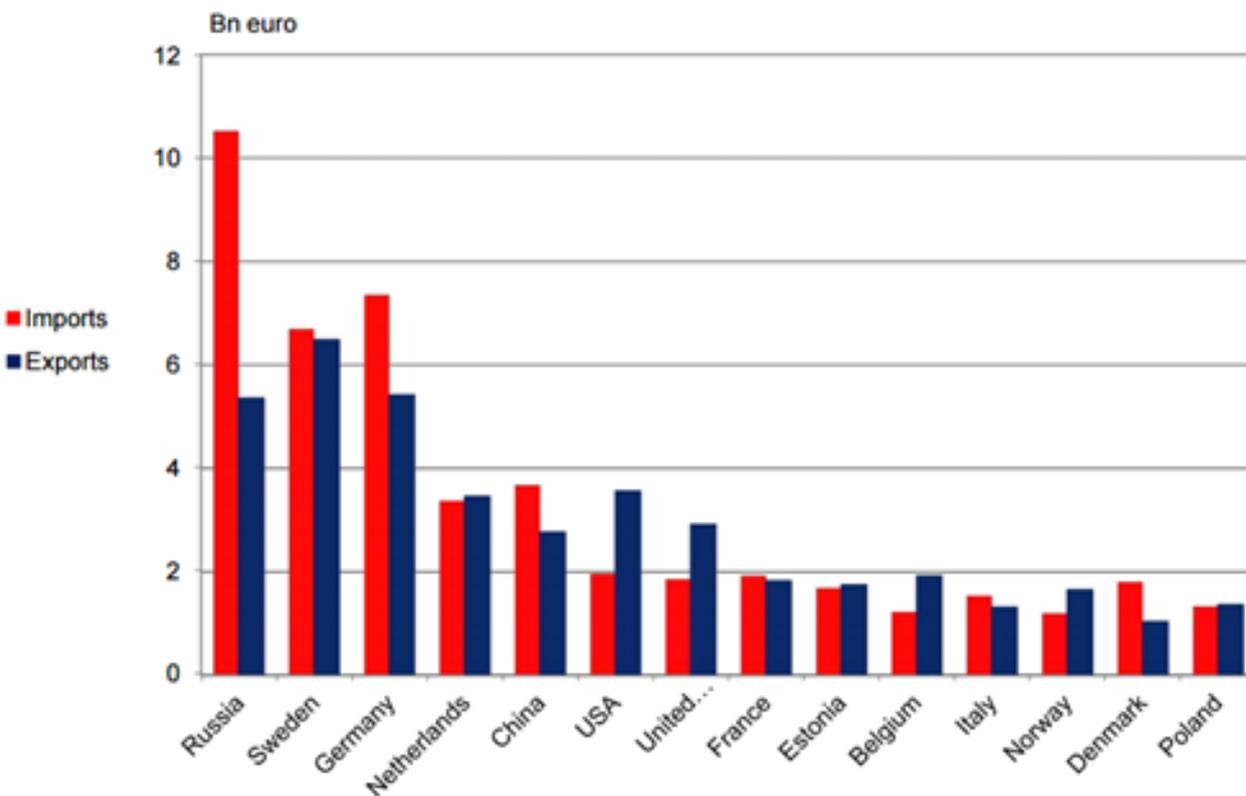


Figure 2 Foreign trade partners of Finland by countries 2013 (Finnish Customs 2014)

Figure 3 shows the same information as figure 2 but the year is 2015. In figure 3 the change between trading partners of Finland can be seen shifting more towards Europe, but then again all of the trade has decreased whereas the trade to Russia has decreased dramatically. Germany is the most significant trading partner with Sweden as the second biggest trading partner. Russia is still the third biggest trading partner for Finland.

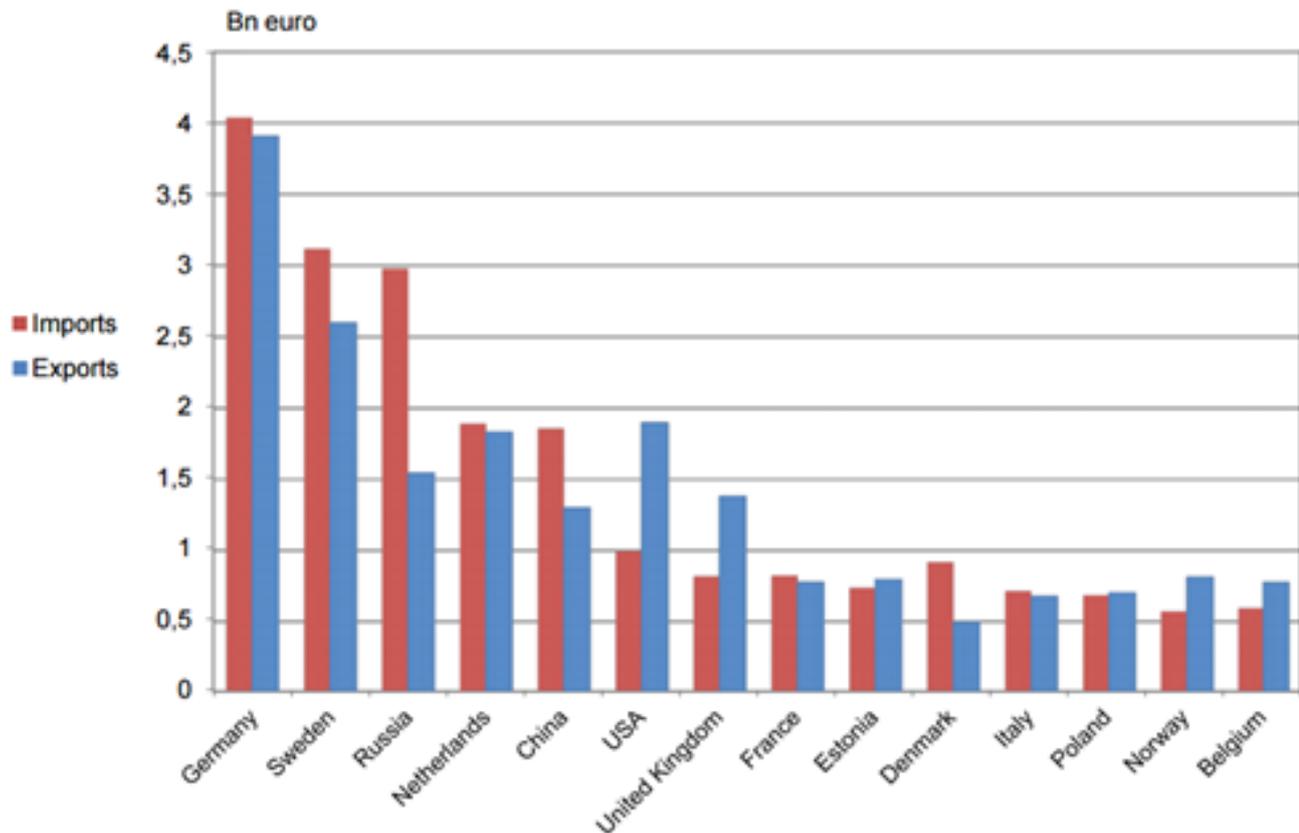


Figure 3 Foreign trade partners of Finland 2015 (Finnish customs 2015)

There can also be seen the changing of order of biggest trading partners of Finland between 2013 and 2015. In 2014, there has been significant drop in export to Russia in chemistry, metal, grocery and forestry products. Imports from Russia have been declining since 2013 and continued to decline in 2014. The only exception is the energy sector which has had minor decline (Finnish Customs 2014).

The political conflict between the USA, the European Union (EU) and Russia started from the difficult situation in Ukraine due to political disparities and resulted in military conflict within Ukraine. This study aims to investigate how international political conflicts affect international business relationships. Furthermore, this study pursues to examine how companies overcome the challenges and barriers of a crisis situation with related political and financial restraints in the international context. Conflict is simply put an opposition from actual or perceived differences or incompatibilities (businessdictionary.com 2016). The business relationships and networks which are concerned in this study are buyer-seller type of relationships in business-to-business (B2B) market environments. This research will examine the trade and business relationships between Finland and Russia.

## 1.2 Development of the political conflict in 2013

This research will examine business relationships and their possible development during the political crisis between the European Union (EU) and Russia. Finland has been a member of EU since 1995. Therefore, as a member of the EU, Finland is also

involved in the political crisis which started in late 2013. In 2013, in Kiev began protests against the Ukrainian parliament and especially against President Yanukovich. Yanukovich had been elected through free and fair presidential elections in 2010 (BBC 2015). However, Yanukovich decided not to sign an agreement of trade association between the EU and Ukraine and chose to continue to be closer with Russia. Soon after this, Russia's President Putin agreed to buy 15 billion dollars of Ukrainian debt and also offered Ukraine to purchase Russian gas for third of the market price (BBC 2015). In 2014, the protests turned more violent and resulted in removing President Yanukovich from power and new elections were planned. At the same time, Russia reacted with force and allegedly occupied Crimea which was Ukraine's territory. Through a referendum orchestrated by Russia, Crimea was made part of Russia. This was against international law and the western community reacted to this with sanctions (BBC 2015). New elections in Kiev resulted in separation of the eastern part of Ukraine. The separatists of the eastern region objected the new parliament which for example banned Russian language in Ukraine and this caused resentment in Russian speaking eastern Ukraine (BBC 2015). From here began the war between Ukrainian troops from the western Ukraine and eastern separatists. However, in the end of 2014, both sides agreed to ceasefire. However, the ceasefire has not resulted in peace and the tensions still exists in Ukraine. EU has also implemented different sanctions against Russia and Russia has also responded with so-called counter-sanctions against the EU (BBC 2015).

The author of this research has experience in the field of Finnish-Russian trade. The author has worked in Finnish-Russian Chamber of Commerce and also has experience from the private-business side as an export specialist. This research got its initial ideas from the author's personal experience of how the relationships between a small Finnish company and Russian companies seemed to grow stronger and communication between the companies seemed to increase during the political conflict that is still ongoing at this moment. Companies seemed to be willing to find a resolution to the situation together and both sides seemed to have same misunderstandings and annoyance of the decisions of the political forces such as the governmental institutions which decided on for instance sanctions against both economies concerned in the crisis. Then again, on the firm-level it would seem that companies work more closely together and increase collaboration in order to conduct profitable business. Some companies in Russia even decided to take losses in order to keep their market share. The question is, how far are companies willing to go together and what are their actions? Will they end the collaboration in the end and in what conditions? Do firms decide to exit the Russian market and search for new export markets? The situation could be described as a playfield where there are certain rules and sanctions set limits, that is the formal institutions, and the players, firms and informal institutions, try to find the best way to overcome the situation.

In a recent survey, one third of Finnish companies did not accept sanctions and would want to have them reduced or removed (Finnish Chamber of Commerce, 2014). However, Finnish companies are not retreating from Russia (only 0,5 per cent responded they will retreat). Companies have decided to wait and see how the situation develops (79 per cent). This study will try to examine how companies act at this stage and how business relationships and networks are managed.

### **1.3 Previous research on business relationships and networks**

Studies which have researched business relationships and networks have been considered in this research (Håkansson 1982; Dwyer, Schurr & Oh 1987; Johanson & Mattsson 1987, Anderson, Håkansson and Johanson 1994; Halinen, Salmi & Havila 1999, Schurr 2007, Katsikeas, Skarmeas & Bello, 2008). Such studies have created various frameworks to explain the development of business relationships and networks. This thesis theorises based on existing theories and frameworks created to understand especially buyer-seller relationships. Scholars have asked for further empirical research in the field of relationship management in alternate environments with different presumptions and rules across different contexts and this research answers to such calls (Kang & Jindal 2015, 740).

One of the most comprehensive studies was a research conducted by the Industrial and Purchasing Group (IMP) on interaction in business relationships in B2B market environments. The IMP study formulated the fundamental variables of business relationships which have been studied since 1976. At that time, empirical knowledge about business relationships was scarce and the IMP study was the first which studied buyer-seller relationships on a larger scale (Ford & Håkansson 2006, 249). The IMP study revealed variables such as short-term orientation of firms concerning product or service exchange, information sharing, financial transactions and social exchange. In addition, it was found that variables related to long-term orientation were institutionalism, cooperation and adaptation (Håkansson 1982, 6). This research will take into account the fundamental elements of the IMP study and the related theoretical frameworks in terms of understanding business relationship development (Salancik, Pfeffer & Kelly, 1978; Ford, 1980; Dwyer et al. 1987; Schurr 2007; Katsikeas et al. 2008). The theory of buyer-seller relationship development is regarded in this study to provide the right tools for understanding business relationship, its performance, interaction, conflict management and possible termination (Dwyer et al. 1987, 24). Also, Johanson and Mattsson (1987) presented their framework for relationship development, interaction episodes and interdependencies. More importantly, Johanson and Mattsson (1987) studied the interdependence of dyadic relationships and how companies interact in such relationships. The same linking

effect and dynamic forces in a business relationships was researched in a study by Anderson et al. (1994). This research will try to gather more empirical data from a director of a Finnish multinational company operating in Russia and to discover what are the perceptions of the director on business relationship development under difficult circumstances. As Anderson et al. (1994, 11) point out, such theories of business relationships should be tested through empirical research. The research subject is complex and therefore further research is needed (Anderson et al. 1994, 13).

Business relationships are also dynamic and therefore are in constant change (Halinen et al. 1999, 780). Therefore, the behaviour of managers is interesting and should be studied under different circumstances and episodes (Halinen et al. 1999, 792). Relationship development, its stages and interaction are studied in this paper in the context of political conflict. Relationships consist of many different episodes which should be investigated more and what are the outcomes and how the episodes affect business relationships should be studied (Schurr 2007, 168). The aim of this research is to explore how business relationships change during political conflict in the light of existing theories.

## **1.4 Research questions**

The research questions aim to explore the implications of political conflict in business relationships and networks. Moreover, the questions aim to find effective management methods of business relationships which are implemented in the firm-level of Finnish companies which collaborate with Russian companies. The research questions are set as follows:

1. What are the implications of a political conflict in the Finnish-Russian business relationships and networks for a Finnish multinational company?
2. How does the company adapt or overcome the challenges and barriers posed by the international business environment?

In order to answer the set research questions, this thesis begins with a thorough literature review outlining extant knowledge on the research topic. A section explaining the methodological choices will follow the literature review, after which the empirical part of the research follows. The thesis ends with a chapter discussing the theoretical and practical findings of the study and makes concluding remarks, suggesting future research opportunities.

## **2 LITERATURE REVIEW**

### **2.1 International peace and free trade**

The theory of international peace was introduced more than 200 years ago by a German philosopher Immanuel Kant, who introduced in 1795 the theory of perpetual peace (Oneal, Russett & Berbaum 2003, 371). This theory consisted of three essential factors which are republican constitutions, international “cosmopolitan” law with free trade and which would result in economic interdependence amongst nations. Also, global economy would require international law and institutions (Kant, 1795). Oneal and Russett (1999) examined the implications of peace hypothesised by Kant in the global business environment between pair of trading nations through years 1885-1992. Firstly, the authors had strong support through their empirical data that the pacifying effect of democracy and trade exists between dyads. That is, the more democratic and the more economically interdependent nations are in a dyad, the higher the possibility of sustaining peace between dyads. The main findings were that the more democratic, economically interdependent and the more joint memberships in intergovernmental organisations (IGO), the more constraints the nation would have to provoke conflicts (Oneal & Russett 1999, 439). Also, Oneal et al. (2003, 387) concluded that if both states in a dyad would be democratic, the possibility of a conflict is 86 per cent less than if the other nation in the dyad would be autocratic. Moreover, the increasing economic interdependence decreased the risk by 32 per cent. Lastly, the joint memberships reduced the risk conflict by 43 per cent. To conclude, if all of the factors presented by Kant (1795) would be present strongly, the possibility to avoid conflicts between nations would drop to 95 per cent (Oneal et al. 2003, 388). Interestingly, the findings by Oneal et al. (2003) suggest that the stimulation of democracies, increasing economic interdependence and building a network of international organisations would have more pacifying effect. International politics should integrate the peace elements presented by Kant (1795) for their strategy to avoid international conflict (Oneal et al. 2003, 388).

The IMP group has studied the interaction between firms since 1976 (Turnbull, Ford & Cunningham 1996, 44). At that time it was noticed that in industrial markets in the USA and Europe buyers and sellers’ behaviour was multi-layered and mostly in concerned different ways of influencing their counterparty. Such methods as risk-reducing strategies, having high switching costs and also strong loyalty (Turnbull et al. 1996, 44). This led to the IMP group’s study of the relationships’ complexity in complex contexts. The IMP study was implemented in France, Germany, Italy, Sweden and the UK with numerous cases which led to the creation of the interaction model (Turnbull et al 1996, 45). The IMP project was carried out in order to answer

the questions presented by the academic literature at that time and which could not explain events in complex business relationships (Håkansson & Ford 2006, 249). Since the IMP group challenged basic ideas in 1982 and it succeeded in drawing a framework of the interaction between actors in business relationships which has now been used and approved by many researchers and has stimulated numerous further studies of business relationships (Håkansson & Ford 2006, 248). The next subchapters will examine more closely the firm-level perspectives to trade and peace through theories on business relationships, the effects of environmental uncertainty and how these concepts function in conflict management.

## **2.2 Business relationships in conflict situations**

Existing literature examines the relationship between conflicts and trade (Keshk, Pollins & Reuveny 2004; O Neal, Russett & Berbaum 1997; Morrow 1999). Such studies focus mainly on politics and on the effect of political conflict in international trade. As this study concentrates on Finnish-Russian trade, which has been bilateral trade in the past, the focus of this chapter is on bilateral business relationships.

The view of Finnish company executives presented in the introduction of research report by Finnish Chamber of Commerce (2014), where the political stand point of EU is not affecting the viewpoints of Finnish company executives. More emphasis is on the trade and its advantages, where Russia provides many incentives for importing and exporting and Russian market is rather large and physically close to Finland. However, Finland is more or less obligated to follow the guidelines of the EU and therefore cannot make independent decisions.

Morrow (1999) researched how trade could affect conflict and he examined the logic of the argument that the more trade countries have the less willingness they have to commit to a conflict situation. An important notification by Morrow (1999, 487) is that costly signals in a higher rated trade relationship reduce the chance of conflict escalation. Costly signals can be trade sanctions for example, but trade sanctions can have an effect on trade for both sides (Morrow 1999, 487). A correlation was also discovered in other studies focusing on trade and conflict and their findings proposed that higher trade flows have less controversies (O Neal & Russett 1997, 439; 1999, 288). Also, political influences have an effect on this correlation and political conflict can cause a disruption in trade, thus raising the possibility of a conflict (Morrow 1999, 488). Politics have an effect on trade because firms take into account the political risks in their international trade (Morrow, Siverson & Tabares 1998, 659). Moreover, if dyads share common interests and common democratic institutions result in increase in trade (Morrow et al. 1998, 658). Furthermore, domestic institutions also have an effect on trade (Morrow et al. 1998, 659; Kastner 2007, 680). One of the main

factors of political influence is the political risk in international trade which has a diminishing effect on trade in conflict situations and even the anticipation of such risk can restrict trade (Morrow et al. 1998, 659).

Kastner (2007) studied the relationships of domestic politics' interests to international trade and how this is affected by international political conflicts. Kastner's hypothesis was that in countries where domestic politics favour international trade the effects of international political conflicts are less. Kastner (2007, 680) found out that the domestic political attitude towards international trade did have a relation to the effects of a political conflict. The study results showed that the higher the trade barriers are the more significant the effect of a political conflict would be. In the next chapters specific focus will allow to examine more closely the effects of political conflicts to business relationships.

### **2.3 Understanding business relationships and networks**

This chapter will discuss the fundamental hypothesises and theories behind business relationships and networks and what are the different perspectives on business relations. The IMP study of business relationships claimed that such partnerships are not only single transactions, but business relationships are continuing transaction between firms in trade (Ford & Håkansson 2006, 249). In business relationships firms are in exchange or non-exchange relations and are directly or indirectly associated. This exchange can be defined as product or service exchange, information exchange, financial exchange or social exchange (Håkansson 1982, 16; Cannon & Perreault 1999, 441).

A business network is two or more associated business relationships (Anderson, Håkansson & Johanson, 1994, 2). Networks can also be defined as actors which are connected by different means or ties (Borgatti & Foster 2003, 992). Such actors can be individuals, organisations or teams etc. Ties can be defined as social relationships, advice relationship or clearly a business relationship (Borgatti & Foster 2003, 992). Business relationships are built on a simple principle where one side has money and the other side possesses a commodity (Dwyer, et al. 1987, 12). This principle of exchange comes in various forms and relationships such as strategic alliances, interorganisational relationships, social contracts, coalitions and simply arrangements or coalitions (Johanson & Mattsson 1987, 35; Provan, Fish & Sydow 2007, 480). Moreover business relationships and networks are strategic and with shared purposes and goals of both sides. Interorganisational relationships and networks are usually aimed at acquiring resources, reducing uncertainty, strengthen legitimacy and promote shared goals (Brass, Galaskiewicz, Greve and Tsai 2004, 802). Business relationships have mutual interdependence and when successful have mutual benefit

for both sides (Mohr & Spekman 1994, 135). More importantly, the motive to form such relationships and especially internationally is to have competitive advantage through for example economies of scale, new technology possibilities, gaining access to other markets and access to knowledge along with risk sharing (Mohr & Spekman 1994, 145). This research will attempt to gather more empirical knowledge of how firms see the benefits and value in business relationships in microenvironment in the context of conflict situation.

The advantage of a successful business relationships is in better performance and higher level of cooperation which reduces the risk of conflict and also strong relationships improve communication and trust (Palmatier, Dant, Grewal & Evans 2007, 190). Theoretical perspectives which have been prevailed in the international business literature concerning the success of interorganisational relationships have been the dependence, commitment and trust. Also, transaction cost economics have been regarded as one of the most important theoretical frameworks for understanding business relationship (Palmatier et al. 2007, 174). According to the transaction cost economics by Williamson (1975) firms would have closer exchange relationships through investments and such investments decrease opportunistic behaviour between partnering firms. Moreover, relational norms and values such as simple transactions and perceptions of the firms have been argued to have an impact on the success of relationships (Palmatier et al. 2007, 174). Palmatier et al. (2007, 186) found out that the level of commitment and trust and also the specific investments to the relationships had an direct effect to the relationship performance. Also, Palmatier et al. (2007, 189) observed that during an environmental uncertainty commitment, trust and relational norms for example in cooperation activities grew between partnering firms. Moreover, when environmental uncertainty is high, the emphasis is more on the relational exchange than the more fundamental transaction economics activities . Also, investments in the relationships are more valuable during uncertainty and have a larger emphasis to the performance of the relationship (Palmatier et al. 2007, 189). Therefore, it is argued that Finnish managers should invest in the relationships and maintain high level of communications and trust between their Russian partners during uncertainty. The next chapter will present the relationship development process and how it can be used in order to discuss firm interdependencies.

## **2.4 Building relationships and interdependence between dyads**

Business relationships develop over time and the academic literature has presented various frameworks of such development (Salancik et al. 1978; Ford, 1980; Dwyer et al. 1987, Schurr 2007). Salancik et al. (1978, 241) describe the decision-making by functions where firstly the need is determined and then information is gathered

regarding alternatives of purchases. Then the alternatives are evaluated and decision is made. Lastly the formal authorisation for the purchase is made (Salancik et al. 1978, 241). Ford (1980, 341) described business relationships through evolution of five stages. The pre-relationship stage is where firms consider new potential suppliers. Then moving on to negotiation stage and through negotiations the relationship can develop to for example negotiating a delivery contract. After successful repeating transactions firms move to long-term stage and finally the final stage of long established stable relationship (Ford 1980, 342). Ford (1980, 341) identified different variables in the development process including experience, uncertainty and distance. Identifying development process variables, firms can learn from experience and share knowledge and more importantly reduce uncertainty (Ford 1980, 350). Dwyer et al (1987, 21) presented their framework for business relationship development process in the following figure 4 which describes the stages of the development process.

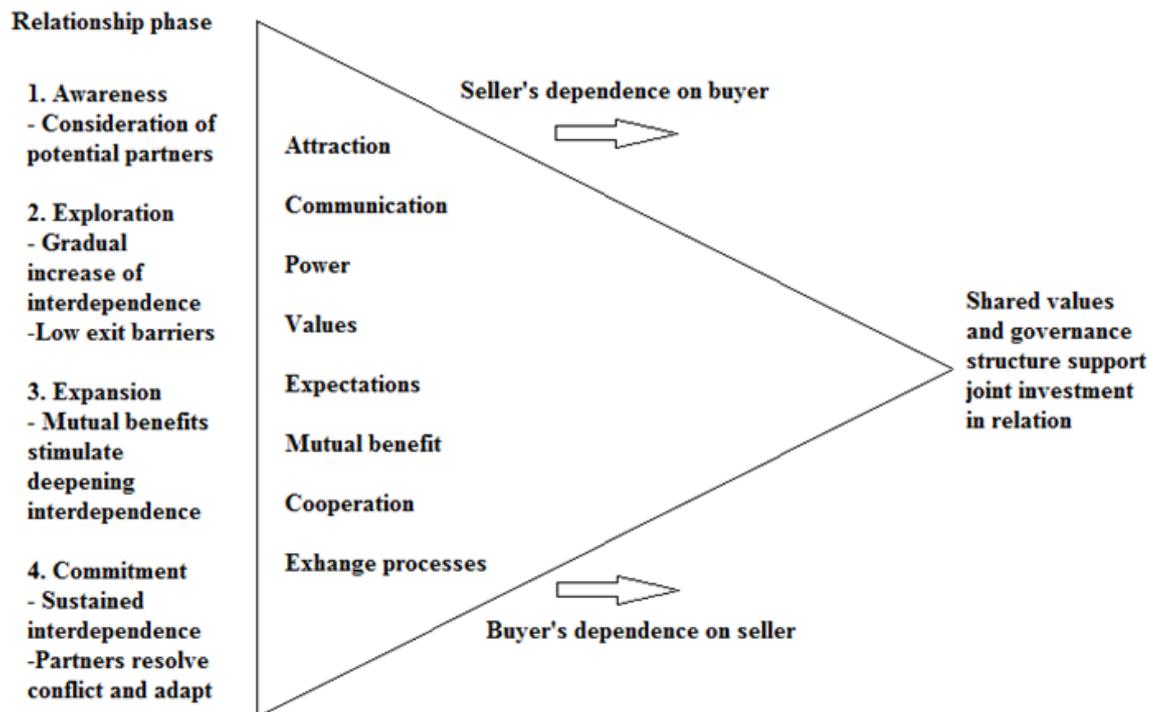


Figure 4 The Relationship Development Process (Dwyer et al. 1987, 21)

This research will use this groundwork of Dwyer et al. (1987) in order to assess the effect of these stages in firm's management of its business relationship. For example, do firms with longer and more evolved relationships manage conflict differently than firms who are only exploring the market and what is their difference in the perceptions of effects of a conflict situation in the business environment?

It is important also to understand how are business relationships developed and how is the interdependence, communication and trust built. In figure 4 Dwyer et al. (1987) transform the initial ideas of relationship development process of Scanzoni

(1979) where different phases of relationship development maintain different actions in the development of a business relationship. The first phase is awareness where parties are aware of each other's existence and possibly weigh the attractiveness of establishing a business relationship. In the next step of exploration, firms search and test potential associates. In this phase, companies consider the benefits and difficulties with particular potential partner firm. After successful exploration firms move towards expansion and here firms increase interdependence within the relationship through mutual shared benefits and transactions. Once relationship is established and it has continuity in exchange, the following phase would be commitment where interdependence grows and when this phase is at its optimal level, the exchange partners share commitment where exchange partners would have no other alternatives or the exit-barriers for the relationship would be high. Also, if switching costs are high, it could result in reluctance to shift to alternate seller (Dwyer et al. 1987, 19). Last phase is dissolution where exchange partners withdraw from the relationships or its development further (Dwyer et al. 1987, 19).

The model can be used for understanding the interdependency in interfirm relationships and conflict management (Dwyer et al. 1987, 24). Dwyer et al. (1987, 24) describe conflict as disparity of goals and preferences of exchange partners. In the conflict situation the disparity can be caused by hostility, sanctions, polarisation of third parties and isolation. This is in fact what is actually happening in Finnish-Russian trade where the overall situation is hostile and both sides have posed sanctions against each other. Also, polarisation of third parties has been realised and Russia has been more or less been more towards isolation. However, Dwyer et al. (1987, 24) highlight the possible benefits of a conflict situation where exchanging firms might begin a more frequently and efficiently communicate with also critically weighing the benefits of the relationship. Also, partnering firms could also review their use of resources and what is the power distribution in the collaboration. Moreover, the exchanging firms might also analyse different modes of resolution of the conflict situation in the relationship.

The context of this study the political conflict, environmental uncertainty, and how does it affect relationships. The main argument is that Finnish-Russian business relationships are affected by the conflict situation and this study is to find out in what way do the relationships change, succeed or end in the conflict situation. This study will examine the effects of the conflict situation to the business relationships through the framework created by Dwyer et al. (1987, 21). The next chapter will dive into the characteristics of a business relationship and how does these variables affect business relationships.

## 2.5 Characteristics of business relationships

One of the main differences between relationships are the behavioural characteristics and that successful relationships will have the attributes with more intensity than unsuccessful relationships or relationships which end (Mohr & Spekman 1994, 148). Such attributes for example are trust and commitment. Also, the communicative attributes are for instance information and knowledge sharing between partnering companies. Also, the success of relationships is highly dependent of conflict resolution capabilities of companies which are for example joint problem solving which includes willingness to find resolution and being able to use persuasions in order to avoid destructive conflict actions such as confrontation or avoidance (Mohr & Spekman 1994, 148). With all these variables concerned in relationships are suggested to have positive impact on the success of relationships if the variables are existing and intensive (Mohr & Spekman 1994, 144). This research will also follow the same arguments and test whether they hold their ground in the Finnish-Russian business relationships. In the conflict situation, is the success of relationships dependent on level of commitment, information sharing and the capabilities to find joint conflict resolution decisions.

There are many other studies which have researched why do some relationships succeed and why do other fail. One of the most fundamental study was conducted by Industrial Marketing and Purchasing Group (IMP) which examined the interaction factors and buyer-seller relationships because of the lack of knowledge how do business relationships function (Håkansson 1982, 5). The IMP study since 1978 had empirical data from more than 1000 relationships in order to formulate their interaction model, and because of the wide range of data it has been regarded as extensive and realistic concept for understanding buyer-seller relationships (Håkansson 1982, 15; Woo & Ennew 2004, 1254; Ford & Håkansson 2006, 248). The IMP study formulated an interaction model for understanding business relationships. The interaction model consisted of the interaction process, participants in the processes, the environment where interaction takes place and how the atmosphere affects interaction (Håkansson 1982, 15). More simple interaction consists of short-term interaction such as product or service, information, financial or social exchange. In observation of long-term interaction, the adaptation and institutionalisation between parties was more visible (Håkansson 1982, 23). In terms of the environment, the most important variables were the dynamism of the environment and the availability of alternative partners (Håkansson 1982, 23). Also, the atmosphere is an important element in interaction and it was discovered that atmosphere affects all interaction model aspects which were the firms, their interaction processes and the interaction environment (Håkansson 1982, 285). Atmosphere can be defined by different variables. Variables such as power-dependence between firms which affects the

atmosphere of the interaction. Power-dependence can be described simply as a situation where the other party has the power to influence or act in a way that affects the other party (Emerson 1962, 32; Cuevas, Julkunen & Gabrielsson 2015, 150). Moreover, power-dependence can be divided in three different levels which are organisational, individual and relational (Meehan & Wright 2012, 673). Organisational level understands the effects of the market environment such as the competition or what is the strength of the relationships and also the attractiveness of firms to each other. Individual attributes are the skills and knowledge of the individuals who are affiliated in the business relationships. Relational aspect views the nature of interaction and what are the outcomes of the interaction between dyadic relationships (Meehan & Right 2012, 673). Also, what is the stage of co-operation or what is the state of conflict in the atmosphere of the relationship. Lastly, trustworthiness of business partners can affect the interaction in positive way or negative way depending on the case companies (Håkansson 1982, 286). More importantly, Cuevas et al. (2015, 156) concluded in their study that similarity of goals and motives affects positively on all of the aspects presented in the interaction model by Håkansson (1982).

One of the most important variables in the success of business relationships was the surrounding environment and atmosphere (Woo & Ennew 2004, 1258). The main argument is that the environment affects to the intensity of the presented variables of the IMP study, the exchange variables such as information exchange, financial exchange and social exchange (Woo & Ennew 2004, 1259). The IMP research categorised the influence of the environment as the power-dependence in relationships, stage of the collaboration, the closeness or distance of the partnering firms and also what are the mutual expectations from the partnership (Håkansson 1982, 23; Woo & Ennew 2004, 1259). Environmental uncertainty can be caused by for example increased competition, economic recession, regulatory changes (Kang & Jindal 2015, 735). In the context of this study, the environmental uncertainty is caused the be political conflict between economic powers EU and Russia. Arguably, it is the presence of conflict which can affect the relationships, for example, the mutual benefit or ability to cooperate affect the relationships (Woo & Ennew 2004, 1259). On the other side, conflict itself can arise from lack of mutual benefit or the inability to coordinate conflict resolution in cooperation (Woo & Ennew 2004, 1259). The presence of environmental uncertainty raises different challenges for business relationships and networks. Such challenges are for example in trust and commitment affiliated behaviour and also environmental uncertainty could result in negative behaviour such as opportunism (Woo & Ennew 2004, 1259; Kang & Jindal 2015, 736). Increased level of tensions between partnering firms causes ambiguity and might lead to difficulties to find mutual agreements and firms begin to look for more self-interest along with opportunistic behaviour (Samaha, Palmatier & Dant 2011, 103; Kang & Jindal 2015, 740). Social bonds and investments have had a positive effect on

business relationships. Dwyer et al. (1987, 25) also discuss the strategic element of exit barriers in terms of business relationship and their disruption in a conflict situation. The following chapter discusses the different stages and episodes in interaction between firms in dyadic relationships.

## **2.6 Changes in business relationships**

Studies have examined the nature of interaction during and between the episodes, and in the end what are the outcomes of these episodes in relationships (Halinen et al. 1999; Schurr 2007). Interaction episodes are momentary and dynamic exchange situations whereas relationships are long-term oriented. Interactions are episodes involving actions and also is dependent on time. Relationships are the concept of different connected interaction episodes (Schurr 2007, 162). The episodes includes both informational and economical exchange between actors. The exchange is required in networks of relationships between firms as they become dependent of each other. Also, the actions of firms strive towards the long-term success and development of the firm. Anderson et al. (1994) study these dyadic relationships between firms and focused on the value-adding relationships. Value-adding relationships between firms strives towards mutual advantage for both firms (Anderson et al. 1994, 1).

Interaction between firms can be categorised as simple or complex episodes and the scope of the relationship can be limited or extensive (Håkansson 1982, 278). Business relationships can be a simple episode which means the availability of potential partners is high and highly standardised. Limited scope of the relationship means that there is no particular need to adapt and the transaction between firms straightforward. Then again, if the outlook on the relationship is extensive. Simple interaction within extensive relationships is common among established relationships but have the disadvantage of repeating the same processes as before during new simple purchases (Håkansson 1982, 279). On the other hand, interaction can be a set of complex episodes where both buyer and the seller engage in business transaction of, for example an expensive machinery. Yet, such transaction is limited because of the nature of a single transaction between new partners. Furthermore, when established business partners engage in complex episodes, it is usually about product development or seller of the product or service suggests further development. It is typical in such situation, both sides want to find a solution within their own relationship without including any new parties in the matter (Håkansson 1982, 280).

Schurr (2007) explains the theory behind business relationships through relationship episodes. Networks of relationships consists of dependence of engagement between firms. More specifically, a relationship between firms is characterised as mutual orientation of two partnering companies. In industrial markets,

firms establish relationships with other firms, dyadic relationships. With the connection of these relationships, firms become a part of a larger networks of relationships (Halinen et al. 1999, 779).

Interaction episodes, especially critical interaction stages such as conflict situations, create changes in relationships and overall networks of businesses. Changes within dyadic business networks and relationships can be radical or incremental (Halinen et al. 1999, 784). Relationships are dynamic and change happens usually through adaptation and the change happens with interaction between firms (Halinen et al. 1999, 789). Halinen et al. (1999) examine the change within a single dyadic relationship and what effects does the change have on the networks of relationships. The study by Halinen et al. (1999) explained how the change can be confined to the dyadic relationship without having a significant to its networks. On the other hand, the change of relationships can have a connected change effect to the whole network of relationships. Confined change emphasises how relationships have in some extent coexistence of stability and change. Confined change occurs within relationships between dyads without having an significant effect to its networks of which the dyad is part of (Halinen et al. 1999, 781). On the other hand, change can be connected to other relationships on the network. Connected change can cause changes in other relationships which are in direct or indirect contact to the changing business relationship dyad (Halinen et al. 1999, 782). Changes in a dyad of relationship has effects that are limited to only the dyad itself, but also the relationship can have influence over other relationships in the network (Halinen et al. 1999, 783). Studies have been made in order to find the reasons for change, and also what factors prohibit change. Halinen et al. (1999, 791) claim that firms seek stability within industrial networks, therefore stability can be one of the variables in the changes in business relationships. Turnbull, Ford and Cunningham (1996, 5) also includes high costs of change and firms' risk-management as factors which promote stability between firms.

However, change does happen in and between relationships. Such network dynamics include interaction between firms, effects of the environment and also changes in the networks. Critical events, tensions and the possibility of changes in relationships exists and have incremental or even radical effect to the relationships. Critical events cause radical change in business relationships, both in dyads and networks, through causing instability and tensions. Critical events can be caused by incidents within the networks, or by the external forces affecting the network (Halinen et al. 1999, 788). Also, companies can change their strategies which can affect their relationships and networks (Salmi 1995, 191). Company can change its marketing or for example purchasing strategies and through these changes have a critical effect on its relationships and networks (Havila 1996, 201). In addition, events such as switching partners, or in a more larger context mergers and acquisitions can have an critical effect on business relationships. Critical events are also caused by external

forces in networks' environment. Such events as changes in the economic atmosphere, changes in political relationships and also social issues can affect relationships. Moreover, changes in technological conditions can be categorised as an critical event (Halinen et al. 1999, 787).

Radical changes in the economic situations, such as economic recessions or trade wars as a more current subject, have an effect relationships and networks. Empirical findings of various studies show that economic changes cause changes in business relationships and networks, even between economies. Economic problems can be transferred among nations and have consequences on both sides (Halinen et al. 1999, 788). However, the changes in such economic situation are spread through personal relationships within the network. The forces of change are implied through networks and the business relationships within the networks. This means that the general market forces have minor effect on the networks as the change is perceived between firms and processed within the networks (Halinen et al. 1999, 788). A practical example is when the Soviet Union was reformed to the current Russian Federation and this economic reform created critical changes between Finland and Russia. The next chapter will discuss the different actors, actions and functions a business relationship has.

## **2.7 Functions in business relationships**

The business networks which consist of relationships between firms have different functions. Such functions include interlinking activities and resource and are established on mutual orientation but still based on self-interest of firms (Johanson & Mattson 1987, 37; Anderson et al. 1994, 3). Dyadic relationships aim to be more efficient and mutually advantageous for both parties. The advantages can be achieved through cooperation, combining resources and discovering new possibilities together. Firms can reach their objectives through existing connections of both direct and indirect relationships. Business relationships always include in larger business networks and therefore can have an effect on the whole business network and has dynamic functions within that business network (Anderson et al. 1994, 3). Business relationship functions have various aspects such as actors, activities and resources (Håkansson & Snehota 1995, 283; Halinen et al. 1999, 785). Actors are the factors that are related to each other within the network. Activities are how functions are executed in the network. Actors take use of different resources in their activities in order to have the functions accomplished (Anderson et al. 1994, 3).

Anderson et al. (1994, 10) conclude that cooperation is an important element to business relationships. Cooperation is a coordinated activity in order to have mutual benefits and interdependence between dyadic relationships. In other words, cooperation is value-creating exchange between firms and it includes adaptation,

relationship-specific investments and also own investments from for example Finnish firms in the context of this study. In addition, Anderson et al. (1994, 10) showed that relationship commitment stimulates continuity and also growth in the partnering firms. Commitment also presents social and economic psychological assets and also offer other options in different situations and contexts. The dependence and interrelationships of mutual orientation requires coordination and interactions between firms (Johanson & Mattsson 1987, 35). For instance, resource dependence results in exchange relationship between firms in order to have the required resources (Barringer & Harrison 2000, 372). Barney (1991, 105) argues that competitive advantage can be gained through resources which are rare, valuable, imperfectly imitable and non-substitutable. In most cases, this concerns international trade and therefore requires business relationships for successful transaction of resources. The networks of relationships especially in the industrial networks' context consists of interactions between customers, distributors, suppliers and also with competitors (Johanson & Mattsson 1987, 43). Moreover, the networks of indirect relationships expand to customer's customers, supplier's suppliers and competitors. More importantly long lasting relationships decrease costs of exchange and production. Such relationships also benefit in information sharing between partners (Johanson & Mattsson 1987, 38). Johanson and Mattsson (1987, 38) describe the relationships are created through exchange processes. The exchange process consists of mutuality between partners and respect of each other's interests in the relationship. A successful relationships and which could be a long-term relationship offer complex and diverse exchange outcomes for both parties (Johanson & Mattsson 1987, 39). Also, exchange processes include social exchange which is a gradual process where relationships evolve from minor transactions and limited trust and risk between partners. Social exchange can increase trust between partners through successful interaction and this leads to increased trust and risk and expanded transactions (Johanson & Mattsson 1987, 39). Trust is considered as a competitive advantage because it can promote investments and might inspire information exchange (Katsikeas et al. 2008, 132).

Moreover, information exchange concerns sharing of information between partners, for example sharing information about costs or examining future plans for collaboration. Information exchange increases commitment between partnering firms (Cannon & Perreault 1999, 442). Social exchange is important in maintaining trust and commitment in the relationship and is one of the most important exchange elements during uncertainty. Social exchange includes interaction between firms and this interaction is aimed at building trust and stable business relationships (Håkansson 1982, 17). Earlier study by Salancik, Pfeffer and Kelly (1978) emphasised the power of influence through social interaction in organisations during uncertainty. However, all of the exchange elements are important during uncertainty and this research will

examine empirically more closely how to companies perceive these elements during uncertainty and in what way.

Relationships and interactions also include adaptation processes. In order to gain more from the relationship and be more successful, partners can adapt their processes. The adaptation processes can include adapting products for example technically through modifications. Adaptation could also include specific production planning procedures or adapt routines for example in logistical planning or stock levels. Usually, strong long-term relationships with close exchange processes stimulate adaptations among business partners (Johanson & Mattsson 1987, 39). Adaptation processes also increase the dependency of partnering firms through investments and these investment might be from both sides and it increases their dependency. Moreover, such investments extend the bonds between partners. For example, certain modifications and adjustments of products creates dependency between the supplier and customer (Johanson & Mattsson 1987, 40).

Figure 5 illustrates what relationships and interactions consist of as described by Johanson and Mattsson (1987). Relationships can share mutual orientation which helps firms to invest in the business relationships and build bonds which increases interdependency. Interaction consists of exchange and adaptation processes. Relationships in business have interdependence which creates benefits for both sides (Ford & Håkansson 2006, 250).

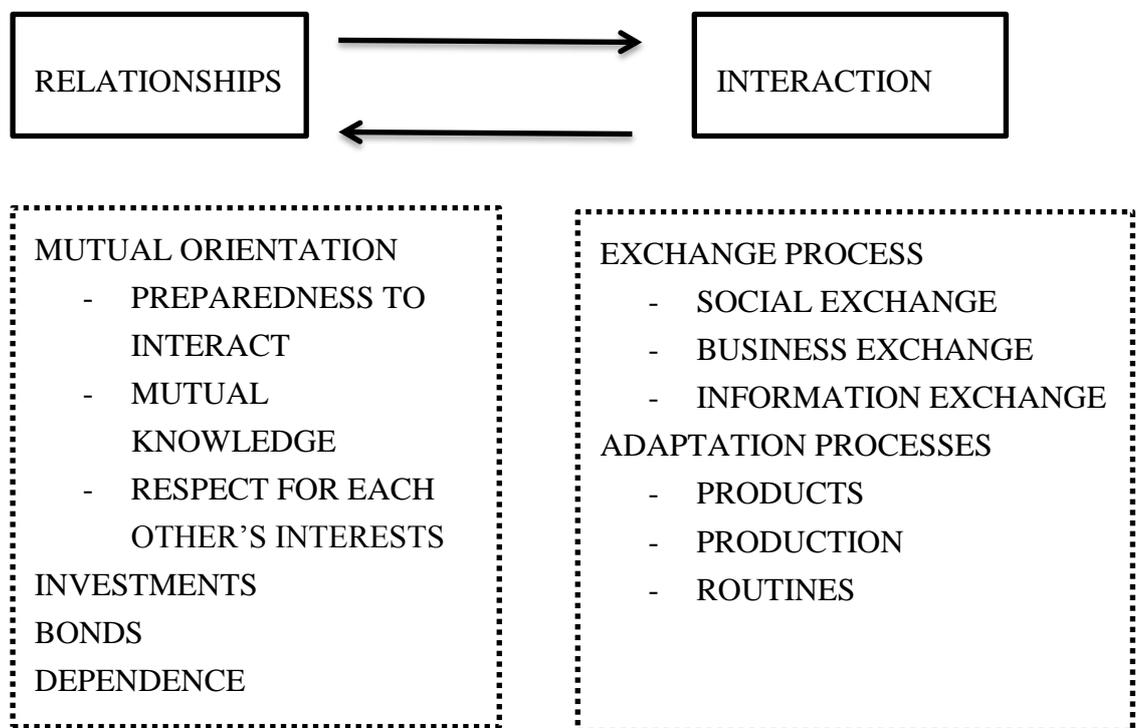


Figure 5 Relationships and interaction in industrial markets  
(Johanson & Mattsson, 1987)

The effects of interdependence to partnering firms is acquiring valuable resources and assets through exchange relationships (Katsikeas et al. 2008, 135). In figure 6 more variables are included in order to understand the performance of business relationships. The central theme is trust which is affected by uncertainty, interfirm psychic distance and transaction specific assets. The framework by Katsikeas et al. (2008) emphasises the importance of trust between partners. If variables are positive and do not decline towards opportunism in relationships, the more positive outcomes result in trust. Relationship values and performance can either decline (-) or if successful it can be positive (+). Higher trust results in higher interdependence which would result in better performance between partnering firms. Better performance can be understood as better ability to seek mutual benefits, more willingness to invest in the relationship and firms would have access to more assets due to the trusted interdependence (Katsikeas et al. 2008, 135).

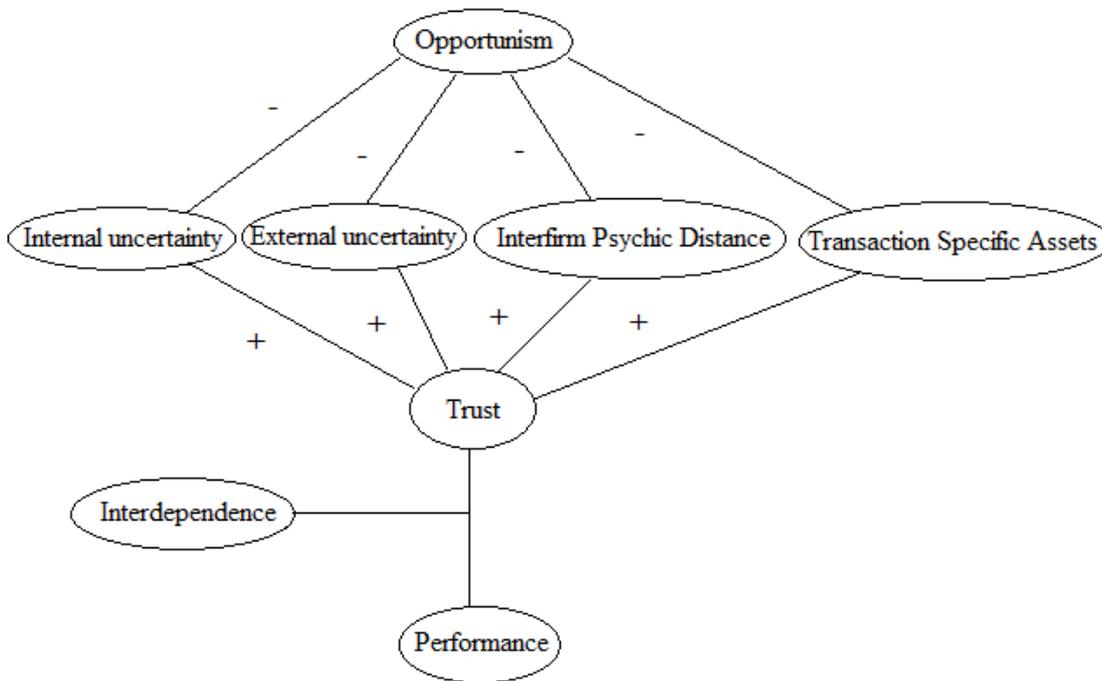


Figure 6 The role of opportunism and trust in relationships  
(Katsikeas et al. 2008)

However, trust is affected by internal and external uncertainty. Internal uncertainty is where the managers are unsure of the opposing party's behaviour and information is restricted about the partnering firm. External uncertainty concerns the ambiguity posed by the environment. Both of the internal and external uncertainties can encourage opportunism between partners (Katsikeas et al. 2008, 138). Interfirm psychic distance can be understood as the differences in culture, language and business practices. Also, legal and economic systems can differ from firms' domestic markets (Katsikeas et al. 2008, 138). Such differences and in some case controversies could result in disturbance in exchange processes between business partners in cross-cultural

relationships (Johanson & Valhne 1990, 13). Moreover, interfirm psychic distance can affect the decision-making of firms and make it more difficult to implement strategies in international environments (Bello, Chelariu & Zhang 2003, 6). In this research, psychic distance is argued to have an effect on the perceptions on firms and in that way affect the business relationships functionality. Lastly, the transaction-specific assets refer to the investments and bonds made in the buyer-supplier relationships. More assets means more equity in the relationships which signals trust in the relationships (Katsikeas et al. 2008, 137). The following chapter concludes the literature review on different viewpoints of environmental uncertainty.

## **2.8 Environmental uncertainty**

Uncertainty is where individuals make decisions and actions without completely assessing the risks (Schon 1982, 291). Uncertainty is a complex and universal concept (Abbott 2005, 237). Managers and firms often become aware of uncertainty through information and events which creates ambiguity (Abbott 2005, 238).

Dynamic environments require investments in business relationships (Håkansson 1982, 284). Dynamic business environments demand attention and time for develop business relationships. More importantly, the availability of alternative sources should be evaluated and if there are no available alternatives, the more important it is to invest in existing business relationships (Håkansson 1982, 284). The business environments have changed since the original IMP study and this has affected the business relationships. Business relationships are more complex and have become more interdependent. This is because firms have more better capabilities to communicate with each other and relationships develop in international environments (Ford & Håkansson 2006, 251). For this reason it is argued in this research that business relationships are influenced by international political conflicts.

Environmental uncertainty is a widely studied subject in terms of business management. However, environmental uncertainty is controversial in its definition and application (Abbott 2005, 237; Samsami, Hosseini, Kordnaej & Azar 2015, 215). Moreover, uncertainty is situation where it is difficult to determine future events, possibly there is lack of information and also the inability of a manager created uncertainty in such situations (Milliken 1987, 134). The research on environmental uncertainty is to understand the causes for uncertainty and also how to manage it effectively with convenient strategies (Abbot 2005, 242; Samsami et al. 2015, 216).

Environmental uncertainty can be perceived by its nature, level and source (Courtney, Kirkland & Viguerie 1997, 68; Abbott 2005, 242; Potter, Rosen & Johnson 2012, 227; Samsami et al. 2015, 216). Nature of uncertainty can be described as cognitive uncertainty if is caused by a manager due to lack of knowledge and limited

access to information. This type of uncertainty can be avoided through gathering knowledge and also learning (Potter et al. 2012, 227). On the other hand, uncertainty can be a variability which considers that uncertainty is created by randomness of for example human behaviour, cultural distance or market environment dynamism. Variability uncertainty is difficult to avoid or eliminate, but it can be measured and acknowledged (Potter et al. 2012, 227). Scholars have also perceived environmental uncertainty in various levels in its progression. By identifying the stage of uncertainty, managers can understand it better and use more appropriate strategies to deal with the uncertain situation. For example, first level of uncertainty can distinguish possible scenarios in the future. Second level has more limited view on future outcomes of the uncertainty. Third level can only see a range of futures and is very limited in its prediction. Lastly, fourth level is in total ambiguity with no possibility to predict future events. In addition, uncertainty in the level of recognised ignorance is where understanding of relationships and variables in uncertainty is acknowledged (Courtney, Kirkland & Viguerie 1997, 71). Courtney et al. (1997, 71) have argued that in recognised ignorance-level, manager tend to rely on instinct rather than strategies.

Environmental uncertainty can be also characterised in different types of uncertainty on the basis of causality of the uncertainty (Abbott 2005, 243; Samsami et al. 2015, 217). Causal uncertainty is where there is uncertainty about economic and social relationships and what is their causality. Human and organisational uncertainty is due to the unpredictability of individuals and organisations. External uncertainty is caused by the ambiguity of the social environment. Lastly, incidental events create chance uncertainty (Abbott 2005, 244).

In evaluation of the uncertainty and consideration of taking actions is on the responsibility of managers, individuals. Managers have to gather information and interpret it in order to evaluate which actions to make. Thus, the perceptions of the manager of the environment and its uncertainty are very important in managing uncertainty (Gerloff, Muir & Bodensteiner 1991, 749; Samsami et al. 2015, 218). In addition to the perceptions of the managers, there are theories which also take into account strategies and planning (Samsami et al. 2015, 219). The relevant theoretical frameworks from international business literature on management of uncertainty will be considered in this study. The literature on uncertainty management discusses how people and organisations handle environmental uncertainty. People, both managers and employees, can avoid or accept uncertainty. By avoiding uncertainty, people evade complex situations and through this reluctance they avoid issues and ambiguity. On the other hand, if a person accepts uncertainty, this individual also accepts to face its challenges with all the ambiguity and considers it fascinating and useful (Samsami et al. 2015, 222). Organisations avoid uncertainty with strict strategies and controlling procedures. However, organisations can accept the uncertainty with effective

communication, stimulating innovation and move away from too strict planning processes (Samsami et al. 2015, 222).

Individuals and organisations can choose to shape, adapt or make sufficient investments in order to keep position in the current situation of uncertainty (Courtney et al. 1997, 73) Shaping-strategy aims at changing the market structures with perhaps individuals' own schemes and create new opportunities in the challenging environments. Shaping-strategy demands actions and investments, or in other words big bets (Courtney et al. 1997,73). To be able to respond to the demanding dynamic market environments and if firms want to be successful they have to have the ability to adapt (Samsami et al. 2015, 224). Adapting is where the challenges of the environment are accepted and take advantage of the opportunities available in the particular market environments. In the adaptation strategy the available options of actions are to invest in favourable environments to maximise profits. However, if the environment is more hostile, the required action would be minimise losses and retreat (Courtney et al. 1997, 74). So-called right to play-strategy is an intention to wait and see where the uncertainty will develop. This strategy demands gradual adaptation and might not include any actions at all. If actions are implemented they can be aimed at reducing costs and gaining information and moreover on no-regret moves which are profitable with small risks. (Courtney et al. 2007, 74).

## **2.9 Synthesis**

This chapter will conclude the theoretical background and will draw conclusions based on the reviewed literature. The theoretical background was built in the perspective of finding out what are the implications of a conflict situation for Finnish larger firms which trade with Russian companies. Also, how political conflict affects dyadic business relationships and networks. Furthermore, how do firms adapt or overcome the challenges in a conflict situation.

It was already established in numerous studies that higher trade flows reduce the chance of conflict and conflict escalation (Keshk et al. 2004; Oneal et al. 1997; Morrow 1999). Moreover, politics have an effect on trade between dyads (Morrow et al. 1998, 659). This is because firms take into account the political risks and already the anticipation of a political conflict will cause decrease in trade (Morrow et al. 1998, 659). Also, domestic politics and its interest towards international trade has an effect on trade flows between dyads (Kastner 2007, 680).

The reviewed literature had drawn conclusions based on the findings that successful relationships create interdependence and have shared mutual benefits (Brass et al. 2004, 802). Also, when relationships are successful, the performance is better and the success creates higher level of cooperation (Palmatier et al. 2007, 190). Studies also

found out that qualities such as trust and commitment have an effect on business relationships (Mohr & Spekman 1994). Also, if the actors in the business relationships share skills such as problem solving, confrontation or avoidance for example and the conclusion was that when these attributes and skills were intensive or at least existing it had a positive effect to the success of the relationship (Mohr & Spekman 1994, 148). Also, business relationships were affected by the surrounding atmosphere and environment (Håkansson 1982, 15; Woo & Ennew 2004, 1258). Therefore, environmental uncertainty has an effect on business relationships but to what extent is dependent on the actors, their capabilities and skills for example and the environment can pose different challenges towards firms such as economic recession or regulatory changes (Kang & Jindal 2015, 735).

Researches have also categorised business relationships into stages or interaction episodes where different stages present different level of commitment or interdependence, for example (Halinen et al. 1999; Schurr 2007). Each stage or different level of interaction episode either has an effect on the network as a whole, or the change is more confined and it has limited effects to its surroundings (Halinen et al. 1999, 781-782). Business relationships have also been researched for their actions and how different actions affect the outcomes of the relationship interaction. Firms can choose to work towards mutual orientation and also emphasise cooperation. Cooperation has been seen as an important element to create interdependence between dyadic relationships. Anderson et al (1994, 10). Johanson and Mattsson (1987) concluded their study findings of exchange processes in interaction in industrial markets. Figure 7 gives an overview of the study's theoretical framework and of the concepts included in the study.

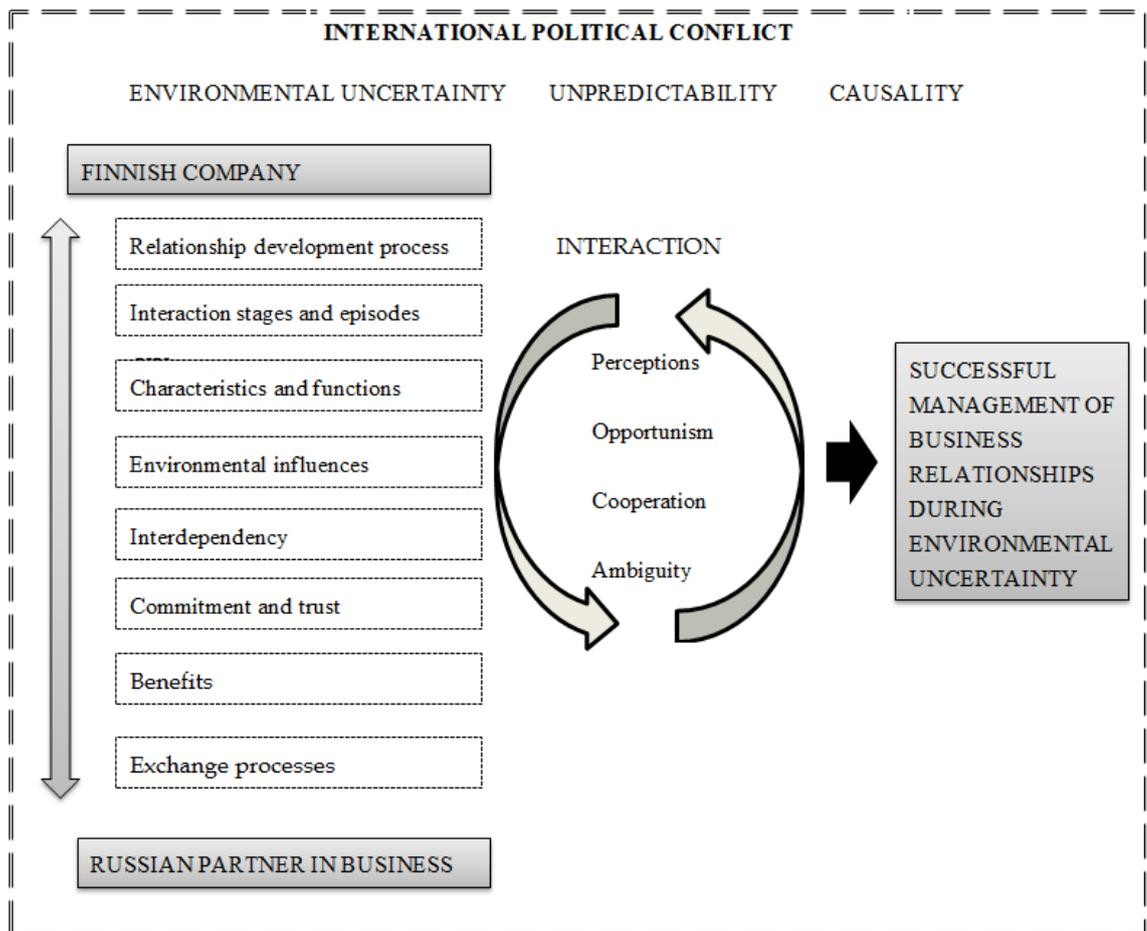


Figure 7 Overview of the research frame and each perspective

The context of the study is international political conflict and Finnish-Russian trade. The international political conflict concerns factors such as environmental uncertainty, unpredictability of the overall situation and causality of actions and events in this difficult situation. The study examines in-depth the elements of the relationship development process, its stages and its episodes during trade, of a Finnish multinational and its Russian partner. Also, the study considers what are the characteristics and functions of business relationships and networks and how interdependencies are manifested. Moreover, the environmental influence is also considered as it has a significant effect on the business relationships. Factors such as commitment and trust is acknowledged along with the exchange processes overall between the trading partners. Lastly, what are the joint benefits for the partners is examined. The level and nature of interaction between partners is considered as one of the more significant moderators. The interaction includes the different perceptions of partners, acknowledging that more negative perceptions could lead to opportunism. More positive interaction is expected to lead to cooperation and to better performance of the business relationship. However, the interaction can include ambiguity which can have a significant effect on the direction of interaction and overall performance of the business relationship. All of these elements and outcomes result in the successful, or unsuccessful management of business relationships and networks during conflict.

To conclude, literature review can answer to some extent the questions presented in this research. Previous studies have emphasised the importance of exchange processes and with such exchange firms become interdependent of each other (Håkansson 1982, 16). Interdependence can derive from adaptation or investments. Also, strong relationships are characterised in high level of communication and trust (Palmatier et al. 2007, 190). Relationship development stages (Salancik et al. 1978; Ford 1980; Dwyer et al. 1987, Schurr 2007). Salancik et al. (1978, 241) identify different levels of interdependence between firms and each level represent different quality of interdependence and resistance to conflict. Therefore, the conclusions based on previous studies are that in conflict situations business relationship management should be focused on exchange process and engaging in communication and trust enhancing activities.

However, business exchanges and environments tend to be heterogeneous and dynamic and therefore require more empirical examination of the issue (Anderson et al. 1994, 13). This research will gather empirical knowledge on how such business development processes are influenced by environmental uncertainty and how do firms develop their business relationships during high level of environmental uncertainty. Also, how does the current stage of the relationship influences on the perceptions of the firm towards environmental uncertainty. In order to examine the effects of environmental uncertainty, this research will examine two different periods of time. First period which had less uncertainty between firms is 2008-2013. Second period 2013-2016 is when issues began to develop and firms were posed by higher environmental uncertainty and the empirical data should show any progress in relationship development and which activities are emphasised in such ambiguous situations.

## **3 METHODOLOGY**

### **3.1 Research approach**

This research is conducted as a qualitative exploratory case study in order to understand the case history and events caused by its contextual factors. Qualitative data is non-numeric data and which cannot be quantified. Qualitative research approach gathers more complex data from, for example in-depth discussions in order to create or extend theory through categorisation and understanding relationships between the data and theory (Saunders, Lewis & Thornhill 2007, 470). The aim of this research is to broaden the fundamental theories presented in this thesis and to create new theoretical viewpoints through process theory. A process theory commits to telling a story which includes events and choices (Langley 1999). Process theory is aimed at interpret and explain sequences of events which are happening during change (Van de Ven & Huber 1990, 213). Moreover, the research approach of the study is to examine inductively and also deductively which will be considered to be beneficial for the study purposes as it will give insights and also not exclude research findings (Denis, Lamothe & Langley 2001, 812).

Case study is appropriate tool for an empirical inquiry to understand a phenomenon in its environment and to understand the relationship between the phenomenon and context (Yin 1981, 98). This research will distinguish different events while examining the development of a business relationship of the case company. However, such events are not explainable through a single level. Therefore, the research issues are considered through the perspective of critical realism (Fleetwood 2005). Critical realism identifies independent existing knowledge and activities and tries to explain causal influences on behaviour and perception (Fleetwood 2005, 199). Critical realist also acknowledges that accessible data is interfered, in other words conceptually mediated through individual, social and inter-subjective viewpoints (Fleetwood 2005, 199). Such events consists of multiple levels where borders are often ambiguous and also such sequences include thoughts and feelings of individuals (Langley 1999, 692). The case study will be a single-case design (Yin 1981, 100). The objective is to extend theory in the light of a one example which will result in implications for managers and practitioners in business. For a single-case explanatory study the objective is to specify the factors involved in the explanation of the phenomenon and more importantly building causal explanations for results (Yin 1981, 107). Explanatory research is committed to explain the causal relationship among actors and activities (Saunders, Lewis & Thornhill 2007, 134). This research will take an interactive approach towards data collection and analysis where the respondents will be part of the interaction and verify the findings. This

study is both deductive and has inductive elements and concentrates on furthering our understanding on the impact of a political conflict in international trade in an explorative manner. The research is deductive in terms of understanding the existing knowledge on theory of business relationships. Inductive approach will also be included in way of finding new perspectives to the existing theories. As this study analyses the process of how business relationship develop during conflict, the following subchapter discusses process research approach in more detail.

### **3.2 Case Description**

The case company is a Finnish multinational company in grocery, hardware, sporting goods, car and machinery industry. In Russia, the case company has several retail grocery stores, hardware stores and also sporting goods' stores. First retail grocery stores were opened in 2012. Secondary data of the company states that the company is one of the biggest operators in grocery trade in Finland in 2015. In 2015, case company's total grocery trade is more than 40 % of its total sales and net sales from grocery sector were close to 5 billion euros.

The focus of this study is a Finnish multinational company (MNC) which has or has had significant trade with Russia. This research will examine the industry of grocery trade which is directly affected by the sanctions. However, as the sanctions exist also in the banking sector, it is expected that they have indirectly impacted every industry in Finland which have significant amount of trade with Russia at least to some extent. The sanctions represent political power from both the western economies and from Russia which reciprocated with its own sanctions to the Europeans. This study will closer examine how the business sector of privately owned companies has reacted to the situation and what kind of challenges they might have faced due to the difficult conflict situation. However, Finland is not directly in political conflict with Russia and this study will research how Finland's position in the international political environment has affected its trade with Russia.

The case company's strategy is to grow in Russia because the market worth in Russia is roughly 250 billion euros and with the population of more than 146 million, the market is potential for growth. From 2012 to 2015, total growth in grocery trade was around 7 per cent in terms of net sales of the case company. In total of net sales of the case company, the sales decreased in the amount of 8,2 per cent from 2011. The amount of Russian trade for the case company was 6,5% in 2015 with net sales more than 300 million. In 2012, total sales in Russia were around 300 million euros so the company has been stable in Russia and not decreased in it sales figures in Russia. The case company has more than 3000 employees in Russia in 2016.

### 3.3 Process research

Process theory (figure 8) is designed to understand why and how different processes and events occur in dynamic and complex environments (Langley 1999, 691). The objective is to approach the phenomenon through progression of events, actions and choices, and build conceptual knowledge on organisational behaviour.

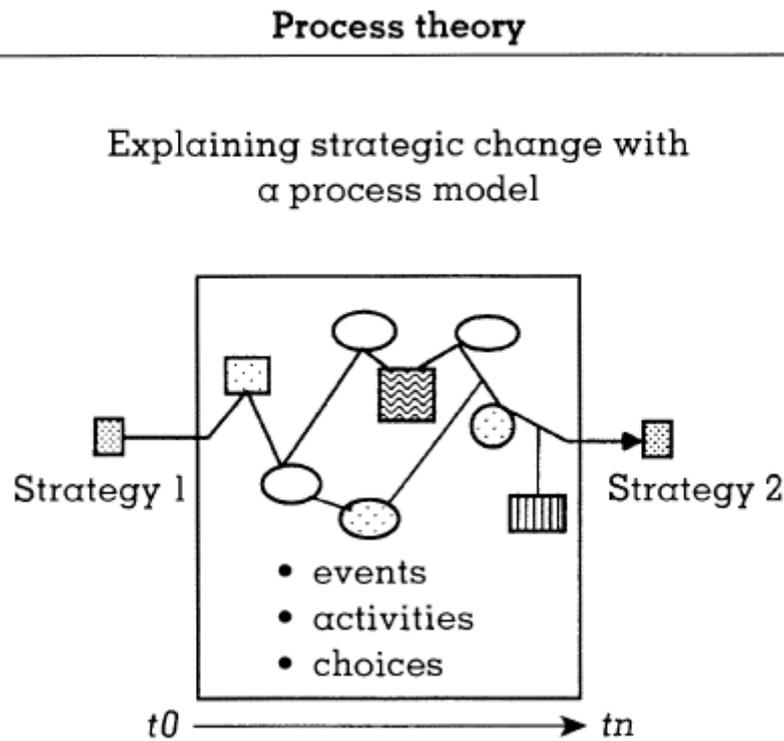


Figure 8 Process theory (Langley 1999, 693)

Process theory examines how issues develop over time and what is the reason for such development. Understanding of such patterns and possible explaining them with extending existing theories is considered as process theory (Langley 1999, 692). Process theory approach will also consider different levels of analysis. This means that research analysis will be done on the basis of the whole process and the actors, not only interviewing and analysing data linearly, but to understand what are the perceptions, cognitions and emotions in interpretation of sequences of the phenomenon (Isabella 1990, 33; Langley 1999, 693).

This research utilises the process theory approach which consists of pattern-matching approach (Yin 1981) and temporal bracketing strategy (Langley 1999) which will take advantage of series of observations in order to build or extend theory on the basis of the interpretation of the empirical data (Saunders et al. 2007, 142).

The data for process theory is collected from real organisational contexts which have many characteristics (Langley 1999, 691). This will allow the research to examine the data within the process itself and build theory from the firm-level. The next subchapter will explain how data is collected for this study.

### **3.4 Data collection**

This research gathered primary data through a semi-structured interview in qualitative manner with the executive director of the case company in Russia which lasted for an hour. The country director was able and has the knowledge of give information of the overall situation and how has it changed in Russia during the crisis. Such extensive interview is regarded as sufficient as the data was extensive and insightful. Further interviews with middle managers for example were not accounted as giving more information about the subject. Primary data is term for data which is collected purposefully for a research (Saunders et al. 2007, 607). Semi-structured interviews can provide in-depth explanations where the interviewer tests different scenarios and which the respondents will try to explain in relation to the research phenomenon (Saunders et al 2007, 315). This research utilised secondary data in order to analyse the research findings and to support the primary data gathered through interviews. Secondary data is material that has already been collected and is available, it can be raw data or for example publications (Saunders et al. 2007, 246). Moreover, this research included secondary data to understand the history and outcomes of strategies within a case.

Semi-structured interviews were conducted as in-depth discussions on the subject with respondent in order to find causality or insights. The respondent is the country director of Russia in the case company and has been working in this position since 2011. The semi-structured interview had different themes and it had a clear structure to follow during interviewing. Secondary data was gathered from different sources, mainly from the case company's informative internet pages. Internal secondary data in the form of annual reports and press releases of the case company from 2012 to 2015 were analysed and extracted from the case company's internet database. Moreover, external secondary data was collected from different newspapers articles related to the case company's operations in Russia.

The data of this study dated from 2011 to 2016 as the respondent has worked during this time as the director of Russia in the case company. Data from the interview was compared to secondary data during the same period of time in order to confirm findings of the interview data and also provide more insights on the case company's business strategies in Russia. Two different periods of time were examined in order to compare the findings through different periods of time. First period was 2011-2013 in order to see the results with comparison to the second period 2014-2016 when the conflict and recession began. This way, this research gathered data on the first period and second period in order to find possible changes during and between periods. Lastly, the conclusions were based on what has changed and how the changes have affected business relationships.

Table 1 illustrates how the research problem was operationalised. Three themes: trade and conflict, business relationship development process and environmental uncertainty were chosen as appropriate broad themes to assist in answering the research questions. Key concepts within each theme were drawn from extant literature, of which the chapter numbers can be seen in the table. Also, each of the interview questions (see appendix 1) was designed to provide insight to the concepts in the context of the case firm.

Table 1 Operationalisation of the Research

Research Questions		Themes	Concepts	Concepts in literature (chapter number)	Interview questions
What are the implications of a political conflict in the Finnish-Russian business relationships and networks for Finnish multinational companies?	How companies adapt or overcome the challenges and barriers posed by the international business environment in dyadic business relationships?	Trade and conflict	Effects of conflict to trade relations	2.1	1-4
		Business relationship development process	Interaction & Cooperation	2.2; 2.3	6-7
			Strategic purpose	2.2; 2.3; 2.6	5
			Interdependence	2.2; 2.3; 2.6	8
			Stages	2.3; 2.5	1-4
			Characteristics	2.2; 2.3; 2.4;	9
			Exchange processes	2.4; 2.5	6-7
		Environmental uncertainty	Uncertainty	2.7	10-11
			Managing uncertainty	2.7	10-11

### **3.5 Data analysis**

Social interaction is regarded as important element of data collection in this explanatory research. Reasons for such interactive approach is to utilise a pattern-matching data analysis (Yin 1981, 108), where this study's essential frameworks and theories tested and compared to equal theoretical views presented in the international academic literature.

Moreover, this research was structured through temporal bracketing strategy (Giddens 1984; Barley 1986; Langley 1999) which examined certain periods and study causality and mechanism within these periods (Langley 1999, 703). The aim was to examine activities and their outcomes within one period and retrospectively investigate changes in consecutive periods. By doing this, it was possible to identify processes and how these processes interacted and evolved within and between periods. More importantly, through time bracketing strategy it was possible to understand how this research's context affects the activities and what kind of consequences the actions have had, for example for the future context and applicable variables which affect the phenomena (Langley 1999, 703). The last chapter of methodology will discuss how trustworthiness of the data is assessed.

### **3.6 Trustworthiness of the study**

In order to evaluate trustworthiness of this research, this chapter will discuss the issues of transferability, dependability and credibility. Transferability of the research results means to what extent the results are transferable through other time and possibly across different context (Lincoln & Guba 1985, 316). In this research the objective was to draw as much empirical data as possible in order to have transferable results which will apply through different sampling or environments.

This research aimed to gather reliable data in order to have valid results and to do that, the empirical data was intended to be credible and through that dependable. Dependability was established through overlapping the empirical data with secondary data. Overlapping is to build validity through triangulating the arguments through several circumstances (Lincoln & Guba 1985, 316). Another way of establishing dependability was to replicate in order to test the research findings across different situations or sequences. In this research the data was cross-examined across different events within the same context (Lincoln & Guba 1985, 316). With the establishment of dependability, the researcher had to also take into account the confirmability of the research data. The confirmability of the research data was determined through audit trail linkages and such audit trail is logical and it has explanatory power (Lincoln & Guba 1985, 323).

Credibility of the study was based on the activities established by Lincoln and Guba (1985, 301) which are prolonged engagement, persistent observation and triangulation. Prolonged engagement is where the researcher sacrifices time in learning the practices of the case company and overall perceptions of its business environments and also in order to confirm any findings or statements in the empirical data, in this case the interview. Persistent observation is a technique to support prolonged engagement through acquiring information from several sources (Lincoln & Guba 1985, 304). The procedure of triangulation (Lincoln & Guba 1985, 305) where the researcher would utilise different modes to confirm the study results, for example various sources and methods combined with several theoretical frameworks. In this research, the study findings were based on the empirical data from the interview and secondary data mainly from the internal sources from the case company publications in order to have credible and trustworthy results.

Generalisability and transferability of the study results was established through viewing several scenarios through grounded theory and temporal bracketing research approach. Even though this study concerns only a single case company, the research approach is unstructured in terms of data collection and it allows to examine the subject through several settings and draw accurate data from primary and secondary data. Moreover, the transferability and applicability of the research findings were based on the existing theoretical frameworks. Broader implications can be built on existing theory and through such implication the research data will be more convincing (Saunders et al. 2007, 328).

## **4 FINDINGS**

This chapter will discuss the findings of this study. The findings were based on the empirical data from the interview with the case company's country director in Russia. Also, secondary data was retrieved from the company's media releases in the form of annual reports and press releases. Additional data was collected from news media. The findings consist of data comparison to existing theory and described as confirming theoretical viewpoints presented in the international academic literature and also providing new perspectives and suggestions in terms of the research data. The following chapter will present the case company's business operations in Russia.

### **4.1 The case company's business in Russia**

In the case company's annual reports from 2012, the case company identifies Russia as a fast-growing market and the case company's strategy is to seek growth from the Russian market. It more specifically stated in its plans to have more than 1,350 milliard euros in sales by the end of year 2017 and more than 50 stores opened in Russia and also extend networks in Russia. This is in all divisions of the case company. In terms of the grocery segment, the objective is to have more than 500 million euros in net sales and open more than 10 stores by the end of the year 2017.

In 2016, the case company has 9 grocery retail stores in Russia and total sales in grocery retail was 107 million euros. As the first store in Russia was opened in 2012, the first year of operation in grocery retail was in total net sales 73 million so the company has had a steady growth in grocery trade in Russia. There are no specified investment plans in the annual report of 2015 mentioned in the same scale as in 2012. This could mean that the case company is more careful at the moment as it was in 2012 and does not specify any specific numbers concerning the Russian market.

The case company has published press releases in 2015 where it has been informing about new store openings in Russia and also press releases have stated that the case company will continue to grow in Russia in 2016 with more store openings. From other sources such as newspapers, the case company is doing well in Russia in 2016 and has had growth through opening new stores and also growth in net sales. The next chapter will discuss the findings in terms how conflict has affected the trade of the case company.

## 4.2 Trade and conflict

According to the annual report of the case company published in 2016, the case company recognises the uncertainty around the Russian market. Estimation recognises the risks affiliated with the political risk and also the country risk of Russia. There is ambiguity around the development of the economy and how the political situation will develop. The plummeting oil prices will expectedly decrease the revenues from Russia and also the weakening rouble currency affects the purchasing power and overall profitability in the Russian market. For the case company, the weakening rouble has also increased hedging prices as such larger companies use forwarding contracts to secure larger contracts of trade. The sanctions appointed by the EU and USA makes it difficult to acquire financing in Russia. On the other hand, the counter-sanctions imposed by Russia have drastically affected the price levels in Russia. The annual report also states how the operating environment in Russia is unpredictable due to the rapid changes in regulations and laws.

It was established already in 2011 in the annual report that Russia has certain challenges. In the case company's risk management and evaluation of environmental uncertainty it was stated that Russia is a potential growth market but the growth has to be accomplished through successful expansion to the Russian market. The listed challenges in 2011 were corruption, unpredictability of decisions of governmental institutions and rapid changes in regulation and legislation which can all affect the business procedures of the case company in Russia. The annual report from 2011 clearly states the strategies of the case company to build stores in prospective locations, have profitable concepts in operation and have efficient purchasing strategies. The risk management in overall will be reviewed by different boards of specialists and also by the board of directors. The annual report from 2012 clearly shows how the multinational company has a clear strategy and it has identified risks and threats in the market environment and this affects its management of business relationships in the long-term.

The empirical data confirms that conflicts have a direct effect on trade through sanctions. Such trade barriers as sanctions prohibit trade and companies simply cannot trade commodities anymore due to prohibition sanctions.

*For example I can tell about the case of the Norwegian salmon. Before the counter-sanctions by Russia, 70 % of imported salmon was from Norway, and after the counter-sanction came to force, none of imported salmon was from Norway.*

(Country Director Russia, case company)

The interviewee discussed the issue of the Norwegian salmon which was completely prohibited by the Russian counter sanctions. This is an example of how a trade relationship seizes due to an environmental uncertainty.

However, in the case of Russia the counter-trade sanctions which were targeted against the European Union and this meant alternative partners would have to be acquired from other economies. In the case of the case company, the trade sanctions did not have drastic effect, as they were able to find substitute products from other countries which were not included in the trade sanctions. The counter-sanctions of Russia are targeted at banning milk, fish and meat products.

In grocery trade in Russia, the number of alternative suppliers is large and there are many choices. The case company which operates in the Russian market does not see the international political conflict as an influential force, but more of a situation to which it is mandatory to adapt. Secondary data confirms this as the amount of net sales has not changed drastically between 2012 and 2016, but it has had steady growth in Russia.

Figure 9 shows the index of purchasing confidence of Russian consumers. All in all, if compared between the most needed grocery products, the purchasing power of consumers has dropped 5-30% and in comparison between 2014 and 2015 the inflation has been 16 % (vedomosti.ru 2015).

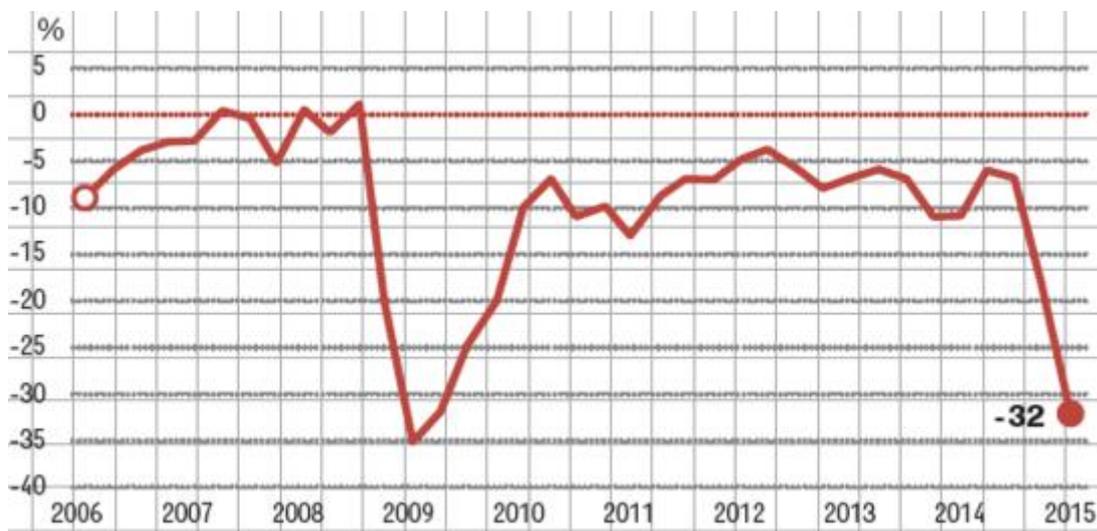


Figure 9 Index of purchasing confidence of Russian consumers (Vedomosti.ru 2015)

For the case company, the biggest effect is that the purchasing power of the consumers has decreased in Russia. This is mainly due to the weakening currency rouble which again has decreased due to the significant decrease in oil price. For the case company itself, the decreasing currency has not had a significant effect as the company operates in Russia. However, everything which is imported to Russia has had

a significant increase in price and therefore the demand has dropped significantly. The country director of the case company commented on this by stating:

*The biggest effect that the counter-sanctions have had is in the decreased demand and increased inflation which have affected price-level in Russia.*

(Country Director Russia, case company)

An important notification is that the case company is a large multinational and it plans investments in the long-term, which means investments are planned in 10-,20- and 30-year lifespan. In dynamic environments and in overall, it is expected that there will be conflict situations and increased uncertainty for a certain period of time and it has been taken into account in the planning of investments. In the case of Russia, the market is seen to have potential growth in the future and the market itself has population of more than 146 million people (statdata.ru 2016). According to secondary data from the case company's annual reports, Russia is its focus in growth and plans are according to the initial plan as it was before the conflict. This would imply that the sanctions have not affected the business of the case company as expected.

*Firms do not invest in Russia in 2-3 years plan. Investment are made in 10, 20 or 30 year plan with considering such fluctuations and crises, but they are taken into account as being expectations in markets such as Russia. However, the on-going crisis emphasise the importance of careful planning and we evaluate each investment critically at the moment.*

(Country Director Russia, case company)

The respondent emphasised several times how the case company invests in the long term and how planning and analysing is a big part of the investment planning process. According to the case company's annual report from 2012, the case company was following its plan to grow in the grocery industry in all of its territories of operation with a strong expectation of growth from the Russian market. In the news media from 2011, the case company is stating its large plans for investments in Russia and its objectives to grow in the Russian market. According to the 2012 annual report, the investments would be concentrated on the grocery retail industry and such investment will be planned in the long-term in order to secure long-term growth in the Russian market. In 2016, the sales of the case company increased more than 30 % in the local currency in Russia.

In contrast, according to secondary data from newspapers where an article discusses how one large company in the grocery retail industry is retreating from Russia and another larger company is freezing all of its investments. In the same article, the case company of this research is mentioned and clearly stated how the case company is not

retreating or seizing any investments, but is planning investments more carefully. This article was dated in the end of the year 2015.

The interviewed country director of the case company did also mention challenges in Russia not directly related to the conflict itself. Russia also has environmental uncertainty related to the unpredictable institutional regulations and administration procedures. The government is seen as a restrictive institutions with its unclear taxation policies and other laws prohibiting transparent trade in Russia.

Also, the respondent had an example how the perceptions made by the media of the situation is not corresponding to the real situation. In this case, the respondent was contacted by a journalist from Finland and the news article would have been about hoarding, panic buying in Russia and how the stores have empty shelves. The reporter was granted access to take pictures in the case company stores in Russia but was soon to return to report that all of the shelves are full of groceries and there is no noticeable hoarding. The director stated:

*The perceptions of the situation in the Russian market is totally different what it is thought to be in the western media.*

(Country Director Russia, case company)

The respondent confirmed the positive perceptions of Finnish firms in the St. Petersburg area and said that Finnish firms enjoy a certain level of trust among Russian companies. It seems also that the conflict has not affected the perceptions of the case company. The next chapter will examine the business relationship management perceptions in the light of the research data.

## **4.3 Business relationship management**

### **4.3.1 Long-term orientation in business**

The case company recognises the importance of long-term relationships which are based on mutual trust. There has not been any change in this situation between 2011 and 2016. Such relationships are vital in fast-changing and dynamic markets such as Russia. Higher level of cooperation does reduce the effect of uncertainty, because better functioning relationships have better reaction-time and are more faster in adapting to changed situations.

*It is important to have information about the partner's procedures and have trust-based relationships in order to have successful collaboration. Trust-based relationships are important and such relationships can guarantee better performance of business relationships and business overall.*

(Country Director Russia, case company)

The respondent commented on business relationships' management and emphasised the importance of trust and commitment in cooperation. Therefore, this research confirms the earlier studies of successful relationships and the arguments that such better functioning relationships promote better performance through cooperation and trust between partnering firms (Palmatier et al., 2007, 190). In the case company's 2016 annual report, the case company states its more complicated business networks and supply chains have made the Russian business more challenging. According to the data, it means that the case company has to depend more on information exchange and communication. More importantly, the case company has to concentrate on information exchange in order to guarantee sales and customer satisfaction. Moreover, especially in the retail industry, the secondary data in the form of annual reports also suggests that the case company has to invest in its relationships locally and use its suppliers and partners knowledge in order to react quickly and keep the level of competitive advantage above its competitors. Then again, in 2012 the annual report concentrates more on the customer-base and how to develop the services in this sector. There is no mentioning of suppliers or partners or how the case company wants to develop this perspective. The case company did not invest in its partnerships and therefore it was not seen as a way to increase interdependency because the barriers to switch to alternative supplier are low in the grocery retail industry in Russia.

Palmatier et al. (2007) discuss the importance of relational activities during uncertainty and emphasis is on building trust and commitment among partnering firms. However, the data of this research emphasises the importance of building and maintaining high level of relational activities throughout the time of operating in foreign dynamic market environments. As Russia is a dynamic market, the respondent said that it was due to the well-maintained relationships which allowed the case company to react fast and substitute the products under trade sanctions to be imported from other regions than the sanctioned territories. This suggests that companies should always maintain good and trusting relationships with their partners in order to be able react fast and efficiently, especially in dynamic markets such as Russia. The importance of increasing trust and commitment might grow during uncertainty, but it could be too late to only emphasise such activities during uncertainty as it will affect reaction time to implement action together coordinated with partners. It is true that investments in relationships are important during ambiguity but in order to be effective

and efficient during uncertainty, such investments should be made in advance and plan in long-term perspective.

Data supports the early assumption of this research that Finnish companies should invest in relationships and maintain high level of communications and trust between their Russian partners during uncertainty. However, the data also suggests that such investments should be made in the long-term and if such investments are underlined only once uncertainty is evident, it might affect the reaction time and could be too late to think about higher levels of investments in interdependency.

### **4.3.2 Successful management of business relationships**

This sub-chapter will review the reasons why the business relationships and successful management of trade relationships resulted in positive outcomes. During the crisis, uncertainty and trade barriers, the case company was able to switch its channels of distribution around the trade sanctions between EU and Russia. This change was rather fast as it was implemented in 2-3 weeks and the case company was able to substitute its products which were sanctioned and under restrictions to trade to Russia. To reflect these actions to the business relationship development by Dwyer et al. (1987) and for example Ford (1980), it would seem that companies are rather fast to react and establish new contracts and a trust-based relationship can be developed quite fast.

In the light of the data from the case company, the important criteria for a successful relationship is the ability to communicate with existing partners and find resolutions together with partners.

As trade sanctions were announced, the case company immediately began to interact with its existing partners, and also searching for new suppliers outside the trade sanctioned territories. With existing partners the negotiations were about widening and adapting the product range in Russia. With new partners, the challenge was to substitute the products which were imported from the sanctioned territories.

The research data does confirm the theoretical findings in the past academic literature on the characteristics of business relationships and what in theory makes the relationships more efficient and successful. The data confirms that trust and commitment are important elements of a successful business relationship (Mohr & Spekman 1994, 148). Also, sharing knowledge is important between partners and can affect the performance outcomes of the relationship and affect the conflict resolution capabilities of the firm. In regard to an uncertain situation such as the conflict, the research data suggest that such characteristics affect positively on the outcome of the case company and also its partners. The respondent provided an example:

*The best example of a successful collaboration is when the counter-sanctions came to force, we were able to adapt our procedures with new and current partners. For the most part, the important thing was our own proactive work in contacting our partners and working together under the changed situation in the market.*

(Country Director Russia, case company)

In this case, the attributes which affected the positive outcome were the initial level of commitment and trust between the case company and its suppliers. The case company did take advantage of its trust-based relationships in order to react fast and being flexible in its decisions. Also, some level of knowledge sharing was part of the change as the case company negotiated with its partners the range of goods and also shared pricing information. Here, the respondent stated that it is important to share knowledge between the case company's suppliers in order to understand the overall market situations and what is the current status of competitors.

*There are different levels of communication, but for example in terms of competition, we communicate with our partners of what our competitors are doing. – We work together when we plan joint marketing concepts and project. On the other hand, we can negotiate prices on a different level on opposite sides.*

(Country Director Russia, case company)

In terms of the IMP model and the interaction framework for business relationships (Håkansson 1982), the data did support some part of the fundamental groundwork in the IMP model. In light of the empirical data of this research, the IMP model is important to put in perspective with the context. In the context of this study and the case company's industry, the IMP model's suggestion of the influence of adaptation and influence of the environment. The response in the data towards the IMP model is that the level of adaptation was low in the case company's industry. This meant that the barriers towards substitute products were low and this allows the case company to be more flexible in difficult situations. Through this flexibility the case company is able to respond to changes more quickly. In the case company's industry the range of alternative suppliers is wide and number of alternatives is high. Therefore, adaptation and creating more dependent relationships is not the best option. Relationships can be in long-term, but the scope of the relationship is not mainly in adaptations in dyadic relationships. What the IMP model suggested to be short-term, is actually long-term in the grocery industry as the activities are based on mutual interest and simple transactions between partnering firms. Also, the influence of the environment is already acknowledged by the case company in advance and in dynamic markets the rapid changes are anticipated. This fact has an effect on the planning of business relationships development processes.

In the secondary data as annual reports published by the company the aim is clearly to concentrate on long-term relationship and the value of such relationships is recognised. Also, the respondent valued long-term relationships which affect as higher levels of trust and commitment which again makes business operations more flexible and transparent. The respondent also recognised the value of trust-based long-term relationships:

*It is important to know your partner and how they work in order to have successful collaboration.*

(Country Director Russia, case company)

In the case company's industry the power-dependence of the case company is high and as a larger purchaser of products who has a wide range of alternatives it can have an effect on the business relationship management. This affects the business relationship development processes. In terms of the theoretical frameworks of business relationship development (Ford 1980; Dwyer et al. 1987). In the case company's situation, the relationships can be established rather fast and the building of trust can happen quite fast. This means that the case company can switch to alternative suppliers quite fast and have flexibility. To reflect the power-dependence to the organisational, individual and relational levels (Meehan & Wright 2012, 673) the empirical data suggests that in organisational level the environmental dynamism subjects the case company to form trust- and commitment-based relationships in order to respond to the possible rapid changes in the environment. The respondent also mentioned of the special status of Finnish companies in Saint-Petersburg and to some extent this special favourable positioning helps Finnish firm in Saint-Petersburg territory. Individual factors were not proved in the research data, but the expectation is that individuals affiliated in the researched context are aware of the positive outcomes of a successful relationship and what is needed in order to survive in Russia. Relational level of the power-dependence affects the outcomes of interaction. In the case company data, the relational level was evident through the level of interaction between business partners and willingness to find a mutually beneficial resolution to the difficulty situation such as the trade barriers.

The IMP study categorised as important elements in the influence of the environment to the business relationships the power-dependence, level of collaboration, psychological distance of partnering firms and mutual expectations (Håkansson 1982, 23; Woo & Ennew 2004, 1259). In Russia, the case company had expectations towards difficulties and it was seen as expected in this market environment. Rapid fluctuations such as the plummeting oil prices in 2014 were not a surprise for the case company and therefore business relationship management was regarded as an important element of the strategy in the Russian market. The case

company upheld close relationships with its suppliers in order to guarantee their functionality and efficiency. Trust was seen as an important element to ensure business processes' functionality.

The respondent confirmed the important role of personal relationships in Russia and they have some effect to the management of business relationship on the firm-level. Here, the respondent described his personal view on this issue based on his experience:

*In Russia, personal relationships are important according to many books. It is like a heritage and it has been for a long time that you can't trust the system. Therefore, you trust more your friends, family and personal acquaintances. However, this is more of a mystical aspect to the Russian business. The difference is not that significant as in all business environments personal relationships play a role in business. More importantly, in business, buying and selling, it should be profitable for both sides and personal relationships can help the collaboration. Business is business and it is important that the processes and partnership works and is profitable.*

(Country Director Russia, case company)

The following sub-chapter will discuss the development and phases of business relationships before and during the environmental uncertainty.

### **4.3.3 Changes and stages of business relationships and networks**

In overall, the case company had a clear growth plan in Russia when analysing secondary data and this was more toward the incremental change (Halinen et al. 1999) in its scope of change in business relationships. In practice, this meant maintaining good relationships with partners and suppliers and continuing to develop business practices in Russia according to the company strategy. Firms' interaction consist of continuous improvement and monitoring the situation of competitors and the overall situation in the market.

However, the conflict situation in the international politics and the trade barriers forced the case company to quickly change its approach and seek fast resolution to the situations. This rapid change (Halinen et al. 1999) was initiated by the sanctions and the case company was compelled to seek new partners outside the sanctioned economies. All of the changes were implemented within 2-3 weeks and did not have drastic affect to the case company operations or its stability in the Russian market. Such critical event was expected to cause instability and tensions (Halinen et al. 1999, 788). However, for the case company the critical event of trade sanctions did not have

any critical effect as it had managed well its business relationships and also the characteristics of the case company in the grocery industry left the most of the effects to its sanctioned suppliers within the sanctioned territories. The rapid change to alternative suppliers in the critical event of trade sanctions and the political conflict overall did have only a small effect to the case company itself. In research data, Russia was perceived as a dynamic market. According to the relevant theoretical knowledge, dynamic markets demand investments in business relationships (Håkansson 1982, 284) and the research data supports such view. In dynamic markets, in order to respond to the uncertainty companies should have well-maintained relationships in order to be flexible and have access to information. Also, complex business environments such as Russia demands higher level of communication from firms operating in the Russian market. In the current international context, firms are more interdependent according to Ford and Håkansson (2006) but in case of the grocery retail industry, where the amount of alternative suppliers is high, and there the effects of international political conflict is not significant. The respondent also confirmed this by stating:

*It is not a problem, because there are a lot of suppliers in the market overall to choose from.*

*(Country Director Russia, case company)*

The next sub-chapter will further discuss the different roles of actors in the management of business relationships.

#### **4.3.4 Functions in business relationships**

Empirical data and secondary data published by the case company confirms that the relationships with suppliers and partners is aimed at mutual benefit. For the case company, the advantage is achieved through cooperation, combining resources and discovering new possibilities together. The case company uses its direct and indirect relationships. The findings do support the results of studies by Johanson and Mattson (1987) and Anderson et al. (1994) and also confirm the importance of ability to cooperate and coordinate operations together with partner. However, such beneficial relationships don't always require adaptation or investments according to the empirical data.

For the case company, relationships were more of simple transactions which included long-term orientation as long as it is possible. For example, once the counter-sanctions were issued, the banned economies' suppliers had to be replaced quickly. The more wider base of alternative suppliers in the grocery retail segments allows the

case company to share mutual relationship with its suppliers without investing too much or adapting its processes to correspond a certain supplier's products. On the other hand, for a long-term relationship the case company does recognise the advantage in developing exchange processes with its partners. This makes the business operations more successful and in difficult situations both parties are more flexible and have more information from one another in order to react to changed situations. This supports the views of Johanson and Mattsson (1987, 39).

The data supports the idea of how exchange processes allow companies to acquire competitive advantage in some form as in stated in studies by Johanson and Mattson (1987) and also Katsikeas et al (2008). Successful relationships can have social exchange which means ways of building trust and promoting communication. Such trust can inspire new investments or ideas for new business models. Also, higher levels of exchange processes promote information exchange between partners and this affects significantly on the business operations of partnering firms.

The respondent confirmed the higher level of social exchange which resulted in information exchange between the case company and its partners. This exchange consisted of planning together operations and sharing information about competitors. The interviewee was able to tell a good example of how they were able to utilise their networks in order to overcome the challenging situation.

*One of the best examples is when the counter-sanction became effective, we were able to react quickly because we were proactive and began working on the issue on the same day as the counter-sanction were announced. We began negotiations with our partners how we would proceed, what products would need to be substituted and how we would have to change our selections. We established relationships with new suppliers. It was successful due to the well-maintained relationships and wide networks in the industry and were able to reach our goals through joint collaboration with our partners.*

(Country Director Russia, case company)

The concluding chapter will analyse the effects of environmental uncertainty and how it has affected the business operations' and business relationships' management.

#### **4.4 Environmental Uncertainty**

It was interesting to see how Russia had been already seen as a difficult market and all of the anticipation of crisis and conflict was openly discussed in the interview data and also in secondary data published by the case company. Many risks were recognised already in 2011 when the case company entered the Russian market. Russia was

repeatedly mentioned in the risk management objectives and how resources should be aimed at risk management operations in Russia and how it is important to build efficient risk management procedures in Russia. In secondary data published in 2016, the case company has recognised how the risks have increased in Russia. However, the case company sees Russia as a possible market for growth and the case company makes careful investment plans to Russia in order to secure long-term growth plans. Empirical data confirmed also the views based on the secondary data. Perceptions of uncertainty have not changed in the past 5 years, that is before and during the conflict situation. When asked about the uncertainty and its challenges in Russia, the respondent answered:

*The biggest problem in Russia is the unpredictable legislation, bureaucracy and this makes it harder to plan investments in the long-term.*

(Country Director Russia, case company)

The respondent did see the difficulties in Russia in terms of the unpredictable legislation and regulation and these views were also essential in secondary data from 2011 and 2016. However, the interview was concluded to the respondent's statement how adaptation to the situation is very important and also evaluation of the current situation and anticipation of the future development of the situation.

*We adapt our investments to the situation and evaluate the development of the situation as it develops.*

(Country Director Russia, case company)

This findings of the study were presented in this chapter in the light of the research data. The next chapter will review the findings in relations to the research questions and provide theoretical implications. Moreover, practical implications will be discussed and propositions for future research opportunities.

## **5 DISCUSSION AND CONCLUSION**

This concluding chapter will discuss the study finding in terms of the research questions of this study.

### **5.1 Theoretical Implications**

This chapter will debate the applicability of the theoretical frameworks presented in this study. The theoretical frameworks suggested that trade and conflict do share a correlation between and conflict can have an effect on trade (Turnbull et al. 1996; Oneal & Russett 1999, Oneal et al. 2003). However, the case study company data did not confirm any drastic effects or effects at all because of the ongoing conflict. The challenges were affiliated more on the macroeconomic environment such as the purchasing power of consumers due to the weakening local currency, investment atmosphere and trade barriers. Trade barriers did have an effect on trade and trade relations, but the case company was able to substitute the sanctioned trade to finding partners outside the sanctioned territories within a short period of time. Russia had been categorised as a high risk environment already in 2011 before the crisis and this of course lead to decreased impact of the current conflict because there was to some extent anticipation of difficulties and fluctuations. This means that that the political conflict itself did not pose significant effects to the case company, but consequences such as weakening currency and decreased purchasing power affected the case company's business in Russia.

The business relationships of the case company had joint benefits and both parties were ready to adapt and overcome the challenges together or by switching partners. If possible, the partnership would remain and firms would jointly try to solve the issue. On the other hand, if there could not be any other solution than finding a new partner, this would result in ending the current relationship's operations and moving on to another supplier, for example. This research confirms the views of Brass et al. (2004) and Mohr and Spekman (1994) who recognise the benefits on business relationships and how joint operations result in more successful business relationships and also help firms to adapt during uncertainty and in solving difficult situations. The empirical data described how the case company established new partnerships with companies not affected by the trade sanctions and because the case company was forced to switch to alternative supplier. As a result, any short-term or long-term relationship would end because there would not be any option to continue profitable collaboration. This fact has to be taken into account when operating in dynamic environments such as Russia.

Trust, communication and cooperation overall increases between partnering firms during uncertainty and this study confirms this argument of a study by Palmatier et al.

(2007). The theoretical frameworks review investments as an important element of business relationships, but the data of this research does confirm the importance of investments, but also describes the process of planning investments has been more careful and proactive during uncertainty. Before the crisis, planning of investments has been more clear in terms of providing certain figures in planning and the risks of the Russian market were recognised. However, in 2015 the planning of investments has been more careful and there are no certain figures concerning the Russian market which can be interpreted as not being sure of what the investments are in the future. The research data confirms the importance of investments in the foreign market and how carefully planned investments can be beneficial and efficient during uncertainty. Taking into account that several Finnish companies have retreated or seized operations in Russia due to the conflict situation.

In terms of the business development process by Dwyer et al. (1987) the research data of the case company did confirm how firms with longer trade relationships engaged in business transactions and joint problem-solving. Yet, if a partnering firm's products were banned by the trade sanctions, the firms simply could not trade anymore and the relationship ended. Moreover, the case company was able to establish new partnerships rather fast and the development process was flexible and fast concluding in trade contract. However, if the case company had been successful in establishing long-term relationships and reached later stages of business relationship development, the case company was able to acquire information and use exchange processes with its partners in order to adapt or overcome difficulties with joint coordination with long-term partner who have more strategic significance in Russia.

The study data does confirm how the environmental variables affect the level of cooperation of partnering firms and for example firms increase exchange in terms of information, financial and social exchange processes (Håkansson 1982; Woo & Ennew 2004). Also, the power-dependence of partnering firms and also distance varies depending on the environmental factors where uncertainty can increase communication and relational activities. However, in the case company's industry the availability of alternative suppliers is high and therefore the interdependency is low. This means that even though in some cases the level of adaptation is high, but exit barriers are low. Firms concentrate on reliable partners and with whom they have higher level of communication and aim to working together. In case of trade sanctions and prohibition of trade, the case company changed its partners and established new partnerships where adaptation processes did not play a significant role.

Figure 10 depicts the research findings in relation to the theoretical framework by Johanson & Mattsson (1987) which was presented in its original form in figure 5 in chapter 2.6 page 23. In addition to the fundamental framework, figure 9 includes external variable of environmental uncertainty and how firms adapt to the situation through interaction. Interaction is between business partners in the industrial networks.

During uncertainty, mutual orientation is dependent on the possibility to trade, meaning if it is even possible to trade. In the current situation, the case company is not able to trade with certain partners because of the trade sanctions. Investments are made in long-term perspective and there are no bonds and no certain dependence between the case company and its partners mainly because of the high number of alternative partners in the industry. During uncertainty, the case company engaged in information exchange for gaining competitive advantage and overcoming the challenges posed by the changed situation. Also, adaptation processes included higher levels of communication and cooperation for overcoming the challenges of the ambiguous environmental factors.

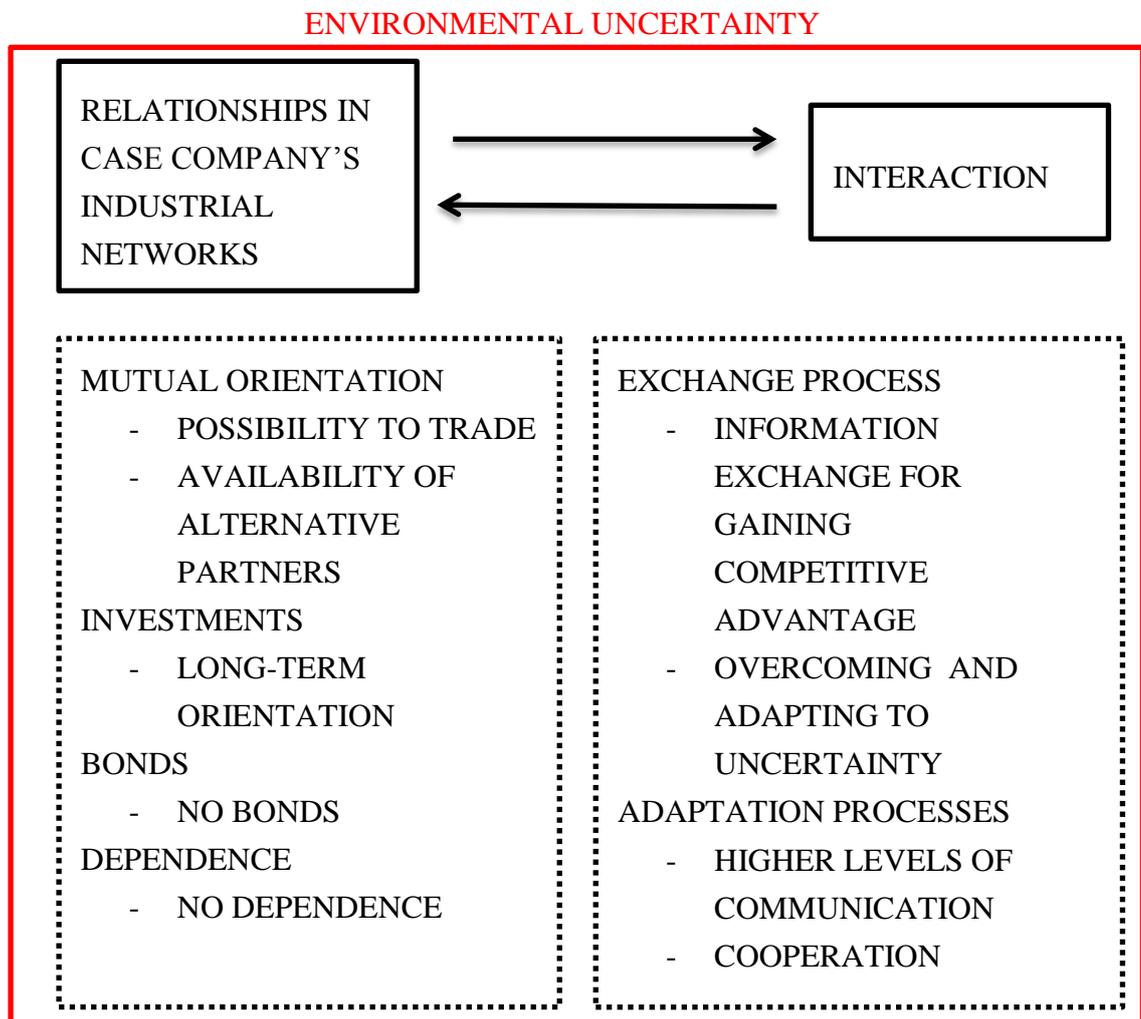


Figure 10 Adaptation to uncertainty in case company's industry in reference to theoretical framework by Johanson and Mattsson (1987)

In comparison to the period before the environmental uncertainty caused by the international conflict, the case company has become more careful in its planning but the situation has not changed since 2011. This is because, the case company has been aware of the challenges of the Russian business environment and also ambiguity was anticipated. Moreover, the availability of alternative partners has been as high as it is

today and thus there is no significant change to the framework presented in the light of this study's findings.

The model by Johanson & Mattsson (1987) emphasised the mutual orientation and interdependence in industrial networks. Also, investments and exchange processes are necessary to modify in order to adapt and configure adaptation processes. The research data confirmed the essential variables in the model, but highlighted how important it is to have alternative suppliers especially in dynamic markets where fluctuations can occur rather fast and firms will have to apply adaptation strategies in order to sustain the change. Long-term orientation is important, but the research data did not confirm any particular dependence or bonds between itself and its partners. During uncertainty, the research findings emphasise the significant role of exchange processes such as information exchange in order to analyse the situation and make the right decisions under uncertainty. Adaptation is often necessary in order to maintain position in the dynamic market under ambiguity.

Figure 11 below is modified from figure 7 on page 30, which was developed based on the research frame and theoretical frameworks, to include the findings based on empirical data.

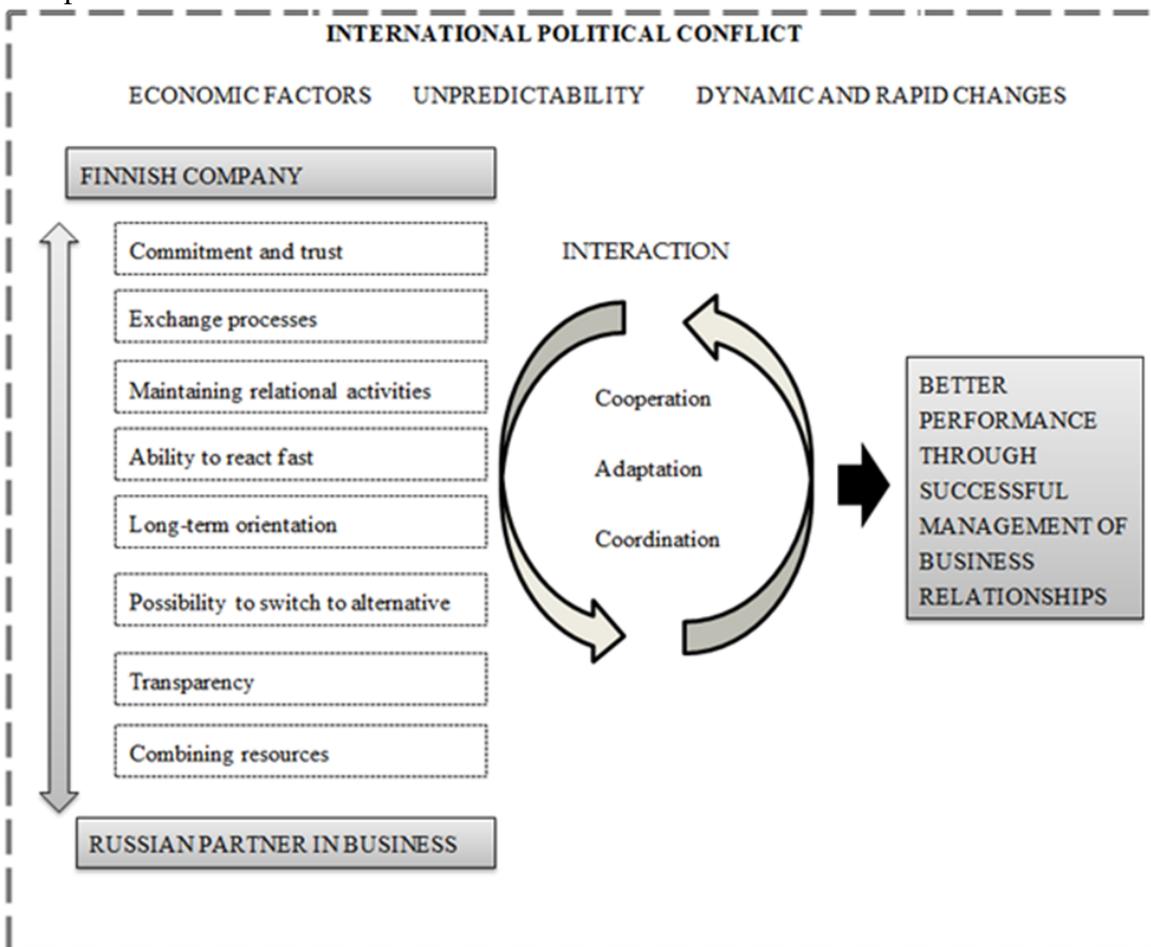


Figure 11 Overview of theoretical implications adapted to the overview of the research frame

The research data and the research findings supported the central role of commitment and trust with an emphasis on exchange processes such as exchange of information and knowledge. Firms also coordinated their processes in order to adapt to the situation. The case company highlighted the importance of maintaining good relationships in order to have the ability to react fast and be able to coordinate actions and activities in the changed situation. Such coordination also included transparency of actions. Also, in order to adapt and overcome the challenges business partners combined resources under the challenging situation which also requires changes in business operations. Research data underlined the importance to cooperate and combine resources. Therefore, maintaining good and functioning relationships is important in order to have the ability to operate under dynamic and rapidly changing environments. Such relationships are not necessary interdependent, but more importantly share trust and commitment in order to take action together under challenging environmental circumstances.

The international political conflict did not pose any threats through trade barriers to the case company. More important factors were the macro economic factors such as the buying power of the consumers and the devaluation of the rouble currency in Russia. This had a concrete effect to the operations of the case company in Russia. Unpredictability was also mentioned in the theoretical frameworks and the research data did confirm the effects of unpredictability to the business operations in Russia. Moreover, the overall dynamism and rapidness of the changes in the Russian business environment was the most significant environmental influence to the case company's business operations and management of business relationships. The following chapter will discuss the practical implications of the research findings.

## **5.2 Practical Implications**

In practice, the case company data reveals how important it is to be proactive and be aware of the risks of the target market. Even though growth was recognised in Russia, the case company was able to identify risks in the Russian business environment and make thorough investment plans in the long-term. At the same time the case company maintained good relationships with its partners in order to have functioning business processes and also being able to react fast in dynamic situations. This means that it is easier for such companies to adapt or overcome the challenges and barriers because such issues are anticipated and if in the case of challenges, the case company is able to react fast and make significant measures quickly in order to overcome the difficulties and have no effect on trade. In terms of trade relationships, the sanctioned partners' trade does stop but then again with existing partners who are not prohibited by trade barriers are closer and the interaction increases in terms of adapting or overcoming the

challenges or barriers imposed by the political conflict. Being able to react fast also means to be able to switch partners quickly in order to maintain operations and position in the market. The orientation of business relationships should be long-term and better established business relationships have more access to information and knowledge about the market and possibly can provide information about competitors. Even though there might be long-term and well-established relationships, in dynamic markets firms should be always ready to establish new relationships rather quickly and make adaptations to its processes under changed environmental factors. The case company was able to switch its processes and substitute its products from alternative suppliers in 3 weeks when the conflict had been resulted in trade barriers. For firms operating in dynamic partners, conflicts and fluctuations can happen fast. This fact emphasises the importance of constantly maintaining higher level of exchange processes in order to make adaptive measures fast and in case barrier to trade, firms could establish new partnerships when necessary.

Situations with high environmental uncertainty does affect larger corporations. However, this research presented how the case company had been able to react faster to the changed situation through its business relationships and networks. In terms of management of business relationships during conflict, this research highlights the importance of well-managed business relationships during uncertainty. Well-maintained business relationships allow companies to react faster and also find jointly resolution in difficult situations. Therefore, in order to have the ability to react and take action under uncertainty, companies should value their relationships and network during and between different periods of stability and uncertainty. Business relationships should be based on trust and commitment with also the ability to coordinate actions and activities jointly. Conflict situations and challenging environments highlight the importance of well-functioning business relationships and underline the importance of maintaining such relationships during and between conflicts and fluctuations.

Proactive anticipation of uncertainty is also emphasised and especially in planning investments to foreign more dynamic markets, such as Russia. Risks should be acknowledged and also have some level of expectation of ambiguity in the target market which helps management of business operations during uncertainty. Furthermore, the case company emphasised the importance of long-term planning and how in such dynamic markets it is important to have long-term perspective with also taking account the possible and even extreme changes in any dynamic markets, in this case the target market was Russia. The practical advice is to carefully plan and take into account the different nature of dynamic markets such as Russia. Fluctuations and difficulties are anticipated and for any kind of changes companies should be ready to adapt. Retreating should be the last option and only in situations where it is the only option.

Business relationships can be an advantage in difficult and dynamic situations where the networks can allow higher levels of information exchange which helps analysis of the situation and determining which actions to take. In the light of the conflict situation, the case company was able to retrieve valuable information from its partners and also utilise this information in determining its actions during uncertainty. More importantly, the case company was able to cooperate with its partners in finding the right solutions to the conflict situation. In such adaptation, the case company utilised its business relationships and networks to have the ability and sufficient information to make the right decisions given the right context to the situation. If adaptation was not possible, the case company was forced to overcome the difficulties by choosing business partners outside the trade barriers. Business relationships are means to inquire information and knowledge in any situation. A single company with its few managers operating in the foreign dynamic market will possess more information and tools to adapt or cope with situations with the aid of their local partners in the target market. Companies should identify their partners as an important source of information which they would have difficulties to acquire without their local partners. In foreign dynamic markets, companies should invest in business relationships and aim to establish trust-based relationships with partners. Business relationships with commitment and trust have more successful exchange processes which are mutually beneficial, allow combining of resources and adaptation or overcoming challenging and ambiguous situations in dynamic business environments.

### **5.3 Limitations of the Study and Future Research Opportunities**

This chapter discusses briefly the limitations of this study and suggests future research opportunities. This study concentrated on managing business relationships and networks during political conflict in an international context, excluding military forced conflicts and wars as the situation at the moment is a political conflict between Finland and Russia. The main focus was to create further understanding on how political conflicts affect the trade affairs of Finnish companies operating in the Russian market using a single-case case study. The chosen research approach could be perceived as a limitation, however, the purpose of this study was provide rich, in-depth knowledge on the research topic. For future research, the findings of this study could provide a starting point for a multiple case study, or for a quantitative study to test the theoretical implications of this study. Furthermore, it would be interesting to study how such larger multinationals as the case company of this research assesses and identifies the risks and opportunities of potential target markets and business environments. How are the business relationships affiliated in such planning of entry and investment planning in the long-term?

## 6 SUMMARY

This study researched management of business relationships during conflict and in situations where uncertainty is high. The initial research questions set for this study were *what are the implications of a political conflict in the Finnish-Russian business relationships and networks for a Finnish multinational company? And how does the company adapt or overcome the challenges and barriers posed by the international business environment?*

The research focused on larger Finnish multinationals and the chosen case company was a large Finnish multinational company operating in the grocery industry. A single case study structure was utilised in a qualitative manner. However, in order to understand the more holistic picture, the study combined process research approach in the form of pattern-matching and temporal bracketing research strategies. Pattern-matching integrated the relevant theoretical frameworks for the research subject and compared them to the research data. Research data was combined through collecting empirical data from a structured interview with a country director of Russia of the case company and various sources of both internal and external secondary data. In temporal bracketing technique two different periods of time were analysed which were the time period before the crisis and second time period where the conflict had resulted in trade barriers and negative changes in the overall international political atmosphere.

In this study the implications in the light of the research questions were that firms can have better performance through managing effectively business relationships in dynamic markets and circumstances with higher levels of uncertainty. Cooperation, adaptation and effective coordination of exchange processes is essential in managing business relationships under crisis situations. Better performance can be achieved through maintaining the ability to react fast and firms should have long-term orientation in their operations and activities in foreign dynamic markets, such as Russia. Commitment and trust are important in well-functioning relationships and facilitates more successful implementation of effective exchange processes.

Another key finding of this study was that companies operating in foreign dynamic markets should invest in their relationships with international and local partners in the target market. Furthermore, interaction enables successful exchange processes between firms and firms should invest in establishing and maintaining business relationships which are based on trust and commitment. The findings of this study suggest that firms operating in foreign markets can have better performance through combining resources and knowledge under challenging situations. Risk management was found to be essential in succeeding in growth strategies in foreign dynamic markets, while expansion and investments in foreign markets should be planned in the long-term and crisis with fluctuations should be anticipated in order to implement strategies of adaptation and overcoming critical issues in changed situations.

The key managerial implication for companies operating in foreign dynamic markets was that they should invest in business relationships and concentrate on maintaining trust-based relationships which have higher level of commitment. This allows companies to have the ability to react fast under challenges and effectively readjust their business operations. Exchange processes can be perceived as means to acquire information and knowledge under uncertainty and is an important function in adapting or overcoming uncertainty.

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APPENDIX 1 Interview Questions

**PERIOD 1 2011-2013**

**PERIOD 2 2014-2016**

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**THEME I – TRADE AND CONFLICT**

**Effects of conflict to trade Relations, Stages**

1. When have you started doing business with Russian firms?  
Follow-up What type of business?
  
2. Has there been any change in the past three years in your Russian trade?  
Follow-up What has changed in relationships with Russian partners?  
(same, different partners – products etc.)
  
3. If there's been a change in relationships, how has it affected your business?  
Follow-up How big has the change been in relation to your whole business?
  
4. How important are long-term relationships in the Russian market to you?  
Follow-up Has this changed during the past 3 years?

**THEME II - BUSINESS RELATIONSHIP DEVELOPMENT PROCESS**

**Strategic purpose**

4. How important is the Russian business for your company?  
Follow-up Has this changed in the past 5 years?  
Follow-up How do you see this developing in the future?

**Interaction & Cooperation, Exchange processes**

5. How in practice are you taking care of your business relationship in Russia? Eg. Do you meet with your partners? How often? Has there been more communication during the conflict than before?
  
6. What kind of information do you share with your Russian partner? Eg. Are there joint product development projects or are you sharing information like prices etc.?

**Interdependence**

7. Do you have alternatives in terms of business partners in Russia?

**Characteristics**

9. Have your business with Russian partners been successful? Could you give me an example of a successful business relationship?

**THEME III ENVIRONMENTAL UNCERTAINTY**

**Uncertainty, Managing uncertainty**

10. How do you see the uncertainty? How can it affect your business?

11. What about predictability? How you feel about unpredictability? Do you plan in the short-term or long-term?